

AGRARIAN REFORM IN THE PHILIPPINES

Report of a Seminar, December 16-17, 1977
at The Rand Corporation, Washington, D. C.

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PREFACE

In April 1975, the Southeast Asia Development Advisory Group (SEADAG) of the Asia Society held a seminar in Baguio, Philippines, in order to discuss the land reform program in that country and its goals of equitable land distribution and increased agricultural productivity. The seminar concluded with the assessment that the Philippine land reform program was serving the cause of equity within the framework of two imperatives. One imperative was political stability, while the other was agricultural productivity. The seminar further concluded that, because it was satisfying these two conditions, the program's priorities were both balanced and moderate in character. This character, however, was seen as raising one of the pervasive questions in discussing Philippine land reform: To what extent can a balanced and moderate program succeed in a nation marked by severe social, political, and economic inequalities?

On December 16-17, 1977, The Rand Corporation, through a grant from the U.S. Agency for International Development (AID), held a follow-on seminar in Washington, D. C. to again review the agrarian reform program in the Philippines, especially since during 1976-1977 statistics for the program indicated an appreciable slowdown in performance. (See Appendix A for a list of seminar attendees and the agenda.)

This second seminar had a dual purpose. First, participants were to examine the program of land redistribution, especially within the context of its social, economic, environmental, and political ramifications, and to determine the factors responsible for the slowdown in the program. Secondly, on the basis of this analysis, the participants were to examine options that the Philippine government might pursue in the agrarian reform program, and the role that foreign donors, including AID, could play in future planning and implementing processes.

SUMMARY

The seminar concluded that the agrarian reform program in the Philippines has not fulfilled its initial goals and, in fact, is a failing program. The following interrelated reasons were given to substantiate this judgment:

- o As the program is presently structured, there is little likelihood that the current program will attain its goals of (1) effecting a more equitable distribution of land, and (2) stimulating an increase in agricultural production.
- o Program implementation has been extremely slow.
- o Many small landlords with holdings of less than 15 hectares have opposed the program.
- o In many cases, tenants have demonstrated a reluctance to participate in the program.
- o The Marcos government lacks the political will to push the program to a successful conclusion.

At a time when social and economic reforms are drastically needed, the failure of agrarian reform has done little to embellish Marcos' efforts to create a "new society." The lot of the rural poor (who comprise 12 of the 15 million Filipinos included in the lowest 40 percent of the income distribution structure) is worsening. While the rural population increases at the rate of two percent annually, the opening of new land to rice cultivation ceased in 1968. In addition, vast areas have been adversely affected by deforestation, which results in expanding grasslands, watershed damage, and erosion, and which threatens the growth of agricultural productivity.

Regarding the future options of the Philippine government and AID, the seminar concluded that, in spite of the government's disinterest in supporting the program and the fact that AID intended terminating its contribution to Philippine agrarian reform in September 1978, the land

transfer effort is worth trying to salvage and improve. A successful agrarian reform program would both benefit the rural poor and be an important element in social and economic development. Also, agrarian reform is too functionally related to a host of other development programs being supported by the government and AID to allow it to fail.

There were suggestions that AID employ an aid-contingent-on-performance policy in order to stimulate the Philippine government to make a serious effort at changing the present agrarian reform program and implementing it effectively. Another related strategy suggested would call for the U.S. to use any leverage it has in the current negotiations for renewal of the military bases agreements to exact a Philippine government promise to pursue agrarian reform vigorously.

At any rate, most participants felt that AID should definitely exercise its influence to change the Philippine government's level of practical commitment to agrarian reform. Discussion also centered on how this might be accomplished through modified support of the present program aimed at improving its implementation. This would involve programs that would benefit agrarian reform directly and also programs that would contribute indirectly by accelerating the process of economic development.

In the area of direct support to the agrarian reform program, AID could provide technical assistance in solving technical and management programs, such as land registration and titling. AID could also obtain the assistance of private agencies in the tenure-conversion process. Since one reason tenants do not wish to participate in the agrarian reform program is the heavy financial burdens they assume as amortizing owners, AID might assist in establishing a rotating fund designed to subsidize the new owners. This could be part of an effort to improve the farmers' associations, (Samahang Nayons), with the goal of helping the farmers cope with their problems through group efforts. However, the government would have to give the Samahang Nayons real authority, something which they do not have now.

AID support for economic development which assists agrarian reform indirectly could take the form of improved marketing of agricultural products through projects related to improving rural roads and

transportation. AID also could lend assistance with irrigation and electrification projects. In addition, AID could assist the Philippine government in coping with the worsening people-land ratio through reforestation programs, including the growing of tree crops, and the restoration of grasslands to agricultural use. Such programs would also benefit the rural landless poor, who do not participate in the agrarian reform program, by making more productive land available.

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I. THE FAILURE OF THE PRESENT AGRARIAN REFORM PROGRAM

It was the concensus of the seminar that the present agrarian reform program in the Philippines is failing. Discussion and analysis focused on five interrelated reasons.

- o As the program is presently structured, there is little likelihood that the current program will attain its goals of (1) effecting a more equitable distribution of land, and (2) stimulating an increase in agricultural production.
- o Program implementation has been extremely slow.
- o Many small landlords with holdings of less than 15 hectares have opposed the program.
- o In many cases, tenants have demonstrated a reluctance to participate in the program.
- o The Marcos government lacks the political will to push the program to a successful conclusion.

The seminar participants agreed that the failure of the agrarian reform to meet its objectives was having dire consequences for Marcos' "New Society" at a time when social and economic reforms were badly needed. When viewed in terms of the expanding rural population, the worsening economic situation of the poor, and the deterioration of the environment in many areas, the poor performance of the agrarian reform program takes on particular significance not only for the rural society but for the Philippine nation as a whole.

PROGRAM GOALS AND IMPLEMENTATION

Unless there are some drastic changes in the present agrarian reform program, there is little hope that the goals of equity and productivity can ever be realized.

As the program is structured, the equity goal falls far short of bringing about any significant redistribution of land or income.

(See Appendix C for details of the program's structure.) Only corn and rice lands have been affected, leaving the majority of the agricultural lands (including the large estates) outside the scope of the program. Further, since the program is applied to holdings in excess of seven hectares, only 520,000 of the total 914,000 corn and rice tenants are eligible to receive title. The almost 400,000 tenants ineligible to become owners are to be given written leasehold contracts, replacing the often informal tenancy arrangements currently in existence. In addition, other segments of the rural poor, such as the unemployed or landless farm laborers, do not benefit at all from the reform.

While the agrarian reform program places new burdens on both the small landlords and eligible tenants, other segments of the population, such as owners of large sugar, coconut, and banana estates, and urban property have remained totally unaffected.

So far as productivity is concerned, reform such as those in Japan and Taiwan have resulted in enormous increases in productivity. Nothing like this has occurred in the Philippine agrarian reform program, although those tenants converted to ownership have enjoyed some increase in their income. This increase, however, is the result of a greater amount of production available for consumption by the peasant family, rather than an increase in total production.

Another shortcoming of the agrarian reform program is that it has proceeded at a very slow pace. As of late 1977 (see Appendix B) some 247,862 Certificates of Land Transfer (CLTs) had been printed for 520,000 tenants eligible to receive land. Only 130,000 of the CLTs have been distributed to villages, but a great many have not been given to the tenants because of legal barriers. Compensation has been paid by the Land Bank on 78,650 hectares for 41,614 tenants, who represent only 4.6 percent of the total number of tenants. Considering that the program has been in existence for five years, this is a low figure especially when it only represents about half the percentage of performance by Ngo Dinh Diem's land reform program in South Vietnam during the late 1950s--a program generally considered unsuccessful.

LANDLORDS AND TENANTS

Considerable discussion during the seminar was focused on the roles of landlords and tenants and the relationships that exist between them. One reason the agrarian reform program is failing is that a great many of the small landlords oppose it. Also, a large number of tenants have been reluctant to participate in the program because of the way it is structured.

Landlords generally are divided into two categories--those with large holdings (including the haciendas, many of which were part of the Spanish heritage) and the small landholders. Since the nineteenth century, the pattern of landholding in the Philippines has been changing steadily with a decline in the number of extensive religious holdings and large estates, the latter largely due to equal inheritance among all heirs. This occurred even though many families arranged marriages between first cousins to recombine lands that had been divided in the previous generation. This meant that, although hacienda agriculture reached its peak prior to World War II, holdings were usually under 1000 hectares. Estates of 5000 hectares or more are now rare, and as one seminar participant pointed out, "The sugar barons are gone."

Small holdings of less than fifteen hectares are now the predominant type of landholding in the rural areas. Unlike most of the large landlords of previous times, the small landowners have other occupations, such as civil servants, teachers, judges, surveyors, and army personnel. They have worked to accumulate some land as a supplementary source of income and as an important investment for retirement. In general, they have been opposed to the land transfer program because, in addition to losing future income from the rented land, they have had no guarantee that they will be compensated for land taken by the government. The government, however, has been careful in dealing with this opposition, and no small landlords have been jailed.

Tenants are less clearly differentiated (there are no available studies that have focused on the socioeconomic variations among tenants). At present, there is a distinction made, usually by tenants, landlords, and rural officials, between leaseholders and sharecroppers. Frequently, however, there tends to be very little

difference in rent levels paid by those who are called leaseholders and those designated as sharecroppers. What in fact has occurred is that "leasehold" has become a label conveniently used by some landlords as a legal and verbal formula for danying the tenant such benefits as seeds, production credit, and even consumption credit, which are traditional in a sharecropping arrangement.

Although the tenants are often protrayed as the benefactors of the agrarian reform, many of them have been unwilling to participate in the program. Significantly, seminar participants noted that some tenants have been jailed for their opposition to the program.

