

GOVERNANCE IN AGRICULTURE AND RURAL DEVELOPMENT

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I. INTRODUCTION

Agriculture is the queen of the economy, the basis on which industry is built, an essential stepping stone to development. The failure of the Philippines to develop in the same way as its neighbors in East Asia can be attributed to the problems that have dogged its agricultural sector. These problems persist to this day.

This chapter attempts to examine the governance context of Philippine agriculture, that is, the way the state chooses among various policy options and the pressures or concerns that influence policy choices – or the lack of them. To do so, this study first summarizes the major problems affecting this essential economic sector, beginning with a description of its performance in recent years. The study then presents an explanation for this performance, describing the problems that have contributed to this situation. From this description, it presents the solutions or policies that have been usually prescribed for them. How far the government has gone in implementing these solutions, or why it has not, is then examined – and this is the focus of the discussion of the governance context. Conclusions are then drawn on what could be done regarding Philippine agriculture from a governance perspective.

The study focuses on governance and makes no attempt at a thorough economic analysis of the topic, much less a presentation of new findings based on a fresh analysis of data. It merely presents the conclusions of various economists, who in any case seem to be in general agreement. Nor does it make an exhaustive treatment of the various aspects of Philippine agriculture, as this would require a discussion the length of a book. Instead, it has chosen to present agriculture's most important issues and to derive the governance situation from them. The picture drawn is painted with broad strokes. Exhaustive discussions of the various dimensions of Philippine agriculture exist elsewhere and would have detracted from the focus of this presentation.

II. ANALYSIS OF THE SITUATION

Agriculture has a substantial role in the economy. It continues to be a major source of income and employment, accounts for nearly half the total labor force, and contributes over 20 percent of the gross domestic product (GDP). If agriculture is [broadly defined](#) as including agro-processing and supply of non-farm agricultural inputs, then it accounts for about two-thirds of the labor force and 40 percent of GDP. In fact, another measurement attributes as much as 71 percent of the country's GDP to [agriculture-related activities](#). Moreover, overall economic growth depends upon growth in agriculture; it is the source of food and raw materials to the rest of the economy, as well as a source of demand for non-agricultural inputs and [consumer goods and services](#). Finally, almost 70 percent of the nation's poor are in the rural sector and depend directly on agriculture-related economic activities for their major source of [livelihood](#).

Despite its strategic role, Philippine agriculture in general has had a dismal record of slow and uneven growth, especially when compared with the performance of agriculture in other Southeast Asian countries, and especially in comparison with the rate of population growth. This decline is manifested in all indicators of measuring performance: gross value added, competitiveness, rates of protection, and productivity.

Gross Value Added

Table 5-1 compares the average growth rates of agricultural gross value added and agricultural exports of selected countries. The Philippines compares quite poorly, despite a slight recovery during the administrations of Presidents Corazon Aquino and Fidel Ramos. While in the 1970s the Philippines ranked second (to Malaysia) in the rate of growth of agriculture GVA among the countries listed, in the 1980s it was at last place (below Bangladesh). So far, in the current decade the Philippines has barely attained the world average rate of [agricultural GVA growth](#).

Table 5-1: Average Growth of Ag GVA and Ag Ex in Asia.

	1970-1980		1980 -1990		1990-1997	
	GVA	Ex	GVA	Ex	GVA	Ex
Philippines	4.9	14.6	1.0	-4.6	1.8	6.4
Indonesia	2.0	20.0	4.9	4.7	3.3	13.3
Malaysia	6.5	19.3	3.8	3.1	2.0	11.5
Thailand	4.2	21.2	3.9	4.9	2.9	7.9
China	2.7	13.1	5.6	2.7	0.2	
India	1.8	14.6	3.2	0.8	2.8	10.8
Pakistan	3.0	13.8	4.3	3.2	3.6	-4.0
Nepal	0.8	-2.9	2.7	0.7	2.1	2.0
Bangladesh	1.4	2.6	1.9	-1.5	1.7	-1.6
Sri Lanka	1.8	9.7	2.1	0.03	2.4	-4.1

Source: Tolentino, May 1999, p. 2.

More importantly, Philippine agriculture, specifically food production, has not kept up with population growth. The decline has been most marked in such traditional crops as sugar, coconut, and even bananas. A few non-traditional crops, such as mangoes, have high growth rates, but these are not enough to reverse this general downward trend. Even staple crops such as rice and corn exhibit this trend: although both grew at a rapid pace up to the late 1980s, corn production went into a decline during the 1990s while rice began to grow at less than [1 percent annually](#). Other sub-sectors of agriculture show marked declines, and it is not hard to see why: GVA in forestry has been contracting since the 1970s, reflecting the unsustainability of forest-management policies. The same goes for fisheries, largely due to the poor showing of municipal fisheries, which in turn is attributable to over-fishing, destructive fishing, destruction of coral reefs and mangroves, and [other kinds of resource depletion](#).

Competitiveness

The slower growth of Philippine agriculture compared to other developing Asian countries suggests that the country has been losing its agricultural comparative advantage. For example, the country has turned from a net exporter to a net

importer of sugar, and whatever sugar is still exported is only for the preferential US market at prices higher than the world market. Even in non-traditional exports such as bananas and pineapples, the share of the Philippines in world markets has declined since the [mid-1980s](#).

Agriculture has historically been the major source of foreign exchange for the Philippines. However, its share of total exports has decreased from almost two thirds of total exports in the 1960s to just 7 percent in the late 1990s. Consequently, the agricultural sector has ceased to be a net earner of [foreign exchange](#).

Rates of Protection

Agriculture's declining competitive advantage is also evident from the increasing trends in trade protection among the major import-competing commodities. A measurement of trade protection is the net protection rate, which is the percentage difference between domestic wholesale price and border price. As Table 5-2 shows, nominal protection rates in the 1970s were low; by the first half of the 1990s, however, they averaged between 70 to 90 percent for such traditional crops as [rice](#), [corn](#), and [sugar](#).

A clear sign of how non-competitive our crops have become is the rampant smuggling of rice from other Southeast Asian countries. Ordinary people eagerly buy smuggled rice because it is cheaper than [local rice](#).

Table 5-2: Nominal Protection Rates of Major Agricultural Commodities, 1970-1998 (%)a

	1970-79	1980-84	1985-89	1990-94	1995c	1996c	1997c	1998c
Rice	-4	-13	16	19	63	91	82	34
Corn	24	26	67	76	104	54	96	72
Sugar ^b	5	42	154	81	91	93	66	99
Pork	6	-9	43	31	44			
Chicken	34	46	39	74	84			

Source: David, Cristina C., "Agricultural Growth And Performance," in *Philippines, Rural Development and Natural Resource Management: Trends, Strategy Implementation and Framework Performance Indicator System*, (Government of the Philippines and World Bank, 2000).

Growth of Productivity

Recent trends are alarming. Productivity has stagnated and the growth of agricultural output has substantially slowed down – from an average of 5.8 percent per year in the 1970s to about 2 percent per year in the 1980s and in large part of the 1990s. The only bright spot has been in livestock and poultry. Growth in these sub-sectors can be attributed to international technology transfer and greater scale of operations and other management-related innovations that have increased production efficiencies [significantly](#).

III. KEY AREAS OF GOVERNANCE

Most studies on Philippine agriculture are in general agreement on the root causes of its lackluster performance, and on what has [to be done](#). They usually identify the root causes as the following: a policy framework that has stifled productivity and innovation; inadequate or inappropriate government investments in agriculture; lack of access among the poor to productive resources; and an institutional framework

that creates inadequate responses to the problems of Philippine agriculture and breeds corruption and inefficient use of resources. The reforms recommended to address these problems also have been generally the same.

This section takes up each of these root causes and the policies that have been crafted to address them. It will also discuss how the government implements these policies: how far it has gone, what have been the constraints and issues that it must contend with – in short, the context of governance – and what it must do. These, then, are the key areas of governance in Philippine agriculture that, taken altogether, provide a general picture of the governance situation.

Inappropriate Government Policies

The poor performance of agriculture can be attributed to the same set of policies pursued in the past that are held to be responsible for the Philippines' lack of development in general: the pursuit of inward-looking protectionism; intrusive, government-driven industry policies; and, politically driven expansionist fiscal policies.

Government sought to protect agricultural producers with import licenses; specific laws were also passed prohibiting imports of such produce as onion, garlic, potatoes, and cabbages (RA 1296) in 1955, coffee (RA 2712) in 1960, and tobacco/cigarettes except for blending purposes (RA 4155, as well as PDs issued by Marcos later on) in [1964](#). Such measures might have been well meaning, but historically protectionism does not encourage the adoption of productivity-enhancing methods and technologies. During the Marcos era, the government also had the good intention of regulating agricultural commodity prices, with the goal of ensuring both farmers and consumers fair prices, by establishing in 1972 what came to be known as the National Food Authority (NFA). The NFA had monopoly control of international trade in rice and corn and engaged in domestic marketing operations to stabilize prices and to narrow geographical price dispersions. The government also attempted to deal with high world commodity prices in the early 1970s by allowing the NFA to import free from tariffs such commodities as wheat, corn, soybeans, soybean meat, ruminant livestock and beef.

Other ways by which government sought to protect farmers and consumers were by requiring the registration and licensing of traders, particularly of rice (by the NFA), sugar (Sugar Regulatory Administration, or SRA), coconut (Philippine Coconut Authority, or PCA), fibers (Fiber Industry Development Authority), and cotton (Philippine Cotton Corporation). Producers and manufacturers of such inputs as seeds, veterinary supplies, feeds, fertilizers, and pesticides also were subjected to registration and licensing requirements.

At the same time, an overvalued peso discouraged exports. Agricultural exports were also taxed, initially with the goal of protecting domestic consumers from high world prices particularly during the early to mid-1970s. An example was the levy imposed on coconut in 1973, part of which was used to establish United Coconut Mills, Inc. (UNICOM) by purchasing 80 percent of the coconut-oil milling industry. However, UNICOM operations and a copra export ban resulted in farm prices of coconut that were lower by more than [20 percent](#).

