Wanted:
A New Rural Development Strategy

Gregorio Dionisio and Jessica Reyes-Cantos

One of the fundamental development challenges we face today is reducing poverty where it is most severely felt—the rural areas. World Bank president James Wolfenson aptly describes the global picture in his foreword to a rural-development-sector strategy paper (World Bank 1997):

"Reducing poverty and ending hunger require focused attention on the rural economy. Nearly three out of four of the world's poor and hungry people live in rural areas. Although the absolute numbers and the proportion of poor people living in the cities are expected to grow rapidly, the majority of poor will continue to live in the countryside until well into the next century."

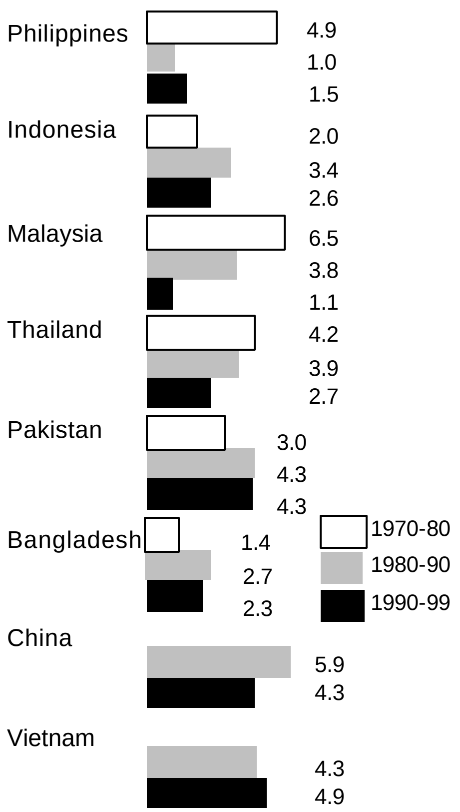
The same paper (World Bank 1997) goes on to describe the global rural poverty situation:

"The significant majority of the rural poor depend on agriculture for most of their meager livelihoods. Others depend on associated non-farm activities. Many of the rural poor live in regions where arable land is scarce, agricultural potential is low and drought, floods and environmental degradation are common. Access to basic human needs—education, potable water, health care and sanitation—is far less available in rural areas. The problem of malnutrition, low life expectancy and high infant mortality are more severe in rural areas."

The situation in the Philippines, where half of the population and 77 percent of the poor live in the countryside (NEDA 2001), is not any different. The seriousness of rural poverty in the Philippines has long been recognized. From the 1960s to the '90s, a succession of Philippine presidents embarked on a number of rural development programs to address this situation. All of the programs met with little success. One observer (Serrano 1999) describes these past anti-poverty efforts in this way: "Every regime … promised to reduce poverty; the last two even declared total war against it. Not one made good on its promise in a real way. Poverty seems much easier to create and reproduce than real prosperity. Indeed, poverty has become the most durable feature of Philippine reality."

The ascension to power of President Gloria Macapagal Arroyo, who was launched from the springboard of transparency and good governance issues (or rather the lack of

Figure 1
Average Growth Rates of Agri GVA



Sources:
* 1970 to 1980 figures: "Philippine Agriculture in Crisis," Tolentino et al., June 2001.
* 1980 to 1990 figures: World Bank Development Report 2000/2001

these), had pervasive poverty and unemployment problems at its backdrop. The resolution of poverty bears, once again, the stamp of "MOST URGENT!" because, despite steady gains in poverty reduction since 1986, it suddenly experienced a reversal after the 1997 Asian currency turmoil, the El Niño phenomenon, and the political uncertainty from late 2000 to early 2001. In the aftermath, an additional 250,000 households outside Metro Manila fell below the subsistence threshold in the period 1997-2000.

To her credit, President Arroyo did not lose sight of the urgency of addressing poverty. The attempt by the more destitute segments of society—the Great Unwashed—to storm the presidential palace, three months into power, starkly brought home the fact of its importance. In her State of the Nation Address in July 2002, she outlined a medium-term development plan anchored on the vision of "winning the war against poverty within the decade." She further unveiled the four basic strategies that would guide her development plan: free enterprise, rural development, protection for the vulnerable, and good governance.