The primary reason for the tenants' attitude is that the added administrative responsibilities and financial burdens of becoming amortizing owners only serve to heighten their already deeply-rooted uncertainty concerning the future. Most tenants are numbered among the rural poor in the Philippines and in normal times their survival is constantly being tested by capricious weather conditions, invasions of their crops by pests, and fluctuating prices. When viewed against the fact that the poverty threshold in the Philippines is 400 pesos^{*} a month just for food, the reluctance to risk a known situation for an uncertain gain is more understandable. (As of December 1977, there were some 7.5 pesos to the U.S. dollar.)

In the earlier phase of the land reform program, land values were determined by landlord-tenant negotiations, an administrative responsibility for the tenant that increased his uncertainty because it often led to strained relations between him and the landlord. In these negotiations the landlord invariably wielded more influence than did the tenant. More recently, in conformity with the requirement of the agrarian reform program, barrio (barangay) committees have been organized to determine land values on the basis of production levels and rice prices, the latter fixed by government. As of December 1977, there were 12,000 barrio committees in rice-growing areas. Of these, some 9000 had submitted their evaluation forms regarding land values to the Department of Agrarian Reform. While previously the

* There are approximately 7½ pesos to the U.S. dollar.

average value per hectare of corn and rice land was around 6000 pesos, the present average is 7000. An increase in the rice support price, however, must be taken into account when evaluating this latter figure.

The financial burdens on the tenant who becomes an amortizing owner are relatively great, adding to his uncertainty. The government has made no effort to provide financial protection to the new owners during the years immediately following the granting of preliminary land titles (CLTs), the most critical period for the success of the reform. A tenant receiving the average-size rice unit of 1.8 hectares assumes new financial obligations for amortization payments, taxes, farm cooperative dues, and other costs, amounting to around 1300 pesos annually. This is a staggering sum, given that the average yearly income of a tenant farmer in the relatively prosperous province of Nueva Ecija was estimated at some 1500 pesos in 1976.

One result of these burdens has been a great number of defaults (some claim a majority) on amortization payments. In this regard, infusions of credit by the government do not appear to have had a beneficial effect. In situations where the government has provided credit to new owners it has usually done so in an arbitrary and inefficient manner. Just as insufficient amounts of credit can stifle the reform effort, a study of the Masagana-99 credit program during 1973 and 1974 in the Bicol River basin region is indicative of the damage which can be done by excessive infusions of credit. (See Appendix C for additional information on this program.) During this period, Masagana-99 agents forced loans on the region's farmers in an overenthusiastic effort to meet and exceed credit quotas established by the government. Many of the loan recipients were tenant farmers and sharecroppers who, with the increase in available credit, found that their rents were being raised by the landlords. In effect, much of the credit supplied actually became an income transfer from the government to the landlords. Further, fear of continued rent increases inhibited the tenants from making any capital improvements to their land, so that the higher rents were not offset by increased production levels. This situation led to a high number of loan defaults which, in turn, prompted the government to issue guidelines to the

rural banks, forbidding them from making any new loans until the old ones had been paid. Farmers in the area therefore have been forced to take loans from private sources, often at usurious rates. This example illustrates the problem of introducing credit to a share/tenancy system; without an actual transfer of land ownership, providing credit is likely to be counterproductive.

Another source of a new amortizing owner's uncertainty that is not often considered is the matter of water management. Because of extensive deforestation and increasing water table depths, an ample supply of water for paddy cultivation is not always available nor is it predictable, and this affects farm management decisions. Particularly in the wet rice areas there is some question as to how much the tenant has been "liberated" if he has gained control over land but not water. This condition may, in fact, simply result in shifting the costs of uncertain water supplies entirely onto the shoulders of the former tenant rather than having them divided between the former landowner and tenant.

Historically, landlords have played an important role in irrigation and water supply. Independent communal irrigation systems have existed at the village level for nearly a century, and the landlords have been instrumental in linking the community water system to the municipalities' water networks. Now, in addition to the communal water systems, there are the large-scale irrigation networks constructed and operated by the National Irrigation Administration (NIA). Landlords often play an important intermediary role between the tenant who needs the water and the NIA, reinforcing their already influential position in water matters.

During the past four to five years, the government has made considerable investments in irrigation systems and infrastructural communal water systems, bringing irrigation to large areas. Without any personal investment, this has proven to be a windfall gain for landlords, who have seen an increase in the productivity of their lands. In an attempt to reduce the gains accruing to the landlord, government loans for small-scale irrigation projects contain covenants requiring that the areas involved be brought into the land reform sector. This also is

a requirement of the Asian Development Bank, whose loans require that the tenure problem be addressed. Such covenants, however, are not part of the World Bank loans.

In October 1977, the National Irrigation Administration (NIA) asked the Social Science Research Unit to undertake research on the communal irrigation systems in order to determine why some of them were successful, i.e., able to pay irrigation fees and loans, while others were not. The NIA was concerned about the high rates of default on payments because the World Bank loans require payment of interest. In the discussion concerning this research the NIA staff, interestingly enough, never mentioned anything about tenure status. This did not appear to be an issue with which they were concerned and is indicative of the general lack of effective government support for the land reform effort.

Uncertainty is also engendered by the growing fear among tenants that, as the government has become more concerned with rural development during the past five years, if they default on agrarian reform loans they can be jailed. There are cases, in fact, where the military have gone into villages and threatened the population with jail if they default. This had added to the uncertainty of the tenants to the point that they may fear to invest in their farms and take out loans for irrigation development, thus continuing the pattern of lack of water management.

Furthermore, the introduction of high-yield varieties of rice has shown that the links between land and water, rather than direct, can be quite insidious. During the 1968-1969 period, when IR-5 and other types of "miricle rice" were introduced in Nueva Ecija province, the landlords immediately saw the possibilities of commercial production of these new varieties. This stimulated them to increase the investments on their land, where previously they had only been interested in harvesting land rents. Some of the landlords who owned between 20 and 30 hectares, and who had some capital available, began investing in deep-water pumps in order to provide reliable sources of water to increase production, realizing as many as five crops over a two-year period. This investment also provided them with a method for

appropriating part of the rice production of adjacent farmers, who exchanged a percentage of their yield (usually 10 percent) for deep-pump irrigation water.

Given this set of risks, many tenants have opted to retain the traditional patron-client relationship that they had with their landlords. In many cases this amounted to a kind of partnership in which the tenant could count on some kind of assistance from his landlord when it was needed. If the tenant's crops failed, for example, he could obtain a consumption loan from his landlord. For the tenant there was reliability in such a relationship. As one member of the seminar pointed out, "People who push land reform indiscriminately are gambling with a poor man's money." Some participants, however, supported the view that this tenant/landlord relationship no longer exists, at least since leasehold was introduced more than a decade ago, giving the landlord an excuse for ending any support.

In the past few years it has become increasingly apparent that the Marcos government has lost interest in supporting the agrarian reform. This has made even more tenants reluctant to participate in the program and has affected the self-image of some tenants who are amortizing owners. In a recent survey funded by AID and conducted by the Social Science Research Unit in the Bicol River basin region of southern Luzon, 50 percent of farmers classified by the Department of Agrarian Reform (DAR) as landowners actually perceived themselves as share tenants or, at most, lessees. In their own eyes their status had not been altered by the program. In many cases the desire of the tenants to maintain that status has had the curious effect of forcing landowners who do want to participate in the reform program to continue the patronal relationship. One might characterize the landlords caught in such a situation as the "downtrodden upper class."

Thus far, implementation of the agrarian reform program has been most successful in Central Luzon, where most of the 41,614 new amortizing owners (see Appendix B) are located. Since this region has special characteristics, however, its success cannot be used to measure the potential performance in other regions of the Philippines. Historically, there has been a pattern of peasant leadership in Central

Luzon, where tenants have learned to cope with some degree of assurance with their landlords. It is significant that there also is a high incidence of absentee landlordism in this region, although the historical development of this situation and its character, particularly concerning the relative distance of the landlord from his tenants, varies from province to province. In Pampanga province, for example, the socialist movement of Pedro Abad Santos in the 1930s, followed by the Japanese occupation during World War II, created an unhealthy climate for landlords, with most of them taking up residence in Manila. Many of them still remain there, collecting minimal shares of their tenants' crops through agents.

The emergence of the Hukbalahap movement also affected many parts of Central Luzon. While the Huk movement repudiated the landlord system, and in some cases denounced individual landlords, the system was disrupted but not destroyed, since all landlords did not move to Manila. In Nueva Ecija, for example, most absentee landlords, including owners of the large haciendas, remained in Cabanatuan City; and in Bulacan province many landowners established themselves in San Miguel. These two locations exemplify relatively short landlord-to-tenant distances. Many of the landlords who did go to Manila, however, left their affairs in the hands of intransigent and grasping rent collectors who could not make the paternalistic decisions that the landlords had previously made, leading to an even greater alienation between patron and client. In spite of these changes in Central Luzon, rents are still collected in 80 percent of the villages, with rent levels of 30 to 40 percent of the harvests continuing to prevail.

The physical distance between the landlord and tenant has implications both for the traditional patron-client relationship and also for the implementation of the agrarian reform program. Even though absent, a landlord relatively close to his holdings very likely will continue to have legal power in the area, and this can affect the land transfer process. When, however, the distance increases and the absentee landlord begins to lose his ability to influence judges, surveyors, and the sheriff, absenteeism becomes a significant factor.

The relatively high number of amortizing owners in Central Luzon serves as a reminder that, under favorable circumstances, many tenants are still interested in owning land. A study in Bulacan province revealed that tenants will support the reform program if they are assured that it will improve their economic status. Unfortunately, the current program has failed to do that.

The observation was made during the seminar that if the agrarian reform program did result in a breakdown of the old patron-client relationship it might have the beneficial result of leaving the tenant free to participate in community organizations. It was pointed out, however, that agrarian reform came about through the declaration of martial law and that the idea of the peasant being free to participate in community decisionmaking is incompatible with martial law. The Samahang Nasyon farmer associations illustrate this situation. While they were formed as part of the agrarian reform program, they function not as instruments of democratic decisionmaking, but of government control.