By the late 1970s, world commodity prices began to fall – which partly explains agriculture's current doldrums, especially for such commodities as rice, sugar, and coconut. In fact, as mentioned previously, world commodity prices sometimes fell below domestic prices. However, the fall of commodity prices alone is not sufficient to explain the present situation of Philippine agriculture, since other East Asian

countries with exportable agricultural commodities also encountered the same situation but continued to have high rates of growth in agriculture. The key difference between the Philippines and its East Asian neighbors is the set of protectionist policies the Philippines pursued, which ended up insulating local agriculture from these pressures, resulting in the continuation of non-competitive or inefficient practices or crops and removing the incentive to become more productive. These led to stagnant growth, and stagnation led to stagnant or low agricultural incomes.

Other forms of government intervention that were originally set up to protect local consumers ended up with contrary results. A prominent example was the Sugar Regulatory Administration (SRA), which controls the flow of sugar into the domestic market. The SRA does this through a system that was originally set up before World War II, when much of locally produced sugar was exported to the United States and there was thus a need to protect local consumers. However, even during the 1970s, this was no longer the case, and the SRA's operations tended to protect sugar farmers at the expense of consumers, including food-processing industries that use large amounts of sugar. Today, only about 7 percent of Philippine sugar is still exported to the U.S., while domestic sugar prices are, at an average, [double international prices](#).

Another example is the NFA. Because of its conflicting goals of ensuring low and stable prices to consumers and sufficiently high and stable prices to farmers, it is compelled to "buy high, and sell low," meaning that it will always operate at a loss and have to be subsidized by the government. However, because of its limited budget, its capability in influencing or maintaining prices that are favorable to either farmer or consumer has been limited. On the other hand, the NFA's goals could be achieved by other, and less costly, means.

There are many other cases of government programs that were established with the goal of protecting Filipino consumers or farmers but which ended up with opposite results. They penalized consumers by raising the prices of agricultural goods. They discouraged new investment or efficiency among particular sub-sectors of Philippine agriculture. Overall, they contributed to the low productivity or growth rates of these [sub-sectors](#).

Policy Response: Deregulation and Liberalization. Direct government regulations that intervened in agricultural trade were dismantled starting in 1986. Export taxes were abolished. Government monopolistic control over international trade in such products as coconut oil, corn, soybean meal, etc. were abolished, except for rice. Even for rice, domestic rice marketing operations were reduced because the NFA did not generate its own income and had to be allocated with funds from the government. Quantitative restrictions on the importation of fertilizers were lifted and tariffs on major agricultural inputs were [lowered substantially](#).

The sticking point was the lifting of protectionism on agricultural commodities themselves, i.e., liberalizing imports of agricultural commodities with a significant domestic production, such as sugar, corn, and rice. This meant substituting quantitative restrictions (QRs) on agricultural imports with tariffs. Import liberalization was supposed to force farmers to either adopt more efficient and more productive methods, or to shift to more profitable crops. Either way, farmers would benefit, as they would theoretically earn higher incomes from either course of action. Consumers would also benefit: both higher production and cheap imports will bring food prices down, resulting in less money spent on food and more money spent on other needs. The opposition to liberalization based their position on two grounds: food security and the lack of safety nets. The debate about these two illustrates the contending forces at work and the governance context of agriculture.

Food Security. Among the important goals of agricultural policy is food security, which can be defined as the ability to meet one's nutritional needs in a sustained manner. It could be attained in either of two ways. One is to grow or produce all of the population's food needs within the country – self-sufficiency. The other is to import part or even all of the country's food needs. Advocates of the latter often cite the cases of Hong Kong or Singapore, which could meet all of their food needs even if they have hardly a significant agricultural sector to speak of, as they could earn more than enough to purchase what they need from international markets. This option is rejected by advocates of self-sufficiency on several grounds. First, it would be a drain on precious foreign exchange. Second, it would expose the country to the vagaries of the world market in agricultural commodities and food products. What if there is a shortage of an important commodity, like rice, and its price climbs to unaffordable levels? Coupled with this anxiety is the concern that the international food market is increasingly dominated by a few, oligopolistic, transnational players. This raises the possibility that the country could be held hostage by such companies if they were to seek to dominate or manipulate the national economy.

Those holding to this point of view are typically militant farmers' organizations, like the *Kilusang Magbubukid ng Pilipinas* (KMP), which saw in such moves "an imperialist manipulation to further...global economic and [political dominance](#)." Another reason for rejecting this option is the fear that such a policy would result in cheap imports that would wipe out local farmers – or at least end the cultivation of a traditional crop, like rice or corn. Moreover, as earlier pointed out, most of the country's poor are in the rural sector and resorting to an open trading policy would further stress the rural poor.

The advocates of trade liberalization respond to the first objection that the policy works both ways: local farmers could shift to high-value crops whose export earnings should be more than enough to pay for whatever food items the country needs; in short, agriculture could be a net earner of foreign exchange, as it was before. Moreover, by shifting to such crops, trade liberalization actually provides poor farmers the opportunity to get out of poverty because of the high returns from high-value crops. Import liberalization will reduce poverty, while farmers of, say, rice will be *condemned* to poverty because of the poor returns from this [crop](#). However, these beg the question as to whether local farmers could recognize and respond to market opportunities, whether international or domestic – a point that will be taken up in the following sections.

Another objection held by some farmers' organizations is that encouraging farmers to produce high-value, export crops would "take place at the expense of production intended mainly for their own consumption, thus putting farming families at considerable risk. Unfavorable climate or market conditions can lead to a vicious cycle of hunger, so that they contract huge debts that will eventually force them to give up ownership of their lands." They oppose export-oriented agriculture because, for them, it encourages "the concentration of land in the hands of a few" and that small farmers and producers would be sacrificed in favor of big farms engaged in non-traditional cash crop exports and [non-food production](#). The trouble with this argument is that it views agriculture as a matter of subsistence, and again denies farmers the opportunity to improve their lives through what they already do – farming. As to the fear that it encourages land accumulation, various studies point out that other countries, specifically Thailand and Taiwan, with small, family-owned farmers, have been able to successfully go into export-oriented agriculture. Thus, export-oriented agriculture does not necessarily involve large, plantation-type landholdings, and is even less efficient than [small landholdings](#). In fact, the pattern

of skewed land ownership in the Philippines is more the product of historical socio-political forces than of economics.

To the objection that import liberalization would leave consumers at the mercy of international commodity markets, advocates of liberalization point out that the world market in agricultural commodities is seldom as volatile as the oppositors to trade liberalization fear. In the first place, traders would not allow such a situation to take place, as they usually keep supplies in reserve for situations of shortages and will not allow a commodity to rise to unaffordable levels. It is not in their self-interest to do so, as agricultural products are easily substituted by others (or are "elastic," to use the term in economics), and no trader wants to sit on top of a pile of unsold inventory because it does not translate to income.

Arguments against defining food security as self-sufficiency are particularly critical of the goal of self-sufficiency in rice. Such a goal would mean having to invest in various aspects of rice production – e.g., irrigation, research, and extension – an amount that will exceed value added contributed by rice to agriculture. It would also mean taking away resources that could be used for other crops, especially high-value crops, that could bring a higher return to farmers than traditional crops like rice and corn.

Secondly, domestic rice is inherently more expensive than imported rice. Preserving local rice production by protecting local rice farmers from cheaper competition means penalizing consumers, who pay more. In 1999, for example, the price of rice for consumers was 18 pesos per kilogram, although it could be bought in international markets for only 11 pesos per [kilogram](#).

A dimension of this critique against the country's rice policy is the continuing existence of the NFA. As previously mentioned, this agency attempts to increase the farmgate price of rice with its own purchases of *palay* (paddy), and to keep consumer prices of rice down to affordable levels by selling rice at discounted prices. However, it does not have the budget to make a significant impact in either area. While there are farmers who benefit from the increased prices the NFA offers, the majority does not. In the same manner, there are some consumers who benefit by buying rice from NFA stores, but, again, most do not.

In the meantime, NFA operations are financed, ultimately, by the average Filipino taxpayer, who, because of the agency's limited impact, do not get their money's worth. In 1999 alone the NFA cost Filipino taxpayers as much as 6.28 billion pesos in subsidies, increases in the debt burden (which ultimately leads to more tax payments), and net infusions of new government subsidy. However, the goal of the NFA could have been more easily achieved with a combination of tariffs and taxes – which, in turn, could have led to revenue of [49 billion pesos](#).

The other dimension in this critique of the NFA is its monopoly over the importation of rice. This is being maintained to ensure that rice farmers are not wiped out by unlimited imports by private traders. However, the NFA is sometimes slow to recognize looming shortages, as what happened in the so-called "rice crisis" of 1995 – a crisis that cost the incumbent agriculture secretary, Sebastian, his job. On the other hand, if the rice industry were deregulated completely, the private sector would be more efficient in responding to market demands as it would be free from bureaucratic constraints.

Political Forces. Within government, there is also a debate as to the definition on food security. Advocating import liberalization, abolition of the NFA, and defining food security as ensuring access to food supplies is the National Economic and

Development Authority (NEDA), and sometimes such other oversight agencies as the Departments of Finance and of Budget and Management.

Advocating food security as self-sufficiency are the agencies responsible for agriculture and rural development, the DA, DAR, and DENR. They do so for pragmatic reasons. They are well aware of the economic arguments against it, but it means bigger budgets.

Lined up behind them are the farmers' organizations, most of which oppose import liberalization and oppose the privatization or abolition of the NFA. While militant groups like the KMP are in this debate because of their anti-globalization/anti-imperialist ideological framework, some farmers' groups take this line because they are among the few who benefit from the NFA's [rice-purchasing operations](#). Another significant force is the sugar bloc. While superficially export-oriented, the bulk of this bloc's profits comes from the sale of sugar at premium prices to the United States, while domestically produced sugar is more expensive than imported sugar.

