

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Anthony M. Schwarzwald, Director
USAID/Philippines
THRU : Mr. Leon E. Vaughn, Controller
FROM : Fred C. Shaver, AAG/EA *C.F.S.*

DATE: February 4, 1980

SUBJECT: Memorandum Survey Report No. 2-492-80-6
Agrarian Reform (Philippines)
Project No. 492-0261

Our review of subject US\$2.4 million grant disclosed no areas warranting your action.

The Government of the Philippines (GOP), acting through the Ministry of Agrarian Reform (MAR) received the grant to,

"Improve effectiveness of the land reform program; strengthen, test and evaluate the most effective small farmer organizations and systems to provide necessary supporting services to land reform beneficiaries, and strengthen agrarian reform research studies for agrarian reform policy and operations."

The grant, in effect, was to advise and assist the MAR in helping review, recommend and install systems and procedures which would help to accomplish stated goals.

Grant proceeds were used to finance U.S. personnel salaries, participant training such as Land Titling & Registration, and Management Information, and commodities. The last category consisted principally of jeeps, surveying equipment, and standard office accessories and machines.

Our review identified no new aspects of the project that were not already known to be areas requiring extra attention, caused by:

- Difficulty in determining land ownership,
- Poor land title records,
- Inadequate land survey data.

Their combined impact slowed down efforts to bring about the desired reform within a measurable timeframe. This is what the grant strove to improve, and - despite the cited problems - to some extent succeeded in accomplishing.

For instance, the MAR quarterly accomplishment report on "Operation Land Transfer", as of September 30, 1979, which USAID/Philippines accepts as accurate, disclosed the following achievements:

<u>Item</u>	<u>Target</u>	<u>Actual</u>	<u>%</u>
Number of Certificate of Land Transfer (CLTs) Issued/Printed :			
Number of Tenants Involved	396,082	308,086	78
Number of Certificates	556,114	427,149	77
Hectarage Involved	730,734	525,590	72
Number of CLTs Distributed to Tenants	427,149	251,665	59

Although these results fall short of the respective goals, they demonstrate, nevertheless, that some progress has been made.

A stoppage of further fund authorizations, beyond FY 1978, with a residual deobligation, in June 1978, effectively terminated AID's 2 percent participation in the project. Existing resources in the pipeline, according to project personnel, are earmarked to cover phase-out activities.

Recent cable traffic (STATE 290761, November 8, 1979) gave evidence of continuing interest on the part of the House Committee on Foreign Affairs' Subcommittee on Asian and Pacific Affairs in Agrarian Reform in the Philippines. It referred to the 1977 Rand Corporation Study conclusions that "despite its limited objectives the Philippine Land Reform Program was failing."

STATE 290761 quotes directly from pages XIII and XIV of the Subcommittee Report by saying:

"Recent accounts indicate that the program is still not providing Philippine farmers with the security they need in the event of crops failure and, in general, that the same problems exist today which were noted by Rand in 1977. The Land Reform Program is designed to promote both equity and productivity. However, studies by agricultural economists in the Philippines Journal of Agriculture Economics in 1977 indicate that labor is being displaced and a high rate of unemployment is produced in an economy already burdened with severe unemployment. Recent indicators point to the same situation as that noted in 1977. The net result of the Agrarian Reform Program, which receives

considerable AID support, is thus that in absolute numbers it actually increases the gap between the rich and the poor, and actually increases the number of the 'Poorest of the Poor'".

As a result AID was given 120 days to report on the effectiveness of the Philippine Agrarian Reform Program, the impact and utility of any AID future involvement in the program. USAID/Philippines' inputs were requested in fulfillment of this mandate.

On December 18, 1979 AID/Washington's Philippine Desk sent a copy of the consolidated response to Congress, to Manila, raising the possibility in its transmittal note that Congressman Wolff's delegation may want to discuss the subject during its visit to the Philippines, in mid-January 1980. To the best of our knowledge the subject was not raised, suggesting that the five-page response was adequate and answered all outstanding concerns. (Mr. Wolff is the Chairman of the Subcommittee which initiated the request).