This should not obscure the fact that, except for efforts by indigenous leaders in Central Luzon there has always been considerable difficulty in organizing the Filipino peasants, especially by the government. A successful organization effort among the peasants requires an appeal to some common concern that is important to them. The government-sponsored organizations do not succeed because they do not have such an appeal, and fail to be meaningful to the peasants. The barangay councils are a good example of this, since they have predefined goals that have no appeal to the ordinary peasants. Furthermore, almost everyone knows that the barangay councils' elections tend to be farces. Organizations that do emerge because they focus on issues that galvanize the villagers, tend to be regarded by the government and the military as subverse and dangerous. For example, the Christian Left Movement, which is explicitly noncommunist, is viewed by the government as a threat, with the result that the Movement and the government are on a collision course.

Organizations among the peasants also must be organized around "socioeconomic units," i.e., those of the same economic level in village society. A mixture of farmers from the rich and poor segments

of the society will prevent any organization from becoming viable. Also, new organizations must have a place in the forefront for women, since women have played important leadership roles since the time of the Hukbalahap movement.

If genuine grass-roots level planning is fostered by the Philippine government and AID, then both the Philippine and U.S. governments will have to face the issue of how they should view such emerging organizations as they demonstrate increasing militancy. It is hoped that American apprehension about Communist infiltration in the Philippines will not lead to opposition to any legitimate local protest.

LACK OF POLITICAL WILL

Probably the most important reason the agrarian reform program in the Philippines is languishing is because there is no political will on the part of the Marcos government to see the program implemented to a successful conclusion. This appears to be directly related to at least one, unstated, political goal of the program--the attempt by Marcos to win the support of the peasantry by promising to give them land. When the agrarian reform was promulgated in 1972, however, Marcos failed to appreciate the fact that he would be dealing not with a group of large landholders, but with a sizable number of small landlords.

It was noted previously that, since the nineteenth century, large landholdings (over 1000 hectares) had been diminishing. As the large landlords lost their traditional power in the rural areas they were replaced by a newly emerging group of economic-political entrepreneurs, who relied more on ownership of weapons than of land to develop a political base. They held sway until the advent of martial law, when they were forcibly eliminated. Promulgating Presidential Decree 27 (see Appendix C) with a view to enlisting the support of the tenants, Marcos found that there was a clear danger that his new program would alienate the small landlords, and he did not seem aware that most holdings were in the hands of small landowners until after declaring martial law.

This situation has presented Marcos with a difficult problem. First, when it became clear that most of the small landlords were against the program, it was not possible to use too much pressure on them, particularly the threat of jail or of using the armed forces, because they were too numerous. Secondly, Marcos came to believe that the small landlords constituted an important segment of rural society and that their support would be needed to counteract the growing threat of insurgency, especially in view of the fact that it was the large landowners, not the militarily-weak government who had previously suppressed the Huk rebellion. With the large landowners few in number, Marcos could not, or believed he could not, risk alienating the increased amount of small landowners. Nor could Marcos risk a large expansion of the military structure (which has, in fact, grown since the advent of martial law), to deal with insurgency, since it might put too much power in the hands of the military, who might then challenge his power. Marcos elected to resolve this dilemma by withdrawing his active support from the agrarian reform program. Since such a move would eliminate landowner opposition, the need for a large military structure was reduced. As a result, the agrarian reform program was not abolished, but its enforcement was neglected.

Such an interpretation is supported by the fact that, in the 1960s, attempts at passing an agrarian reform law in the Filipino Congress were blocked by the large landowners. Since the imposition of martial law, however, Congress has been disbanded, but the practical agrarian reform results still fall short of what might be expected if Marcos truly supported and enforced such a program.

Further evidence can be found in the investment activities of the Land Bank. No claim can be made that the reform is lagging due to a lack of funds, since the Land Bank is actively investing in a variety of nonagricultural enterprises. For example, it owns a bank in Manila and one in California, and has invested heavily in Lustevenco, one of the largest seaborne freight companies in Southeast Asia.

While it is true that Marcos appears to have withdrawn his support for the reform effort, this situation highlights the fact that even authoritarian regimes face limitations to their power and are not

free to do as they please, since their power is made possible by the assent of a variety of interest groups. The need for Marcos to perform a balancing act to remain in power mitigates the supposed "strong man" influence on land reform, although there may well have been a period when he might have been able to push it to completion.

IMPLICATIONS OF THE FAILING PROGRAM

During one of his national speeches, President Marcos made the declaration that "The land reform program is the only gauge for success or failure of the New Society. If land reform fails, there is no New Society." The agrarian reform program is failing at a time when the social and economic reforms promised in the "New Society" are badly needed. Social and economic conditions

A successful agrarian reform program would undoubtedly benefit the rural poor, especially those with access to the land. Their lot has worsened, with landless farm laborers experiencing a 30 percent decline of real wages in the past 25 years. At the same time, the rural population is growing at the rate of 2 to 2.5 percent annually, which means that, since the agrarian reform began five years ago, an estimated one million new families have been formed in the rural areas. To this should be added the fact that, although the Philippines enjoy considerable natural resources, including access to good fishing areas, the nutritional standard is equal to that of Bangladesh, which is one of the world's lowest.

The increasing rural population is bidding for a stock of rice land that has, in fact, ceased to expand since 1968 according to data from the International Rice Research Institute. Although rice yields are increasing at a 2 to 2.5 percent annual rate, this increase is on a per hectare basis, so population growth is tending to outstrip productivity growth. Environmental degradation is contributing to the decline in agricultural lands, but the effects on productivity of this trend are probably being disguised by an increase in the amount of irrigated land. This situation suggests that, by the early 1980s, the average size of farms will drop from the current 1.8 hectares to 1 hectare, with the total number of farms

increasing from the current one million to 1.5 million. Given the absence of any significant levels of transfer of ownership, this promises to lead to a situation characterized by increasing rents and a steady reduction in tenure security. The consequences of inadequate efforts to reduce the rate of population growth and find rural, off-farm employment for the landless and marginal land (located on hill-sides) workers is staggering even in the near future.

A second dynamic pressure which must be taken into account is the destruction of certain aspects of the rural physical environment, which compounds the problem of growing population pressure. The main cause of this deterioration has been the combination of indiscriminate burning-off and logging-off of the land, along with almost nonexistent watershed management efforts. These conditions have led to a reduction in available subsurface waters and a reduction in the soil's capacity to absorb and retain water. This has resulted in siltation problems which are already assuming difficult proportions. A recent study of the Binga hydroelectric dam in the Bicol, for example, shows that the high levels of siltation in the area have effectively reduced the operational life of this dam by some 15 years. In addition, once the land is stripped by deforestation, cogon (imperata) grass becomes dominant, as has occurred over almost all of Cebu Island and the Ilocos coast. Current nationwide Bureau of Forestry estimates are that, while cogon grass is encroaching on some 80,000 hectares per year, reforestation is only reclaiming some 18,000 hectares annually. Deforestation has led to almost 40 percent of the Philippines' surface being under cogon grass today--40 percent that is virtually useless to agriculture.

These dynamic pressures have led, and will increasingly lead in the future, to high rates of rural-urban migration. The available data does not clearly indicate whether those migrating are truly landless, although the consensus of the participants was that at least a portion of the migrants were workers from marginal lands (lands not suited to wet-rice cultivation). The Philippine government, recognizing the safety valve represented by this migration, has ceased its harassment of this new urban sector, which is composed primarily of rural migrants. There is a growing recognition that it is fulfilling

a valid economic function, especially that portion which develops small service units linked to the modern sector. The perception of improved economic opportunities in the urban areas has been essentially correct for the migrants to date. The question arises, however, as to whether there is a viable future in such migration for others as an urban absorption limit may be approaching. Thus, this migration and its related problems must be addressed, because it represents a displacement of rural problems to the urban setting, which the cities are ill-equipped to handle.

The implications of failure in the agrarian reform program are not limited strictly to the rural poor, or even to the rural areas. The dynamics which were addressed by this seminar are already affecting areas of the Philippine society and economy which, at first glance, would appear to be unrelated to the agrarian reform effort. Because of this, the consensus of the seminar was that any approach to agrarian reform and rural development must be interdisciplinary in character, not only within the rural areas, but within the society as a whole. Thus, the subject of reform cannot be restricted to the narrow viewpoint of only tenurial changes. It must, to be properly understood and successfully implemented, include considerations of environment, population dynamics, production and marketing infrastructure, rural-urban migration, social and corporate organizations, and many other closely interrelated subjects and disciplines which ultimately have an influence on the reform effort.

II. FUTURE OPTIONS FOR THE PHILIPPINE GOVERNMENT AND AID

The seminar's discussion on future options for the Philippine government and foreign donors, particularly AID, made it apparent that the two cannot be considered separately. In spite of the disinterest of the Philippine government in supporting land transfer and the fact that AID intended terminating its contribution to the agrarian reform program in September 1978, the seminar concluded that the program was worth trying to salvage. For one thing, a reasonably functioning agrarian reform program would benefit the rural poor. Also, agrarian reform is too functionally related to a host of other programs being supported by the government and AID to allow it to fail, and it is an important element in social and economic development.

However, there is a need for a well defined list of objectives in the field of Philippine agrarian reform. A systems analysis might be undertaken to identify those programs necessary to achieve the defined objectives. There seems to be a need for a Master Plan to achieve the desired objectives. Such a Master Plan would aid in coordinating the various programs and projects and would help identify special surveys and studies required to determine the needs and aspirations of both tenants and landlords. This would permit more efficient utilization of both AID and Philippine government funding.

