

# **Land Reform, Rural Development, and Poverty Reduction in the Philippines: Revisiting the Agenda**

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## 1 Introduction

The goal of this paper<sup>1</sup> is to take stock of the existing evidence on the impact of CARP on poverty, to examine the current challenges faced by a possible extension of the agrarian reform program and to suggest directions toward achieving progress on land reform given the financial and policy constraints faced by the program, which has now ended its twentieth year since its launch and the tenth since its first extension. The need for a redefinition of the strategy lies in the limited achievements of the current agrarian reform program with regard to its most challenging targets, notwithstanding the important successes obtained in terms of the overall land distribution effort. The challenges faced and the cost of prolonged actions is too great for the “business as usual” scenario to be a realistic option.

Agrarian reform in the Philippines has not been an easy process, and so continues to be. Designing a strategy that would allow overcoming the existing difficulties, while complying with the reasonable goal to efficiently allocate the necessarily limited resources allocated for rural development, is not an easy task. Given the current role played by Philippine’s agricultural sector in poverty reduction and the marked differences in the modalities of land access across the country, land reform as a poverty-reduction strategy will hardly be uniformly effective across the rural landscape. In addition to discussing the link between land reform and poverty reduction, the paper examines the prospects for land reform in view of two key basic constraints faced in the implementation of agrarian reform, namely financial budget constraints and the limited development of the land administration system. The combination of these factors leads to a number of relevant conclusions concerning the way forward.

We start by examining the nature and relevance of the challenges that an extension of the land reform program will face. We then address the role of land reform from the point of view of rural development and poverty reduction. The impact of agrarian reform on the functioning of land markets, access to credit and, more broadly, on the competitiveness of the small-farm sector is then examined, separating the case of rice and corn lands from that of sugarcane plantations, the latter taken as an important “case-study” of the broader plantation sector. Implications for redesigning the program are then drawn, focusing in particular on the need to more closely involve important actors in the current process of rural development. The paper finally considers the institutional changes that will be required in view of a redefined role of land reform in rural development.

The paper contains a significant number of policy implications and guidance for reforming the agrarian reform process. Although the most significant reforms would not require legislative changes, many others do. Thus, indeed the paper traces a challenging yet entirely feasible reform path, which can gain momentum during the first year of the extension. This will entail a very different view with regard to the role played by agrarian reform and its actors in today’s

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<sup>1</sup> This paper is based on the findings of a sector study on land reform in the Philippines prepared by the World Bank and which is still in progress. The final version will be finalized by June 2009. The study has been prepared by a team task managed by Fabrizio Bresciani and consisting of Arsenio Balisacan, Felizardo Virtucio, Sharon Faye Piza, Nobuhiko Fuwa, Caloy Abad Santos, Roehliano Briones, Marife Ballestreros, Rosemarie Edillion, Ramon Clarete, and Marvic Leonen . It has greatly benefited from the valuable comments received by Paul Munro-Faure, Adriana Herrera and Paolo Groppo - all at FAO’s Land Tenure Service - Maria Teresa Quinones, Luc Christiaensen, and Carol Figueroa-Geron, and Iain Shuker, and by the research assistance provided by Emmanuel Sand Andrés.

Philippine rural society. The paper underscores the importance of strengthening the link between CARP implementation and poverty reduction and of supporting the process of rural development by fostering new productive alliances and through the strengthening of until now too neglected structures of governance.

## 2 Looking back: achievements and impacts

In better understand the possible avenues for reforming CARP into a more effective force for poverty alleviation and sustained rural growth it is a necessity to take stock of what the program has been able to achieve on these two accounts during the past twenty years of implementation. A stock-taking is not only necessary for a better understanding of the adjustments needed to improve the program's design and targeting, but also because it touches the heart of the land reform issue, which in the Philippine context is intimately tied to aspirations for social justice.

### 2.1 Twenty years later: assessing CARP's implementation

#### *Land distribution*

At the beginning of its implementation, CARP expected to cover about 9.8 million hectares. Subsequent re-assessments of potential areas led to a downward revision of program scope to 8.2 million hectares. Of the revised scope, the Department of Agrarian Reform (DAR) is tasked to distribute 4.4 million hectares of private agricultural and government-owned lands to some 3 million farmers, while the Department of Environment and Natural Resources (DENR) is tasked to distribute 3.7 million hectares of public agricultural and Integrated Social Forestry/Community-Based Forest Management (ISF/CBFM) lands to some 2 million farmers.

About 90 percent of the DAR scope of 4.4 million hectares have been distributed to farmer beneficiaries (Table 1). In general, RA 6657 prescribes the conveyance of individual land ownership titles, which are expected to be instrumental in raising farm household welfare through the incentive effects that these engender on short and long-run investments in agriculture. However, as elaborated below, instead of individual titles, about 2.1 million hectares representing 71 percent of the distributed land titles under land acquisition and distribution (LAD) are still collective titles. The program's performance system has not distinguished between land areas under individual titles and those under collective titles.

**Table 1 CARP Scope and Accomplishment, 2007**

Land Type/Mode of Acquisition	Scope (ha)	Percent Accomplishment
<i>DAR</i> <sup>a</sup>	4,428,357	89.4
Private Agricultural Lands	3,093,251	72.5
Operation Land Transfer	616,233	91.9
Government Financing Institutions	243,434	66.7
Voluntary Offer to Sell	437,970	133.4

Compulsory Acquisition	1,507,122	18.4
Voluntary Land Transfer	288,492	225.6
Non-Private Agricultural Lands	1,335,106	128.8
Settlements	604,116	120.8
Landed Estates	70,173	115.2
Government Owned Lands	660,817	137.5
<i>DENR<sup>b</sup></i>	<i>3,771,411</i>	<i>81.0</i>
Public Alienable and Disposable Lands	2,502,000	68.7
Integrated Social Forestry/Community Based Forest Management	1,269,411	105.2
<i>TOTAL</i>	<i>8,199,768</i>	<i>85.6</i>

Note: <sup>a</sup> Scope pertains to 2006 figures. DAR recently revised this to 2007, though breakdown by program type is not available.

<sup>b</sup> Accomplishment is as of 2006.

Land distribution has been particularly slow for private agricultural lands (other than rice and corn lands) under compulsory acquisition, which total 1.5 million hectares or roughly one-fifth of the program scope. The accomplishment for this program component is only about 18 percent. The main constraints have included the inadequate technical capacity and budgetary support of implementing agencies, lengthy legal disputes relating to coverage and land valuation, landowners' resistance, and peace and order problems. Interestingly, it is in these lands--particularly lands planted to sugarcane, coconut and other tree crops, and nontraditional export crops--where most of the remaining problems with landholding inequality exist.

In the case of public A&D lands, where accomplishment was only 80 percent of target after 20 years of CARP implementation, the bottlenecks have usually involved delays in undertaking land surveys, slow reconstitution of land records, and sluggish resolution of land conflicts among competing claimants. It is to be noted that public A&D lands and forested lands are not vacant lands; they are being tilled by farmer "squatters" who only need to be given security of tenure.

#### Transfer of land rights

As noted above, an important issue in the LAD accomplishment of DAR is the substantial proportion of collective titles or CLOAs (Certificates of Land Ownership Award) issued to areas covered under the program. This issue touches on the very essence of the objective of agrarian reform. Asset redistribution is never complete without the proper assignation of property rights. With this, the farmers, who are now owners, will have the incentive to increase both short- and long-term investments on the land. Moreover, the underlying rationale of the CARP is the establishment of owner-cultivatorship of economic-sized farms as the basis of Philippine agriculture.

Republic Act 6657 allows for collective ownership only for specific circumstances. In particular, if it is not economically feasible and sound to divide the land, then it shall be collectively owned by the workers' cooperative or association comprised of worker-beneficiaries. This provides an appropriate ownership structure for cases where the current farm management system does not

particularly require the parcelarization of the land. For other types of landholdings, the collective title is supposed to be only a transition mechanism to expedite the land acquisition process. The subdivision survey and generation of individual titles would follow afterwards. However, what was supposed to be a special case became the norm in the acquisition and distribution of landholdings. About 71 percent of all lands distributed under CLOA are collective CLOAs. This translates to more than 2 million hectares (see Table 2).

**Table 2 CLOAs distributed under CARP, by land type**

Type	No. of Titles <sup>a</sup>	Percentage	Area (Ha) <sup>a</sup>	Percentage
Individual CLOA	693,969	79	850,201	29
Collective CLOA	180,749	21	2,082,765	71
Total	874,718	100	2,932,967	100

<sup>a</sup> As of October 2007.

Note: The total excludes Emancipation Patents (EPs) that are issued for P.D. 27 areas.

Source: DAR Management Information Service.

The overwhelming majority of collective CLOAs are those under co-ownership (i.e., 90% of all CLOA titles, representing 79% of total CLOA area). This is the case where the CLOA is in the name of all beneficiaries. Cooperative CLOAs and Farmers' Organization CLOAs are issued to those beneficiaries who are already organized upon the generation of the CLOA. In this case, the CLOA is in the name of the organization and the names of all beneficiaries are usually annotated at the back of the title. Collective CLOAs awarded to beneficiaries of commercial farms and lands held by multinational corporations fall under these types of CLOA.

Aside from commercial and agribusiness farms, lands that are not tenanted and those that are idle (but deemed arable) are most likely distributed under the co-ownership type of collective CLOA, since potential beneficiaries are not yet tilling specific parcels of land. In fact, for idle lands without prior claimants, the DAR would screen landless residents within the barangay and adjacent barangays as possible beneficiaries. In contrast, on lands that are tenanted or those that have farmworkers working on specific plots of land, the potential beneficiaries will opt (and even insist) for individual titles.

The breakdown of collective CLOAs by program type seems to confirm this observation (Table 3). The GOL and the GFI lands have the highest proportion of collective CLOAs (86% and 83%, respectively). On the other hand, CA and landed estate lands have the lowest proportion of collective CLOAs. As indicated earlier, CA lands are the most contentious lands and are probably the most productive lands.