These groups have a disproportionate influence over the debate through their representatives in Congress, who are eager to portray themselves as pro-poor and pro-farmer. Thus, efforts to remove QRs were pre-empted by RA 7606, or the Magna Carta of Small Farmers, which was passed in 1991 and provided, among others, blanket authority for restricting agricultural imports competing with locally produced goods. In addition, the Seed Law (RA 7308) was passed, regulating the imports of seeds and [planting materials](#).

Thus, the advocates of food security as self-sufficiency have more political forces at their side. For the advocates of liberalization, like NEDA, usually the only political player who agrees with it is also the most significant, the President, but even the President has to bow before political pressures. Thus, there is a tug-of-war over this policy. One result is that the government says one thing over this issue, and then says another, as was shown when the government became a party to the General Agreement on Trade and Tariff, and joined the World Trade Organization.

GATT: Continuation of Protectionism by other Means. During the administration of President Ramos, the country's economy showed new signs of life, especially with the application of further examples of deregulation and liberalization in the economy, such as in banking and telecommunications. The goal, even if it seemed improbable, was to become a newly industrialized country. The method was to learn to compete in the world market, and this meant further trade liberalization. It was during Ramos's administration, in 1995, that the country joined the World Trade Organization.

This meant that the country was committed to trade liberalization by replacing all QRs with tariffs, imposing a ceiling on tariff rates, and reducing tariff protection over time. However, many of the tariffs that replaced the QRs were set at the maximum allowable rates under the WTO, and in some cases were even higher than the nominal protection rates implied by the QRs they had [replaced](#). It seemed that as long as the country was not obligated to reduce protection, it would continue to seek the highest protection possible for its products.

Aside from this, the Philippines also used the provisions of the minimum access volume (MAV) of the agreement to set up what was essentially a new tariff quota system. Commodities subject to the MAV could be imported at a low tariff rate if they were within the quota (or in-quota) and subjected to high tariff rates outside it (out-quota). The MAV was not fixed but could be increased to prevent domestic prices from rising sharply whenever production shortfalls occurred. Thus, they were

operationally no different from QRs. Moreover, most of the MAVs were much lower than import demand at the in-quota tariff, thus protecting [domestic producers](#).

For example, in the case of sugar, the country was committed to a final tariff rate of 50 percent by 2004. In the meantime, under the MAV system, in-quota tariff rates were also at 50 percent, while out-quota tariff rates were 65 percent for imports from within ASEAN countries and 80 percent from non-ASEAN countries. In 1999, the MAV for sugar was set at 48,000 metric tons. With the combination of high tariff rates and the MAV system, nominal protection rates (NPR) are actually rising, especially for crops that are most vulnerable to competition from imports.

As expected, sugar has a high NPR, being a strong political force that has been able to lobby for protection. On the other hand, government has also been sensitive to the country's 1.5 million rice or palay farmers cultivating 3 million hectares, and the 1 million corn farmers cultivating [2.3 million hectares](#) (in contrast, sugar involved only 500,000 sugarcane workers cultivating 100,000 hectares.) Corn has also shown an increasing NPR, thus imposing a penalty on hog and poultry producers who have been the star performers in agriculture despite the high cost of feeds.

Furthermore, certain sub-sectors still continue to try to have more, not less, protection. A group of sugarcane planters for example asked the DA in 1999 to push for a higher ending out-quota tariff rate of 95 percent for sugar imports in coming renegotiations on the tariff commitments of all WTO members. This was to protect the industry from the recent drop in world markets of raw sugar, and particularly from lower-priced sugar imports.

Table 5-3: Nominal Protection Rates of Major Agricultural Commodities, 1970-1998 (%)^a

	1970-79	1980-84	1985-89	1990-94	1995-99
Rice	-4	-13	16	19	67
Corn	24	26	67	76	87
Sugar(b)	5	42	154	81	107
Coconut products					
Copra	-17	-28	-6	0	0
Coconut oil	-4	-4	7	18	0
Desiccated coconut & copra cake & meal	-4	-4	0	0	0
Bananas, pineapple, tobacco, abaca	-4	-4	0	0	0
Pork	6	-9	43	31	29
Chicken	34	46	39	74	49

(a)NPR is the percentage difference between domestic wholesale price and border price converted by the official exchange rate. The border price is an FOB export unit value for exportable products and the world price adjusted 15% as a measure of CIF import unit value for importable products. In the case of pork and chicken, the CIF import unit value of Singapore was used.

(b)Weighted average of NPR on sugar exported to the US (ratio of export unit value to the US to the border price) and NPR on sugar for domestic use (ratio of domestic wholesale price to border price). Border price is the FOB world price of sugar adjusted by 15% to obtain the CIF price. Imports of rice, sugar, and recently corn did not pay either the in-quota or out-quota tariffs, except for imports of sugar in late 1998, which paid out-quota tariffs.

Sources of basic data: World Bank, National Statistics Office, and FAO Trade Yearbook.

Source of table: David and Roumasset

However, the DA was not too keen on this, as it feared that the country's trading partners would agree to this only if they could obtain some concessions in return. For example, Thailand would want the removal of quantitative restrictions on rice, or for lower tariffs on corn, while Australia might push for lower tariffs for imports on beef, which are currently charged a 35 percent tariff. There were in fact discussions in the papers on which sector to "sacrifice" in return for higher tariffs for [sugar](#).

There were also constant fears that the government would hasten the lowering of tariff rates and the tariffication of particular products like rice. This fear was perhaps prompted by the World Bank's own recommendation that the agriculture sector be [liberalized faster](#). Government denied this, saying that the government is determined to pace itself in liberalizing the agriculture sector "to give us time to put in place the infrastructure, services and policy reforms that would enable the farm sector to [compete](#)."

Conclusion. The continuing high protectionism that exists in agriculture prevents the desired effect of liberalization, namely higher production and lower food prices. Because the threat of cheaper imports is kept away, albeit by only a few years until full tariffication is implemented, farmers have little incentive to adopt more productive techniques or to shift to more profitable crops. Moreover, the continuing high degree of protectionism also raises the hope that there may even be a reversal of the policy toward full liberalization and tariffication.

What the government ought to be doing is, first, to demonstrate convincingly that there will be no policy reversal as far as liberalization and tariffication are concerned. If this is emphasized, then the nation's agricultural producers and their allies in Congress and the DA would focus their energies on how to prepare for this eventuality, instead of pushing for its further postponement. It could do this by pushing for the gradual reduction of the degree of protectionism – or, to begin with, to resist pressures to maintain high tariffs – which would also gradually introduce farmers to the challenges of liberalization. In the meantime, the government should be using this grace period to prepare farmers for these challenges through higher productivity-enhancing investments. A gradual phase down of tariffs would expose more clearly the government's deficiencies in this area, leading to more focused targeting of investments. However, because the effects of liberalization are hardly felt, even if only to a limited degree from a gradual phase-down of protection rates, there is a danger that government, too, would hardly be in a hurry to do so. The effect, then, would be the creation of a fool's paradise that would be shattered abruptly once full tariffication sets in. It takes no stretch of the imagination to see that the political effects of such an abrupt change would be very costly.

How, then, is government using the grace period before full tariffication is implemented in 2004? This question is addressed in the next section.

Inappropriate Government Investments

Government expenditures for agriculture have fluctuated since 1965, as shown by Figure 1, which indicates their trends in both real terms (Ga) and their ratio to gross value added in agriculture (GVA). They began to rise during the administration of President Ferdinand Marcos and peaked during the early years of the [martial law regime](#) (the country then was in the midst of the "Green Revolution," with the slogan "rice and roads," and as a result even accomplished not just self-sufficiency but even a modest surplus in rice.) The decline of the authoritarian regime was accompanied by contractionary fiscal policies, which resulted in the decline in government's agricultural investments. These again began to climb with the accession of the Aquino administration, and then fell somewhat after 1991, then

Figure 1: Trends in Real Government Expenditures in Agriculture (Ga), Its Ratio to Gross Value Added to Agriculture (GVA).