Options for AID

Only once during the seminar did anyone advocate that "we should get out of this thing as quickly as possible in the least amount of time and at the lowest cost." In less blunt terms, another participant expressed the opinion that, at this stage, the agrarian reform program could not profit greatly from any foreign aid, and that AID programs should be reexamined in the light of the requirement that they serve the interests of the rural poor. In the past, AID rural programs have been primarily oriented towards productivity, but the fact that there now have been two consecutive years of bumper crops in rice (even though these have been poor crops when measured by the

standards of other Asian producers) indicates that productivity goals are reachable. There are indications, however, that rural income distribution and living conditions of the rural poor have deteriorated despite these gains in productivity. Greater attention should thus be given to equity-oriented programs than in the past. Unfortunately, land reform, the equity program par excellence, has failed, which may indicate that equity problems are ultimately political problems and therefore require national solutions that may be supported by, but are separate from, foreign aid.

In the course of the discussion, the following three options for AID were presented: to continue its involvement in the program despite the Philippine government's lukewarm support for it; to intervene in such a way as to change the Philippine government's level of practical commitment to agrarian reform; or to withdraw completely from this aspect of development, reduce losses, and redirect scarce resources to an area where the local government's interest appears to be more substantial (such as health or population).

No one in the seminar felt that the first option should be exercised, since AID's current involvement clearly is not achieving its desired goals in the failing agrarian reform program. Most of the discussion centered on the second option, and it revealed varied perceptions of the Philippine government's and AID's potential roles, not only in agrarian reform but in economic development as well. Much discussion concerned the necessity for new directions that the Philippine government should take in pursuing agrarian reform as part of a larger program of economic development. There is a pressing need to broaden the rural economy in order to avoid serious social problems and successful agrarian reform is a prerequisite to future economic development. Most of the members of the seminar agreed that AID has a definite role to play in social and economic development and in seeking to influence the Philippine government to lend greater support to the agrarian reform program. There were, however, varying opinions as to how AID might exert this influence. Some felt that the U.S. should recognize the leverage it has with its AID program and military base negotiations and use this leverage to

exact a better performance from the Philippine government in agrarian reform.

One seminar participant put forth the view that if we assume that the agrarian reform program is basically an instrument of income distribution, which will affect a sizable percentage of the nation's poor majority, it certainly fits within the scope of AID's new directions. AID therefore might consider modified support of the program, such as employing carefully selected private organizations, including private volunteer organizations wherever possible, and favoring fixed-cost reimbursements wherever possible for the following areas of activity:

- o Solving technical and management problems of agrarian reform (i.e., land registration and titling, field extension techniques) by working directly with government personnel;
- o Assisting in the tenure-conversion process through the support of private agencies which have committed, well-managed and flexible personnel and which would work with local government people when the tenants are ready to apply for their Certificates of Land Transfer (CLTs).

The above scheme raised the question whether the private sector has a potential role in assisting the Philippine government or AID in programs such as agrarian reform. A seminar participant pointed out that, with the exception of a few places like the Republic of China (which has a Joint Commission on Rural Reconstruction), Western aid processes, particularly in agriculture, are "conspicuous by their failures" for the following reasons: (1) insufficiency of capital; (2) inadequacy of human skills in such critical areas as operations, processing, transportation, and especially marketing and finance; (3) the powerlessness of organizations such as AID in providing understandable and tangible incentives to the man on the farm; and (4) the absence in government-inspired programs of any motivation to push an investment through to an ultimate economic success.

Under present conditions there is little likelihood that private investment in agriculture in developing countries will take place on any significant scale. First of all, the relationship of the private sector to capital formation (marshalling human skills and providing incentives) is either not understood or is regarded as something abhorrent. The evidence that the private sector succeeds whenever it is given its head seems to pain governments and intellectuals who have abrogated development sponsorship unto themselves.

A second reason why the private sector is unlikely to venture into agricultural development is that governments will not allow it. Governments apparently do not understand that development is not a "program" or a "plan" but an investment. It is an investment of capital and especially of humans in a drive to optimize the productivity of, in this case, land. Governments tend to pursue political objectives which, as history shows, can be arbitrary. A true investment, however, regards politics as irrational and unnecessary.

A third reason likely to inhibit future private investment is the dire banking situation now evolving, with developing nations owing Western banks about \$170 billion. Repayments will fall due in escalating sequence beginning in the 1980s. The criteria under which these loans were made was, for the most part, disgracefully inappropriate, and private banks were just as guilty as governments and international agencies. While widespread defaults would be disastrous for the future of the developing countries, and harmful for the West, the renegotiation of terms is not going to make for an optimistic investment climate.

Although AID has much experience and certain expertise, the private sector in the fields of U.S. agriculture and agricultural investment could be helpful to AID in an advisory capacity, since the private sector possesses skills, talents and motivation that AID does not have. Farmers and bankers who know how to operate effectively could open new vistas for AID if they were invited to advise and given reasonable compensation for their time. A partnership is possible, if AID wants it.

A modified support of the agrarian reform program was also advocated by another member of the seminar. He noted that the Philippine government is concerned with the need to maintain and increase the levels of living for its citizens including, in particular, the poor and underprivileged. The task is aggravated by a high birth-rate, which has resulted in a tripling of the population since World War II. The problem of avoiding the Malthusian spectre of insufficient food, or at least a reduction in the level of living, is further aggravated by the energy crisis and balance of payments problems.

AID has attempted to assist the Philippine government in improving the well-being of its citizens. One effort addressed an increase in national productivity and, in particular, agricultural productivity. In this way, it was hoped that benefits would trickle down to all income classes. High population growth, however, has thwarted the effort to improve the welfare of the poor. Indeed, the most pessimistic would view attempts to improve the welfare of the poor as self-destructive through stimulation of population growth. This extreme view, however, is believed avoidable with other programs such as family planning. Faced with these conditions, a second effort involving health and nutrition aspects is designed to directly support the rural poor.

It was further noted that AID has also assisted the government of the Philippines in a variety of projects designed to improve the rural infrastructure and reduce production and marketing risks which the small farmers face. The major funding of these peripheral programs, however, has apparently diluted the financial and technical capability of the Philippine government to expedite the core programs of land transfer and improved tenure.

Agrarian reform, as it currently is being implemented, seems to be more concerned with the survival of institutions than with the survival of individual farmers. There is, for example, a great concern for the ability of the farmer to meet his obligations. Possibly one reason why some tenants do not wish to become landowners is because of cash flow problems during the initial farming period. One suggestion was to waive or delay land payments during this period, and perhaps AID could assist by establishing a rotating fund designed to

help the new owner, who could repay the loan with increased payments after the initial period. Any such program would not only aid the new owner but also would permit the Philippine government to expedite land payments to the former landlord, thus reducing the resistance to land sales. Another project to aid the new owner would be limited crop insurance to cover disasters.

Seeing agrarian reform in the broader context of economic development, one member of the seminar observed that the crucial task in the Philippines is to galvanize the economy into the sort of broad-based growth that has occurred in Taiwan, South Korea, and Japan. All these growth processes were nurtured by rapidly-growing agricultural production and fairly broad-based rural demand for simple manufactured goods. This sort of growth simply cannot occur in rural areas impoverished by landlordism or a lack of support systems. Without a real government commitment to land reform, credit, technical assistance, and marketing, the Philippines will probably retain low levels of agricultural productivity and a highly skewed income distribution. The Philippine government should consider agrarian reform--including land distribution--as an important component of development and should be willing to finance it, just as they willingly finance roads and bridges and other, more visible components of economic development.

Another seminar participant expressed the view that, in terms of economic development, the overall design of the Philippine agrarian reform program appears deficient in a number of things. First, the "ideal size" envisioned for each farm is obviously too large, given the number of tenant families and the amount of available land. Second, the program appears to overlook the importance of income and credit security to the typical tenant, resulting in tenants returning their Certificates of Land Transfer (CLTs) and a high percentage of peasants who are in arrears to the Land Bank at this point. Third, the program seems more oriented to increasing productivity than it is to redistributing income. This may indicate that the real purpose of the program is to enlarge exports and lower food imports so that the process of modernizing Manila and its environs can be maintained or

even accelerated. If this is indeed the case (and a quick look at the resources committed to agriculture as compared to those committed to industry, tourism, and urban infrastructures suggests that it is), then agrarian reform appears to be more of a cruel hoax than the cornerstone of a "New Society" in which all Filipinos have an equal stake.

There is, of course, nothing wrong with increasing productivity per se--in fact, this seems to be where the agrarian reform program, broadly conceived to include land redistribution plus supporting infrastructure and services, has been most successful. Technical breakthroughs in seed technology, the spread of irrigation, fertilizer and pesticide usage, and increased access to credit have done much to raise agricultural productivity, though there is still much more in these areas that could be done. The question, however, is who benefits from these improvements? If the figures on stagnant real incomes (or even declining real incomes) for many are to be believed, those who are presently poor do not seem to have benefited very much from productivity increases to date. It is true that being able to cope with rapid population growth may be regarded as something of a victory for these efforts, but it is also true that urban dwellers and property owners seem to have gained more from increases in farm productivity than have those who actually do the work. This may be attributed partly to "natural economic forces," with population growth supplying increasing numbers of competitive farm workers. But part of it may also be attributed to the lack of political power in the hands of the rural poor.

Problems of Agrarian Reform and Related Programs

The three major problems facing the existing Philippine agrarian reform program are: first, the program's coverage needs to be broadened if it is to have much redistributive impact. This may mean that there will be less land available for export crops and fewer revenues for modernizing urban areas, but it is difficult to redistribute income without influencing the pattern of production and marketing. Second, a major effort must be made to reforest denuded

slopes which now allow rapid water runoff with consequent flooding, drops in the underground water table, and intensification of drought problems during the dry season. Third, new institutions need to develop and grow at the local level to replace the traditional services provided by landlords, such as income security and credit. This means that land must be accurately surveyed, records must be developed and validated, credit must be made available on flexible and reasonable terms, and it may even mean that price guarantees (or purchase guarantees) should be established.

