



Digging deeper towards Debt and Land Inequality: *The Agra-ODA Complex and the Philippine Debt Quagmire*

By the Freedom from Debt Coalition (FDC)

Abstract

This paper argues that the ARC (Agrarian Reform Communities) -based framework by ODA-funded Agrarian Reform and Rural Development programs, which focuses mainly on support services, is ineffective inasmuch as it does not tackle the root of the problem, which is the redistribution of land. Furthermore, the market-driven infrastructure-based framework behind these ODAs is tangential to the needs of the farmers in the grassroots, is inequitable, and can only result to widen the spaces for former landowners to reconsolidate their land.

It is argued that the primary cause of the ineffectiveness and inefficiency with which the government conducts its agrarian reform mission is the deteriorating government support on the effort, as manifested by decreasing budgetary allocation on the Department of Agrarian Reform (DAR). Instead, the government relegated this important responsibility to creditors and donors, and consequently, had even been more reliant on ODA to finance its agrarian reform initiatives. The problem is, it is the loan burden caused by ODAs that compelled the government in the first place to exhaust its resources to pay its debts, which it prioritizes due to the automatic appropriations act on debt servicing

This paper recommends solving the problems of the ODA-Debt-Agra complex by addressing the legal and institutional framework of paying the debts, ending the ineffective policy conditionalities imposed by ODAs, and setting up a national strategy for agri-industrialization that will locate agrarian reform as a policy and determine its financing.

Keywords: Agrarian Reform, ODA, Debt, Support Services, Rural Development, ARC

I. Agrarian Reform in the Philippines: A Problem of Government Support

The implementation of the Republic Act 6657 or the Comprehensive Agrarian Reform Law (CARL) is set to end on June of this year. The law serves as the legal justification for the implementation of an agrarian reform program. Seeing the importance of the law, Mrs. Gloria Macapagal-Arroyo has already indicated as a priority bill the piece of legislation that seeks to extend the CARL for another ten years.

The struggle for land reform is one of the few national issues that are capable of mobilizing the resources and sentiments of the broad public. In fact, after hundred of years of land slavery from colonizers to newly installed Filipino elites, it is an issue that is so ingrained on the Filipino psyche, that it is impossible to go on towards any direction of progress without resolving this singular issue that has haunted the people for so long. Thus, no government can afford to ignore agrarian reform without risking its own stability and ascendancy.

This year, we may yet again hear the continuing rhetoric on the need for land redistribution, on the importance of emancipating our peasants from the shackles of feudalism, and on the urgency of modernizing our agricultural industry through a socially just agrarian reform program. It is thus

unfortunate to see that the land reform demagogues in the government fail to place the money where their mouths are.

Turning the Blind Eye: DAR's Dwindling Budget

One reliable indicator of the value that the government places on a certain policy is the amount of money that it allocates for the realization of the goals of that policy, which is why the best gauge of whether the government gives importance to Agrarian Reform lies on the budget it gives to it. Looking at that, however, we see the real deal on Agra.

The measly PhP 15 billion that was the actual budget for 2007 of the Comprehensive Agrarian Reform Program (CARP) is in danger of being slashed further this year. The CARP proposed allocation for the 2008 budget is a puny PhP 13 billion, two billion pesos lower than last year (Mayuga, 2006). This is the meager budget for CARP despite the continuous rhetoric of the President that the effective and efficient implementation of agrarian reform is a lynchpin in the aim of the government to alleviate poverty and attain social justice.

But this is not the whole story. Perhaps due to the composition of the legislature, which is mostly from the landowning elite, CARP already suffered perennial budget cuts. The differences between the proposed and approved budget from 2001 to 2004 are PhP 616 million, PhP 2.73 billion, PhP 1.2 billion, and PhP 4.01 billion respectively (DAR data, as cited from Bello, 2006).

Notwithstanding the fact that agrarian reform is not really a government priority, it is first and foremost of the dwindling available funds that the government is decreasing allocations on agrarian reform and other social services. Of course, it doesn't follow that when the government decreases its support for a specific policy or service the public demand for it lessens. As in the case of agrarian reform, the main strategy of the government is look outside for financing, and this is where Official Development Assistance or ODA enters into the picture.

II. ODA and its Problems

The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) defines Official Development Assistance as:

“ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 percent (calculated at a rate of discount of 10 per cent).”

The ODA mechanisms are integral parts in the creation of national and international aid agencies to promote reintegration and external assistance, as well as the establishment of lending institutions such as the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) during a United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, USA.

In an attempt to develop an equitable sharing of the aid effort or should we say, in an effort to spread out sleeping capital from First World countries to untapped economies of the less-developed areas, they agreed to the establishment of the Development Assistance Group (DAG) as a so-called forum for consultations among aid donors on assistance to developing countries.

This eventually led to the reconstitution of the Organization for European Economic Cooperation (OEEC) as the Organization for Economic Cooperation and Development (OECD).

The said formation is well suited with the International Finance Corporation's (IFC) purpose to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in less developed areas. The IFC is an affiliate of World Bank.