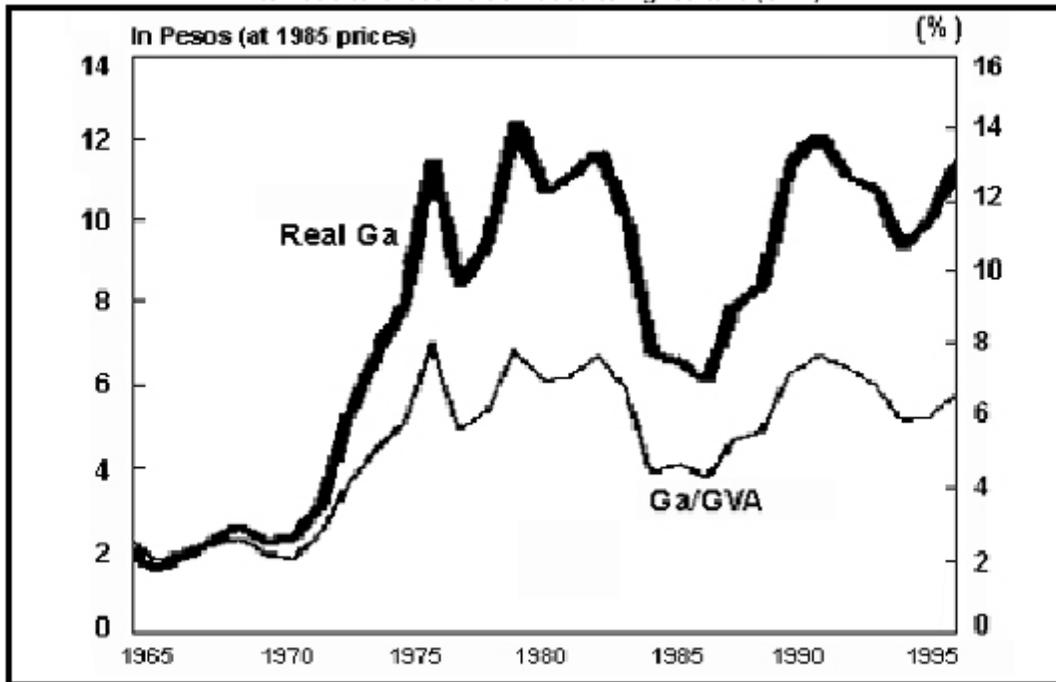
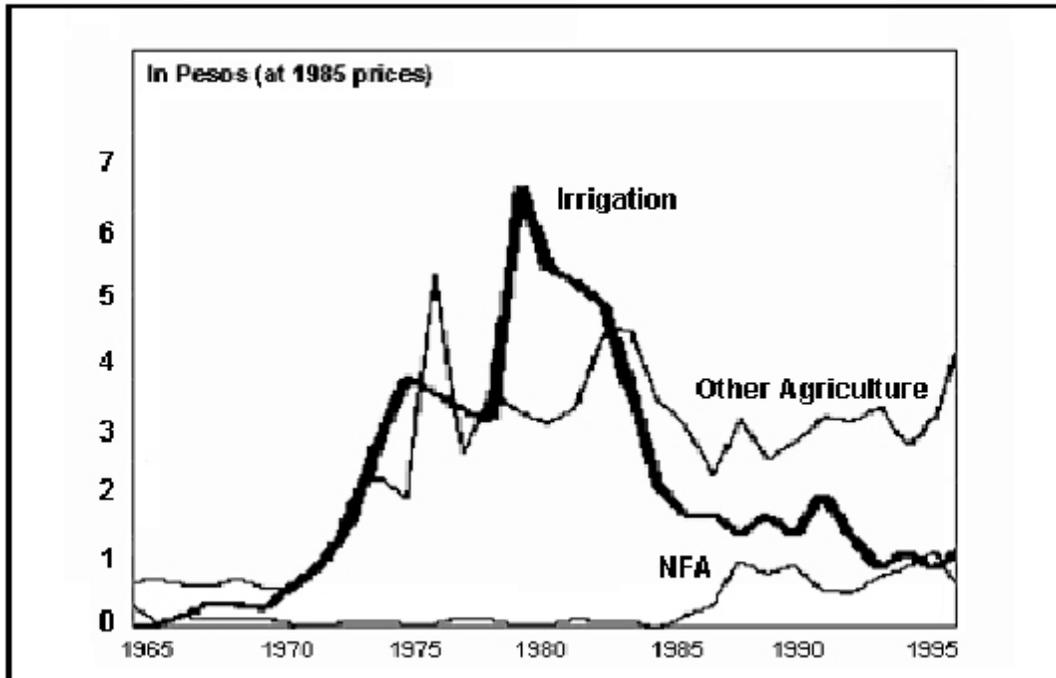


Figure 2: Allocation of Public Investments in Agriculture, 1965-1995.



The recovery of government expenditures in recent years would seem encouraging; however, a closer examination of the areas they are being spent on raises cause for concern. As shown by Figure 2, government expenditures on such productivity-enhancing measures as irrigation, roads, and technology have actually fallen. The bulk of government expenditures has actually gone into price support (i.e., subsidies for the NFA) and payments to former landowners under the agrarian reform program. In contrast, during the 1970s agricultural investments were dominated by irrigation development and [road building](#).

Thus, it is most likely that the need for investments in areas that promote productivity is not being met. Moreover, investments in these areas are characterized by poor quality design and implementation as well as by [other issues](#).

Irrigation. The country's total land area is fixed. There is no more new land that could be cleared for cultivation (except perhaps for upland areas, but these require a totally different kind of cultivation that would preserve their particular ecological constraints). The only way to increase production in the face of a rapidly growing population and increasing urbanization, with the latter taking up more land, is by irrigation. Irrigation provides a very important way of raising cropping intensity, i.e., of producing multiple crops per year on the same set of [land](#). There are three kinds of irrigation systems: national irrigation systems (NISs), communal irrigation systems (CISs), and minor systems – the last consisting of shallow tube wells and low-lift pumps (STWs and LLPs). As of 1994, there was an estimated 3.126 million hectares of potentially irrigable land (excluding rain-fed and upland areas). Of these, only 1.53 million hectares – or 49 percent of the potentially irrigable area – were irrigated. The three systems covered 0.65, 0.44, and 0.4 million hectares, respectively. Thus, slightly more than half of the country's farmlands required irrigation to ensure greater productivity.

That only less than half of potentially irrigable land was irrigated was due to the fall of investments in this area during the 1980s and early 1990s. The areas brought under irrigation had declined from an average of 25,000 hectares per year in the 1970s to less than 10,000 hectares per year in the 1990s.

In response, the government in its 1999-2004 MTPDP targeted over one million hectares for irrigation expansion and rehabilitation of old systems, with 350,000 hectares to be provided with new systems, and 700,000 hectares for rehabilitation. While these targets are laudable, one cannot help being skeptical about their accomplishment, as they represent levels of performance that are at least twice to more than four times what were accomplished in the [past](#).

Aside from the construction or rehabilitation of irrigation systems are issues regarding their sustainability and appropriateness. NISs and CISs show decreasing efficiency. The maximum areas actually irrigated by these systems average only 75 percent of their designated areas. This is the result of poor or delayed maintenance, especially since irrigation service fees (ISFs) currently cover about 60 percent of operations and maintenance (O & M) expenses.

The best ways to respond to this concern is, first, to organize or strengthen irrigators' associations so that they could take over O & M. Second, raise collection rates of ISFs to cover O & M costs. However, too little has been devoted to these strategies. In fact, the payment of ISFs has been controversial. During the Estrada administration, the government, at first, stopped collecting ISFs in keeping with the

President's campaign promise, which was in line with his "pro-poor" platform (in fact farmers stopped paying them when it was apparent that Estrada was going to win the election). When the unsustainability of this policy became apparent, the government then backtracked by charging "socialized" rates. Under the current administration, the government has resumed collecting ISFs at their previous levels, but even these are not enough to ensure the economic or financial viability of these [systems](#).

Another concern is the appropriateness of irrigation systems. The traditional NIS and CIS of the National Irrigation Authority (NIA) are designed basically for rice irrigation, which involves continuous submergence without field drainage. This means that farmers would be unable to use these systems if they wish to diversify to [other crops](#).

More viable is the third kind of irrigation system, the STWs and LLPs. These are easy to install especially as the country is crisscrossed by natural waterways. They are cost-effective, efficient, and most amenable to farmer control, and thus represent the best growth opportunities for Philippine agriculture in the short- and medium-terms.

Moreover, both the Local Government Code (LGC) and AFMA mandate the devolution of irrigation systems to LGUs and the private sector. Government, in turn, should move from the role of providing water services to that of ensuring the appropriate regulatory policy and institutional framework for allocating and managing water resources, especially since water is becoming increasingly scarce and groundwater use is [expanding](#).

The devolution of irrigation provision has had a bumpy ride. Although funds originally meant for the NIA – particularly for CISs, which are suitable for ownership and operation by irrigators' associations – were transferred to the internal revenue allotment (IRA) of LGUs, very few LGUs actually programmed the funds for these systems. Apparently local government officials were reluctant to allocate funds for CISs as they have low visibility and a long gestation and payback period. Soon there were calls for the recentralization of irrigation provision. These calls were met when Congress inserted the phrase "communal irrigation systems" in the 1995 General Appropriations Act. However, the AFMA's deadline for devolving irrigation by 2003 still stands. Given this situation, STWs and LPPs are the most amenable to privatization and to LGU or farmer initiatives.

Research and Development. Another way of promoting productivity is through the adoption of technological improvements. In fact, the application of modern science is the only way by which our farmers could compete in a [global economy](#).

On the other hand, there seems to be a widely held misconception in the Philippines that agricultural technology exists on store shelves and could be imported directly from abroad. Agricultural technology is location-specific. It needs to be tested under local conditions. There is the need to boost agricultural research and development (R&D), if Filipino farmers are to adopt and profit from scientific and [technological advances](#).

In fact, returns to agricultural research are high, typically exceeding 60 percent. Few other types of investment in either the private or public sector would produce more favorable rates of return. Nevertheless, few private interests engage in agricultural R&D as it is a public good, requires long gestation periods, and risky. Clearly, government needs to take the lead in this [area](#). In the Philippines, agricultural R&D is under-funded. The country's spending in this area, expressed as a proportion of

the gross value added in agriculture, is much less than most Asian countries – again, another reason for the weakness of Philippine agriculture. To be able to at least match the research intensity ratios in other countries, public expenditures for R&D should increase two or three-fold. If the target is one percent of GVA, then government spending in agricultural R&D is [about 1.83 billion pesos](#).

Again, however, government must do more than just throw more money at the problem. It must also correct the misallocation of research expenditures across commodities/programs. For example, much R&D is devoted to rice, which constitutes about 15 percent of agricultural GVA (GVAA) but takes up nearly half of all spending in all government programs, not just in research. Instead, spending in R&D should favor commodities of greater economic importance, as well as market and technological potential. Or, it can be distributed across commodities according to their share in GVAA. Similarly, R&D should promote farming systems diversification.

Government also needs to improve allocations across types of expenditures – specifically, less PS and more MOOE and CO – and between program versus project-type of funding. Resources also must be allocated for institution building and streamlining the [organizational structure](#).