If agrarian reform were successfully carried out, notwithstanding its shortcomings, it could have a number of beneficial effects. First, the new owners presumably would enjoy increased incomes, especially once they had completely paid for the land. This, in turn, could stimulate the development of small-scale, rural-based industries producing relatively labor-intensive products which could provide employment opportunities to the growing population. Second, it would sever the landlord/tenant relationship, and this could lead to the development of greater self-reliance and the involvement of more people in the market economy. However, this also injects the element of price uncertainty into the economy, which does not usually improve welfare. Third, a successful agrarian reform program could serve as a model for people outside the sectors of the society most directly affected, and perhaps induce imitation. Fourth, it could buy time for the national government to begin planning reforms in other areas, such as a gradual return of political power to the locality, the expansion of fishermen's cooperatives, and the controlled use of the country's timber resources.

Overall, it is important to keep agrarian reform in the Philippines in perspective. The root problem is still a rate of population growth which the country has difficulty supporting. This is what leads to land fragmentation, low savings margins, growing income shares for those who own property, deforestation, burgeoning city slums, and a host of social problems. Agrarian reform merely treats a symptom of the disease, but it is in no sense a cure. Agrarian reform can buy time, but if the population growth continues, it will have to be

followed by a succession of reforms in the future (although agrarian reform sets in motion precisely the grass roots changes, including improved nutrition, that can lead to improved child survival, and then to successful family planning).

The problem of the people-land ratio was raised by another member of the seminar. He pointed out that discussions of needed agrarian reforms in the Philippines or evaluations of current efforts to implement agrarian reform are hampered by the indeterminate image of agrarian society that reformers and policymakers hold. On the one hand, it appears that the preferred model is one in which independent, small, owner-operated farms predominate. On the other hand, it appears quite unlikely that this model can be achieved given the small amount of land available relative to the large number of potential owner-operators (a land size that is further constrained by the exclusion of other than rice/corn lands from any land transfers).

Unless enormous numbers of rural people are removed from the countryside, or unless other employment opportunities for a large number of owner-operators are created to allow for an increase in part-time farming, the strategy of creating an agrarian society composed of small owner-operators will be unsuccessful.

One participant noted that the program of land transfers is extremely limited (only 520,000 of 914,000 tenants are eligible), and that relatively few tenants (4.6 percent of the total) have become amortizing owners. There are two ways in which the present limited program might be expanded. One is through implementation of land transfers to small cultivators in other sectors such as sugar, pineapples, coconuts or bananas. In other parts of the world these crops frequently are grown by small holders and then processed and marketed by large state or privately-owned enterprises. There is little evidence to suggest that these small holders would not be efficient producers in the Philippines. Thus, there is not an obvious danger to the Filipino foreign exchange situation if some portion of these sectors becomes the province of small owner-operators.

A second route of expansion is to extend reform to the control of other critical agricultural resources, particularly water. In the wet-rice areas there is some question as to how much the tenant has been "liberated" if he has gained control over land but not water. This condition may, in fact, simply result in shifting the costs of

uncertain water supplies entirely onto the shoulders of the amortizing owner rather than, ideally, dividing the costs between former landlord and tenant. A great deal more could be done in the construction of small-scale irrigation systems in which greater farmer-user control exists. Likewise, there is a need to continue searching for viable models of agency-farmer interaction for the operation and management of large-scale irrigation systems under supervision of the National Irrigation Administration. Programs of agrarian reform have, over the years, broadened their approaches to incorporate issues of rural credit, marketing and other activities. In the Philippine context there is need to further extend supporting services to include the operation and maintenance of irrigation systems.

Another member of the seminar held the view that, in keeping with the U.S. current concern with human rights, the goals of agrarian reform should be equity rather than productivity. He addressed the problem of people-land ratio by suggesting ways of bringing additional land under cultivation. This participant went a step beyond the modified-support position, advocating a policy of "aid-contingent-upon-accountability" that would have to be orchestrated as a position common to all U.S. government agencies. Such a policy also would require the U.S. to invest considerably more financial resources than in the past, as it would probably be necessary to bear all or part of the cost of reimbursing the former landowners, thereby relieving or reducing the financial burden upon the recipients of the land.

The opportunity exists for the U.S. State Department, in conjunction with AID and other relevant agencies, to develop an imaginative socioeconomic plan embracing agricultural, industrial, and resource development and diversification, the continued financing of which would be contingent upon effective pursuit of social reforms and the liberalization of civil rights. Once a draft package was developed, it could be discreetly presented to the Philippine government as a basis for negotiation.

Unless AID is prepared to argue for a combined development-human rights policy in higher councils, an AID decision whether to continue assistance to the Philippine land reform program must be based upon

considerably more limited policy objectives. This would be a program limited to technical support similar to that currently being provided. Linking itself too closely with politically sensitive activities without assurance as to the degree of commitment on the part of the Marcos government to the land reform program risks associating AID with a failing program.

AID should continue to play a relatively nonpolitical supporting role, as it has in the past. If it supplied food guarantees through the Food for Peace program it would help make tenants feel somewhat easier about abandoning dependence upon a landlord and taking on some of his functions. Support for reclamation and conservation programs could be of enormous long-term benefit. Assistance for irrigation, electrification, and transportation projects, especially when they appear to favor the development of small-scale production with high employment, appears wise. (However, some participants felt that electrification and some transportation projects should be second generation projects, coming only after small-farm productivity increases occur.) Population control projects need direct support, and public health projects which cut infant mortality can use assistance.

There are specific aspects of the agrarian reform program that could be changed and AID could assist with some of these, as follows:

(1) Farmer amortization could be improved. The apparent improvement of the cash flow position of the share tenant who becomes an amortizing owner is only about 150 pesos per year.* When this is compared to the uncertainty resulting from the severance of the landlord/tenant relationship (to the extent that this still exists) and from the equivocal mode of implementation of the land transfer, it is understandable that farmer support of the land reform program is only lukewarm (it should also be recalled that the beneficiary receive only a CLT initially, and does not get actual title until all his

* See Harkin, D., "The Philippine Agrarian Reform in the Perspective of Three Years of Martial Law," USAID/MANILA, September 1975.

amortization payments have been made). One form of aid could be to reduce amortization payments, tied to actual receipt of the CLT by the farmer, and this would be backed up by an administrative order placing the burden of proof in any litigation upon the landlord. The aid contribution to reduced amortization payments should also probably be tied to assurances that the price to be amortized is based on the crop yields reported by the Barangay Committees on Land Production, and that the yields refer to 1972 and prior years and do not include the capitalization of irrigation water values made available later.

(2) Compensation to small landlords could be increased. Because most landlords owning less than 12 hectares of rice and corn land are persons of very modest means, they should be fully compensated for the transfer of their land. Apparently the value of Land Bank bonds given as partial compensation has slipped and the effective payment no longer approaches full value as computed from the formula in Presidential Decree 27 of $2\frac{1}{2}$ times the normal gross yield. A particularly appropriate form of compensation for the small landlords would be to convert the value of the land into an inflation-proof annuity of equivalent value. The Land Bank has discussed this for some years now, but it apparently has not yet implemented it.

Similarly, it would be anomalous to convert share tenants on ownerships less than 7 hectares to leaseholds (assuming that the lease rent ceiling would be enforced) without any compensation to the landlords. At a minimum, the Philippine government should guarantee those smallest landlords the option to elect land transfer and be compensated fully in a manner that would not be devalued by inflation.

(3) General Order 47 (corporate farming) should be carefully considered. The main argument in favor of General Order 47 operations (see Appendix C) is that in some cases they may provide capital to improve irrigation systems which might otherwise not be available. Against this potential benefit, which would apply only in a few cases, we must weigh the displacement of many farmers from land they frequently view as their own, and the loss of the labor absorptive capacity of the family farm system to commercialized operations. The ability of AID to effect this policy is limited, but perhaps it could

declare that AID support to land reform in areas covered by GO 47 operations is ineligible unless it can clearly be shown that the mode of the GO 47 contract benefits the individual farmers and does not reduce the amount of labor applied to the land.

(4) Samahang Nayon cooperatives could be further developed. The Philippine government apparently is continuing its development of the Samahang Nayon cooperatives, probably more vigorously than the land transfer program. AID could lend financial and technical assistance to this effort if this development will advance the ability of the farmers to cope with their problems through group efforts. Such aid also would be contingent on a genuine delegation of authority to the Samahang Nayons.

(5) Coconut farming needs tenurial reform. The reform announced by President Marcos on September 21, 1977, for coconut lands over 25 hectares would be largely meaningless, even if it were implemented, because it would only affect 1 or 2 percent of the total coconut lands. There are indications that, although coconut farming is characterized by high levels of tenancy, the conditions are quite different from rice and corn farming. Coconut productivity in the Philippines is at a very low level compared to the potentials shown in other parts of the world. Apparently this results from a complex custom of sharing in production and income which so dilutes the incentive for improvement that groves are not renovated.

The design of a reform in coconut cultivation that would both advance the welfare of the coconut farmers and improve productivity must proceed very carefully. Research done recently by the Agrarian Reform Institute at the University of the Philippines-Los Banos may provide some guidance. Also, another source is a Ph.D. dissertation being completed by Luzviminda Cornista, a Filipino student at the Land Tenure Center of the University of Wisconsin.

Considering the broad spectrum of agrarian reform, AID could continue and even increase financial and technical support for rural development, environmental and resource preservation, and family planning programs. The deterioration of the Philippine environmental resources, particularly the deforestation, which is directly related

to the spread of cogon grasslands and watershed damage, has a deep effect on agrarian reform and economic development. In most underdeveloped countries modernization and other forms of progress tend to be measured by the amount of new construction. Little or nothing is budgeted for maintenance and preservation. At least in the Philippines, Mrs. Marcos' "beautification projects," though often motivated by expedience, provide a potential basis for elaborating a conscious awareness of preservation and renovation values.

