

Food insecurity recedes in PHL after pandemic — FAO

By Kyle Aristophere T. Atienza
Reporter

THE NUMBER of Filipinos experiencing moderate or severe food insecurity declined after the pandemic to 37.8 million during the 2022 to 2024 period, according to the Food and Agriculture Organization (FAO).

This was equivalent to 32.9% of the population, the lowest share since the 44.7% during the pandemic years of 2020-2022, the FAO said in its State of Food Security and Nutrition in the World report.

The Philippine hunger indicators were the third highest in Southeast Asia, where food insecurity averaged 14.4%.

The Philippine food insecurity rate was edged out by Cambodia with 40% and Laos with 35.6%. The equivalent numbers for the rest of the region were 32.7% for Myanmar, 16.7% for Malaysia, 10.7% for Vietnam, 9.5% for Singapore 5.4% for Thailand, and 4.5% for Indonesia.

The FAO said an estimated 8.2% or between 638 million and 720 million of the global population may have faced hunger in 2024, down from 8.5% in 2023 and 8.7% in 2022, amid “notable improvement” in Southeast Asia, Southern Asia and South America “in contrast to the continuing rise in hunger in most subregions of Africa and in Western Asia.”

The global number of undernourished is expected to decrease, but 512 million people are still projected to be facing hunger in 2030, of whom nearly 60% will be in Africa, it added.

Between 2022 and 2024, 3% or 3.4 million of the Philippine population was undernourished, the FAO said.

In Southeast Asia, the number of undernourished stood at 35.1 million during the 2022-2024 period.

The undernutrition rate in Southeast Asia averaged 5.1%.

Indonesia had the highest number of undernourished people with 17.7 million, or 6.3% of its population.

Leonardo A. Lanzona, who teaches economics at the Ateneo de Manila, said research indicates that many urban poor adolescents eat three times a day, with families from poor households often prioritizing the nutritional needs of their children, particularly those attending school.

“This is part of their coping mechanisms that resulted in greater food security but at the expense of education,” he said in an e-mail. “In other words, much of the achievements in food security is due to the effort of households, not the government, and is paid at a very high cost.”

“This trade-off between food security and education results in a heavy burden for our present workforce who can survive daily but lack the skills to secure gainful jobs,” he added.

The FAO said 44% or 51 million of the Philippine population could not afford to eat healthy in 2024, against 45.4% or 52.2 million a year earlier.

It said the average cost of a healthy diet was \$4.39 per person per day on a purchasing-power parity (PPP) basis in 2024, against \$4.21 in 2023 and \$3.73 in 2021.

It said the Philippines, Chile, India, and Mexico introduced subsidies for agricultural inputs starting in 2022 in the face of persistent inflationary pressures after the pandemic.

Many countries cut down on expenditures after the pandemic “but inflationary pressures led to continued support for key sectors, including agriculture.”

“The inflationary period after the pandemic made it difficult for countries to remove some support measures, as livelihoods were at risk due to food price increases,” it said.

“A flexible use of fiscal policy, considering well-targeted support for some segments of the population combined with fiscal restraints for other sectors, could reduce inflation while maintaining adequate levels of protection for the most vulnerable,” it added.

The report found that within Asia, Indonesia, the Philippines and Sri Lanka notably focused on food price interventions such as price controls.

“Effectiveness of price policies remains limited in the long term and can lead to an inequitable distribution of costs and benefits. Price caps at the retail level for some products resulted in the expected short-term effect of reducing prices and protecting consumers,” the FAO said.

The FAO noted that when subsidies are used to reduce consumer prices while maintaining high producer prices, they require substantial government spending, can be regressive particularly for non-targeted programs, and may also fuel inflation.

“The effectiveness of these policies depends on the sensitivity of supply and demand behavior to prices — that is, their level of elasticity — and the nature of the initial shocks,” it said.

“Elastic systems characterized by strong market mechanisms benefit from allowing prices to adjust; meanwhile, it is important to prioritize other instruments such as social protection programs.”

The FAO called for targeted fiscal interventions, including robust social protection systems, coordinated macroeconomic policy, structural and trade-related reforms, and strategic investments in data, infrastructure and innovation.

It said fiscal responses to high food prices must be time-bound and include well-defined exit strategies to prevent “the risk of permanent budgetary commitments that could constrain future

fiscal space or bring public debt to unsustainable levels.”

It said tax reductions on essential goods, including food, can provide immediate relief to households facing rising living costs but such measures “must be weighed against the need for sustainable public revenue, particularly in countries with limited fiscal capacity.”

The FAO also said social protection systems — through cash or in-kind transfers — are indispensable for cushioning the effects of food price crises on low-income households.

“However, in high-inflation contexts, the value of these transfers can erode. Programs must therefore be calibrated to respond to inflationary pressures, with flexible mechanisms to adjust transfer values and avoid price increases,” it added.