Extension. In contrast to R&D, budgets for extension have been relatively large (4 billion pesos), or about twice as much as that for R&D. In fact, while the country has one of the lowest expenditures for research relative to GVAA in Asia, it has one of the highest budgets for extension work. Again, this is an indication of the widely held misconception that agricultural technologies could be bought off the shelf, and that what is needed is more extension services. In reality, an extension service should exist to link farmers with the local scientific community – disseminating new technology from the research system, and transmitting to researchers the problems faced by farmers that could be addressed by scientific or technological innovation.

However, the demonstration of technology is already being done by seed companies/farms, breeding stations, and the research institutes and universities. Extension services could therefore do more by going further into, or even focusing on, developing human resources, i.e., assisting farm households to design, plan, and mobilize their resources for higher productivity and for off- and on-farm activities. For example, it could assist farm households in acquiring and making the best use of agricultural credit – a strategy that has proven to be successful in [other countries](#).

On the other hand, under the Local Government Code, basic extension services were devolved to the LGUs. Aside from resulting in lower salaries and benefits – by as much as 30 percent from national rates – extension workers also lost access to a national system of training. Most have fallen behind in knowledge and capacity to teach. The extension service could hardly develop human resources in farming households if the quality of human resources within it is also rather [poor](#).

This state of affairs is again the result of local governments' unwillingness to invest in this area. As a result, at one point the DA during the administration of Sec. Escudero granted incentive allowances to LGU extension workers. In fact, Escudero even recommended recentralizing them – which the LGUs would no doubt have welcomed, although it would clearly go against the spirit of and rationale behind [local governance](#). What the national government could do is to improve the linkage between local extension workers and the scientific community, as well as the DA, DAR, and DENR, and to offer retraining and educational opportunities.

Rural Roads and Ports. The importance of investment in this area cannot be overstated. One study shows that increasing real investment in rural infrastructure by 10 percent reduces the incidence of poverty by also 10 percent at least. As with everything else, though, investments in rural roads and ports dropped during the early 1980s. As a result, doing business in rural areas has been difficult and costly. Production costs are high, while transporting produce to markets is similarly expensive. In fact, poor transport infrastructure also separates urban from rural areas, making it more convenient for those in the urban areas to resort to imports rather than to buy from [rural areas](#).

Again, the problem goes beyond the mere issue of budgets for construction. In fact, as far as roads are concerned, the country's road density, as measured by the ratio of road length to land area, compares well with other ASEAN countries (0.63 km/sq. km. for the Philippines compared with 0.19 in Indonesia and 0.42 in Thailand).

What is lacking is the quality of these roads, as well as their maintenance, and even their planning and routing. Poor quality in all these areas strongly corroborate popular perceptions that the whole system in road construction is marred by [graft and corruption](#).

The state of water transport also involves issues other than the level of investment, like poor cargo-handling services and high effective shipping costs. These have been improved somewhat with the introduction of competition and deregulation in the domestic shipping industry. However, some aspects continue to be regulated by the state, in particular the transport of basic commodities and third-class passengers. It seems that this policy, instead of protecting the poor, ultimately works against them as shipping lines are loathe to improve services for these markets. Effective shipping costs continue to be [high](#).

Conclusion. The foregoing demonstrates that an automatic response of merely increasing budgets for agriculture is not enough. Government should also look into the quality of its investments in agriculture, to ensure that these are optimally used and not squandered. Government programs should be carefully designed to ensure that the government – and ultimately the taxpayer – gets more value for its money. Government also should be consistent in maintaining the division of burden in such areas as the provision of irrigation. In so doing, it ought to do more in preparing LGUs and farmers' organizations to lift their end of the burden, for example in preparing irrigators' associations in maintaining communal irrigation systems.

Again, government needs to demonstrate "tough love" by insisting on such matters as the collection of irrigators' fees at viable rates, and LGUs' maintenance of CISes. Just as consumers are now being asked to pay for the full cost of a constant supply of drinking water, farmers also should be made aware of the need to pay for irrigation water.

Admittedly, this is easier said than done, and has political consequences. It is an area where policy reversal could easily occur, as what occurred during the Estrada administration (which ended up reversing its own reversal). It thus demonstrates the need for building up a consensus within government and with the farmers' sector for this policy.

On the other side of the political equation, farmers' organizations should be pressing local government officials for increased investments in agriculture. For example, they should extract promises from local candidates to build or install an irrigation system or farm-to-market roads, or to revitalize municipal agricultural extension workers, in exchange for political support, as well as holding them to their promises.

This may be the only way to compel LGUs to invest in agriculture, if their constituencies held them accountable.

Still, the fact that a large part of national government's funds for agriculture is taken up by price support and agrarian reform further demonstrates the need for farmers' groups to reexamine their stance on these issues, particularly the NFA. However, this is another area where consensus building and dialogue are required before the government could undertake an action that might have adverse political consequences.

Lack of Access to Productive Resources

The rural poor have also lacked income opportunities due to their lack of access to productive resources, e.g. land, fishing grounds, and ancestral domain.

Uplands and other Publicly Held Natural Resources. Surplus labor has traditionally depended for a living on coastal and upland resources. Faulty design of policies and programs and weak enforcement of regulations aimed at sustainable resources of these resources have not prevented over-logging, over-fishing, destructive fishing, and inappropriate farming practices in these areas.

A variety of user-rights arrangements, e.g. Certificates of Stewardship Contract, Community Forest Management Arrangements, etc., as well as pasture leases, cover a relatively small area. Furthermore, the tenure they confer is limited and user rights are not transferable. These discourage the holders of such instruments from adopting sustainable management practices and they cannot serve as collateral for loans for long-term investments. Furthermore, in the case of pasture leases, the minimal rental fees have led to excess demand, and consequently in the inequitable allocation of these leases in favor of politically powerful families and in the inefficient management of these [lands](#).

Agricultural Land. The redistribution of agricultural land is essential if agricultural growth is to have a significant impact, particularly in raising farmers' incomes and in setting the stage for the growth of rural non-farm enterprises, rural development, and other forms of industrial development. In contrast, the concentration of land ownership in a few was one reason why the rapid growth experienced by the Philippines during the Green Revolution of the 1960s did not translate into sustainable, overall economic growth, as it did in [Taiwan](#).

Various land-reform measures have been instituted, the latest being the Comprehensive Agrarian Reform Program (CARP), which has a total coverage of 8,064,864 hectares of private and [public agricultural lands](#). The post-EDSA period also saw the enactment into law of significant legislation that expanded the poor's access to productive resources, such as the Comprehensive Agrarian Reform Law during the term of President Aquino, and the Fisheries Code and the Indigenous Peoples Rights Act (IPRA) under President Ramos.

The struggle for agrarian reform during the tumultuous years immediately after EDSA and the passage of CARL has been lengthily discussed elsewhere; so also has the program during the stewardship of Secretary Ernesto Garilao under President Ramos, which were years of relative progress and stability. By the end of Garilao's term in 1992, and out of the total CARP coverage of over 8 million hectares, 57 percent was accomplished at the end of 1997 or some 4,519,257 hectares. Some 1,585,776 hectares of private agricultural lands and 1,874,661 hectares of public agricultural lands remained to be [distributed](#).

Garilao also passed on to the new secretary a department with a more capable bureaucracy, stronger public and inter-governmental support, and around 15.5 billion pesos in overseas development assistance. A ten-year extension for the Comprehensive Agrarian Reform Program (CARP) had also been approved, assuring program operation until 2008. This was no assurance that things would be easy for the next secretary, especially since the more highly contentious lands were up for distribution. But at least DAR had been strengthened to take on the issues at hand with a boost in morale, stakeholder confidence, donor support, and better relationships with [NGOs and POs](#).

President Estrada himself thought that his administration could finish the remaining land acquisition and distribution (LAD) aspect of CARP in four years. He appointed a former social activist and long-time NGO worker, Horacio ("Boy") Morales, Jr., as his secretary of agrarian reform. Morales, for his part, even intended to double DAR's annual distribution target, from 200,000 to 400,000 hectares. Estrada also won initial support from the organized farmers' groups by issuing a moratorium on land conversions, and by a visit to a group of farmers that had camped out and gone on a hunger strike in front of the DAR to press their [case](#).

Early into his administration, however, Morales had to backtrack on his targets. For one, Senator John Osmeña re-channeled some 1.2 billion pesos from LAD to support services, while its remaining funds of some 1 billion pesos was specifically earmarked only for the payment of maturing bonds and obligations under the program.

In the budget proposal for year 2000, Osmeña again cut the proposed 1.2 billion pesos for land acquisition. This meant that the only funds that could be used was the revolving fund from the ARF coming mainly from farmers' amortization of lands already distributed. With the cut, DAR could not meet its target of finishing LAD by [2004](#).

With this, along with stiffening landlord resistance, the goal became finishing LAD at the end of Estrada's term. Even that did not seem feasible with DAR's LAD accomplishments in 1998, 1999, and 2000: 90,842 hectares (ha.), 132,069 ha., and 110,478 ha., respectively. At this rate, CARP would require another 22 years for [completion](#).

As the DAR claimed that the lands involved were the most contentious, problematic, and costly, the Department searched for new schemes or modalities of [land reform](#). For example, the DAR began speaking of developing certain innovations, such as: (1) a "demand-driven," instead of a "supply-driven," approach to land distribution, which meant putting more emphasis on the beneficiaries than on the land, or of not distributing land to those who did not want the land; (2) an "integrated approach," in which beneficiaries' development activities were integrated with the land acquisition and distribution activities right from the beginning; and, (3) a program called MAGKASAKA, for "Magkabalikat sa Kaunlarang Agraryo," in which beneficiaries contributed the use of their land to partnerships with investors, including former landowners, who contributed capital, technical or managerial expertise, to pursue an agribusiness enterprise that would maintain or realize the productivity of the land as well as [economies of scale](#).

However, farmers' organizations opposed these new schemes, particularly the so-called corporative model of "Danding" Cojuangco and market-assisted land reform proposal of the World Bank. They objected to the corporative model as it reduced beneficiaries into mere employees of the corporative. They considered the market-

assisted land reform paradigm as unimplementable and doomed to failure, as it would only result in [large-scale landholdings](#).