A comprehensive socioeconomic development plan for the Philippines with AID support should include a comprehensive analysis of its environmental impact. In October 1976, Atlantic Monthly* published an article on the adverse environmental impact of foreign aid-sponsored transportation and forestry development in Nepal. The Philippine environment does not comprise as delicate a balance as that of Nepal, but it is largely true that most development projects undertaken in Third World countries have largely ignored environmental impact assessments.

Closely related to the matter of environmental preservation is the question of development of marginal lands (lands not suited to wet-rice cultivation) in the Philippines. In order to halt the continued deterioration of the lowlands due to flooding and drought, the watersheds in the adjacent uplands must be rejuvenated. Large-scale reforestation is one possibility, but given the present people-land ratios, this may be a luxury the Philippines cannot afford. The Philippine government, with AID support, might consider some other possibilities. One of these is tree farming, which would provide a degree of watershed management while at the same time allowing productive use of the marginal land. These uplands will support duhat and guava orchards, and experimentation with cashew and macadamia nut trees would be worthwhile. The Philippines once produced coffee for export, and there continues to be residual production for the domestic

* Claire Sterling, "Nepal," The Atlantic Monthly, Vol. 238, No. 4 (October 1976), pp. 11ff.

market which could be increased. Coffee orchards benefit from inter-planting between shade trees, a circumstance which would further serve the interests of watershed protection. Although export-oriented crops suffer from price fluctuations, diversification of the export sector is a partial answer.

A possible model for Filipino slope agriculture is to be found in the Silang area of Cavite province, where coconuts form the highest tier, papayas, coffee, and citrus comprise the second layer; and pineapple, vegetables, and sometimes corn or sugarcane form the ground cover. Though the Silang region benefits from volcanic soils which are often among the most fertile in the tropics, a model is still worth considering for other less fertile areas. There are other models of traditional tree culture in Laguna province which also might be examined.

Tree culture also offers a possible solution to the reclamation of slopes covered with cogon grass. Since such reclamation is beyond the financial reach of the average Filipino farmer, this would have to be a government effort; but once the tree farms were established they could be turned over to the small owner-operators recruited from among the landless lowlanders. During the reclamation stage potential future owner-operators could be hired as paid laborers so they would be introduced to the special cultivation techniques associated with tree farming. The financial and agronomic methods utilized by the Malaysian government in introducing and expanding smallholder participation in tree-cropping forms of agriculture could be investigated.

There are, however, some problems related to cultivation of coconut and banana trees in this context. There are currently 2 million hectares of coconuts in the Philippines, with one-quarter of the trees being over 60 years old. Coconut farming usually is done in small units with the average tenancy being 1.2 hectares. Copra (coconut meat) is an export crop, and as was indicated above, the price of such products fluctuates greatly on the world market. Bananas currently are overproduced for the local Philippine markets.

A similar view, advocating tying aid to performance in programs, was put forth by another participant. The absolute decline in

economic welfare of a large portion (probably more than half) of the Philippine population over the past twenty-five years, while the economy has been growing at a favorable although erratic rate, indicates a general need for reforms of various kinds. Agricultural reforms are particularly important because land is the employer of the last resort for about half the population. In view of the already very small size of farm units in most crops, and the continued high rate of population growth, it is critically important that the design of the reforms be such as to maintain the labor absorptive capacity of the family farm unit and not result in encouraging the adoption of inappropriate technology and the commercialization of farm labor, where the marginal value of the unit of farm labor must be equal at least to the wage.

Although there have been a few notable successes in economic development in the post-World War II era, the benefits of growth have largely failed to trickle down to the world's masses. The disappointment of Americans in the slow pace of progress in the Third World is recorded in the declining portion of its GNP allocated to aid programs over the past ten years. In part, the potential benefits of economic growth have been dissipated by population growth which tends to force wages to the subsistence level. Much of the benefit of growth is siphoned off by power elites which manipulate laws and courts to their own advantage, enjoy heavily subsidized credit from domestic and foreign sources, and gain economically through outright corruption. Because of the limited successes in economic development and because the primary beneficiaries seem to be the local elites, it is difficult to maintain the support of the average American taxpayer for aid programs.

It is increasingly recognized in the economic development literature that if the poor are to be helped by development, specific policies must be adopted. The U.S. Congress has appropriately recognized the problem in the Foreign Assistance Act by directing AID to reorient its programs in host nations toward benefiting the "poor majority" (interpreted as the poorest 40 percent of the population).

This mandate to AID, however, does not extend to the State Department, and foreign policy seems to be dominated by quite different considerations, such as maintenance of favorable balances of power and stable governments for the protection of American business interests. Thus, the objectives of the Foreign Assistance Act must now be pursued within the constraints of U.S. diplomacy, and, of course, the constraints set by the host governments. It seems important that the Congress address this inconsistency between its mandate to AID and broader foreign policy considerations.

This inconsistency is particularly relevant to the question of what AID should do about future support of the agrarian reform program in the Philippines. In the past, the U.S. Embassy in Manila has discouraged the AID mission from "getting out in front of the Filipinos" on land reform. It seems clear that the only interest of the present Philippine government in land reform is to maintain sufficient illusion of progress to continue its propaganda. If actual progress is to be resumed the impetus must come from a new source, perhaps from foreign aid tied to tough performance standards. If such a fundamental and visible reform as land transfer is totally dropped from AID support, it could well appear that the dominant characteristic of U.S. policy towards the Philippines is embodied in the status quo and in the military bases for which we are now negotiating a new "rental" agreement.

If Marcos is counting on "trickle-down development" to gain his place as one of the great leaders in Philippine history, it is contrary to most of the evidence of the past twenty-five years. The statement that the interests of the Filipino people are not contrary to those of American business^{*} reflects the confidence that the State Department also has in trickle-down development. The record in the Philippines and much of the Third World shows that most of the Filipino people will never benefit from economic growth until fundamental

^{*} Letter of Assistant Secretary of State Robert McCluskey to Senator Gaylord Nelson, May 17, 1976.

reforms are made. Such reforms can come from a benevolent dictatorship, although the corrupting influence of power makes this unlikely, or they can come from increased participation by the people in the decisionmaking process.

The approach of the Alliance for Progress in tying aid to performance in programs of basic reforms may now have come of age. Such a forthright policy was not well received by some conservative governments, and it may be fair to say that they came into conflict with other policies of the State Department. But the legitimacy of the policy seems to be increasingly recognized and accepted in the Third World. Mahbub Ul Haq has spoken eloquently and forcefully of the necessity for the developing nations to undertake distributional reforms before they can expect aid or trade concessions from the industrial nations. In the hope that the Philippine government can be encouraged to continue the reforms it began, AID should offer support to the agrarian reform program, tied to tough performance standards. If aid on such terms is refused, as well it might be, then at least the record will show that we tried.

One seminar participant saw a definite deterioration of the socioeconomic situation in the rural Philippines if an effective agrarian reform program were not implemented. Given the growth of the insurgent New Peoples' Army, he would resort to making renewal of the U.S. military bases agreement contingent on the Philippine government's promise to carry out land reform.

Citing the figures on population increase he predicted vastly increased competition for the opportunity to rent or work on the existing stock of land. Also citing the relatively low number of tenants who have received title as of late 1977, he suggested frank discussions about improving the land reform program and the use of U.S. negotiations with the Philippine government as a leverage in making the necessary changes in the program.

This participant suggested that any dialogue between the U.S. and the Filipinos on agrarian reform should be stripped of any illusion as to performance versus promises. The U.S. should indicate, nicely but firmly, that it knows the facts. The U.S. should also indicate that it would be willing (as it was not in 1972-1973) to support a

genuine land transfer program, possibly doing so on a reimbursement-financing basis.

In addition, it should be noted that "rent control" laws in the Philippines do not work now and never have worked (the only country where such laws worked was in Taiwan for the years 1949-1952 because they were managed by a bureaucracy dominated by mainland people with no ties to the local landlords, and even there the demands of administration were so great that they switched to outright transfer of ownership in 1952). The Filipinos must stop deluding themselves about land reform--it has not happened. It is desperately needed and will be more so the longer they wait. The U.S. must firmly eschew joining them in such self-delusion.

The New Peoples' Army has twice the strength now that it had when martial law was declared in September 1972. Because of the American economic and political support of the Marcos government, U.S. military bases could be subject to guerilla attacks by the New Peoples' Army units located in their vicinities. This might require a "protective response" leading to a situation wherein the U.S. could become more steadily enmeshed in helping the Marcos government's struggle against the New Peoples' Army. All of the ingredients for the making of a quagmire are clearly present. The risks must be discussed at the highest level, and the option--the only one that would make any sense if the base agreements are to be renewed--of conditioning payments and/or of carrying out the land reform must be carefully explored. It seems to make no sense at all to say that this is strictly "military" aid for "military" bases and that economic aid or socioeconomic changes play no role.

At the close of the seminar, one member pointed out that underlying the entire problem of choosing among alternatives is this fundamental question: given the nature of the present Philippine government, and the key role it has assigned to agrarian reform, can you justify legitimizing the absolutely powerful in the name of assisting the relatively powerless? The conclusion of the seminar was that you can. Apparently the United States Government also believes this. Otherwise, AID would no longer be in the Philippines.