It said instead of resorting to short-term price interventions, such as price controls or subsidies, which may provide temporary relief but often distort markets and are inefficient over time, governments should adopt a stable, coordinated and transparent strategy to manage long-term food price trends including strengthening food reserves, improving market transparency, and investing in trade-related infrastructure.

It said maintaining strategic food reserves can help cushion supply shocks and stabilize prices.

“Policymakers should balance food security and nutrition objectives against potential fiscal and market risks,” it said.

“Embedding food reserves within a broader risk-management framework enhances their effectiveness and reduces unintended consequences,” it added.

The FAO also urged governments to boost investment in research and development, storage, and transport infrastructure that could address food loss, improve supply chain functioning, and mitigate future food price shocks.

DBM backs raising health spending but cites fiscal hurdles

THE Department of Budget and Management (DBM) said a bill that will set a floor to healthcare spending of 5% of gross domestic product (GDP) is likely to run into fiscal and constitutional hurdles.

Budget Secretary Amenah F. Pangandaman said the DBM supports the intent of House Bill No. 1973, which sets the spending minimum for healthcare, but added: “It is important to note that any increase in funding will depend on several key factors — including our country’s available fiscal space, the nature and readiness of proposed programs and projects, and the government’s overall expenditure priorities,” she told *BusinessWorld* via Viber.

Ms. Pangandaman said healthcare remains a top priority, and the DBM will continue collaborating with executive and legislative partners to obtain adequate resources for Filipinos.

Budget Undersecretary Goddess Hope O. Libiran added that the proposed allocation, estimated at over P1.3 trillion, could violate constitutional provisions requiring education to receive the largest share of the national budget.

“If that happens, healthcare spending would surpass the education sector, which is prohibited under our Constitution. Education must always be the top budget priority in the National Expenditure Program (NEP) and the General Appropriations Act (GAA),” she said via Viber.

In the 2025 spending plan, education was allocated P1.055 trillion, followed by public works (P1.007 trillion), defense (P315.1 billion), interior and local government (P279.1 billion), and health (P267.8 billion).

John Paolo R. Rivera, a senior research fellow at the Philippine Institute for Development Studies said funding healthcare with at least 5% of economic output is “necessary” to build a more resilient and inclusive health system.

“Many economies with stronger health outcomes spend at or above this threshold. However, feasibility will depend on fiscal space, political will, and how efficiently the funds are spent,” he said via Viber.

Mr. Rivera added it should not be an either-or choice between education and healthcare.

“The NG (National Government) can still boost health spending through targeted reforms, better efficiency, and increased absorptive capacity without breaching fiscal or legal thresholds,” he said.

Essential services should be progressively funded in a balanced and sustainable way, Mr. Rivera said.

The P6.326-trillion national budget for 2025 raised concerns about the zero subsidy for the Philippine Health Insurance Corp., casting into doubt the sustainability of universal healthcare programs.

In 2026, Finance Secretary Ralph G. Recto said the government health insurer will be allocated a P53.26-billion subsidy in the National Expenditure Plan, the document prepared by the executive branch that will serve as the basis for the budget bill.

Economic managers have proposed a P6.793-trillion national budget for 2026, up 7.4% from the actual P6.326-trillion budget in 2025. This is equivalent to 22% of GDP.

The DBM projected appropriations of P7.232 trillion in 2027 and P7.702 trillion in 2028. — **Aubrey Rose A. Inosante**

OPINION

Transfer pricing considerations during calamities

As the Philippines reels from the successive landfalls of Typhoons Crising, Dante, and Emong, and the relentless southwest monsoon (*habagat*), businesses across the archipelago are once again reminded of nature’s unforgiving power. Flooded warehouses, paralyzed logistics, power outages, and damaged infrastructure have disrupted operations across the country. For many enterprises, the immediate priority has been survival and recovery.

Yet beneath the surface of these operational challenges lies a quieter but equally pressing concern: the transfer pricing implications of such disruptions.

For multinational enterprises (MNEs) with Philippine entities, the question is no longer just how to rebuild, but how to ensure that their intercompany pricing remains defensible under the arm’s length principle in the wake of calamity.

Natural disasters like typhoons disrupt the economic assumptions underlying many intercompany pricing arrangements. In the Philippines, where entities often operate as contract manufacturers, limited-risk distributors, or limited-risk/routine service providers, transfer pricing models typically assume a stable environment. However, production halts, logistics constraints, and extraordinary costs can misalign actual conditions with intercompany agreements.

At the core of this issue is the need to re-examine how the functions, assets, and risks (FAR) assigned to various related entities have shifted. The Organization for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines emphasize aligning pricing outcomes with value creation and risk assumption. A Philippine entity deemed low risk may earn routine margins under normal conditions, but when calamities damage inventory or delay shipments, it may find itself shouldering risks it was never intended to bear. Without appropriate adjustments, standard returns may no longer reflect arm’s length outcomes.

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From the Bureau of Internal Revenue’s (BIR) perspective, it may assess whether the losses align with the contractual and functional arrangements or whether the intercompany pricing mechanism requires adjustment to reflect economic substance.