This paper attempts to examine the Arroyo administration's rural development strategy and the challenges that this strategy faces. It also tries to put forward some recommendations in areas where the strategy leaves some room for improvement, with the end in view of enhancing its chance of success.

The Arroyo administration's rural development (RD) strategy

The context of a rural development strategy must be viewed not just from recent years. A quick look into how the agriculture sector has performed since the 1970s shows that it has never regained its peak performance of an average growth rate of 4.9 percent. Further, from a group of eight selected Asian countries, the Philippines showed the second lowest agricultural growth rate—1.5 percent from 1990 to 1999—besting only Malaysia's 1.1 percent. Quite enviable was Pakistan's, Vietnam's, and China's track record of 4.3 percent, 4.9 percent and 4.3 percent, respectively, during the same period (Figure 1).

But what complicates the picture is that our country's average population growth rate of 2.3 percent outruns the 1.5 percent average growth rate in the agriculture sector. These, combined with the removal of quantitative restrictions on the importation of sensitive agricultural products (except for rice) following our accession into the World Trade Organization, the recent bouts with the El Niño phenomenon, and the misaligned exchange rate during the second half of the Ramos administration, all contributed to our increasing dependence on imported agricultural products. If anything, these indicators all point to an agriculture sector in crisis.

It is no wonder then that, in her first State of the Nation Address on 23 July 2001, the President said: "Starting tomorrow, I will hold office at the Department of Agriculture, until I can get a clear and demonstrable picture of our agricultural accomplishments for our first 100 days."

The Medium-Term Philippine Development Plan (MTPDP) 2001-2004 banners the Arroyo administration's RD strategy as "Agriculture and Fisheries Modernization with Social Equity**."** The strategy intends to raise agricultural productivity and rural household incomes, and to remove the poor from subsistence farming and fishery by providing access to modern agricultural inputs, high-yielding seed varieties, fertilizers, and robust infrastructure support. This strategy also promises to expand skill-acquisition programs in order to assist workers released from agriculture to secure jobs in industries and services, while agricultural extension work will introduce farmers to innovative production techniques.

The strategy further aims to provide farm and off-farm enterprises with access to credit at non-usurious rates through micro-credit and small- and medium-enterprise lending programs. It incorporates import liberalization and tariff reform to enable rural enterprises to acquire least-cost capital equipment and other production inputs.

To achieve social equity, the strategy aims to fully implement the Comprehensive Agrarian Reform Program (CARP) and provide the necessary support services to agrarian reform beneficiaries.

As agriculture is modernized, safeguards will be put in place to guarantee that intensified production does not undermine the integrity of the environment. To carry out its strategy, the Arroyo administration promises to allocate Php20 billion annually to reinvigorate the earnings and production of farmers and fisherfolk and deliver the following outcomes:

- creation of one million jobs in agriculture and fisheries;
- distribution of 200,000 hectares of land every year for land reform;
- ensuring of market for the produce of farmers and fisherfolk;
- self-sufficiency in rice in the future, which would involve the immediate removal of National Food Authority monopoly in rice importation, thereby allowing farmers to import rice directly to avoid shortages in the short term.

Perhaps to underscore its importance, social equity was again reiterated in the MTPDP's component on comprehensive human development and protection for the vulnerable. Under this component, reform or redistribution of physical resource assets—particularly land and credit and social protection of the poorest through social welfare and assistance, local safety nets and social security and insurance—are incorporated, together with human development services, participation of the poor in governance, and security and protection against violence as key programs.

As a whole, the Arroyo government's new rural development strategy appears to be a step in the right direction, i.e., it supposedly tempers its pro-growth orientation with a strong pro-poor bias. It assumes a broad rural-development perspective rather than a narrow agriculture-sector focus. It emphasizes growth and employment generation while aiming for long-term self-sufficiency in strategic crops such as rice. It also calls for the broad participation of development actors beyond the public sector.

But even with the strategy's overall soundness, it must still overcome problems that have confounded previous rural development efforts, and grapple with dilemmas that continue to pose challenges to its implementation. How it can accomplish these formidable tasks bears close watching.

Challenges

Yearly budget cuts by Congress limit the scope of government land distribution.