**Table 3 Breakdown of Collective CLOAs by program type, as of Oct. 2007**

Program Type	Collective CLOA (ha)	Total CLOA (Collective+Individual) (ha)	Percent Collective CLOA
Government Financial Institutions	117,418	141,225	83
Voluntary Offer to Sell	371,092	534,458	69

Compulsory Acquisition	141,430	242,710	58
Voluntary Land Transfer	362,971	557,950	65
Settlement Areas	380,175	606,970	63
Landed Estates	35,897	66,777	54
Government-Owned Lands	673,779	782,875	86
Total	2,082,765	2,932,967	71

Source: DAR Management Information Service

CARP lands that are under collective CLOA, particularly those that are not commercial farms, are rather handicapped in terms of their development and sustainability. The incentive effects expected to arise from land redistribution, i.e., increases in investment and farm productivity may not be realized. The situation likewise jeopardizes the ability of farmer beneficiaries to access credit and modern farming technologies, as well as to smooth consumption in the event of adverse income shocks.

#### *The cost of transferring land under CARP*

DAR's cost for administering the transfer of land under CARP is high. The study estimates CARP's 'overhead' cost by assuming that administrative costs (personnel, MOOE, and capital outlay) under CARP Funds 101 and 158 are distributed across programs in the same proportion as the staffing across DAR's key functions, including land distribution. For the period 2003-07, the average cost was more than PhP 36,000 per hectare. These estimates include all types of land and are likely to underestimate the cost of transferring private land under compulsory acquisition, which among the various types of land in CARP's scope is the most expensive in view of the legal (and social) conflicts normally associated with this type of land. It is therefore of interest to normalize the cost of land transfer by the cost of land acquisition. As the cost of land transferred under OLT is artificially low due to the legal provisions regulating the valuation of such land, the study focuses only on private lands valued according to the prescriptions of the Comprehensive Agrarian Reform Law. These lands are much more expensive than OLT lands by a factor of 10. The latter has ranged between PhP 86,076 and PhP 101,857 per hectare during 2003-07, which translates into an average overhead cost of DAR of about 38% during the same period. The relatively high overhead cost of DAR's intervention suggests that alternative means for redistributing land could be achieved with the goal of improving the returns to the cost of agrarian reform.

#### *Achievements in the ARC strategy*

The CARP is quite distinct from previous agrarian initiatives in another major respect: it provides a comprehensive program of beneficiary development, through the delivery of basic services (capacity building, credit and marketing assistance, farm infrastructure, etc.) needed to transform the beneficiaries into efficient agricultural producers and entrepreneurs. However, because the funds available to support the program had been very limited, the government, through DAR, launched in 1993 the Agrarian Reform Community (ARC) approach to beneficiary development. The approach involves focusing the delivery of support services to selected areas, rather than dispersing the delivery to all areas covered by CARP. It is also a mechanism to fast-track investment in basic social infrastructure, such as water, power supply, education, and health.

As of end of December 2007, about 1,874 ARCs have been established since the program's launch. They cover roughly 45 percent of total agricultural lands distributed under the program and 43 percent of the total agrarian reform beneficiaries (ARBs) nationwide. These ARCs are spread over 8,147 barangays in 1,237 municipalities.

Foreign-assisted projects (FAPs) for the agrarian reform program have been concentrated in the ARCs. These projects have provided support to 58 percent of the ARCs, covering 62 percent of the ARBs in all ARCs, or roughly 30 percent of all ARBs nationwide. As expected, given the fiscal constraint noted above, ARCs receiving support services through FAPs are found to be economically better off than those without FAPs.

*Efficiency of the system of agrarian justice*

The DAR through its agrarian legal system program has the mandate to provide free legal assistance to ARBs through the process of mediation and conciliation and representation of ARB sub quasi-judicial and judicial courts. Matters related to implementation of agrarian reform laws, landowner's retention, exemption from CARP coverage, and land use conversion are resolved by DAR administratively. DAR's Adjudication Board (DARAB) is vested with quasi-judicial powers and primary jurisdiction to determine and adjudicate agrarian reform matters. These functions represent a huge tasks within the agrarian reform bureaucracy and CARP's management. This has been a traditionally sensitive area as it is recurrently claimed that landowners resort systematically to legal arguments as a way of delaying and thwarting the implementation of the agrarian reform process and of increasing the compensation for compulsory acquired lands.

The process of dispute resolution in the agrarian sector has indeed become problematic to manage. In spite of recent improvements in the rate of resolution of different types of disputes, the overall trend in the caseload has been increasing. While in 2004 the balance of cases relative to Agrarian Law Implementation (ALI) were 3,817, in 2007 it amounted to 38,419. The caseload of quasi-judicial cases under the DARAB's responsibility increased from 12,515 in 2004 to 12,918 in 2007. Finally, the caseload in Regular Courts increased from 2,616 to 3,398 during the same period. These trends reflect the limited amount of specialized personnel in DAR handling the increasing cases. As CARP will start covering private lands subject to compulsory acquisition, it will be almost impossible for the current system of agrarian justice to manage the surge in disputes and legal conflicts.

*Poverty trends in rural and urban areas*

As in most of Asia's developing countries, and despite rapid urbanization in the past 20 years, poverty in the Philippines is still largely a rural phenomenon (Table 4). Three of every three four poor persons in the country are located in rural areas and are dependent predominantly on agricultural employment and incomes.

**Table 4. Poverty incidence in rural and urban areas, 1985-2006**

	1985	1988	1991	1994	1997	2000	2003	2006
Philippines	40.9	34.4	34.3	32.1	25.0	27.5	26.0	28.1
Urban	21.7	16.0	20.1	18.6	11.9	13.2	12.1	14.4

Rural	53.1	45.7	48.6	45.4	36.9	41.3	39.5	41.5
<i>Contribution to total poverty</i>								
Urban	20.5	17.7	29.3	28.8	22.6	23.5	22.7	25.2
Rural	79.5	82.3	70.7	71.2	77.4	76.5	77.3	74.8

*Note:* Poverty estimates are based on per capita consumption expenditures adjusted for differences in provincial cost of living.  
Source of basic data: Family Income and Expenditures Survey, various year.

Evidence indicates that rural growth, more than urban growth, significantly reduces rural poverty and that rural-urban migration appears to play a relatively minor role in rural poverty reduction (World Bank, 2009). Yet, while agriculture has significant roles to play in rural poverty reduction, its relative importance has shrunk substantially over the past two decades and the relative role of non-agricultural and non-farm sectors grew correspondingly. Indeed, spells of poverty reduction occur far more often in provinces where growth rates of non-agricultural incomes exceed those of agricultural incomes (Table 5).

**Table 5. Province-Growth Spells by Change in Poverty Incidence and by Relative Sectoral Growth**

	Number of province-growth spells	
	ag income > non-ag income 1991-2006	ag income < non-ag income 1991-2006
Poverty reduction	64	154
Poverty increase	66	81

Source: FIES provincial panel 1991-2006 (every 3 years)

Evidently, whatever its impact on agricultural incomes, land reform should not be regarded as a panacea for rural poverty reduction in the Philippines. Pathways out of rural poverty, especially in agriculture, differ across the regions and provinces due to variations in productive, agro-climatic endowments and infrastructural development. A one-size-fits-all approach will not allow efficient allocation of scarce development resources across the rural landscape. Rural nonfarm occupations and rural-urban migration may represent the main pathways out of poverty in several marginal areas, with fewer infrastructures and low agricultural potential.

## 2.2 CARP design and pro-poor targeting

A thorough assessment of the pro-poor targeting of CARP's two key components, i.e. land distribution and program beneficiaries' development, is a very difficult exercise in view of the significant vacuum of suitable data. Nevertheless, by combining data from several sources and drawing results from existing studies important findings emerge with regard to the extent to which CARP has successfully integrated efficiency and equity concerns in its design.

### *Land distribution*

Over the period 1988-2006, combining provincial-level data on poverty from the Family Income and Expenditure Surveys with DAR generated information on accomplishments in land distribution suggests that there has been no correlation between the initial poverty incidence in 1988 and CARP implementation. This result holds whether one looks at total accomplishments in land distribution, at distribution of privately owned lands, or at land transferred as part of the compulsory acquisition process. When the first (1988-1997) and second (1998-2006) ten years of CARP implementation are considered separately, however, there is some suggestive evidence of

targeting toward poorer provinces during the latter period. A statistically significant albeit modest positive correlation (0.25) between the provincial poverty incidence in 1997 and the total CARP accomplishments during 1998-2006 is observed. In contrast, the implementation of the most contentious Compulsory Acquisition (CA) component appears to follow a somewhat different pattern. While the CA component of CARP progressed more or less independently of the initial level of poverty incidence in 1988 over the period 1988-1997, the correlation turned to *weak negative* during the more recent decade though the correlation is below the usual level of statistical significance (18 to 19% level), suggesting the possibility that the progress in the CA components may have become relatively slower in poorer provinces during the more recent decade.

It is revealing to look at the correlation coefficients of the ratio of the *scope* of LAD program types to total provincial A&D land against two provincial level variables: (a) the ratio of landless farmers to total farmers in 1991, and (b) the provincial agricultural landholding Gini in 1991, in which the latter is a summary measure of the inequality in the distribution of agricultural landholding (with a value ranging from zero (perfect equality) to 100 (perfect inequality)). Ideally, provinces with relatively large number of landless farmers or those with high inequality in the distribution of agricultural landholdings should also display larger CARP LAD scope. Results in Table 6 indicate that the agricultural landholding Gini and the share of landless farmers were positively correlated to the ratio of CA scope to total A&D, suggesting that at the start of CARP implementation, the provincial targets for CA lands were in fact sensitive to addressing inequities in land access and ownership across all provinces. On the other hand, we do not see this correlation with the over-all CARP scope, suggesting that the overall CARP scope was not particularly sensitive to landholding inequities.