How, then, can taxpayers maintain defensible and compliant transfer pricing in the face of such disruptions?

REASSESS RISK ALLOCATION ACROSS ENTITIES

Revenue Audit Memorandum Order (RAMO) No. 1-2019 reinforces the OECD’s principle that the allocation of risks within a multinational group directly influences how profits and losses are attributed among related parties. It emphasizes that the entity contractually designated to bear a particular risk must be aligned with the actual conduct and economic substance of the transaction. In other words, the contractual allocation of risk must be consistent with the real-world facts and circumstances, including the functions performed, assets used, and risks actually assumed by each party.

Post-calamity, Philippine taxpayers must revisit their risk profiles to ensure economic consequences align with contractual roles, facts, and circumstances.

For example, Company A, a Philippine-based distributor under a limited-risk model, sustained flooding at its warehouse, leading to lost inventory and delivery failures. If the company also incurred customer attrition costs and higher distribution expenses, it may be assuming commercial risks inconsistent with its transfer pricing designation as a limited-risk distributor. A revised risk analysis and proper documentation can support a case for adjusting its intercompany margin accordingly.

LOCALIZED IMPACT AND DOCUMENTATION REQUIREMENTS

RAMO No. 1-2019 emphasizes the importance of analyzing the arm’s length nature of related-party transactions, particularly when a taxpayer reports a lower net operating profit compared to other companies in the same industry. This discrepancy may signal potential transfer pricing risks that warrant further scrutiny.

It’s important to note that calamities and other external disruptions can affect regions unevenly. These localized impacts may lead to different financial outcomes among companies operating in the same industry.

For example, Company X, located in Metro Manila, experienced flood-related delays in supply chain logistics, which negatively impacted its net profit. In contrast, Company Y, a comparable entity based in Davao, operated without disruption during the same period.

Without clear documentation of such localized disruptions, the BIR may question the legitimacy of Company X’s reported losses when compared to the profitability of Company Y. To mitigate this risk, taxpayers must prepare robust justifications, contemporaneous documentation, and appropriate disclosures to demonstrate that reduced profitability is a result of genuine economic conditions rather than transfer pricing manipulation.

EVALUATE AND ALLOCATE EXTRAORDINARY COSTS

Non-recurring expenses, such as repairs, re-routing, or power restoration, should not be automatically absorbed by the local entity simply because they are labelled “extraordinary.” Instead, the proper approach involves delineating the actual transaction, assessing which party assumed the risk, and evaluating whether independent enterprises under similar conditions would have shared the cost.

For example, Company Y, a contract manufacturer located in Metro Manila, had to rent generators, hire temporary workers, and repair damaged facilities following the typhoons. Although these costs were booked locally, the continued delivery of components benefited its foreign affiliate. In this case, the costs may justifiably be recharged through the intercompany arrangement, consistent with arm’s length behavior.

This reassessment of risk is also critical when evaluating how calamity-related costs are treated under cost-plus or fully loaded cost-plus markup models. The OECD emphasizes that only costs that are of an operating nature and directly or indirectly related to the controlled transaction should be included in the cost base. Costs that do not affect comparability should be excluded from net profit indicators.

If a company applies a full-cost-plus method, including extraordinary expenses in its cost base without evaluating who bears the risk, it could distort the arm’s-length result. A proper functional and risk analysis should determine whether such costs should be included in the markup calculation or excluded, depending on contractual terms and economic substance.

REVIEW AND REVISE INTERCOMPANY AGREEMENTS

Calamities may trigger force majeure clauses or justify the revision of intercompany agreements. Taxpayers should assess whether existing contracts still reflect the economic reality and risk-sharing arrangements. Any changes should be clearly documented and aligned with the arm’s length principle to avoid regulatory scrutiny. The BIR may closely examine such revisions, especially if they result in significant deductions or losses.

For instance, Company Z, a Philippine entity supplying parts to its parent company in Japan, faced port closures due to typhoons. The resulting delivery

delays led to penalties from customers not anticipated in the original intercompany agreement. Given this development, Company Z may reasonably seek to amend the agreement to reflect a more balanced sharing of risk or adjust pricing to account for costs incurred. The OECD affirms such revisions are permissible if consistent with what unrelated parties would have done under similar circumstances.

TAKEAWAY

The arm’s length principle does not disappear during a disaster, but it must be applied with contextual understanding. Typhoons show how economic substance can shift suddenly, challenging assumptions behind transfer pricing policies. For Philippine entities, this means recognizing disruptions and responding with foresight and documentation to manage recovery and regulatory scrutiny. Such actions not only promote compliance but also demonstrates the resilience of transfer pricing policies even under calamities. A disaster-aware transfer pricing strategy is not merely reactive; it is an essential element of sustainable and defensible cross-border tax compliance in an increasingly volatile world.

Stay compliant. Stay prepared. And above all, stay safe.

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