CONGRESS AS A REAL BOTTLENECK

On financing equity and productivity

No less than the World Bank points to survey results that establish overwhelming favorable gains from land distribution for beneficiaries of the Comprehensive Agrarian Reform Program (CARP), gains in terms of productivity and income, as well as a higher propensity to invest in both physical and human capital (World Bank 2000).

At least on paper and in budget submissions, the resolve to address and seriously implement CARP was always there in the Executive Department, especially after the Social Reform Agenda was crafted towards the end of the Ramos administration. But year in and year out, right after the Executive Department's submission of the budget needed to move forward with the program, the Senate manages to cut it down, effectively reducing the hectarage of land the Department of Agrarian Reform (DAR) might acquire and distribute.

The most recent experience is the Php1-billion cut from the original Php4.5-billion allocation for the program. As a result, it left a big gap between needed landowner compensation and the targeted 100,000 hectares of agricultural land for distribution in 2002 by DAR (Philippine Star 2001). In addition to meeting the cost of land acquisition and distribution for fiscal year 2002, government still has to provide for the payment of maturing bonds and interest costs of previously distributed agricultural lands, estimated at a minimum of Php3.6 billion to a high of Php5.5 billion (Manila Bulletin 2001).

The lower house of Congress, being a co-equal body, can actually insist on restoring what the Senate has cut from this important program on rural development and social reform during the bicameral conference committee. But since there is "division of spoils," so to speak, whatever cuts they make in other items can be re-allocated into their own pet projects. Ironically, this is done in the guise of trying to minimize the budget deficit.

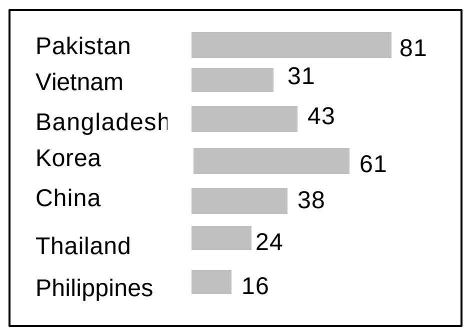
The budget cut comes as a clear violation of the Arroyo administration's earlier commitment, made during the National Socio-Economic Summit held 10 December 2001, that it would ensure that no cuts would be made in the 2002 budget for programs on agriculture, agrarian reform, fisheries, indigenous peoples, community-based forest management, and watershed protection and management.

The immediate enactment of a national land use policy can help settle, once and for all, conflicting claims in land use.

On enacting a rational land use policy

While the slow pace and the increased uncertainty in the implementation of CARP has brought about decreased private investments in the rural sector, another equally important factor is the lack of a rational national land use policy. There are inherent conflicts in existing laws which a National Land Use Act can address. These include Section 20 of Republic Act 7160, otherwise known as the Local Government Code of 1991, allowing a local government unit to reclassify up to 15 percent of agricultural lands for non-agricultural uses. On the other hand, Section 65 of RA 6657, otherwise known as the Comprehensive Agrarian Reform Law, provides that only the Department of Agrarian Reform has the power to approve land conversion applications. The immediate enactment of a national land use policy can help settle, once and for all, conflicting claims in land use, thereby lessening the uncertainty that is besetting the agricultural sector.

Figure 2
% Share of Irrigated Land to Total Cropped Land, Mid '90s



Source: "Constraints to Food Security: The Philippine Case," Cristina C. David, Journal of Philippine Development, No. 48, Vol. XXVI, No. 2 (Second Semester)

On declaring the coconut levy funds as public funds

About three million families depend on the coconut industry, of which 2.7 million families eke out a living as coconut farmers, tenants, and wage farm workers. Some 90 percent of this 2.7 million live below the poverty line.

A little silver lining is seen within the current administration's resolve to acquire and utilize the coconut levy funds, now estimated to total more than Php100 billion, for coconut-farm modernization to benefit the small coconut farmers.

One of the current administration's early moves rescinded two executive orders on the coconut levy issued by the previous administration—Executive Orders 313 and 312. EO 313 expressly repealed EOs 277 and 481, both issued by the Ramos administration, which had emphasized the public character of the coco levy fund. EO 313 likewise allowed the use of the interest income of the fund for other agriculturerelated activities. In short, its use was not to be limited to the coconut industry. On the other hand, EO 312 set aside a Php1-billion fund, supposedly to come from the coco levy funds, for the ERAP Sagip Niyugan Program.