**Table 6 CARP accomplishment vis-à-vis landlessness and landholding inequality**

	GINI of Agricultural Landholding		Share of landless farmers	
	Pearson's Correlation Coefficient	Prob >  r  under H0: Rho=0	Pearson's Correlation Coefficient	Prob >  r  under H0: Rho=0
Total	-0.0901	0.4516	0.1066	0.3696
OLT	-0.2519	0.0328 **	0.3828	0.0008 ***
GFI	-0.0095	0.9368	0.1089	0.3589
VOS	-0.2245	0.058 *	0.052	0.6621
CA	0.2795	0.0183 **	0.4263	0.0002 ***
VLT	0.0214	0.8583	-0.4013	0.0004 ***
Settlement	-0.2346	0.0473 **	-0.0823	0.4889
Landed estates	-0.1101	0.3605	0.3289	0.0048 ***
GOL/KKK	0.0873	0.4661	-0.3004	0.0098 ***

Note: \*\*\* significant at 1% \*\* significant at 5%, \* significant at 10%.

Interestingly, OLT scope shows a negative correlation with the Gini of landholdings and a positive one with the share of landless farmers. OLT was targeted to rice and corn areas, where tenancy was very widespread but overall land inequality was somewhat smaller compared to the plantation sector. Finally, the evidence shows that both the scope for VLT and the GOL/KKK was poorly related to land inequality. However, it is in these areas that DAR even went beyond the original scope having accomplishment rates beyond 100% and as high as 226% for VLT (see

Table 1). This shows that a substantial proportion of DAR's reported LAD accomplishment was not targeted to where it matters most.

### *The ARC strategy and the delivery of support services*

After an initial project-based approach to the delivery of support services (1988-1993), DAR has since then adopted the ARC strategy, which operationalizes an integrated area development (IAD) approach within a resource-constraint environment. The strategy was largely a resource-maximization, resource-allocation and resource-mobilization strategy for program beneficiaries' development. By identifying *barangays* or clusters of *barangays* with the highest concentration of ARBs and distributed lands, resources were pooled and channeled to where they could have the greatest impact. By using the ARC as a working unit or convergence point, it was possible to more effectively synchronize the delivery of support services to a defined area or target group and to access more easily official development assistance (ODA) funds. A specific, well-defined, and manageable area, like an ARC, with a wide menu of possible development interventions (e.g., community organizing, infrastructure, enterprise development) has proved to be attractive to bilateral and multi-lateral agencies providing development assistance.

Similarly to the case of land distribution, by design the geographical distribution of ARC interventions did not contain much potential for pro-poor targeting. With the inclusion of larger numbers of (actual and potential) ARBs being the top priority in selecting ARC *barangays*, which apparently was carried out successfully, the patterns of distribution of ARC interventions across provinces and across program components followed closely those of the LAD implementation. There was no indication, *ex post*, of targeting areas with high inequality or with high incidence of landlessness, or of targeting the CA component (which would have been pro-poor). The selection of ARC *barangays* was predominantly based on the density of ARBs and CARP areas to maximize the program's reach and coverage among ARBs and CARP areas. However, there was no targeting in terms of the type of lands covered by the ARC program as this mirrors the national LAD profile, in spite of the fact that differences across land types and ownership structures will affect the potential outcomes of the interventions.

DAR formulated an ARC typology framework based on the community's ecological, economic, and socio-political attributes to facilitate program design and implementation. As a result ARCs were classified as: (i) prime agricultural ARCs – characterized by a cluster of more than five contiguous *barangays*, with huge tracts of agricultural lands and a significant number of farmers and small agricultural workers, and with potential to become key production centers for various crops or agro-industrial centers; (ii) semi-prime ARCs – with substantial agricultural lands and small farmers, but where the scale of agricultural production cannot support agro-industrial development; and (iii) satellite agricultural ARCs – relatively small communities with limited agricultural land and small farmers, and characterized by low soil fertility and low level of agricultural production. Overall, it appears that ARC interventions were targeted to areas with relatively higher potentials in agricultural production (e.g., irrigation development, access to formal financial institutions) and areas with relatively smaller number of landowners but relatively larger-sized farm operations. Thus, the data appear to suggest that, on average, the ARCs are not particularly worse-off communities compared to non-ARC *barangays* on average.

To study the type and magnitude of the interventions across communities we cluster ARCs by agricultural production potential, proxied by the location's potential for irrigation development) (low, medium, high), and by degree of urbanization (rural, peri-urban, urban) to reflect different development opportunities. Ideally, interventions framed in a CDD-type of approach will deliver different packages of support services reflecting heterogeneity in local conditions and

endowments. Although comprehensive data on the composition of packages are not available, there are bits of information about the the types of interventions carried out as part of foreign assisted projects for the period 2004/2006. Using the total CARP scope<sup>2</sup>, we computed the average cost per hectare for every cluster (Table 7).

**Table 7. Provincial Typology cluster showing total number of ARCs, total CARP scope, total cost of interventions, and cost per ha (using LAD working scope)**

		Urbanization		
		Low (highly rural)	Mid (peri-urban)	High (urban)
Geo-physical endowment (irrigation potential)	Low	<ul style="list-style-type: none"> <li>• 109 ARCs</li> <li>• 122,837 ha</li> <li>• P2,430,660,000</li> <li>• P19,788/ha</li> </ul>	<ul style="list-style-type: none"> <li>• 35 ARCs</li> <li>• 26,862 ha</li> <li>• P643,989,000</li> <li>• P23,974/ha</li> </ul>	<ul style="list-style-type: none"> <li>• 8 ARCs</li> <li>• 9,763 ha</li> <li>• P169,492,000</li> <li>• P17,360/ha</li> </ul>
	Mid	<ul style="list-style-type: none"> <li>• 451 ARCs</li> <li>• 500,784 ha</li> <li>• P18,213,629,000</li> <li>• P36,370/ha</li> </ul>	<ul style="list-style-type: none"> <li>• 389 ARCs</li> <li>• 421,619 ha</li> <li>• P14,141,520,000</li> <li>• P33,541/ha</li> </ul>	<ul style="list-style-type: none"> <li>• 45 ARCs</li> <li>• 29,369 ha</li> <li>• P1,543,247,000</li> <li>• P52,547/ha</li> </ul>
	High	<ul style="list-style-type: none"> <li>• 112 ARCs</li> <li>• 176,226 ha</li> <li>• P3,469,890,000</li> <li>• P19,690/ha</li> </ul>	<ul style="list-style-type: none"> <li>• 140 ARCs</li> <li>• 82,113 ha</li> <li>• P2,708,609,000</li> <li>• P32,986/ha</li> </ul>	<ul style="list-style-type: none"> <li>• 75 ARCs</li> <li>• 49,691 ha</li> <li>• P1,090,453,000</li> <li>• P21,945/ha</li> </ul>

The High Urban-Low Irrigation cluster had the lowest cost per hectare (P17,360/ha). At P52,547/ha, the High Urban-Mid Irrigation cluster had the highest average cost, , three times that Low Urban-Low Irrigation cluster. Offhand, one would expect to see cost variation across clusters since these are likely to have different development requirements. At the very least, such variation is an indication of some level of strategizing in the provision of interventions. The findings in World Bank (2009) indicate very little differentiation in the intervention types across the provincial typologies. Given heterogeneity in geo-physical and socio-economic conditions, it expected that some clusters receive more resources for certain interventions compared to others. We do not see that in the ARC development program, except in the case of interventions relating to off-farm livelihood and enterprise development. These interventions are appropriately concentrated in the High/High and High/Mid clusters. These are highly urbanized provinces lending well to non-farm rural industry activities (Table 8).

**Table 8. Provincial Typology cluster showing intervention types that derived the highest cost per ha of intervention**

	Urbanization
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<sup>2</sup> To make the intervention cost across clusters comparable, we use the average cost per hectare of CARP working scope in the ARC. The CARP working scope of the ARC is a proxy for the coverage of the ARC in terms of area and farmer beneficiaries. Since the main focus of interventions are farmer-beneficiaries of the program, we deem it as an appropriate indicator of unit cost of ARC interventions.

		Low (highly rural)	Mid (peri-urban)	High (urban)
Geo-physical endowment	Low			
	Mid	<ul style="list-style-type: none"> <li>• Irrigation</li> <li>• Economic establishments</li> <li>• Social infrastructure</li> <li>• Other Input Support and Tech. Assistance</li> <li>• Social capacity building</li> </ul>	<ul style="list-style-type: none"> <li>• Utilities</li> <li>• Social infrastructure</li> <li>• Public establishments and facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Roads and bridges</li> <li>• Irrigation</li> <li>• Economic establishments</li> <li>• Utilities</li> <li>• Public establishments and facilities</li> <li>• Farm equipment</li> <li>• Agricultural Production, Post-harvest and Marketing projects</li> <li>• Off-farm Livelihood and Enterprise Development Projects</li> <li>• Social capacity building</li> </ul>
	High		<ul style="list-style-type: none"> <li>• Roads and bridges</li> <li>• Farm equipment</li> <li>• Agricultural Production, Post-harvest and Marketing projects</li> </ul>	<ul style="list-style-type: none"> <li>• Off-farm Livelihood and Enterprise Development Projects</li> <li>• Other Input Support and Tech. Assistance</li> </ul>

### *Implications of CARP's targeting for its poverty reduction impact*

In spite of the significant constraint represented by DAR's approach in collecting data for monitoring and evaluation, recent studies have identified CARP's impact on poverty. One such study (APPC, 2007) using household-level cross-section data estimates that the average *per capita* consumption among the households gaining access to land through land tenure improvement (LTI) interventions under CARP, without additional support services (such as ARC interventions), tend to be roughly 15% higher on average than that of landless (non-beneficiary) households. Benefiting from ARC interventions, in addition to the LTI intervention, is associated with *additional* 8% higher per capita consumption (thus 23% increase from both LTI and ARC), which, if taken at the face value, appears to imply that there exist 'synergy' effects, and that the quantitative magnitude of the impact of LTI interventions is twice that of the (additional) impact of ARC interventions. Crude difference-in-difference (Reyes, 2003) estimates based on the IARDS panel data (1990-2000) also indicate positive - though marginally significant - CARP impact. Roughly half of the CARP beneficiaries in the IARDS panel during 1990-2000 escaped from poverty (but roughly half of non-CARP beneficiaries also escaped poverty!). Double difference estimates of the impact of ARC interventions at the barangay-level, combined with the propensity score matching technique, also suggest quantitatively modest impact of CARP (APPC, 2007).