Accordingly, the OECD is an economic policy coordination club composed of 30 of the world's richest economies as a "forum where governments can compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies."

In 1969, DAC formally adopted the ODA concept separating it from "Other Official Flows (OOF) and identifying aid as specific ODA which are extended with the main objective of promoting economic and social development. Financial assistance was intended to be concessional with the 'grant element' of the said aid as the measure of its concessionality.

ODA: Unfulfilled Promises and Detrimental Effects

From its inception, however, ODA as facilitated by the OECD was riddled with problems arising from the procurement of tied aid. This greatly reduced its development effectiveness, as it was more concerned with mandates securing the interests of selected countries— often donor countries themselves. The said aid will be spent on goods or services produced in a selected country, often the donor country itself or by introducing specific economic conditionalities.

This greatly reinforced the conception that aid donors were not sincere in extending external financial assistance to poor nations but were only using aid as a precondition to introduce one-sided conditionalities benefiting the donor countries while opening developing nations' fragile economies to the ramifications of future debts and external structural adjustments such as trade liberalization and privatization of essential services. This is especially true in the case of the highly contested Japan-Philippines Economic Partnership Agreement (JPEPA) which promotes toxic dumping and trading in exchange for developmental aid and partnership.

Moreover, China's ODA to the Philippines is another case in point. Loan agreements entered with China necessarily entails the Philippine government's acquirement of Chinese investors/contractors which are enjoying advantages at the great prejudice of existing national laws and local businesses. Among the wide-ranging benefits is the issuance of sovereign guarantees binding our government to assume liabilities on debts contracted by the private sector in case of a default on loan payments. The illegitimate \$ 503 million Northrail Luzon Project is an example of this.

In truth, since the 1970, OECD had been pressured of the need for a progressive reduction of tied aid (Helmut FÜHRER 1996). However, these calls were met with lukewarm responses from developed nations stating that the tying of aid is essential to local public support of extending aid to other countries. Though almost all of the OECD and Development Assistance Committee (DAC) members agreed to participate in further discussions of the issue, they also stressed their special circumstances and the character of their aid composition.

That is why the Paris Declaration on Aid Effectiveness made last March 2005 is frustrating, to say the least. While it binds all major donor and recipient governments to set out an agenda to make aid more effective and efficient by reducing duplication, transaction costs, and misdirected aid, OECD admitted that concrete targets set for 2010 such as increased proportion of aid to be untied; establishment of "mutual accountability" mechanisms in aid recipient countries; and for

two thirds of aid to be delivered in the context of so-called program approaches rather than projects look unlikely to be met in their current phases (OECD 2006).

Over the last 20 years, annual ODA has been between \$50-60 B but has reached over \$100 B in 2005 (OECD 2006). The United States is the world's largest contributor of ODA in absolute terms (\$15.7 billion, 2003), but the smallest among developed countries as a percentage of its GDP (0.14% in 2003). The UN target for development aid is 0.7% of GDP; currently only five countries (with Norway in the lead with 0.92%) achieve this.

The democratic deficit is another issue plaguing ODA. Aid-giving is within the exclusive realm of government-to-government dealings excluding popular participation and scrutiny from the people—the same people who are purportedly recipients of these aid assistance. In tandem with recipient governments, donors largely determine the amount, allotment and methodologies of the ODAs largely bypassing not only needed consultations but also existing national laws on procurement and competitive bidding.

III. ODA on Agrarian Reform: Inadequate, Ineffective, and Gap-widening

The changes brought about by the 1985 EDSA People Power Revolution in the workings of government and the proliferation of People's Organization (Pos) and Non-Government Organizations (NGOs) that actively participate in making comprehensive land distribution a reality gave credence to the existing agrarian reform program in early 1990's. The newly enacted CARL, while having fundamental flaws, was deemed a progressive piece of legislation.

These positive changes in the agrarian reform sector convinced donor countries to pour funds to the agrarian reform program of the government. It is not, however, till the period of DAR Secretary Ernesto Garilao that ODA became a major source of financing for agrarian reform. Under his term, DAR again secured the trust of foreign donors that had been damaged by the series of anomalies that hounded the CARP under President Corazon Aquino. He attracted ODA funds of up to PhP 22.5 billion to finance ARCs. When he left the office, there is as much as PhP 15.5 billion left of ODA money in DAR.