Four pages of the response, entitled "Effectiveness of the Philippine Land Reform Program" dealt with the history and background of the program, tracing it to its 1972 origin, via Presidential Decrees (2 and 27), and putting it into perspective. Because of its comprehensiveness and timeliness we are adding the response to this Memorandum as Exhibit A.

Two specific sub-sections, "AID's Impact on the Land Reform Program" and "Utility of Future AID Involvement", are further summarized below:

AID's Impact on the Land Reform Program

AID's support for the Philippine Land Reform Program has been limited, totalling less than two percent of the total cost of the program (\$2,382,000), with the balance of the cost being assumed by the Philippine Government.

The AID contribution has been utilized in the design of the implementation procedures, the training of implementors, the creation of the capacity to identify and respond to implementation problems, the development of techniques for measuring affected lands in the absence of a cadaster (an official register of the quantity, value, and ownership of real estate), and the strengthening of village-level farmer institutions of land reform beneficiaries.

At no time, however, was there any AID involvement in the policy aspects of land reform.

AID support was not only limited essentially to specific technical assistance requirements, some commodity needs, and participant training, but was also geographically limited, by being restricted to four key agricultural provinces on the islands of Luzon, Panay, and Leyte.

Utility of Future AID Involvement

AID's involvement in the program through FY 1978 resulted in the refinement and streamlining of technical and administrative methods and procedures used by the Philippine Government in implementing the reform.

The Agency's assistance also supported the training of Filipino technicians in these methods and procedures, establishing a training implementing cadre.

Should the Government of the Philippines request renewed AID assistance, the greatest utility would be derived from a resumption of support in the technical, administrative and training areas.

An important area of involvement, for example, would lie in helping the government assist reform beneficiaries improve their capacity to manage their resources profitably through the provision of needed services to small farmers. Such support would assist in increasing small farmer income, output, and employment opportunities. AID activities could include new efforts in strengthening both the agricultural cooperative and credit systems, and the land mapping, titling and registration system.

As before, however, AID would not contemplate any involvement in the policy areas of the land reform program.

Wrap-up

Critics of the land reform program in the Philippines have often overlooked the modest role played by AID, and its focus on selective implementation aspects, rather than policy matters.

The implementation itself, largely (98 percent) a government of the Philippines funded effort, has been facing a number of problems that are not program-specific, such as the high rate of inflation, and the cost-price squeeze in which beneficiaries find themselves in when called upon to make the required amortization payments to the Land Bank. A further unforeseen detriment is the drying up of former landlord-centered credit sources. Yet another factor is needed to replace the former landlord-based knowledge and management resources with a replication by the new owners. This process, while ultimately implementable, is time-consuming and cannot realistically be expected to occur all at once. Therefore, project results are unlikely to be spectacular

cc: Auditor General (AG)

Executive Management Staff (AG/EMS) ✓

Policy, Plans & Programs (AG/PPP)

Auditor General, Inspection and Investigation Staff (AG/IIS/
Manila

Effectiveness of the Philippine Land Reform Program

The present Philippine land reform program is the result of Presidential Decrees (PD) Nos. 2 and 27, dated, respectively, September 22 and October 21, 1972. PD 2 declared the entire country to be subject to land reform, and PD 27 declared all tenants on rice and corn lands to be the owners of the land they tilled (Operation Land Transfer - OLT). Those tenants not converted to ownership, however, would become leaseholders under a written contract system (Leasehold Operations - LHO). The Government of the Philippines estimates that, nationwide, some 1,000,000 corn and rice tenants are the potential beneficiaries of the land reform. Of these, it is estimated that about 400,000 tenants are targeted to become owners, while the remainder would come under written leasehold agreements.