Meanwhile, the Estrada administration began to lose the support of farmers' groups. For one, and despite his moratorium on land conversions, his own executive secretary, Ronaldo Zamora, approved at least two controversial land conversion applications. Bureaucratic corruption within DAR was also reported to have escalated to such a degree that even DAR personnel would process and expedite [conversion cases](#). There was also an increasing number of cases of land reversals – the return of lands and cancellations of titles awarded to farmer-beneficiaries on the strength of cases filed by the landowners. Lastly, Morales himself alienated at least a segment of the farmers' NGO/PO constituency, who felt "[shut out](#)." Thus, by the abrupt end of the Estrada administration in 2001, agrarian reform once again seemed to be problematic: its funding uncertain, its future uncertain, its constituency alienated, and its implementers beset by low morale and corruption.

In President Arroyo's *State of the Nation Address*, she announced that DAR would distribute 100,000 ha. of land a year. Reacting to this, the president of the farmers' organization PAKISAMA described this target as "disappointing," pointing out that this was even less than what the Estrada administration was able to deliver. It was noted that with such a low annual target, it was less likely that CARP would be completed by 2008, the end of the extension given to CARP implementation granted by [RA 8532](#).

Various farmers' groups attributed the DAR's low targets to the inexperience of Sec. Braganza. They feared that under his helm, even such low targets would not be achieved. They characterized the DAR as "in crisis." They therefore urged the president to replace him with someone who "has a command of different AR issues, who has the capability to move the DAR bureaucracy, who can mobilize the needed funds for the AR program, and who genuinely considers partnerships with civil society as a key to genuine agrarian reform [implementation](#)."

After a year into the Arroyo administration, DAR's achievements still did not give reason for confidence among the peasant organizations. According to a status report on SONA achievements posted at the government's website (www.gov.ph), as of December 20, 2001, DAR had distributed a total of only 47,626 hectares of private agricultural land out of the 100,000 hectare target for DAR (the DENR was responsible for another 100,000 hectares). Peasant groups claimed that the DAR was deliberately setting low targets, and had complained about this to the President on many occasions in [various forums](#). One farmers' group even accused Braganza of feeding "padded" land-distribution figures to the [President](#). On the other hand, in January 2002, the DAR claimed to have met the 100,000-hectare target, and that it would be able to meet the goal of distributing 300,000 hectares by [2004](#).

Furthermore, there were certain areas where the DAR's backlog in terms of land distribution efforts was still huge. An example was Negros, home of the sugar "haciendas," where the backlog was variously estimated from 50 percent to as much as 80 percent. Farmers' groups asked the DAR to concentrate on Negros and other such provinces, so as to make the Department's efforts more systematic, efficient, as well as dramatic. However, the DAR had yet to prioritize such provinces. The secretary's sluggishness in land distribution appeared to be rooted in his emphasis on providing support services. However, farmers' organizations insist that the DAR's primary mandate is land distribution, while other agencies, specifically the DA, could help in support services.

The peasant groups had other complaints regarding the Arroyo administration's handling of CARP. One was Braganza's continuing silence on major issues raised by POs and NGOs. An example was the issue on "corporatives," particularly a controversial administrative order, AO 2 (series of 1999) on joint-venture corporations that had been issued by former Sec. Morales apparently with the sponsorship of Eduardo Cojuangco, Jr. This AO would allow arrangements that would tie up farmers with a private corporation, which is usually owned by the former landowner, in an inequitable joint venture to the effect that the former landowners get to retain effective control over their landholdings. Although Braganza had declared early on that he was against this measure, the AO had not been [revoked](#).

Another situation that disconcerted farmers' organizations was the apparent lack of interest by either the President or the DAR in opposing the reported move by the Senate to cut by half the proposed 2-billion-peso DAR budget for landowner compensation for 2002. With the budget cut, DAR would only be able to distribute a maximum of 50,000 hectares for the year, thus effectively placing agrarian reform in the "freezer" in 2002. Another source of frustration was the lack of activity about the President's promise to place her husband's lands in Negros covered and distributed under the voluntary offer-to-sell (VOS) scheme of [CARP](#). Braganza also lost several points when he appeared to give in to landowner pressure on the "Mapalad" case, which involved the farmers who had camped out on a hunger strike in front of the Department.

On the positive side, farmers' groups and NGOs point to the secretary's "open door policy," which has created an atmosphere of dialogue and communication between government and the farmers. The secretary has created four task forces to facilitate the DAR's discharge of its duties. Notable is Task Force Katarungan, which aims to bolster the Department's legal capacity. However, many farmers' groups say that they have grown weary of dialogues; they want to see [accomplishments](#).

The Governance Picture. The current situation of CARP illustrates the difficulties, if not the impossibility, of implementing a compulsory agrarian reform program under a liberal democratic regime, particularly one in which political life is dominated by parties of the elite. The beneficiaries of the program remain essentially marginalized from the policy-making process, and the impetus to change has become weak. It could only be expected that landowners will resist such a program, especially since many landowners feel that the compensation for their lands under CARP is inadequate. As long as landowners have more influence in the halls of government, there always will be attempts to emasculate the program, if not scrap it altogether. In contrast, the peasant movement is weak. It cannot influence government either from the inside or from the outside. It has not been able to get any of its champions elected. In previous years, it had the potential of creating political instability, especially since the insurgency led by the Marxist New People's Army (NPA) was a peasant guerilla army and has agrarian reform among the top of its agenda. Now, the NPA is merely a nuisance, although strong enough to make doing business in rural areas a risky business.

In recent years, the emasculation of CARP has been carried out by cutting its budget. It was within Congress that the operation was carried out, not within DAR, and therefore the moves of peasant organizations to have Braganza and, before him, Morales, resign or replaced have been aiming at the wrong targets. The relative success of Garilao during the Ramos administration can be attributed to a large extent to DAR's focus at the time on government-owned or controlled land and farms larger than [24 hectares](#). In contrast, the lands to be distributed by Garilao's successors are those from 5-24 hectares, which are usually the size of farms owned

by the rural middle class. The potential for social conflict and resistance would be higher.

The proper response should be to unseat those who wielded the knife in the budget process in the next elections, and to have more sympathetic politicians elected. However, given the disunity within the peasant movement and its inexperience with, if not distrust of, electoral politics, that course of action seems both unlikely to be attempted and unlikely to succeed. For now, the only significant exposure that the peasant movement has had with electoral politics is through the party-list system, but this involves only a minority within Congress, and involves a campaigning style different from the patronage-greased politics of election by district.

On the other hand, while opponents of agrarian reform have effectively emasculated CARP, they cannot kill it outright. There seems to be a lingering fear that this action would effectively re-ignite widespread support for revolutionary movements. Thus agrarian reform is at an impasse. As a paper prepared by the University of the Philippines National College of Public Administration observed, "The landlords are not powerful enough to prevent or stop land reform, but they are powerful enough to water down its implementation and obtain compensation so high that land reform cannot be implemented without unduly straining [government finances](#)."

In the meantime, though, the amount of private investment in agriculture has gone down, and the collateral value of agricultural land has deteriorated. No private investor would be willing to invest in an agriculture enterprise, except perhaps in partnership with agrarian reform beneficiaries, if there is the possibility that the land would be acquired later on for redistribution. Thus, agriculture has been starved of what it needs the most, investment, and this augurs badly for growth.

Perhaps it is time to rethink agrarian reform, especially market-assisted land reform. While this has already been rejected by peasant organizations, as mentioned earlier, the discussion on this should continue. Perhaps the discussion should be initiated and sustained by the academe, as this sector would unlikely be accused of being motivated or controlled by self- or landowner or even "feudal/imperialist" interests. In the meantime, the stalemate will continue. By tying down a large part of government resources and discouraging new, private investment in agriculture, the problem will persist in being a running sore that saps at Philippine agriculture's already feeble state.

Weak Institutional Framework

One of the major reasons behind agriculture's poor performance is the weakness in the institutions that govern this sector – the framework of governance itself. First, the overall framework in which programs and policies are shaped and implemented – the bureaucracy itself – suffers from a serious flaw. It lacks a core of career civil service personnel and, consequently, suffers from a great degree of politicization. Virtually all senior-level officials of government departments, from the level of assistant director – who are at the fifth level of the bureaucracy – and upwards to the secretary are political appointees.

The DA has about 180 posts that filled by political appointees of the President of the Philippines. Moreover, when presidents change, the appointees to the top levels of government also change. Since there have been four changes of presidents since the departure of Ferdinand Marcos in 1986 (Aquino, Ramos, Estrada, and Arroyo), there also have been at least four sets of changes of all [political appointees](#).

One can see at once the great potential for chaos or discontinuity. Aggravating the situation is the greater frequency by which the top position of department secretary has been changed. As far as the DA is concerned, 11 persons have served as secretary since 1971, averaging periods in service of 33 months (Table 5-4). If only the post-EDSA period is considered, then the DA has come under nine secretaries, with an even shorter average period of service of about 20 months.

Table 5-4: Department of Agriculture Leadership, 1971-2001

From / To	Secretary of Agriculture	Months of Service
Jan 1971 – Jun 1984	Arturo Tanco*	162
Jul 1984 – Feb 1986	Salvador H. Escudero	20
Mar 1986 – Feb 1987	Ramon V. Mitra	12
Mar 1987 – Dec 1989	Carlos G. Dominguez	34
Jan 1990 – June 1992	Senen C. Bacani	30
Jul 1992 – Feb 1996	Roberto S. Sebastian	44
Mar 1996 – Jun 1998	Salvador H. Escudero	25
Jul 1998 – Apr 1999	William D. Dar**	9
May 1999 – Dec 2000	Edgardo J. Angara	19
Jan 6, 2001 – Feb 15, 2001	Domingo F. Panganiban	1
Feb 16, 2001 – Dec 2001	Leonardo Q. Montemayor	10

* Including Environment, Natural Resources and Agrarian Reform.