Another positive move of the Arroyo administration was the appointment to the Philippine Coconut Authority and to the board of the United Coconut Planters' Bank (UCPB) of some key people trusted by small coconut farmer groups.

The most celebrated development was the Supreme Court's decision on 14 December 2001, strengthening its previous position regarding the fund. Whereas before it merely opined that the fund was "imbued with public interest," the high court has now ruled that there is *prima facie* evidence that the funds are public. The applicability of the ruling may be limited as yet to UCPB shares, but if the *Sandiganbayan,* the country's anti-graft court, makes a final favorable ruling on the matter, then the entire fund can be declared public. However, this may still take some time, as more than 15 years have passed since the case was filed before the courts.

There is another way out of the current situation other than the *Sandiganbayan,* and that is through Congress. From the 10th Congress in 1995 up to the present, various bills have been filed moving to declare the coco levy funds as public. However, as in the matter of providing funds for CARP, Congress has yet to assume the role of a catalyst in this important rural poverty alleviation program (Tañada 2002).

INCREASING THE DA'S ABSORPTIVE CAPACITY

If agricultural productivity is to be enhanced, the absorptive capacity of the Department of Agriculture (DA) has to be increased.

Based on a study done by the Congressional Budget and Planning Office of the House of Representatives, the DA was able to obligate (that is, to commit funds to meet an obligation) only 55.6 percent of its total appropriation for the year. This makes the department the lowest in absorptive capacity among government line agencies. This excludes the budget for the implementation of the Agriculture and Fisheries Modernization Program, where only 58.8 percent of total appropriation was obligated (CPBO n.d.).

And so, while our farmers cry out for additional financing for support services for their sector, much of the funds available to them remain untapped.

<u>Increasing the productivity of rice and other crops through irrigation</u>

An irrigated rice land's productivity can potentially double with irrigation. Other water-dependent crops can likewise benefit from this important rural infrastructure.

A cross-country comparison of the percentage of irrigated lands vis-à-vis total cropped lands points out why this country's agricultural productivity is sorely lagging behind (Figure 2). The Philippine percentage is the lowest compared with those of Vietnam, Thailand, and even Bangladesh.

RECOMMENDATIONS

With the projected further downturn of the economy in 2002, financing constraints will continue to keep social equity programs on the back burner, as government is expected to continue investing its limited funds in productivity enhancement and employment generation measures. Government is left with no option but to find new means to finance its social equity program, as well as devise schemes for farmers to have access to support services.

Alternative ways of financing and implementing CARP

Government could consider raising taxes for huge landholdings that have so far evaded coverage of CARP, such as that of the Catholic Church and other big landed interests. It could even start by implementing what is already in the law, mandating the application of taxes on land conversion and idle land as embodied in RA 8435, otherwise known as the Agriculture and Fisheries Modernization Act of 1997.

According to the World Bank, one way of enhancing the political acceptability of land taxes is to have a land fund established from its proceeds at the local level, with disbursements from the fund subject to community-level decisions in accordance with transparent procedures. “This would create a link between land tax collection and land reform implementation and enlist community involvement in the implementation of land reform” (World Bank 2000).

A second look into the market-assisted approach in implementing land reform and even into the corporative scheme, floated by former Agrarian Reform Secretary Horacio “Boy” Morales, might be worth our while. The market-assisted approach involves a voluntary transaction between buyer and seller, minus the mediation of the Department of Agrarian Reform. The World Bank is pilot-testing some areas and is making funding available for the purchase of land on this basis. Foreign donors normally do not provide funds for direct land distribution and acquisition. If anything, this World Bank move is a step closer in that direction.

A lot of nongovernment organizations moved heaven and earth to prevent the corporative scheme from taking place under the past DAR dispensation. Former Marcos crony Eduardo “Danding” Cojuangco kept insisting that actual land itself, rather than “use of land,” be converted into equity shares in the corporative. This position was unacceptable to the NGOs. Cojuangco’s formula was no different from the much-maligned stock-option scheme that was implemented in former President Corazon Aquino’s Hacienda Luisita Estate, where the farmers eventually lost control and ownership of their land. A second look into this corporative scheme, though, is recommended in its original terms of reference. In particular, the farmer-beneficiaries should have access to credit, technology, and markets, all necessary support services to increase their productivity. In turn, they become part owners of the corporative, allowing their "partners" use of the land. And they should have an escape clause to allow them out of the contract should they be dissatisfied with the partnership at any time.