Appendix A

The Rand Corporation
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SEMINAR ON AGRARIAN REFORM IN THE PHILIPPINES

December 16-17, 1977

ATTENDEES

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SEMINAR ON AGRARIAN REFORM IN THE PHILIPPINES

December 16-17, 1977

AGENDA

December 16, 1977

- 9:30 Introduction
Dr. John Larkin
- 9:45 Overview of Current Land Transfer Program
Mr. Keith Sherper
- 10:30 Agrarian Reform and Philippine Rural Society
- 12:30 LUNCH
- 1:30 Agrarian Reform and National Institutions
- 3:30 Coffee Break
- 4:00 Continued Discussion on Agrarian Reform and
National Institutions
- 5:30 ADJOURN
- 6:00 - 7:30 Social Gathering at the Cosmos Club for
Participants Only

December 17, 1977

- 9:30 - 12:30 Agrarian Reform, The Philippine Government and
External Assistance: Future Courses of Action

Appendix B

DATA FROM THE DEPARTMENT OF AGRARIAN REFORM'S SEPTEMBER 30, 1977
 "MONTHLY ACCOMPLISHMENT REPORT"

	<u>TENANTS</u>	<u>PARCELS</u>	<u>HECTARES</u>	<u>COST</u> (M11)	<u>NO. OF</u> <u>LANDLORDS</u>	<u>% RELATIVE TO</u> <u>TOTAL NO.</u> <u>OF TENANTS:</u>
(i) Total number of rice & corn tenants	914,000*	-	1,700,000*	-	-	-
(ii) Program scope	520,000	728,000	1,000,000	-	-	57%
(iii) CLT's "issued" (i.e., printed by the computer)	247,862	345,875**	429,513	-	-	27%
(iv) CLT's "distributed" to tenants (est.)	130,000***	183,000***	-	-	-	14%
(v) Valuation received by Center for OLT, DAR	80,865	-	121,214	-	3,882	9%
(vi) Valuation transmitted to the Land Bank	68,072	-	102,863	(est.) ₱714	3,139	7%
(vii) Compensation <u>paid</u> by Land Bank	41,614	-	78,650	(est.) ₱555	2,113	4.6%

* It is generally believed that these figures are low: Actual tenancy could be 50% higher.

** One CLT per parcel is the procedure.

*** Based on past findings, these are probably too high, perhaps 25% above actual (e.g., barrio captains holding CLT's while "legal claims" are contested).

Appendix C

THE STRUCTURE OF THE AGRARIAN REFORM PROGRAMBACKGROUND

The present Philippine land reform program is the result of Presidential Decrees Nos. 2 and 27, dated September 22 and October 21, 1972, respectively, making land reform the first major government initiative following the declaration of martial law on September 21, 1972. PD 2 declared the entire country subject to land reform, and PD 27 provided the policy framework for the program. Referred to by President Marcos as the "Cornerstone of the New Society", PD 27 itself is a short document which declares all tenants on rice and corn lands to be the owners of the land they are tilling. Those tenants who cannot be converted to owners will be converted to leaseholders under a written contract system.

A forerunner of PD 27 was Republic Act No. 3844 of 1963, which has been amended a number of times. Its intention was to eliminate share tenancy and to have all leaseholders benefit from new rental contracts whose ceiling was to be limited by law. In effect, the 1963 Agricultural Land Reform Code did little to change landownership patterns, and only one-quarter of the tenants benefited from tenure security prior to martial law. The last major revision to RA 3844 was RA 6389 of September 10, 1971. This revision created the Philippine Land Authority (predecessor of the Department of Agrarian Reform) to implement the land reform program.

The Philippine government's agrarian reform program contributes to the broad goal of upgrading the quality of life for lower income rural groups by: (1) improving the tenurial status of agricultural tenants; and (2) increasing the productivity of tenants and new owners through the provision of effective supporting services. The program concentrates on: (1) the land tenure improvement program, with emphasis on four major rice and corn provinces (Iloilo, Leyte, Camarines Sur, and Nueva Ecija); (2) pilot testing of farmer associations to

increase their effectiveness; and (3) agrarian reform research in support of the program.

PD 27 provides the basic legislation by which tenants are "to become full owners after payment of 15 equal amortizations on land valued at 2-1/2 times the average harvest of three normal crop years immediately preceding the promulgation of the decree, at 6% annual interest." Crop value is computed on the basis of government support prices. The Philippine government estimated that, eventually, some 1.4 million hectares of rice and corn land would be subject to the land transfer, and that the process would benefit some one million peasants. Since the current average rice production unit averages 1.8 hectares, the bulk of land tenure reform is one of confirming the security of access to the land. In essence, this involves a shift in ownership, rather than management, of the land.

Ostensibly, PD 27 would benefit those who had benefited least in previous land reform programs. However, the Decree also permitted landowners to retain 7 hectares of land "if such landowner is cultivating such area or will now cultivate it." Thus, it is impossible to grant every tenant the land he is working while permitting the landlord to retain a portion of his land. Tenants eligible to benefit from the transfer of land ownership receive a Certificate of Land Transfer (CLT) which gives them the right to use the land. After tenants join a farmer barrio association and fully pay for the land, they receive a final title making them full-owner cultivators. Land transfer to individual tenants is limited to a maximum of 3 hectares of irrigated or 5 hectares of unirrigated rice and/or corn land. Since 1972, the efforts of Operation Land Transfer (OLT), as it is called, have proceeded in the following stages: first, estates of more than 100 hectares were addressed, followed by holdings of 50 to 100 and then 24 to 50. In November 1974, work began on farms of 7 to 24 hectares. The statistics officially used to chronicle progress of OLT are the number of Certificates of Land Transfer which have been issued to new amortizing owners. Each stage in the land transfer process has involved a greater number of landowners. In the 7-hectare-and-less group, the Department of Agrarian Reform estimated in 1974 that there were 183,000 owners, or 83% of all owners of tenanted rice and corn land.

THE MECHANICS OF AGRARIAN REFORM

A team approach has been adopted in carrying out the transfer process. The principal administrative agent for land transfer is the Department of Agrarian Reform (DAR). The DAR, in turn, relies on five other agencies to assist in carrying out land transfer operations: the Bureau of Lands is responsible for land mapping and measuring activities; the National Computer Center undertakes the mechanical issuance of CLTs, the computing of amortization schedules, and handles tenant-landlord data submitted from the DAR field teams; the Land Bank issues compensation payments to landowners, and collects amortization payments from the reform beneficiaries; the Land Registration Commission of the Department of Justice is concerned with the legal aspects of land titling; and the Bureau of Cooperatives Development is responsible for assisting reform beneficiaries in creating and administering the farmer associations, Samahang Nayon to which they must all belong.

Once an area is declared by the government to be part of the land reform, the mechanics of the process are as follows: (1) the peasants identify land they believe is subject to transfer; (2) landowners make a declaration concerning the value of the land in question; (3) the barrio committee in which the land is located assesses its value; (4) CLTs are issued; and (5) the farmers begin making their amortizing payments to the Land Bank. Since the CLT is essentially a provisional document, after the 15-year amortization period the farmer is given title to the land. The farmer, in turn, can either will it to an heir or transfer it to the government. The land cannot be further subdivided after it has been granted to a tenant. Landowners may receive compensation either through direct tenant payment to the landowner or through the Land Bank. The Bank will pay the owner in the following manner: owners with more than 24 hectares may receive 10% in cash and 90% in 25-year Land Bank bonds at tax-free 6% interest, payable semi-annually. Owners with less than 24 hectares may receive 20% in cash and 80% in Land Bank bonds or they may receive an additional 10% in cash and 70% in tax-free bonds if the monies are used for education, insurance or housing. Bonds may be used as payment for land, payment for shares of stock in government-owned or controlled corporations, security for loans

from government financial institutions and as surety, bail, or performance bonds. Most landowners compensated to date have opted for direct compensation through the Land Bank. The government is encouraging and assisting landowners to invest their compensation payments in agro-industrial development projects. In cases where landowners are eligible to retain ownership of their tenanted rice and corn land, the rights of the tenant are to be protected by a written leasehold contract. Contracts help to ensure that the tenant receives a fair share of the land's production--usually 75% of the product--in contrast to the previous arrangement of only 50% in many cases. In addition, the written leasehold contract confirms the tenant's cultivation rights, and thereby minimizes the risk of eviction. The Philippine government has also taken the initiative to develop farmer organizations which are designed to assist farmers in obtaining support services and in improving utilization of their resources. The principal organization is the Samahang Nayon (farmer barrio association), which is a pre-cooperative association to provide farmers with basic credit, input supply, marketing, and extension services. They are also supposed to train their members and instill in them the discipline necessary for the formation of successful cooperatives. Samahang Nayon members are to participate in training programs, elect their officers, and contribute to three funds: (1) a Samahang Nayon membership fee or general fund; (2) a payment, consisting of one 50-kilo bag of rice per crop, to the barrio guarantee fund, which guarantees amortization payments; and, (3) a forced savings account in a rural bank, consisting of three percent of the amount of each loan made to a farmer.

NATURE AND EXTENT OF AID COMMITMENTS

Although AID and its predecessor agencies had kept in close contact with the GOP land reform program, in 1970 new initiatives were begun which directly tied AID to support of the Philippine government's plans. In February 1970, an AID report noted certain deficiencies in the land reform program. Acknowledging such deficiencies, the Philippine government requested AID assistance in development planning to overcome program shortcomings. AID developed a project which called for the

initiation of a pilot effort in a single province to accelerate the creation of leasehold agreements while strengthening production and augmenting credit resources. In the June 1970 Country Field Submission for FY 1972, the Mission acknowledged:

"We recognize that there are many roadblocks laying in the way of a successful USAID involvement in land reform, not the least of which is a need for massive peso inputs to rural credit institutions to permit them to meet the credit requirements of an accelerated land reform effort. Other problems include the fact that the present land reform legislation represents a political compromise...with the result that there are loopholes to many of the provisions of the law. Also, the program lacks centralized administration and thus depends heavily upon supporting agencies whose primary interests are something other than land reform."

AID was aware in 1970 that for land reform to succeed it would need the strong backing of President Marcos, and a land reform chief who would benefit from the President's full support. The pilot project called for \$200,000 in AID equipment support plus \$300,000 in program administration; PL 480 sales would provide 20 million pesos for credit use in the pilot project, and the Philippine government budget would provide an additional 3 million pesos per year.