Previous work by Balisacan and Fuwa (2003, 2004) based on provincial-level analyses, finds that during the period 1988-1997, the increase in CARP implementation is positively and significantly associated with both provincial growth and poverty reduction, suggesting that CARP may have effects of both raising average income growth and reducing poverty, even after controlling for the average income growth. A later replication of the same analysis based on the data period 1988-2000 and regional data finds, however, that CARP may have growth effects but not any significant re-distributive effect (Balisacan 2007).

This line of research is expanded in World Bank (2009) by utilizing more recent provincial panel data on CARP implementation, on the one hand, and on the change in poverty, on the other. The analysis is conducted for two separate data periods, namely, 1988-1997 and 1998-2006, conditioning on the initial income level, the initial level of infrastructure (road density, electricity and irrigation), and initial level of income inequality. The total increase in 'CARP implementation' (as defined by the amount of area covered by CARP divided by the 'scope') is significantly (though marginally) negatively associated with the rate of change in poverty incidence only for the data period during 1988-2006 but not for the data period 1988-1997. The results further suggest that it is the re-distribution of privately-owned land but not that of non-privately-owned land that has significant positive effects on poverty reduction.

The increase in CARP accomplishments in private lands, and in particular lands under CA is significantly associated with poverty reduction for both data periods; the coefficient estimates suggest that a 10% increase in the accomplishments in private land re-distribution is associated with 0.3 percentage point increase in the annual rate of poverty reduction. During the data period 1988-1997, among the redistribution programs of privately-owned land, increased accomplishments in the GFI, CA and VLT components are significantly associated with poverty reduction, but the size of the effects appears to be the largest with the CA component; a 10% increase in the CA accomplishment rate is associated with 0.8 percentage point increase in annual rate of poverty reduction. For the data period 1988-2006, in contrast, the VOS component is found to be the only component significantly (though marginally) associated with poverty reduction.

Despite all the caveats in the available data, the existing evidence suggests that CARP implementation had significantly positive welfare impacts on its beneficiaries. It is difficult to fix the quantitative magnitude of its impact, however. The actual impact of CARP on the rural poor may not have been as large as its proponents would have liked to see, but CARP has not been as ineffective as some of its most fierce critics have claimed either. The analysis also shows that DAR's failure to fast track the acquisition of private lands of better quality, coupled with the targeting design of ARCs, has been one of the main reasons for the modest impact of CARP on poverty.

### **2.3 Tenure Security, Credit and Land Markets, and Small Farm Productivity: Implications of Land Reform for the Small Farm Sector in Rice and Corn Lands**

In traditional rice and corn areas, CARP has led to a substantial fragmentation of farm operations. Only 4% of palay farms are above 7 hectares. For corn farms, 49% are below 2 hectares. This contrasts with the situation in sugarcane lands and other plantations, where poverty continues to be concentrated due to CARP's modest advances in these areas and where agrarian reform appears as unfinished business. The underlying rationale of the CARP was the establishment of owner cultivatorship of economic-sized farms. The development of a competitive small-farm

sector was consistent with a policy of self-sufficiency in key staple crops such as rice and corn. After more than thirty years of land reform in rice and corn sectors, farmland fragmentation raises concerns about small farm sector's viability and the rationale for further land distribution. According to DAR, the average beneficiary will receive 1.7 hectares of land, well below the 3 hectares originally conceived in the CARL as the optimal size for direct cultivation.

CARP has fallen short of achieving a full redistribution of land rights and tenure security in redistributed lands. First, CARP has been implemented in an environment of weak land policy and poor land administration. These institutional weaknesses are reflected on the many problems that have confronted and continue to challenge CARP. The scope of coverage for land reform has been poorly identified and targeted given the dearth of information on land in terms of ownership and physical attributes. Moreover, poorly defined property rights have favored the recourse by landowners to conflicts on ownership, coverage and valuation, causing major setbacks in the completion of land redistribution. This resulted in "unperfected" titles or transfers and hindered the installation of beneficiaries on distributed lands. Second, the effects of poor land policy and land administration do not end in the land redistribution phase but have evolved into second generation issues, further affecting the functioning of rural land markets, security of land tenure and access of the poor to land. The agrarian reform law has prohibited the conveyance and transfer of awarded lands through market transactions but government has "allowed" sale and other forms of transfers to be undertaken in the informal market. The sale of "imperfect" titles through informal transactions has increased documentation problems and weakened property rights in the rural lands.

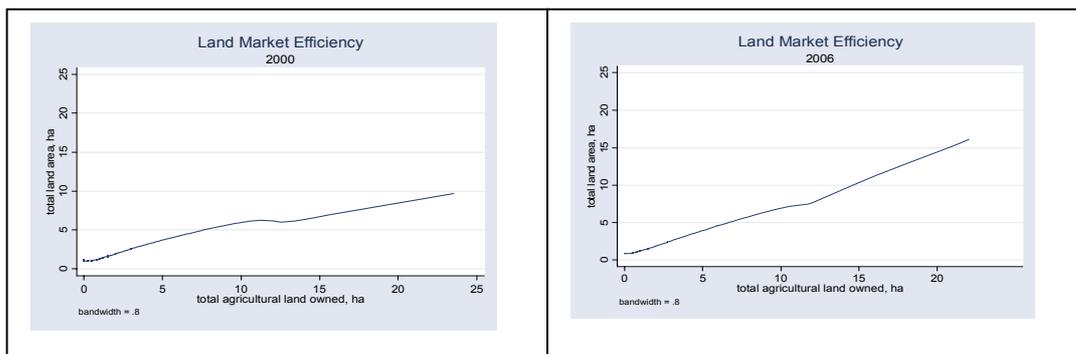
Land rights have only partially been redistributed and incentives to invest in land and farm productivity improvements have been substantially weakened. As noted earlier, although CARL allows for land to be distributed under collective forms of land ownership only when a breakdown is not economically justified, over 71% of the distributed land took the form of collective CLOAs (hereafter C-CLOAs). These titles represent 21% of the total titles issued. The overwhelming majority of C-CLOAs have been issued under co-ownership and only 10% were issued under farmers' organizations and cooperatives. Issuance of collective CLOAs was particularly intensive for lands where no prior tillers were established, i.e. government owned lands and lands owned by government financial institutions. Issuance of individual CLOAs (I-CLOA) has instead dominated in the case of compulsory acquisition of private lands, where the aspiration of the beneficiaries to individually own the land was clear from the start. DAR's progress in subdividing C-CLOAs has been minimal given the structure of incentives and the lack of guidelines that would allow overcoming resistance to subdivision by blocking coalitions among beneficiaries. The over 2 million of hectares covered by C-CLOAs represent therefore one of the major challenges for the future of CARP.

A relevant issue is whether weak property rights and overall tenure insecurity do significantly affect the functioning of land and credit markets. Access to capital is a key factor in modernizing farm operations and in coping with adverse income shocks. In rice and corn areas the data suggests that almost 70% of households are rationed in the credit market. World Bank (2009) analyzes the determinants of access to credit among farmers in rice and corn lands, focusing in particular on the role of land, tenure security and property rights, and cooperative membership. Land ownership is found to be an important factor in accessing formal lending in rural areas and more so when it is individually titled. An additional hectare of titled land is estimated to increase the probability of access to formal credit by almost 6%. This result is of the same order of magnitude to that of cooperative membership. Interestingly, the analysis suggests that being an agrarian reform beneficiary (ARB) is a negative signal for formal lenders, once titling, land size, and cooperative membership are controlled. An ARB status signals to the lender the existence of

legal restrictions on land transferability and hence a limited use of land as collateral, as well as the poverty status of the applicant given CARP's targeting of poor households. Both factors contribute to make an ARB a risky borrower. Moreover, an ARB that has not yet secured full ownership of its land and acquired full property rights over it is less inclined to invest in land improvements. Failure to access formal sources of credit doubles the cost of capital when this is obtained from informal sources. These findings identify an important aspect of the shallowness of rural credit markets in the Philippines.

***The issue of whether land rental markets are becoming increasingly more inefficient and more difficult to access by the land-poor is also of great importance.*** The World Bank (2009) study validates the warnings in previous reports (e.g. World Bank 2001) on the possibility that CARP would be affecting the functioning of land markets, but the influence of CARP is a complex one. Rental markets are of a particular concern in this regard, as they are an important medium for upward mobility in agrarian societies (World Bank, 2003). Legal restrictions on renting land out are substantial and CARP's confiscatory nature further compounds the effect on larger farms. The available evidence, synthesized in Figure 1, suggests that between 2000 and 2006, land markets have become increasingly constrained, especially so for larger farms.

**Figure 1: Relationship between farm-size and landholdings**



Source: staff computations based on IARDS 2000-06 data

Although a substantial amount of land leasing takes place, either as renting or as sharecropping, there is evidence that farms are limited in their ability to fully adjust to an optimal size, particularly for farms above the 5 hectares legal ceiling. In particular, larger farms are less likely to lease out land. Conversely, land markets seem to be more fluid among small farmers, once the effect of credit restrictions are taken into consideration. CARP implementation plays an indirect role through the credit market and in areas with higher concentration of ARBs, farm fragmentation is reflected in smaller plots of land being transacted and a lower probability of leasing land.

In spite of the combined effects of land and credit market imperfections, analysis of panel data on farm households (World Bank, 2009) shows that the inverse farm size productivity relationship continues to hold in rice and corn lands. Irrespective as to whether output is measured in terms of revenues or profits net of shadow cost of labor, the study found evidence of a mild but statistically significant inverse relationship between farm size and productivity in rice and corn areas, even after controlling for land quality. The traditional advantage of small farms in relying on a motivated labor force and evidence that the labor supervision costs increase with farm size (De Silva et al. 2006) are not enough to overcome the advantage of larger farms in access to capital. Moreover, the results are consistent with other findings in other studies that farmers'

productivity has benefited from the delivery of support services, mainly targeted by CARP in agrarian reform communities even after controlling for proximity to urban areas. Based on the empirical results and theory, it can be concluded that eliminating the impediments to the efficient functioning of land markets is unlikely to eliminate the inverse relationship between productivity and farm size, although it may weaken it to some degree.