The basic rationale behind Operation Land Transfer is based on the institution of private ownership of land. Its objective is: to secure tenure for farmers who cultivate the land; to increase their net farm incomes by reducing and fixing rents and providing them with greater incentives to increase productivity; to increase their motivation to make permanent improvements on the land and to use it more productively; and to raise the status of peasants and small farmers by recognizing their importance to the Philippine economy and society.

To date, the land reform program has not met all of the very ambitious objectives originally anticipated. In spite of this, more has been accomplished in land tenure reform by this program than by all similar programs of previous administrations. In addition, it should be recognized that Philippine Governments, as many others, have always and will continue to announce performance targets that are ambitious and ask the public to accept statements of intention as signs of accomplishment.

As mentioned above, the land reform was expected to contribute to upgrading the quality of life of lower-income rural groups by both improving the tenure status of tenants and increasing the productivity of tenants and new owners. Insofar as the latter objective is concerned, rice production and yields have been rising steadily since 1972. Over the past three years, yields have increased an extraordinary 24 percent, leading to sustained rice self-sufficiency during this period. Although other factors, such as new rice varieties and the increased use of irrigation, fertilizers, and herbicides, are also responsible for the dramatic increase in rice productivity, the land reform program has contributed to this success. The land reform has made it economically advantageous for both new owners and leaseholders to adopt more productive methods of production, given that payments for the land worked are now generally based on a fixed percentage of the yield.

At the same time, however, Philippine farmers have not had the security they need in the event of crop failure. In recognition of this shortcoming, the Philippine Government initiated a crop insurance program in 1978 specifically aimed at covering crop losses in case of unforeseen circumstances. Such a move is significant in view of the fact that weather conditions over the last several years have been unusually favorable to agriculture, and losses have been small. It is only a matter of time, however, before inclement weather adversely affects the rural sector, and the insurance program should help in reducing the economic effects of a weather disaster on the farmers.

While agricultural productivity has increased and rice selfsufficiency has been reached, the achievements in the area of land tenure have been less far reaching. There are several reasons for this slower-than-anticipated performance; including the fact that the process of identifying lands subject to the reform has been slowed due to inadequate land records and insufficient or non-existent cadastral and survey data, a shortcoming common in the Third World. Unfortunately, the lack of adequate land records and survey data was not initially recognized by the Philippine Government as a critical problem area. The administrative and technical problems that such a situation engenders, furthermore, only became evident in late 1974, and led to a slowing in the issuance of Certificates of Land Transfer (CLT) as the magnitude of the problem came to be understood. Documentation problems were also exacerbated by the early, rapid identification of eligible tenants following PDs 2 and 27. The mass of information passed to Manila in a short period of time overwhelmed the Ministry of Agrarian Reform's (MAR) capacity to process and utilize it, leading the MAR to respond in many instances on an ad hoc basis.

The Philippine land reform, furthermore, is not expropriative but, rather, is compensatory in nature. Along with the provisions for compensation, there are provisions for landowners to have recourse to the judicial system in instances of disagreement over applicability of the reform, land valuation, and other disputes related to the implementation of the law. Many of the larger landowners have availed themselves of this provision, necessarily slowing the full implementation of the reform while their cases are being heard. This situation arose essentially because PD 27 was not sufficiently detailed to provide the clear guidelines needed to quickly and completely effect the complex land ownership transfer process, while adhering to due process and a commitment to landlord compensation.

In addition, small landowners, who typically hold 15 hectares or less, generally opposed the implementation of the reform on the basis of its burdensome effect on them. This burden arose from the fact that, whereas landownership represented social and political status to the large landowner, to the small landowner it represents economic and retirement security. As a result of this opposition, many of the tenants of small landowners have come under the provisions of leasehold contracts, in which the landowners are paid a fixed percentage of the land's production as rental. In this way,

the economic security aspects which land represents to the small landowner have been, in some measure, preserved.