**Acting Secretary.

Source: Tolentino, "Governance Constraints."

Of course, the secretary who has served the longest, Arturo Tanco, and who had the opportunity to learn and profit from mistakes on the job, did so mostly during the authoritarian regime of Ferdinand Marcos. Moreover, Tanco also headed the other two departments with a direct connection with agriculture, which meant greater coordination and unity in policies on agriculture.

Government departments in a democratic regime do not have the same luxury, especially in the Philippines where the constitution also limits the president to just one term. Department secretaries could expect to be replaced at the end of every presidential term. Moreover, department secretaries come and go as political expediency demands. For example, Ramon Mitra resigned to run for electoral office. Sebastian was a victim of the so-called rice crisis in 1996. Dar was essentially a bench warmer until Angara was eligible for appointment to a public office. Moreover, the terms of Escudero and Panganiban were cut short by EDSA I and II, respectively.

These frequent changes in the top leadership of the DA would not have been so disruptive if policies and programs had continued relatively intact. This has clearly not been the case. In the first place having new people in top positions in each of the departments means, at the very least, changes in leadership styles and work arrangements.

Moreover, as these positions are increasingly being given out as spoils to the president's allies and supporters, these officials often need to signal a clean break with their predecessors and announce new programs. On the other hand, given that analyses of the problems of Philippine agriculture tend to end up with the same

prescriptions, these programs are usually the same as their predecessors, with only the [label changing](#). For example, the programs for rice production and food security have essentially been the same since 1986 (Table 5-5).

Table 5-5: Chronology of Rice Production and Food Security Programs, 1972-2001

From – To	Program Name/Title	Secretaries of Agriculture	Years of Implementation
1972 – 1986	<i>Masagana 99</i> (M99)	Arturo R. Tanco/ Salvador H. Escudero III	15.0
1987 – 1989	Rice Productivity Enhancement Program (RPEP)	Carlos G. Dominguez	2.5
1990 – 1992	Rice Action Program (RAP)	Senen C. Bacani	2.5
1993 – 1995	Key Production Areas (for rice and other priority commodities)	Roberto S. Sebastian	3.0
1996 – 1998	Gintong Ani Programs (for rice, corn, livestock, fisheries, high-value crops and marginal areas)	Salvador H. Escudero III	2.5
1998 – 2000	President Erap's MakaMASA Programs (for rice, corn, livestock, fisheries, coconut, sugar, tobacco and high-value crops)	William D. Dar*/ Edgardo J.	2.5
May – Dec	GMA CARES (for credit, "rolling stores", rice, corn, irrigation, livestock, fisheries, coconut, sugar, tobacco and high-value crops)	Leonardo Q. Montemayor	0.5

All these programs differed from the landmark program *Masagana 99* of the Marcos regime by adopting a more market-oriented approach based less on irrigation infrastructure and directed credit support, and more on seed and fertilizer distribution and farm procurement. The original program was named the Rice Productivity Enhancement Program (RPEP), and was started during the administration of Secretary Carlos Dominguez. Since then, it has been revived and relabeled at least five times by at least five of the succeeding secretaries. Each program focused on priority production areas – usually irrigated areas. Each was highlighted by programs for access to and subsidies for seeds and fertilizers. Each was in the end dependent on the NFA for procurement support. However, there were many changes in timing, implementation calendars, and learning and re-learning of the management and administration of the [programs](#).

Another consequence of having a politicized bureaucracy is the tendency to prefer politically expedient and short-term solutions to problems, over long-term, but low-visibility responses like greater funding of research and development for the promotion of productivity. This is all the more the case as a result of a "culture of cabinet revamps," where one of the first reactions to a perceived inadequacy in leadership, capacity or political skill is the replacement of the erring or [inadequate cabinet member](#). Thus agricultural officials resort to such short-term acts as importing rice through the NFA to head off a possible shortage, while at the same time appeasing farmers by keeping in place quantitative restrictions on imports. Such actions might be popular, but do nothing to address the perennial problem of local rice production being unable to meet domestic demand.

Other Structural Weaknesses

In addition to the consequences of a politicized bureaucracy are the difficulties posed by weaknesses within the institutional structure of governance. These weaknesses are: (a) over-centralization, (b) overlapping and fragmentation of responsibilities across agencies, (c) a commodity-based organizational structure, and (d) inadequacies in incentives resulting in the declining quality of personnel.

Overcentralization. Agricultural activities are geographically dispersed and location-specific. Thus, government's agricultural programs should necessarily be highly participatory, from design to implementation. "Effective governance ... requires a high degree of decentralization to facilitate [stakeholder participation](#)." It was in recognition of this need that, with the 1991 Local Government Code, many functions of the DA were devolved to LGUs. In particular, provincial and municipal governments became responsible for agricultural extension, enforcement of regulations, communal irrigation, and certain natural resource management activities. The move toward decentralization was further strengthened with AFMA, which stressed local agricultural development planning, provided more resources to LGUs, and ensured more operational links between provincial and municipal agricultural plans and programs. LGUs were supposed to serve farmers and fishers, while the DA was supposed to serve the LGUs. Local chief executives were supposed to be the "plantation managers," with the local government agriculturist as the "[foremen](#)."

On the other hand, the appropriate changes in government structures and approaches have been slow or incomplete. For one thing, while the extension service of the DA's field operations were devolved, those of the attached, commodity-specific agencies were not. For another, the devolution of the DENR's personnel and functions was [limited](#).

Furthermore, after the implementation of the LGC, programs and projects at the DA continued to be designed at the central level, while mechanisms for local feedback were few and ineffective. This was reinforced by the dominant control of the DA's central offices over appropriations for agriculture: before devolution, the central office held 80 percent of all appropriations; by 1998, the central office share had decreased to 75 percent, regional offices had 10 percent, and LGUs had a measly [9 percent](#).

With AFMA, the lack of participation in the planning of programs is supposed to have been addressed. Each LGU is required to prepare an Agriculture and Fisheries Modernization Plan (AFMP), which should include inputs from the barangays and from civil society organizations. The municipal AFMPs are then aggregated and consolidated into the provincial, regional, and finally the national AFMP. The result, according to one study, is that "the policies and practices of the DA in agricultural

development planning have become firmly oriented toward participatory, [LGU-based approaches](#)."

For devolution to be complete, the LGUs must have more funds for agricultural programs. Following the LGC, the quality of devolved functions noticeably deteriorated, particularly in extension, irrigation, and certain upland programs, notably the Integrated Social Forestry Program, especially since many LGUs were loathe to invest in these [areas](#). As mentioned previously, many local government officials were unwilling to invest in agriculture, particularly in productivity-enhancing measures like irrigation systems, as these projects had low visibility and long gestation periods. Moreover, many LGUs, especially those in rural areas and with agriculture-based economies, had very limited funds. Worsening the situation further were the rules in the allocation of the internal revenue allotment (IRA) by the national government to the LGUs, which favored the large, [urbanized LGUs](#).

Supposed to be implemented with the AFMA is a system of co-financing of local AFMPs between the DA and other national government agencies on one hand and the LGUs on the other. Under this arrangement, funds still emanate from the national government, with the LGU making a counterpart contribution. These arrangements began in the year 2000. Currently, the LGU contribution consists of financing personnel services. However, project responsibility for projects still remain with the DA, and as long as this continues, the DA would be loath to transfer funds completely to the [LGUs](#).

Overlapping and fragmentation. A major weakness is that the mandates, authority, and budgets for performing the various agriculture-related activities are not confined to the DA but spread over five departments. Technology generation, for example, is still the mandate of the Philippine Council for Agriculture Resources Research Development (PCARRD) and the Philippine Council for Agriculture and Marine Science and Development (PCAMRD), both of which are under the [Department of Science and Technology](#) (DOST). Other agencies, such as the DA, DENR, as well as state colleges and universities (SCUs) also share in technology generation. To a certain extent, leadership under this area has been the mandate of the DA's [Bureau of Agricultural Research](#).

Until recently, the NIA was an attached agency of the Department of Public Works and Highways (DPWH), which continues to be responsible, along with local governments, for providing rural market infrastructure, such as farm-to-market roads. On the other hand, the regulation of the transport and communications industries are the concerns of the [Department of Transport and Communications](#). Finally, both the DAR and the DENR duplicate the DA in delivering agricultural support functions, DAR to agrarian reform beneficiaries and DENR to upland farmers. About half of the DAR's budget between 1987 and 1994 was allocated for support services. While only a third of that was administered by the Department, the fragmentation of the budgetary process reduced the cost-effectiveness and increased the transaction costs of such expenditures. As for the DENR, which has jurisdiction over upland areas that are under cultivation and pasture grazing, this Department does not have the comparative advantage to provide the necessary [support services](#).

IV. ATTEMPTS AT CONVERGENCE

The need to coordinate and rationalize efforts has long been recognized by the various agencies responsible for agriculture and rural development. There have in fact been various initiatives to integrate development planning and implementation,

such as the integrated rural development and Integrated Area Development (IAD) projects throughout the country, e.g., the Bicol River Basin Integrated Area Development Program. Similar IAD projects were established in Palawan, Sorsogon, and Laguna – the last one a privately funded project. However, the experience with these projects has been disappointing, principally because integration was never fully achieved, for local management committees merely functioned as local representatives of the central office, which continued to exercise their authority. As a result, the services delivered at the grassroots level were still operationally [separate](#).

During the Ramos administration, a more ambitious program of coordinating and integrating government efforts was set up to implement the Social Reform Agenda. This program, as well as the push to coordinate efforts to achieve it, was initiated by a little-known office within the Office of the President, the Office of the Presidential Adviser on the Peace Process (OPAPP). The Social Reform Agenda was originally composed of the key demands of the "basic sectors" – peasants, workers in the informal sector, fisherfolk, the urban poor, etc., with whom the OPAPP had been conducting dialogues in pursuit of its own mandate.