#### **2.4 The challenges of CARP in sugarcane lands**

A major issue concerns the prospects for CARP's implementation under the current modalities in sugarcane plantation areas, which are considered to be the most problematic in terms of land distribution. Sugarcane has been and remains to be one of the major crops in the Philippine agriculture to date. Producing the country's largest non-cereal crop, the industry is third in the list of planted area and production value. On the average, sugarcane contributes 3.2% to the annual gross value added agriculture and about 0.5% to the Annual Gross Domestic Product (GDP) of the Philippines. In terms of employment, growing of sugarcane employs a total of almost half a million workers. Amid these significant economic contributions, the industry has yet to regain its position as a significant player in the world economy. Despite the recent efforts to revitalize the industry in bio-fuel and electricity, several factors are still adversely affecting the level of productivity, competitiveness and viability of the industry.

After twenty years of implementing its comprehensive agrarian reform program, the Philippine government has yet to break up and distribute to potential program beneficiaries relatively large tracks of sugarcane farms. The industry's largest sugar producing province, Negros Occidental, has only implemented the program in 60 per cent of total farm lands to be distributed and accounts for 8 percent of the total farm lands yet to be acquired and distributed as of December 2007. The usual explanation analysts cite for the lackluster performance is that their owners belong to the country's elite, who oppose the program. Opponents of program extension point to disadvantages of small scale farming, in terms of forfeited scale economies, higher coordination cost, and unstable supplies due to the preference for diversifying away from sugarcane by land reform beneficiaries once land is redistributed. On the other hand, this opposition may be viewed as motivated by preservation of industry rent.

These controversial issues are evaluated empirically in the World Bank (2009) study using a combination of approaches: (i) a desk review provides the socioeconomic and institutional context of agrarian reform in the sugarcane industry; (ii) a rapid field appraisal, covering the provinces Negros Occidental (with the biggest sugarcane area and one of the lowest LAD accomplishments) and Bukidnon (a center of sugar industry growth and one of the highest LAD accomplishments), generates stakeholder information and perspectives about the impact and prospects of land reform implementation on the sugar lands; (iii) economies of size are estimated using SRA data from their Farm Management Record-keeping survey (FMR); (iv) coordination cost are analyzed based on information from the rapid appraisal and SRA data on mill recovery together with indicators of farm size concentration; (v) finally, diversification of cropland and sugarcane area trends are analyzed using farm size concentration as a key explanatory variable; (vi) finally, for the rent hypothesis, the returns to land (profit) are estimated and then a land price is computed based on the assumption of capitalization. The computed land values are then compared to the prices obtained from rapid appraisal.

The lack of adequate accomplishment of the program in sugarcane industry may in fact have a technical and economic policy origin. The World Bank (2009) study finds that sugarcane farming differs markedly from the farming of other major crops under tenanted cultivation. Specifically:

- Significant impediments to competition due to regulation are in place, and more are forthcoming owing to the biofuels mandate. This ultimately leads to persistently high land values;
- There are moderate scale economies in sugarcane farming;
- Small scale farming is associated with higher coordination cost;
- Small scale farming does not reduce the share of sugarcane farming in agricultural area.

The agro-economic peculiarity of the sugarcane industry, which exhibits economies of size and the vertical integration in farming and milling, makes it difficult for the program to achieve its second goal, that is, to promote development among the agrarian reform communities and to transform beneficiaries into agribusiness entrepreneurs and responsible landowners. When inducing a breakdown of operations, CARP's implementation introduces transaction costs in sugarcane farming. Smaller parcels of sugarcane farms will tend not to allow their mechanization needed to reach their yield potential as rental markets for machinery do not provide sufficient assurance to access machinery at the required time and in the desired modality. In addition, millers' coordination costs increase with smaller farm sizes, risking loss in harvested sugarcane or milled sugar.

Agrarian reform in sugarcane lands will require making pragmatic use of models adapted to specific local socio-economic, institutional and agronomic conditions. The transaction costs which the potential implementation of program induces, however, are only sufficient but not necessary to reduce overall productivity and incomes in sugarcane farming. With economies of size in the sugarcane business, plausible paths for agrarian reform in the industry are stacked with added costs, which have the potential of deforming the program's objectives. However, these added costs fail to form a compelling analytical argument to stop the implementation of the program in the industry. Alternative modalities of organizing sugarcane farming in a post agrarian reform regime exist to minimize transaction costs. Instead, the program objectives need to be tailored to the technology based features of the sugarcane business.

The apparent need for adequate progress of agrarian reform program in sugarcane farming only compels implementers to identify viable modalities of its effective implementation. Clearly there are no one-size-fits-all solution to the problem of declining productivity and increasing costs brought about by the distribution program. One has to consider geographic-specific peculiarities in order to attain an appropriate modality that will specifically cater to the needs of the ARBs given their pre-CARP tenurial set up, agronomy, and institutions.

Tailored partnerships between beneficiaries and landowners offer substantial prospects for achieving equity with productivity in the development of the sugarcane sector. Collective titling of sugarcane plantations under CARP has on average brought under-investment, less value and low productivity to the capital. Converting these group-owned lands could solve the problem. Nevertheless, one has to consider the pre-CARP tenurial status of the beneficiaries before subdividing the capital in order to fully understand the capabilities of beneficiaries in managing their lands. Because of the difference in land tenure systems, farmer beneficiaries have different managerial and entrepreneurial skills; and the modality for the implementation of CARP should consider this.

Regardless whether property rights in land are collective or individual in nature, ARBs need to be systematically and economically organized to attain leverage at the same time decrease the cost of coordination. The initiative may incur transaction costs as a result of imperfect information; if significantly high, it will make the goal unachievable. This highlights the necessity for a third-

party organization to manage the transaction cost and lead farmer beneficiaries to resort to collective and cooperative action. Recent experience in Negros Occidental based on developing contractual arrangements between beneficiaries and former landowners (e.g. the Hermanos Gamboa hacienda) or between beneficiaries and agri-business companies suggest that alternative models of agrarian reform are possible, sustainable and even desirable. Recent developments in the biofuel industry suggest further reinforce the viability of such new approaches.

The viability of resorting to rental markets in pursuit of attaining size economies should also be considered in devising a modality for an improved sugar industry. Similar to property rights, the modality in this area lies in the differences in the agronomic systems in each geographic area. The presence of mono-cropping, in particular, would dictate if rental markets would exist in the area; or it is more appropriate for the organized beneficiaries to acquire the lumpy investments themselves through resource pooling. Overall, crop diversification is still highly recommended amongst program beneficiaries to increase their resilience to industry-based risks.

Finally, efforts to fully revitalize the sugar industry are still being hampered by the current regulatory and institutional framework where the free-riding problem is prevalent. The inherent *quedan* sharing, which has been formulated in the past primarily as insurance to farmers of the amount of milled sugar he partially owned with the miller, has become obsolete with the introduction of the core sampler. More importantly, the said institutional arrangement has resulted in under-investments in the milling sector, thereby depriving the Philippine sugar industry to be at par with its foreign competitors, despite the relatively high farm productivity. Prospects for the industry therefore anticipate a gradual shift to cane purchase system from the recurring *quedan* sharing scheme.

### **3 Looking at the future: Options for a program redesign**

As noted above, the progress in CARP implementation in the past two decades has been extremely slow, especially in re-distributing privately owned lands, and mildly successful at reducing rural poverty. This suggests that CARP extension with the same implementation scheme and modality would be likely to result in similarly disappointing results in the near future. This means, in turn, that the extended CARP would likely require new and innovative implementation schemes and modalities, possibly with new targeting approaches.

#### **3.1 The role of agriculture in poverty reduction and alternative ‘pathways’ out of rural poverty**

Before discussing innovative approaches to land reform in the Philippines, a key question to address is: What is today’s role of agriculture in the Philippines? How relevant is agricultural and rural growth in poverty reduction? The answer to these questions provides a first basic hint as to how should land reform be framed and how targeting issues for the CARP extension should be addressed. The basic thrust of the arguments is that while agriculture has significant roles to play in rural poverty reduction, its relative importance has shrunk substantially over the past few decades and the relative role of non-agricultural and non-farm sectors grew correspondingly. There are multiple “pathways out of rural poverty” (including those through non-agricultural wage employment, non-farm enterprise, and international migration, to name only a few), of which the traditional pathway of climbing the “agricultural ladder” is only one. This suggests that it is important to identify the areas (or the types/characteristics of households) for which agricultural growth still constitutes the primary and optimal pathway out of rural poverty.

Accordingly, the implementation of the extended CARP, with its relatively limited resources, should arguably also focus on those areas.

While studies documenting the changes in the relative importance of alternative pathways out of rural poverty are rather rare, mainly due to the paucity of household-level panel data covering sufficiently long periods of time appropriate for such purposes, recent such studies, based on microdata from rice-growing villages in Luzon and Panay, all point to the crucial role played by the non-agricultural income growth in poverty reduction and the increase in the relative returns to education vis-à-vis agricultural land. Furthermore, provincial panel data show that in most of the provinces (46 out of 50) where poverty incidence declined during 1988 and 2006, the rate of growth in non-agricultural income was higher than that of agricultural income.