Finally, the slowed pace of implementation can also be traced to the division of responsibility for various aspects of the land tenure reform to different government agencies. Thus, while under the overall policy direction of the Ministry of Agrarian Reform, land identification and sketching is the responsibility of the Bureau of Lands; land valuation, compensation, and collection of amortization payments rests with the Land Bank; the promotion of farmer organizations is done by the Bureau of Cooperatives Development; and land titling and registration is under the purview of the Land Registration Commission. In addition to being difficult to coordinate, the efficiency of this arrangement has apparently also been reduced by MAR's attitude that responsibility for the work (if not the authority and ultimate responsibility) in OLT phases subsequent to the identification of beneficiaries and landowners rests with these agencies. Thus, the MAR's position on this matter does not promote the spirit or intent of PD 2, nor does it hasten the rate of land transfer.

Nevertheless, approximately 35% of the some 400,000 tenants eligible to receive land titles have actually received them. These former tenants are now making amortization payments to the Land Bank. Certificates of Land Transfer for another 35% of the total eligible have been issued, but not yet delivered to the beneficiaries because the process of determining land valuation has yet to be completed. In many cases, however, these tenants are no longer obligated to pay rent to the landowners but, rather, make payments to the Land Bank.

Beneficiaries of the reform program, however, are facing problems which were unforeseen during the initial stages of the reform, and which will require corrective action on the part of the Philippine Government. In the first place, amortization payments by Operation Land Transfer beneficiaries to the Land Bank have dropped off over the last two years, primarily because these small producers are being caught in a classic cost-price squeeze. While the economic survival of OLT beneficiaries could be seriously threatened by a government policy of strict enforcement, it is unlikely that amortization provisions will be enforced without some modification, if only for political reasons. Secondly, the indebtedness of OLT beneficiaries to various formal sources of credit has risen sharply since 1978. This situation has been exacerbated by the recent rapid increases in the cost of living in the Philippines. There has also been an increasing dependence on informal sources of consumption credit, credit which was previously provided by the landowners. Finally, although the situation has improved, there are still gaps in the acquisition of knowledge and the formation of responsive farmer groupings by reform beneficiaries to efficiently replace the management skills and various services formerly provided by the landowners. These problems have the potential for compromising the benefits derived to date from the reform. Their existence is understood by the government, but the nature and effectiveness of corrective actions to be taken cannot be ascertained at this early date.

The implementation of the land reform, though, has resulted in an unforeseen spinoff and in important benefits. Recent data indicates that the cost of tenancy on those lands which have not yet been brought into the reform sector has decreased. In general, the cost of tenancy has been reduced from about 50% of gross production to a level slightly above the 25% called for in the agrarian reform law. Thus, while the rate of actual implementation of the land reform is lower than what the Government of the Philippines had foreseen as attainable, the practical results appear to be a general decrease in the cost of access to land for new owners/leaseholders/tenants.

There are also other benefits to the small farmers which, notwithstanding the slowed rate of CLT issuance, can be ascribed to the land reform program. These benefits include: an improvement in the operation of small-farmer credit and cooperatives systems; a significant reduction, and in some cases elimination, of the political, economic, and social power of the large landowners in the rural areas; the successful introduction of the basic elements for the efficient use and management of the land by small farmers; and, a transition from a dependence on large landowner operations to that of small farmers without a loss of production.

The data on the effects of the land reform on rural labor it must be noted, cannot be easily disaggregated from that of other developments also affecting the rural sector. On the whole, however, there have been changes in rural labor patterns since 1972. With the widespread adaptation of modern rice technology and expanded irrigation, many small farmers are now harvesting two, and even three, crops annually. In the past, the typical pattern was for farmers to obtain a single, rainfed, rice harvest. As a consequence of the increased production represented by additional harvests, the peak demands for labor at the planting and harvesting stages have also been substantially increased, even resulting in local labor shortages in some areas. Given this evidence, it is difficult to reconcile the 1977 study cited by the Subcommittee with the labor shortage patterns described above. One possible explanation for the current situation might well be that there is a labor surplus during the periods outside of planting and harvesting, while there are localized labor shortages during these periods.