Because of the nature of these demands, the agenda necessarily involved various national government agencies working together. To provide a focus for these efforts, the agenda also required the convergence of such efforts in what were then known as the 20 poorest provinces in the country. To provide a mechanism for these efforts, a Social Reform Agenda Council was organized, composed of the heads of various agencies like the DA, DAR, HUDCC, etc., each of whom would act as the "champion" within the government for a particular item in the agenda. Nominally chaired by the president, the council had a "lead convenor," Ramos's DAR secretary, Ernesto Garilao, and had its own, albeit small, secretariat housed at the DAR and composed of personnel seconded from either the DAR or the OPAPP.

When Estrada became president, the Social Reform Agenda was repackaged as the National Anti-Poverty Action Agenda. Furthermore, the three agriculture-related departments – DA, DAR, and DENR – also pursued their own effort at convergence, which was initiated by DAR Secretary Horacio Morales. By June 1998, the three departments began to plan together on a *Framework for Agricultural and Rural Development with Focus on Food Security and Poverty Alleviation*. Subsequently, a technical working group comprising the three departments began to meet. Convergence areas were identified, and workshops were held to plan the implementation of this framework within the agencies and the LGUs. By the time Estrada lost the presidency in 2001, draft area investment plans in the convergence areas had been drawn up.

By 2001, it was still too early to assess the efforts at convergence, at the very least for agriculture and rural development, within the Estrada administration, except to say that it was "on schedule". However, it was also pointed out that the framework provided only a minimal role to the LGUs concerned. The convergence effort was still considered within the bureaucracies involved as merely one of their projects, and not an over-all strategy that would eventually mean the reorientation of the entire bureaucracy. In fact, it was considered merely as a high-impact project and not as a model for replication – as a result of which documentation made by the three agencies was rather [sketchy](#).

As mentioned previously, one of the adverse consequences of devolution was the fragmentation of the extension system – one of the most serious weaknesses in the institutional structure for agriculture. As most LGUs are unable to discharge this function effectively, this area requires support from the national government in terms

of coordination and leadership, especially as it would involve various agencies within the DA. However, such leadership or coordination is [absent](#).

Commodity-based Structure

Another structural weakness is within the DA itself. The Department is divided into commodity-specific agencies, e.g., NFA, SRA, PCA, PCC, etc. These agencies were created in the 1960s and 1970s. Some were established independently of the DA, largely from political considerations – e.g., a group of farmers planting a certain crop would persuade their representatives in Congress to create an agency focusing on that [crop](#).

Many of these agencies perform the same function vis-à-vis the commodities they focus on, e.g. research, extension, marketing, and regulation. While most of them have been brought under the DA's authority only during the Aquino administration, they continue to operate independently of the integrated operations of the regional offices of the DA. This has resulted in considerable overlapping of functions and activities, especially in extension, but without the essential interactions among [support agencies](#).

More importantly, the division into commodities reinforces the tendency to favor regulations. These are easy to implement, have short-term impact, generate resources for the agency, and earn rents for the employees allocating import/export permits, licenses, etc. Instead of more regulations, there should be more emphasis on such growth-enhancing activities as research, extension, irrigation, etc. In fact, the heads of these commodity-specific agencies usually do not even have the necessary background to appreciate the potential contributions of these growth-enhancing activities, particularly scientific or [technological change](#).

Quality of Personnel

Another casualty of the focus on short-term gains is the quality of government personnel in agriculture-related agencies, especially in terms of technical and analytical capabilities. The neglect of the tasks of long-term structural change and strengthening have resulted in such weaknesses as:

- Non-competitive compensation for mid-to-upper level technicians and managers;
- Declining overall quality of mid-to-upper level sector technicians and managers;
- Inadequate technical staff support for top managers; and,
- Institutional and management structures not appropriate to current challenges and realities.

While salaries of government staff and officials with salary grade (SG) 24 and below have been raised to become competitive with their counterparts in the private sector, the salaries of mid-to-upper level employees, or with SG higher than 24, have fallen behind. Limiting any possible salary hikes is the constitutional limit on the salary of the President of the Philippines: P50,000.00 (less than US\$1,000) per month. As a result, the salaries of Cabinet officials, undersecretaries and assistant secretaries, directors and assistant directors and division chiefs are all woefully low! This has resulted in the creation of mechanisms for hidden compensation, elaborate structures for allowances and other benefits, and graft and corruption. More importantly, it has also resulted in the deterioration of capabilities in technical analysis, administration, decision-making, policymaking, resource allocation, and contracting, as these are performed at the mid-to-upper levels of government. The

overall effect is a weaker bureaucracy, barely able to cope with the demands of sector leadership and management, and unfortunately more prone to [corruption](#).

Conclusion

The ease by which the top leadership is changed illustrates how easily the mechanisms of the Philippine State could be captured and penetrated by outside interests. As a result, there is little policy continuity or stability, as the state is taken over first by one set of interests, and then by another. The ease by which particular interests can penetrate and control the state can also be seen in the proliferation and continuing existence of various commodity-specific agencies. Typically these are created upon the lobbying of one set of producers or another, and their lobbying helps keep these agencies in existence despite attempts to abolish them. For example, the Philippine Cotton Corporation (PCC) was put up upon the instigation of cotton growers from the Ilocos region. Their influence helps keep it in existence – this despite the GVAA of cotton being the equivalent of the budget of the [PCCI](#). Moreover, lobby groups also exist within government itself, i.e., government agencies or their employees, whose sole interest in keeping their agencies alive is to hold on to their jobs or, in the case of agencies with rent opportunities, sources of "extra income." Thus, any attempt by government to rationalize the institutional framework of agriculture and rural development must pick its way carefully among various, contending interests. This, itself, would be the subject of backroom negotiations; after all, this is politics.

Another scenario, albeit improbable, is the emergence of a political force that will be the equivalent of a consumerist movement of taxpayers. This will demand the efficient use of public money. It will be powerful enough to countervail the influence of specific lobby groups. The reform of the bureaucracy could also become part of the agenda of all NGOs and POs, of whatever sector or cause they promote or advocate, in addition to their own.

The reform of the bureaucracy, particularly the strengthening of the career service system, could also be initiated by government. On the other hand, this should also be accompanied by the improvement of the capabilities of office holders whose positions are protected by civil service laws, especially since many of these officials may have themselves entered the service through political patrons and may not actually be qualified for their jobs. Thus, this process would be an extremely complicated one.

V. THE OVERALL GOVERNANCE CONTEXT IN AGRICULTURE AND AN ATTEMPT AT AN AGENDA

Someone once joked that the state of governance in the Philippines can be summarized in four words: hard interests, soft state. The Philippine State has been captured by various sets of interests that are intent on using its capabilities or resources to promote or maintain their particular interests. However, the well being of the entire nation demands that the State free itself from these particular interests. This is where the problem of governance lies: how a reformer could persuade these interests to give way before the general good.

This is the case with Philippine agriculture. Dominated for so long by particularistic interests of one kind or another, it must now shake itself free to grow with renewed vigor and set the stage for rural development and national industrialization. The most prominent particularistic interests are forms of protectionism and monopoly

elements that impede or discourage growth. To say that all of these interests are elite interests is erroneous. Segments of the rural poor also have been the beneficiaries of misguided, perhaps paternalistic, policies.

How to persuade these interests to give them up is now the main challenge of governance in agriculture –

- To persuade both the rice farmer and the sugar planter to give up the walls of protectionism and to pursue the opportunities of liberalization;
- To persuade the municipal mayor to put part of his town's budget to send the staff at the municipal agriculturist's office to train at a nearby agricultural college;
- To persuade the bureaucrat to accept the dissolution of his office and accept early retirement;
- To persuade the farmer with 24 hectares to submit his land to agrarian reform; or,
- To persuade the peasant leader to accept the idea of having a progressive land tax be the instrument for a market-assisted agrarian reform.

Setting an Agenda

No examination of governance will be complete without setting an agenda for action. However, the trouble with an agenda is that it will be controversial because there are so many unresolved controversies within this area, in which peasant or farmers' organizations, academe, government agencies, landowners, local politicians, etc. may occupy opposing positions. One cannot simply suggest, "Government to gradually reduce tariffs so as to gradually introduce farmers to the challenges of liberalization," without eliciting an objection from the peasant organizations.

Another thing with setting an agenda is the tendency to repeat whatever has been said in previous studies. As mentioned previously, prescriptions on Philippine agriculture have repeatedly been made, and – at least this was the impression received in the course of gathering information for this study – they repeatedly make the same recommendations. One is almost inclined to say, "You want an agenda? Then read Tolentino, David, Balisacan and Intal (2001)."

The fact that prescriptions or agenda tend to stay the same is an indication that policymaking in agriculture is at an impasse. Aside from agrarian reform, policy gridlock characterizes the debate on defining food security, and it is on this that many other policies rest, e.g. liberalization, the rice policy, the disposition of the NFA, the budgets for research on each commodity, etc. Apparently, the forces arrayed against each other on these issues balance each other out, otherwise the governance prescriptions will not be the same.

It would also not be very helpful to include in an agenda a line like "Government should provide leadership and the political will to..." In the first place, we have the kind of leadership that we have because of the political system and culture that we have. If that system were to produce leaders with the political will to cut through the impasses and gridlocks in governance, then we ought to consider ourselves either truly blessed or very lucky.

Given these considerations, what then could be included in the agenda? Aside, of course, from what are already contained in [Tolentino, David, et al](#), the main agenda item is this: the impasse in policymaking on agriculture and rural development must be broken. For this to happen, one or another of the forces arrayed against each other in a particular issue is either overpowered, or persuaded to shift positions.

Either way, those who recognize the need for change must begin and continue the discussion, the debates, and the dialogues, and forge a consensus on the shape of things to come.



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