Following the seminal approach taken by Ravallion and Datt (1996) (and also Christiansen and Demery, 2007), the World Bank (2009) study estimates the relationship between the change in poverty and the change in the sectoral income at the level of the provincial aggregate during the period 1991-2006. The ‘growth elasticity of poverty reduction’ is disaggregated by income sources using provincial-aggregates of FIES income data. For each household, reported incomes from different sources are aggregated into primary (agricultural), secondary (industrial) and tertiary (service) sectors. Unearned incomes (including transfers, rents, etc., but excluding foreign remittances) cannot be assigned into any of the industrial sectors and so treated as a separate category. Given its importance in the Philippine context, the portion of the income from remittances coming from overseas Filipino workers (OFW) is also treated as a separate category. Those incomes from different sources are aggregated into the provincial averages, which constitutes the unit of analysis. In addition, as an alternative measure of sectoral incomes, the total household consumption expenditure is used as a proxy measure for the total household income and then relative shares of primary, secondary and tertiary incomes are applied to estimate sectoral incomes. In the latter measure, the total income is decomposed into three sectoral compositions. In addition to the two alternative measures of ‘sectoral incomes,’ two separate analyses were conducted; first, in an attempt to examine long-run dynamics, the change between 1991 and 2006 is used as the unit of analysis in a cross-section analysis. Secondly, in order to fully utilize the provincial panel data, all the FIES rounds, conducted in every three years between 1991 and 2006, are used as a panel data using fixed-effects regression analyses.<sup>3</sup>

The analysis in World Bank (2009) finds, not surprisingly, that rural nonfarm income growth has become the key driver of poverty reduction. Rural growth is more important relative to urban growth (by a factor of two to three) in reducing *rural* poverty, while urban growth is more important in reducing urban poverty (by a factor of four). While the coefficients on urbanization (differential population growth rate between urban and rural areas) are negative, suggesting positive effects on rural poverty reduction, such coefficients are mostly not significantly different from zero. The regression analyses confirm that non-agricultural growth, rather than agricultural growth, has been the main driver of rural poverty reduction during the past two decades. The relative magnitude of the growth elasticity, *after controlling for income shares*, between agricultural versus non-agricultural sector growth, tends to fluctuate. In a small number of cases and rather surprisingly, the elasticity of agricultural income growth estimates are even positive

<sup>3</sup> The basic equation estimated take the following form:

$$\Delta \ln P_i = \alpha + \pi_1 s_{ag,i} \Delta \ln Y_{ag,i} + \pi_2 s_{ind,i} \Delta \ln Y_{ind,i} + \pi_3 s_{service,i} \Delta \ln Y_{service,i} + \pi_4 s_{unearned,i} \Delta \ln Y_{unearned,i} + \pi_5 s_{OFW,i} \Delta \ln Y_{OFW,i} + \varepsilon_i$$

where  $P_i$  is a poverty measure in province  $i$ ,  $Y_{k,i}$  is per-capita income from sector  $k$  in province  $i$ ,  $s_k$  is the share in the total percapita income of income from sector  $k$  in province  $i$ , the operator ‘ $\Delta$ ’ means taking the difference over time, and  $\pi_k$ ’s are the parameters to be estimated.

(growth in agricultural income is associated with poverty *increase*. As a consequence of the relatively small share of agricultural incomes, however, the unconditional (on income shares) growth elasticity of non-agricultural sector growth is found to be significantly larger than that of agricultural income growth during the period 1991-2006. This conclusion applies to rural poverty, as well as to urban poverty and to provincial poverty aggregating both rural and urban areas. The same basic conclusion also holds based on similar analyses using the region-level aggregates rather than provincial-level aggregates. Qualitative results are similar when alternative (and more distribution sensitive) poverty measures are used.

A relevant question is whether land inequality lowers the poverty reduction potential of agricultural growth. Additional attempts have been made to introduce interaction terms between sectoral income growth and some indicators of initial conditions, including the extent of income inequality (as measured by the provincial Gini coefficients of consumption expenditure distribution based on FIES), as well as the two indicators of provincial typology in terms of initial endowments, namely, the degree of urbanization and the degree of 'irrigability.' In terms of the initial conditions, there is an indication that the growth elasticity of poverty reduction with respect to agricultural income growth tends to be higher in provinces where the degree of income inequality is lower. This finding suggests that lowering income inequality may make the growth in the agricultural sector more pro-poor, which is quite intuitive. Effective re-distribution of land ownership through CARP, therefore, may potentially be an effective tool for raising the 'growth elasticity' of agricultural income growth. There is also an indication that the elasticity of agricultural income growth is smaller in relatively more urbanized areas, although this finding is less robust than other findings. This suggests that, not surprisingly, the same rate of agricultural income growth is likely to have larger impacts on poverty reduction in relatively more rural (and remote) areas.<sup>4</sup>

The main findings of the growth elasticity estimations appear to imply that targeting land reform implementation to areas with relatively higher shares of agricultural incomes may arguably be worth serious consideration. Such a targeting strategy could have a few potential advantages. First, the higher income share from agriculture would ensure larger impacts on poverty reduction given the same rate of agricultural income growth. Secondly, reducing inequality in land distribution may possibly raise the elasticity itself. Thirdly, such areas are likely to be the areas relatively remote from urbanized areas. Since we find a tendency (although weak) that the poverty elasticities are higher in less urbanized areas, such areas are likely to have relatively higher elasticities of agricultural growth.

To achieve full pro-poor potential, land redistribution requires complementary reforms to improve the efficiency of land rental markets and tenure security. As the results of the analysis of land rental markets suggest, it is quite clear that CARP will not be able to substantially solve the problem of poverty by redistributing farmland, except in the more agriculturally dynamic areas and provided land rental markets will be allowed to function properly in order for more productive farmers to be able to optimally adjust the size of their operations and maximize productivity. Improvement in credit access will continue to be an important condition for achieving sustainable outcome in equity with efficiency. Microfinance institutions and innovative approaches to lending to small farmers are rapidly spreading in the Philippines' rural areas. Nevertheless, in addition to reforming legal restrictions affecting land transfers, there is an urgent need to undertake the necessary reforms for strengthening tenure security and property rights.

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<sup>4</sup> It should be noted, again, that those regression coefficients should be seen primarily as correlations, and interpreting those quantitative magnitudes as causal effects may be hampered by potential endogeneity problems.

Subdivision of C-CLOAs and improvement of land management and administration services are imperative actions for rural land being regarded by formal lenders as credible collateral. This should of course not minimize the importance of strengthening rural cooperatives, which have an important role to play in the viability of the small farm sector. It is important to remark that a higher productivity of land does not imply that further redistribution will make an indent on poverty, in particular in the least productive areas of the country. The contribution of nonfarm income opportunities and migration to poverty reduction cannot be emphasized enough. Poverty rate is consistently higher among ARBs and more so among non-ARBs, in particular those without land.

### **3.2 Towards a decentralized, community-managed agrarian reform program**

Land reform could still represent an important policy for poverty reduction and rural growth in the Philippines, provided CARP's pitfalls are properly addressed. The three critical areas for reform are: (i) designing more expeditious methods for transferring remaining private lands, in particular those targeted for compulsory acquisitions; (ii) supporting the adoption of flexible schemes for transferring lands in the plantation sector, where breakdown of operations is not warranted; (iii) strengthening the link between land distribution and the delivery of support services. Reform in these areas would allow securing three key goals: (1) complete CARP within 5 years; (2) Strengthen the sustainability of the reform's achievements; and (3) maximize the productivity gains.

How would CARP, reformed along the previous lines, look like? Previous experience through the pilot Community Managed Agrarian Reform Project (CMARP) suggests that a decentralized approach to agrarian reform in the Philippines is possible. The community based approach was piloted in rice and corn areas and targeted to mid-sized landholdings. Its extension to larger holdings would pose serious challenges given the multiplicity of non-economic factors and transaction costs affecting markets for large landholdings. As in the case of VLTs, the CMARP supported direct negotiations between landowners and beneficiaries. Differently from the VLT approach, though, the CMARP proved that with an appropriate system of incentives LGUs can play a key role in facilitating negotiations and in redistributing land. A key aspect was the provision that financing of major sub-projects, such as farm-to-market roads (FMR), potable water systems and multipurpose centers would be conditioned on negotiations being successfully completed. The impact of such investments on the welfare of recipient communities has been found to be substantial. Notably, in several instances LGUs have provided bridge-financing to beneficiaries, allowing these to successfully negotiate the land transactions.

The CMARP's results compare very favorably with the alternative of CA or common VLT. First, negotiated land prices were 30% to 50% below those initially estimated by the Land Bank. Quite interestingly, the price of land has been observed to increase substantially following the investments in farm to market roads and other public services in most of the communities involved in the pilot, signaling major wealth effects for the beneficiaries and their communities. Second, the rate of amortization of the agrarian debt has been on average almost 100% on schedule and in some instances the agrarian debt has been repaid ahead of schedule. Third, the process of land transfer has been non-conflictive. This does not mean that negotiations were easy. Yet, the training in negotiation skills provided through DAR to the ARBs has proved effective. LGUs have played an important role and using a mix of moral suasion and fiscal tools to bridge the gap between the parties. Moreover, communities were extremely interested in the investments in public goods that a successful end to the negotiations would have triggered. The sum of these effects proved to be a major leverage in securing the final agreements. Fourth, participation by

LGUs has led to the full incorporation of the community development plans into the local development plans, thus strengthening the sustainability of the intervention. Finally, only 11% of the ARBs were associated with or family members of the landowners. This was well below the incidence of such transfers observed in the case of VLTs and VOSs at the national level.

The scaling up CMARP seems therefore to be a promising approach for advancing land reform in the next phase and offers potential for a post-CARP model of agrarian reform. It holds the promise of focusing the limited resources under the Agrarian Reform Fund towards financing the provision of sub-projects, public goods, including the development of social capital, and farm level support services. Moreover, with the proper support to negotiations and incentive schemes for community and LGUs' participation, a decentralized and negotiated approach to agrarian reform offers a concrete alternative for a more rapid conclusion of the land reform process. By limiting the recourse to courts and the incentive to tamper with titles, it would enhance rather than thwart the effort of strengthening land administration. Finally, by strengthening the link between land distribution and the delivery of support services, the CMARP approach will drastically increase the sustainability of the land reform achievements.