In sum, the Philippine land reform program would appear to be a well-intentioned program, but one which has suffered from implementation problems to date. The reform has not yet achieved the tenure objectives originally set forth, but much of this can be ascribed to overly-optimistic goals, lack of sufficient baseline land tenure data, and the reliance on a compensatory, rather than expropriatory, system which has recourse to the courts. At the same time, the Government of the Philippines would appear to be taking steps to alleviate some of the problems which have arisen during the reform's implementation. Programs are now in being to increase the availability of rural credit to small farmers and to insure crops against catastrophic losses. Similarly, the issuing of Certificates of

Land Transfer is continuing apace, with efforts being made to speed up their processing. Still, further efforts will likely be necessary to increase the availability of services to the reform beneficiaries who, by and large, have been forced onto the market to obtain needed supplies and production credit.

AID's Impact on the Land Reform Program

AID's support for the Philippine land reform program has been limited, totalling less than two percent of the total cost of the program. In support of the reform's implementation, AID requested of Congress a total of \$2,382,000 between FY 74 and FY 78, when AID support for the land reform program ended. The balance of the cost has been assumed by the Philippine Government. AID's assistance has been utilized in the design of the implementation procedures, the training of implementors, the creation of the capacity to identify and respond to implementation problems, the development of techniques for measuring affected lands in the absence of a cadaster, and the strengthening of village-level farmer institutions of land reform beneficiaries. At no time, however, was there any AID involvement in the policy aspects of the land reform.

AID support was not only limited essentially to specific technical assistance requirements, some commodity needs, and participant training, but was also geographically limited. AID program support was restricted to four key agricultural provinces on the islands of Luzon, Panay, and Leyte.

It would be unrealistic to expect that the impact of a small, limited effort financed by the AID program would completely turn around the land tenure reform program in the Philippines. On the other hand, objective evaluations of AID's limited involvement showed that, while small, it had a significant impact on improving the technical implementation capabilities of the reform.

Utility of Future AID Involvement

AID's involvement in the program through FY 78 resulted in the refinement and streamlining of technical and administrative methods and procedures used by the Philippine Government in implementing the reform. AID assistance also supported the training of Filipino technicians in these methods and procedures, establishing a trained implementing cadre. Should the Government of the Philippines request renewed AID assistance, the greatest utility would be derived from a resumption of support in the technical, administrative, and training areas. An important area of involvement for example, would lie in helping the government assist reform beneficiaries improve their capacity to manage their resources profitably through the provision of needed services to small farmers. Such support would assist in increasing small farmer income, output, and employment opportunities. AID activities could include new efforts in strengthening both the agricultural cooperative and credit system, and the land mapping, titling, and registration system. As before, however, we would not contemplate any involvement in the policy areas of the land reform program.

EXHIBIT B

Agrarian Reform (Philippines)
Project No. 492-0261
Financial Highlights
(000 Omitted)

Budget = Obligations		\$2,382
<u>Less: Deobligations: FY 78</u>	\$ 6	
FY 79	55	
Total		<u>(61)</u>
<u>Obligations as of 9-30-79</u>		<u>\$2,321</u>
Disbursements through 9-30-78	\$2,124	
FY 79	<u>95</u>	
<u>Disbursements through 9-30-79</u>		<u>\$2,219</u>
<u>Pipeline as of 9-30-79</u>		<u>\$ 102</u>

<u>Pipeline/Expenditures</u> <u>Analysis</u>	<u>Principal Line Items</u>	
	<u>Pipeline</u>	<u>Expenditures</u>
Personnel	\$ 44	\$1,432
Participants	12	249
Commodities	40	483 ^{1/}
Other Costs	6	<u>55^{2/}</u>
<u>Total Expenditures</u>		<u>\$2,219</u>
<u>Total Pipeline</u>		<u>\$ 102</u>

1/ Includes about 200 jeeps, calculators, electric typewriters, copying machines, slide projectors, file cabinets, shelves, surveying equipment, etc.

2/ In-country training (47) and International training (8)