To a significant degree, AID inputs were technical in nature, and were part of a project thrust that has continued to the present date. Funds were to be employed to determine: (1) feasibility of aerial photography for land classification; (2) studies of the economic viability of certain farm sizes; and (3) landlord compensation procedures. AID became only peripherally involved in (and has subsequently tried to steer clear of) political aspects when it sought to explore the full range of community involvement required for a successful land reform, and consequent favorable inputs that could be provided by local governments, universities and schools, private entities and the Church.

AID's obligation for land reform (Project 492-11-121-257) was initiated in the FY 74 Congressional Presentation (CP) and the date of the final obligation was to be FY 1977. Total cost of the project was estimated at \$950,000 and revised upward in the FY 75 CP to \$1,411,000; in the FY 76 CP to \$1,889,000, and in the FY 77 CP to \$2,016,000. The

project is now scheduled to terminate in FY 78, with the CP requesting total funds of \$2,382,000.

The FY 74 CP noted that the purpose of the new project was to assist the Philippine government in transferring ownership of farmland from landlord to tenant and provide a more equitable distribution of income. AID funds would be "directed at specific technical assistance requirements, commodity needs and participant training." Specifically, U.S. technical advisers were to work in improving the operational efficiency of the pilot project in Nueva Ecija province, with emphasis on strengthening the rural credit system before "considering its application in a nationwide program."

In the FY 75 CP, the Mission narrative noted that agrarian reform (the project title had been changed from "land reform" for both political and economic reasons) had become a priority element of the Philippine development plan. It claimed that "about one million rice and corn farmers will own land which they previously rented," when the program is fully implemented. However, this evaluation was in conflict with reality since there were only one million rice and corn tenant farmers in 1972 and, due to the retention limit by landlords of 7 hectares of tenanted land, the distribution of all tenanted land was an impossibility.

The FY 75 CP also noted that some 150,000 CLTs had been distributed to small farmers, covering approximately 270,000 hectares. It was reiterated that AID's primary purpose was to assist in the development of administrative and technical capacities to implement a nationwide program of land transfer, development of support systems through the use of cooperatives, and agrarian reform research.

In the FY 76 CP, the project target was more adequately defined as a course of action which would efficiently transfer land ownership to some 400,000 tenants (instead of one million tenants) farming holdings greater than 7 hectares, and would convert 580,000 tenants on landlord holdings less than 7 hectares to leasehold status by December 1977. Secondary aspects were the continued development of farm organizations to improve the income and welfare of land reform beneficiaries. As of January 1975 the government had issued CLTs for 190,000 tenant farmers cultivating 340,000 hectares of rice and corn land. In effect,

performance in 1974 was not that substantial, as only 40,000 tenant farmers had benefitted from land reform since the previous year's CP, and only 70,000 hectares had been distributed that year. Future CP's reiterated the theme that AID was to provide technical assistance to upgrade the technical capabilities of the Department of Land Reform. Program support was limited to four key agricultural provinces in Luzon, Panay and Leyte. As of December 1976, the Philippine government had issued CLTs for 231,000 tenant farmers cultivating 401,000 hectares of land. Also, during the same period 1544 landlords had received compensation for 59,400 hectares transferred. Program progress data published by the Philippine government as of September 1977 is shown in Appendix B.

THE AGRARIAN REFORM IN PRACTICE: AREAS OF CONCERN

The government has estimated that about 520,000 of the 914,000 potential beneficiaries of the land reform could become owners of land through the CLT process; and that the balance, some 400,000 beneficiaries, would come under a written leasehold agreement. To date, approximately 250,000 tenants have been officially issued CLTs but, for a variety of reasons, many of these have not reached the intended beneficiaries. Some of the reasons given for the non-delivery of CLTs include: pending legal action by the landowner against the reform process, the failure of a beneficiary to join a Samahang Nayon, deficiencies in the cadastral data which has been used to measure the land, and simple bureaucratic slowness. Partly as a result of these types of problems, many of the tenants do not feel that they have become landowners and, thus, do not act as landowners.

The lack of government-supplied production credit and an increasing debt burden are problem areas confronting the newly-created landowners. The Masagana-99 program of farm credit, which began in 1973, has distributed some 3.2 billion pesos of credit to rice farmers. It has, however, come under increasing criticism because of what is perceived to be high default rates. While Agriculture Secretary Tanco believes that the reported default rates are exaggerated and that an actual repayment rate of 82 percent is being attained, he has pointed

out that the decreasing number of participants in the credit program poses a greater problem. Whereas in the early stages of Masagna 99 credit was being distributed to as many as 800,000 farmers, loan recipients dropped to some 220,000 during the last planting season. At the present time there is an on-going effort both to collect data which might explain why this has occurred, and to make more credit available to the lower strata of peasants.

Associated with the lack of credit, and particularly on irrigated lands, is the increasing indebtedness of land reform beneficiaries. In many cases, the new landowners are making amortization payments lower than their previous tenancy payments but, on the other hand, they no longer receive some of the credit and inputs which were traditionally provided by the landlord. Finally, farmers on irrigated land are also faced with the cost of the irrigation fee. Because of these added costs, AID is assisting in a study of the cash-flow problem faced by farmers to determine whether they are being made worse off as a result of these developments.

Payment for the land by the reform beneficiaries is the crucial question in the success of the reform's goals to date. The average cost of land transferred to the peasants is about 7000 pesos per hectare; additionally, the peasant is responsible for interest payments, taxes, and other costs, as detailed above. This means that a tenant receiving the average-size rice unit of 1.8 hectares pays more than 1300 pesos annually for amortization and all other costs. If these calculations are correct, it makes the increasing number of defaults on amortization payments more understandable. In addition, the default rate is abetted by a deficient collection system on the part of the government, and the weight of other debts on the peasants, such as to local moneylenders who provide credit for consumption purposes.

The progress of the land reform is also being hampered by inadequate and inaccurate land records. Less than 50 percent of the agricultural lands have been cadastrally surveyed, and the data available tends to be inaccurate because of poor geodetic control, exacerbated by confusion as to who keeps the land records. For example, while the DAR issues the land reform documents, the Bureau of Lands, a

separate department, is responsible for issuing documents for squatter-occupied lands in the non-forested public domain. Improvement is badly needed in the records system since the entire government development and planning process hinges to some extent on land data such as who owns it, what are the mortgages on it, the liens against it, etc. The government is currently attempting to design a uniform land titling and registration system because of its importance not only to the land reform but also to other programs such as reforestation, watershed management, land settlement, and efficient taxation.

Another area which has caused some concern are the results of General Order 47 (GO-47) of 1974, the corporate farming law. GO-47 requires that all firms employing more than 500 people grow their own rice to supply the food needs of their employees. This production is required to be additive to current levels of production. This order has generally been carried out in one of two ways, either through investing in non-rice producing areas or by investing in increasing the productivity of areas already under rice. A large number of the corporations affected chose the first alternative, which involved a relatively large amount of capital investment and infrastructure development. Those pursuing the second alternative undertook investments in the form of irrigation projects in order to produce a second rice crop in areas of current production. In this second case, the corporations have put farmers under management contracts, and studies by the Agrarian Reform Institute have shown that these contracts have tended to result in a loss of management control on the part of the farmers. Rather than being under the control of a landlord, these farmers are now under the effective control of a representative of the corporation. Although GO-47 has resulted in some increase in rice production, its significance is lessened by the fact that the Philippines is in its third year of rice self-sufficiency, and this additive production has only increased a rice surplus already in existence.

The attainment of a rice surplus has encouraged the government in its desire to see a reduction in the amount of land under rice cultivation. The Department of Agriculture estimates that there are some 1.7 million hectares of irrigable rice land in the Philippines, of which

approximately 1 million more hectares are currently under some form of irrigation. In addition to the irrigable land, there are about 1 million more hectares of marginal rice land. Typically, the poorest rice farmers are found on this land, eking out what can only be described as a sub-subsistence living on land which is mostly located on hillsides. Since the Philippine government would like to see less land in rice as a national policy, and in an effort to address the problems of the poorest strata of farmers, it is currently attempting to convert the marginal rice farmers to the production of feed grains and other crops. These new crops would be grown either with or without rice rotation, depending on the fitness of the land for rice production. This program is to be pursued at the same time that the remaining 700,000 hectares of irrigable land are being brought under irrigation.

A further aspect of the government's policy toward marginal rice lands is the group farming or cooperative approach announced by President Marcos in an October 1977 speech. While there has been no indication that the size of the marginal holdings will be changed, such as through recombination, the group or cooperative approach will be an attempt at combining the resources needed for production on the marginal farms.

Such a cooperative approach is also being pursued on the irrigable lands through the creation of small-irrigator service associations which operate as cooperatives, purchasing their own pumps and engines, and handling their own water maintenance and use. Some 400 of these irrigation societies have been created throughout the country, and their membership typically ranges from between 20 to 40 farmers. AID is supporting this effort and is reviewing with the government the feasibility of converting these small cooperatives into subunits of the Samahang Nayan. In this way it would be possible for the supply, production, and marketing systems at the local level to be put more under the control of the farmers themselves.

While the government is encouraging marginal rice farmers to switch into other crops it is, on the other hand, encouraging the conversion of sugar lands, which are exempt from the reform, into rice. When PD-27 was announced, there was some movement of land out of rice and into

sugar in order to avoid the land reform. The world sugar market, however, has dropped since that time, and the government has now announced that any sugar land converted to rice would not be subject to the reform. There is a problem, though, associated with such a conversion. In the first place, a rice surplus is already being produced, and Filipino rice is not of a very marketable quality, although some sales have been made to Indonesia and Korea. Secondly, the lands which were converted, and are likely to be converted back again, tend to be marginal for sugar production, and may also be so for rice production. Thus, this movement is not likely to have a major impact on rice production in terms of either income or productivity. Typical of this activity is what has occurred on Negros, where the lower slope lands, which are unsuitable for good irrigation, have gone through the conversion phases from one crop to another.