A differentiated approach based on a combination of CMARP backed by compulsory acquisition offers good prospects for bringing CARP to a closure within a limited time frame. The different challenges that mid-sized and large landowners pose to a negotiated approach to land reform, suggest a differentiated and phased approach. During a first phase of the extension, mid-sized landowners would be covered through a systematic scaling-up of a negotiated and decentralized model in which LGUs and beneficiaries' associations, in collaboration with other civil society organizations, would take the lead in land distribution and provision of support services according to their capacity. Mid-sized landowners would instead be systematically targeted for a negotiated approach a la CMARP, involving associations of beneficiaries and LGUs with appropriate schemes of grants and subsidized loans through the LBP. This decentralized and negotiated approach would cover the bulk of the LAD balance and of the land-owners. The recourse to compulsory acquisition at the end of a enough prolonged first phase (during which the issue of large landowners would be addressed) should be considered as an alternative to failure. The LBP valuation of land should not be considered in this instance as the ceiling price during the negotiations. Large landowners would instead be targeted through a more conventional approach with some modifications ensured to provide enough flexibility at entry. A brief moratorium period would be declared during which owners of large holdings would be offered the opportunity to declare their willingness to negotiate the sale of their lands. A possible definition of large holdings could be 25 hectares and above, which would represent about one third of the CARP balance but only 6% of the total affected landowners. Starting price for the negotiations for the willing landlords would be set near in the neighborhood of the LBP estimates. Once the moratorium is closed, the non-participating holdings would be covered under the compulsory acquisition modality.

The CMARP model will require original modifications to be a viable solution to land reform out of the rice and corn areas. In spite of the advantages that a decentralized and negotiated approach to land reform that the CMARP has successfully tested, there are important caveats to consider. First, the CMARP was developed in the context of rice and corn areas, where beneficiaries were established tenants. Its extension to sugarcane lands and plantation areas would entail a radically different social environment and structure of incentives. In those areas the influence of landowners on LGUs is stronger than in the typical rice and corn areas. Moreover, in the plantation areas basic infrastructures such as farm to market roads have already been developed, often by very same plantations. Moreover, the beneficiaries hardly possess the entrepreneurial skills and networks facilitating access to markets. Thus, the mix of support services and public

goods that would be demanded in these areas will be quite different from those in the CMARP areas. Finally, other factors may hinder the willingness of landowners to negotiate the sale of their lands. Thus, a different approach will be needed for a negotiated and decentralized land reform program in those more difficult areas, which at the moment represent the bulk of the CARP balance.

To achieve the above mentioned principles for the CARP extension in the sugarcane areas the following seems to be the best recommended solutions:

- facilitate direct negotiations between beneficiaries and landowners and to rely on more efficient methods of conflict resolution where negotiations fail;
- expand the range of flexible mechanisms for land distribution beyond the current 'Alternative Venture Agreements' (AVA). An interesting possibility would be to include the option of gradually transferring land on the basis of contracts stipulated within one year after CARP's extension is approved. Transfer of ownership would then progress on the basis of the financial capacity of beneficiaries while these develop management skills and secure access to input, output, and credit markets. Also, implementation of the Labor Code should be offered as an option for a final settlement;
- tie with clearly defined rules the delivery of support services to land access. To make such a process more effective, it is important to distinguish between private and public (or club) goods. Provision of productive assets whose impact would be limited to the farm and of inputs such as fertilizers, seeds and farm implements should be driven by beneficiaries on the basis of previously elaborated business plans coupled with the endowment of productive grants. Public goods and services such as technical extension, farm to market roads, irrigation schemes, should be delivered by LGUs and/or associations of local users;
- enrich the mix of services and support services beyond those more directly related to agricultural production to include those related to improving access and quality of education, health services, and vocational training. This will allow strengthening the interest and commitment to land reform also of those LGUs and communities for which agriculture is not perceived to be the key pathway out of poverty.

These reforms of the agrarian reform program offer the potential for a successful completion of CARP within a five year period. Nevertheless, it is essential that an approach based on direct negotiations between perspective beneficiaries and participation by LGUs and local communities will be complemented by a terminal clause by which compulsory acquisition will be triggered by unsuccessful negotiations. Moreover, the very spirit of negotiation suggests that the adoption of compulsory arbitration would further strengthen the negotiation process, facilitating the resolution of disputes and differences between parties for the interpretation of contracts. Coupling incentives for voluntary land transfers with compulsory acquisition will be key for speeding the finalization of CARP. While the possibility of exercising compulsory acquisition would speed the process it should be used in the least number of circumstances as possible.

To facilitate the gradual phasing-out of CARP, financial resources for land acquisition and productive development could be transferred to beneficiaries, LGUs and local associations, similar to the model of *Cedula de Terra* and *Crédito Fondiario* tested in Brazil with the support of the World Bank. In the case of land reform beneficiaries, out of a pre-determined amount of resources, the portion used for the purchase of land would be transformed into a loan, while the remaining portion would be considered as a grant. Support services that are of a 'public good' nature would be provided by LGUs who in turn would be financially assisted through a system of grants or concessional loans tied to the scale and breadth of their locally managed land reform effort. This approach could very well be tested in the Philippines for future scaling up without the

need of legal reforms. As discussed above, DAR's services represent a substantial share of the cost of transferring the average hectare of land. A leaner and more strategically focused DAR, structured to support a more decentralized approach to agrarian reform, will result in significant cost savings. The CMARP shows that significant cost savings can also be achieved when the transfer of private land is negotiated. The reduction in administrative costs and in the price of negotiated land transfer suggest that a decentralized approach will allow to substantially reduce the overall cost of CARP while achieving the overall reform goals in a shorter span of time.

To face the possible tendency for re-concentration of land, new viable models of agrarian reform need to be devised during the final extension phase. In the long-run models such as the CMARP and those proposed in the World Bank (2009) study for application in the sugarcane lands could evolve into a more sustainable model for agrarian reform driven by LGUs and local associations of farmers and other civil society organizations, along the lines of the *Cedula de Terra* in Brazil. As the CARP will be phased out the need to sustain access to land by the land poor will continue to exist both because a tendency to land concentration will resurface in those areas in which the small farm sector is undermined by a not-so-leveled playing field, as well as recurrence of distress sales of land. Graduating the CMARP into a model of decentralized agrarian reform managed with the support of LGUs and – where required – with the technical assistance publicly provided or sourced from the private sector, will offer the potential of addressing the reconciling productivity with equity on a more sustainable basis.

### **3.3 New models of Agrarian Justice: the role of compulsory arbitration and Special Agrarian Courts**

Conflicts within the agrarian sector are categorized into six types. Type One conflicts involve disputes between the landowners and the farmer beneficiary. Type Two conflicts involve conflicts between the landowner and the State. Type Three conflicts involve those between the farmer beneficiary and the State. Type Four conflicts involve conflicts between farmer beneficiaries. Type Five conflicts are disputes between putative landowners that delay or affect the implementation of any part of the agrarian reform program. Type Six conflicts cover disputes involving participants in the agrarian reform program and third parties.

Under the current set up, all these conflicts are generally resolved through adjudication. That is, a public officer on government salary is relied upon to decide a conflict submitted to it for decision. The adjudication process is layered, i.e. decisions made by the Provincial Agrarian Reform Adjudicatory Officer (PARAD) is reviewed by the central Department of Agrarian Reform Adjudicatory Board (DARAB). This may then be reviewed by the Court of Appeals, or in special cases involving jurisdiction, by the Supreme Court. Special Agrarian Courts, which are basically Regional Trial Courts given special assignments, have jurisdiction over criminal actions arising from the implementation of the Comprehensive Agrarian Reform Law as well as just compensation cases. However in the latter, the Supreme Court has ruled that the DARAB may “preliminarily determine” the value and modality of payment to be given to the landowner.

The quasi-adjudicatory process also suffers from the same problems as the purely judicial process. That is, the requirement for the appearance of lawyers, delays in the presentation of evidence, crowded dockets and the potential for abuse and corruption. The Alternative Dispute Resolution Law of 2004 however and the current openness of the Supreme Court for alternative modes of dispute processing should provide some creative solutions for agrarian reform conflicts.

Conflicts between landowners and farmer beneficiaries, between farmer beneficiaries, and those involving putative landowners (which tend to delay CARP's implementation) should primarily be

processed through *arbitration*. This will remove some of the cases from DARAB's docket, address the problem of delay, reduce the possibility for corruption and will allow better internalization of costs of the dispute on the parties (with special provisions for addressing capability to pay on the part of the farmer beneficiaries and some landowners). Rather than permanent adjudicators, the DAR can maintain a pool of arbitrators specially trained in agrarian issues and coming from various constituencies (lawyers, academics, agrarian reform advocates, land specialists). Under models currently applied in other sectors, parties choose one arbitrator each. The arbitrators chosen then choose a third arbitrator. Costs should be shared between the parties. Should the farmer or farmer beneficiary be a pauper litigant, the State should pay for her/his costs. Compulsory time periods can therefore be more likely met. The DARAB and the BALA should be restructured to allow compulsory arbitration. Hence, the statute that will extend the CARP should allow for a one-year transition period to capacitate its personnel.

Arbitration will cover issues relating to tenancy, terms and conditions of work, leasehold contracts within areas, exercise of pre-emption and redemption rights of tenants, correction and cancellation of Certificates of Land Ownership Awards. Arbitration, rather than adjudication, should also be the principal means for settling conflicts among farmers and/or farmer beneficiaries. Arbitration should also be the principal means of settlement between putative or conflicting agricultural land owners where such conflict delays implementation of the agrarian reform program.

Conflicts between the landowner and the state, usually involve coverage, retention limits and valuation of covered agricultural land issues. The first two issues should remain within the DARAB's jurisdiction. The efficiency of solving contested valuation of agricultural land can be improved by removing the authority of the DARAB to preliminarily determine just compensation since, constitutionally, it is the regular courts that will determine its value. Immediately, this will remove two layers of decision making and thus address delays in the payment of landowners and also the transfer of titles to the farmer beneficiaries.