Making the most out of a redistributive program

Agrarian reform must be prioritized in areas where it would make the greatest dent on poverty alleviation. These are areas where both poverty and landlessness are most pervasive. For this reason, Bicol and the Western Visayas regions should be top on the list (Chavez-Malaluan n.d.).

President Arroyo must crack the political whip—if her government is to hurdle the barriers strewn in the path of its rural development strategy and if it can deliver on its promised outcomes.

The quicker agrarian reform is implemented, the better for all of us; the longer it takes, the fewer the chances of success for the program. Studies show that those who have already benefited from the land ownership transfer experienced increases in their productivity. On the other hand, the ability of the present poor and landless to gain access to land through established markets might have declined over time (World Bank 2000). As such, some thoughts are due on the continuing debate on which is more important—ownership and control of the land versus access and the right to the fruits of the land.

At this point, it makes no sense to split hairs on exactly what involves a "genuine agrarian reform program," if financing will remain a major constraint. Perhaps what should be of more immediate concern is the need to explore more progressive alternative schemes, where risks can be shared by the farmer and some other institution or person—the dreaded landlord even—but where the farmers', the poor's, and the landless' access to land and its fruits is guaranteed by the State.

Confronting the rice issue

The forthcoming removal of the quantitative restriction on rice imports necessitates greater public information and consultation on its potential impact. Like oil, rice is a political commodity, because it is our staple. Government conveniently espouses a policy of self-sufficiency in our staple because of the political and emotional baggage that has to be carried otherwise. However, achieving rice-self-sufficiency over the short and medium term remains a tall order. For one, the liberalized entry of cheaper, imported rice is a sure-fire disincentive for rice farmers to continue planting *palay*, what with the government's declining expenditure for farmgate support price. For another, with a growing mass of farmers and consumers to feed in the face of below-optimal rice productivity level, we have in fact increasingly become a net rice importer since 1984. Such incongruence between policy pronouncement and hard realities facing our basic staple has to be addressed soon.

Wide information dissemination and education

Making information on markets and on new productivity-enhancing techniques—and even on something as basic as what to market—available to as wide an audience as possible, and in the cheapest possible way, would make great strides in promoting investments in agriculture. Primarily, farmers' cooperatives can be targeted. Even Overseas Filipino Workers (OFWs), who are looking for potential areas for investment for their savings or a higher value-added business venture when they get back home, can be enticed if such information is readily available.

Vulnerable groups

Finally, trite as it may sound, investment in education in rural areas, be it formal or nonformal, would go a long way towards increasing a household's chances of raising its non-farm incomes. In turn, the household can generate additional funds to invest and increase its productivity in agriculture, and hence to increase its income.

The new RD strategy should not only address the development need of the poor in general; it must also recognize that even among the poor there are certain sectors that tend to suffer the brunt of poverty more severely than others, such as the women, the youth, and indigenous peoples.

Improving the condition of rural women should be an important objective of social equity and RD programs in general. Gender-sensitive problem analysis and planning approaches should be adopted to ensure that the development needs of both women and men are understood and taken into account.

Conclusion

In the early 1980s, the World Bank first came out with a definition of rural development as "a strategy designed to improve the economic and social life of a specific group of people—the rural poor" (Harris 1982). This definition becomes particularly relevant in the current effort of the Arroyo administration to closely link the increase in agricultural productivity and employment and the access to public goods and services to the alleviation of poverty. By taking this initial step, government already deserves credit. But even bigger credit and a windfall of popular support await the Arroyo administration if it can hurdle the implementation barriers strewn in the path of its rural development strategy—and if it can deliver on its promised outcomes. Let us see if the President can crack her political whip.

GREGORIO DIONISIO, formerly with the Philippine Rural Reconstruction Movement, works for the National Integrated Protected Area (NIPA) consortium of NGOs.

JESSICA REYES-CANTOS is a member of the management collective of Action for Economic Reforms (AER).

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