The filing of ejectment cases in courts against occupants, tenants or other farmer beneficiaries have recently received much attention as it is regarded as a strategic lawsuits to prevent farmer beneficiary participation in the implementation of the agrarian reform program. Currently, the landowner has the privilege of filing a civil complaint in the Municipal Trial court for ejectment if her/his pleading does not allege tenancy. The respondent may allege tenancy in her/his answer. However, the civil complaint can not be dismissed because of the current procedural rules on how a court can acquire jurisdiction. It is therefore necessary for legislation to provide that courts should make a preliminary determination of the issue of tenancy when it is alleged in a responsive pleading. If, it can be shown that tenancy exists, then the case should be dismissed and immediately referred to agrarian arbitration as in all Type One cases.

Ambiguity in law has clearly invited more disputes, in turn creating more litigation which translates to costs for the parties as well as delays in the administration of justice. Hence, every effort to clarify the content of the rules should not be spared when there are opportunities to craft new legislation. In agrarian reform, the Comprehensive Agrarian Reform Law (Rep. Act No. 6657) governs alongside some provisions in the Agricultural Land Reform Code (Rep. Act No. 3844), the Public Land Act (Com. Act No. 141) and the Property Registration Decree (Pres. Dec. 1529). The amount of conflict therefore going through the quasi-judicial as well as court processes can be reduced with better crafted legislation. Hence the statute to extend agrarian reform should clearly specify which provisions in all these laws will be reenacted.

### **3.4 Emerging Institutional Approaches to Rural Development: Implications for CARP's reform**

The findings above point to the conclusion that CARP has a weak pro-poor design in terms of targeting packaging and implementing support services as communities' heterogeneity in productive endowments and pathways out of poverty are considered only to a limited extent. Since density of ARBs in a given cluster of barangays is DAR's primary criteria in defining an ARC, there are limits to the number of ARCs that can be identified or the barangays that be covered by the ARC development program. As it is designed, barangays or cluster of barangays with limited number of ARBs may not be covered under the program, unless a new approach is adopted. The main constraint for expansion is that DAR has to focus on its primary beneficiaries, which are the EP/CLOA holders and leaseholders. Moreover, in DAR's perspective, it is not cost-effective to provide a package of development interventions to a farmer-dense barangay but with only five to ten ARBs. Within the perspective of an agency like the Department of Agriculture or a Local Government Unit, this may be considered a worthwhile intervention, since their beneficiary base is larger. Here lies the dilemma of DAR in expanding its development interventions.

Generally, as commonly accepted, a locally-driven area based development (ABD) approach is a development paradigm that deliberately and systematically tailors its strategies and interventions to the unique socioeconomic, physical and geographical characteristics and endowments as well as the development aspirations of a target community or community clusters. Thus, the basic elements of the ABD approach to development include i) a distinct geo-physical target; ii) a generally homogenous socio-cultural profile of the target beneficiaries; iii) a multi-dimensional approach to development that explicitly takes the linkages of the various sectors of the local socio-economy into consideration; and iv) the empowerment of the target community in the planning and implementation of the development interventions. In a fully locally-driven ABD approach land reform support services for the small farm sector would only represent a part of a wider multi-sector menu of development interventions that are offered for the informed consideration of target-beneficiaries/communities whose socioeconomic profile and aspirations are congruent with such interventions.

As a result of the decentralization process started in 1991, applications of the ABD approach have multiplied. However, given the fragmented system of governance underlying the rural sector, a number of models of community driven or community based development have emerged and been tested under different circumstances. In view of the recommendation to move towards a fully decentralized and negotiated process of land reform involving a larger number of stakeholders and gravitating around LGUs for the provision of key infrastructural and key productive services, a key question is whether such new experiments do show a consistent progress towards the implementation of a new rural development paradigm that is consistent with a decentralized and negotiated approach to land reform in which LGUs and local associations would take the lead. A related issue is also the extent to which the current institutional set up should be reformed in order to deliver a more decentralized CARP in which negotiations would be the dominant modality of land acquisition.

A review of the recent rural development models pursued by the rural agencies (i.e. DA, DAR, and DENR) reveals substantial differences in approaches and scope with a mixed bag of results. Local rural development approaches models range from pilot-testing (DA, DSWD, DOF, ARMM) to sub-sector implementation (DENR) to mainstreaming (DAR). The DA, DSWD, DOF and ARMM initiatives are pilot projects and, thus, are not part of these agencies' regular

operations. The DENR implements ABD-like initiatives exclusively in their “green” sector through their community-based ecosystems management programs.

Only the DAR has systematically integrated an area based approach in the delivery of support services through their ARC program. This might very well be the consequence of the fact that many of DAR’s function are not listed among those devolved to LGUs in the Local Government Code. Yet, several other functions are offered in competition with the DA. The institutional set-up and arrangement of the CARP do indeed provide a wide leeway for de-concentrated and to some extent decentralized implementation as well as for the participation of LGUs, ARBs, and other stakeholders. Nevertheless, decision-making and service-delivery are still significantly NG-centric and its development interventions are mostly agricultural in nature. The local sector-based “ABD” models, therefore, provided limited rural development options and do not fully empower their clients.

The degree of involvement of local government units in rural development remains one of the major institutional challenges in the effort to decentralize the provision of services since the enactment of the Local Government Code in 1991. The experience coming from the various rural development models that have been piloted shows that LGUs, if properly supported, are able to satisfactorily deliver devolved support services. A case in point is the Mindanao Rural Development Project (MRDP), a 12 to 15-year World Bank-funded program implemented by the DA, whose first phase was deemed successful in achieving its objectives of capacitating target LGUs to deliver devolved agricultural support services in spite of some initial short-comings in further decentralizing the planning process and in building local capacities for M&E. Following the successful completion of the first phase, there is now an expansion in program coverage.

Meanwhile, local non-sector agency-led programs (DSWD-Kalahi and ARMM) and the international models provide a closer approximation of the ABD approach to development and teach useful lessons. These programs offered a more varied menu of interventions and services. In addition, the target beneficiaries have a wider selection of service providers. The sample international ABD models reviewed are those found in Mexico and Brazil (national government-led) and in Thailand (private sector-led).

In the long-term, it appears advisable to consolidate and restructure the country’s rural development agencies towards the establishment of a rural development department or agency which will i) perform mainly “steering” and coordinating functions, which will include fund matching to promote locally-driven ABD, impact monitoring, and R&D; ii) promote and fund a multi-sector and area-based menu of development programs and services for the target-beneficiaries to choose from – agriculture and land reform will only be part of this menu; iii) undertake a fully demand-driven development process where LGUs, rural communities, and local association of beneficiaries are empowered to choose the development package and service provider they prefer – the NG agencies and the LGUs will have to compete with NGOs and the private sector for community contracts; iv) coordinate with the LGUs for fund-matching and the provision of technical and financial assistance to the target communities; and v) encourage the private sector and civil society not only to provide technical services to target communities but also to complement government’s rural development initiatives by promoting and facilitating ABD, especially in areas where the government are unable to reach.

In the short-to-medium term, when restructuring is not feasible, what can be undertaken is the establishment of a coordination mechanism for rural development at the policy/oversight level. With regard to CARP’s implementation, its management can be reformed to make it more LGU-

and ARB- driven along the lines of the CMARP. These immediate reforms can lay the ground work for the establishment of a national rural development agency.

Various local and international models of rural development management exhibit varying degrees and depths of coordination. On one end, there's policy-proofing that ensures an area-based rural development thrust only at the policy level among national agencies. While on the other end, inter-ministerial coordination also involves program coordination, resource sharing agreements at national and sub-national levels. The GoP may wish to first try policy-proofing then work its way towards inter-ministerial coordination. It would also be ideal if the focal agency or secretariat of this coordinating body has a multi-sector orientation with strong links to the academe and research institutions. This will not only provide strong technical back staffing and minimize sector biases but will also relieve the DAR of its coordinating functions leaving it free to focus on its remaining core functions during the extension period.

Effective horizontal and vertical coordinating mechanisms exhibit the following characteristics:

- Clear focal agency or body with sufficient political authority and backing – e.g., headed by the Chief Executive or by a Minister or Secretary
- Effective influence over the policy-making and budgetary processes
- Clear strategic and operational guidelines – e.g., prioritized lists of projects, implementing and funding responsibilities, conflict resolution process - all within a clear strategic spatial development framework
- Formal coordinating platforms and instruments– e.g. working groups, institutional and program agreements
- Effective monitoring and feedback mechanisms
- Competent technical support, including research, especially from the coordinating secretariat

Adriano's (2008) recommendations to: 1) in the short-to-medium term, convert the PARC into a Joint Commission on Rural Development (JCRD), which will provide the policy direction and exercise oversight function of rural development-related agencies, may be worth considering. and, 2) in the long-term, convert the Department of Agriculture(DA) to the Department of Agriculture and Rural Development (DARD) to expand the Department's role in countryside development, particularly in supporting small farmers and ARBs, and to facilitate the absorption of some DAR personnel to the DARD, may be worth considering.

Regarding reforms in CARP implementation management, the findings of this study underscore the need for the LGUs and the ARBs to assume a more pro-active and driving role during the CARP extension period while the DAR undertakes a more facilitative and focused function. In terms of MFOs, it was recommended that i) the adjudication functions of the DAR be more circumscribed leaving a significant portion to either be privatized/ under compulsory arbitration or given to the regular courts; ii) the LAD be more market-driven and led by ARBs even while the DAR retains its LTI functions; and iii) the LGUs take a more leading role in a fully demand-driven PBD service. On the second recommendation, it was suggested that the CMARP be up-scaled and replicated so that voluntary negotiations between farmer beneficiaries and landowners, and facilitated by LGUs and the CIAs, would be the default mode for LAD. Compulsory acquisition by the government will only be triggered if this fails. In addition, Brazil's *Cedula da Terra* program should also be pilot-tested among LGUs and ARBs with manifest capacities, such as those in the MRDP sites, to more fully take the lead in program implementation. In this model, ARBs are given direct control over program resources and LGUs are more active in the delivery

of public support services. This model should be the direction towards which the up-scaled and replicated CMARP should eventually evolve towards.