This policy of dependence on ODAs continues until now. In the 2006 Accomplishment Report of the department it prides itself on its "high absorptive capacity" in terms of utilization of Official Development Assistance. In the year 2006 alone 62.32B (Php) was spent on implementing CARP yet the Philippine Government provided a paltry 14.91B (Php) as counterpart funds

As of March 2007, the Department of Agrarian Reform listed the following as its Foreign Assisted Projects (FAP):

- Agrarian Reform Communities Project (ARCP - ADB)
- Agrarian Reform Infrastructure Support Project Phase II (ARISP II - JBIC)
- Second Agrarian Reform Communities Development Project (ARCDP 2 - WB)
- Community-Managed Agrarian Reform and Poverty Reduction Project (CMARPRP)
- Mindanao Sustainable Settlement Area Development Project (MINSSAD - JBIC)
- Northern Mindanao Community Initiatives and Natural Resource Management Project (NMCIREMP - IFAD)
- Western Mindanao Community Initiatives Project (WMCIP - IFAD)

- Support Project for the Indigenous Communities and MNLF in the Zone of Peace within Agrarian Reform Communities (SPICcinZPARC - IFAD) - in support to the WMCIP, a special grant to support government's efforts in attaining peace in the SZOPAD areas in order to pave the way to the reintegration of MNLF ex-combatants into the mainstream of society and to alleviate the poverty incidence in the area
- Solar Power Technology Support to Agrarian Reform Communities (SPOTS II)
- Support to Agrarian Reform Communities in Central Mindanao (STARCM - EU) - a 7-year project geared to contribute to the alleviation of rural poverty and economic disparities in the four provinces of Central Mindanao
- Belgian Integrated Agrarian Reform Support Programme Phase III (BIASRP III) - An off-shot of the on-going cooperation project between the GOB and GOP through the Belgian Agrarian Reform Support Project, an additional 900M BEF grant assistance has been committed to the Philippines to expand the BARSP adding Siquijor in Region VII and Province of Zamboanga Sur and Norte, and Basilan
- Development and Testing of Innovative Approaches for Mainstreaming Indigenous Peoples in Selected Agrarian Reform Communities (WB - Japan Social Development Fund - Government of Japan) - for mainstreaming Indigenous People into the ARCDP II
- JICA In-Country Training Program
- Program Support to Asset Reform Implementation (PSARI - UNDP) - under the Empowerment of the Poor Portfolio of UNDP. Its main objective is in line with the UNDAF priorities and aims to attain Millenium Development Goals (MDG)
- Integrated Programme for the Empowerment of Indigenous Peoples and Sustainable Development of Ancestral Domains (IP-EIPSDAD - UNDP)
- Japan-PHRD for TA (Grant) for National Program Support to Agrarian Reform (NPSAR)(WB/Government of Japan)
- RP-German Cooperation to Support Agrarian Reform and Rural Development Project Phase II (GTZ)
- Philippine-Israel Center for Agricultural Training Project - to strengthen the cooperation between the Center for International Cooperation (MASHAV) of the Ministry of Foreign Affairs of the State of Israel and the DAR of the GOP
- Italian Agrarian Reform Community Development Support Project (Italian ARCSDP- Government of Italy) - The project primarily involves the establishment of three (3) Farmers Support Centers one (1) each in Malabang, Ianao del Sur, Malungon, saranggani and Datu Montawal, Maguindanao.
- Agrarian Reform Infrastructure Support Project (ARIS III - JBIC)

Surface-level analysis would tell us that ODA is really beneficial to the cause of Agrarian Reform. It does what otherwise the government would not have done due to lack of resources. Not all is well, however, as in the case of most government policies. Digging deeper would unearth flaws of the government policy to rely on ODA.

Agra-ODA without Agra: The ARISP focused approach as Agra-ODA Model

A fundamental flaw of the current ODAs in agrarian reform is that it does not concern itself with the issue of land tenure. Instead, ODAs conveniently choose the pre-selected ARCs as target groups. The most problematic area in land reform is the process of distributing land. The efficient

selection and awarding of land must be included as a primary component of any ODA that concerns itself with agrarian reform. The objective of genuine land reform will not be realized if agencies involved do not concern themselves of land distribution.

Let us take, for example, the Agrarian Reform Infrastructure Support Project (ARISP). Funded by the Japan Bank for International Cooperation (JBIC), ARISP is the first ODA specifically geared in enhancing agrarian reform. Instead of funding just one component, irrigation, as proposed by the Philippine Government, JBIC packaged ARISP with additional three components; farm to market roads, post harvest facilities and micro-credit financing. The ARISP was deemed a success in donor communities that it actually paved the way for \$40 billion more in ODA to projects that are modeled on the ARISP and the additional funding by the Japanese Government for the Phase II and III of the project.

At a glance, the project could actually be evaluated favorably. In using a focused strategy on Agrarian Reform Communities, it efficiently managed limited resources and made possible the increase in income of agrarian reform beneficiaries. However, the focused approach by the ARISP which targeted selected agrarian reform communities (ARC) is a problematic approach in itself.

The ARCs are chosen communities that become pockets of economic growth in the countryside but it leaves behind the other communities which might have had more need for assistance. A brief review of the ARC's chosen as beneficiary for the ARISP I shows that 43 are from the Visayas and Luzon while only 33 are in Mindanao. The figures may not show a huge disparity but including the factor that most lands that are included in the Comprehensive Agrarian Reform Program (CARP) are in Mindanao and the provision in the Philippine ODA Law that ODA funds must benefit the poorer parts of the country the said distribution is actually flawed.

Alarmingly, a quick review of the policies of the Macapagal Arroyo administration as posted in the Department of Agrarian Reform website is a mere cut and paste of the key result areas of the ARISP – Phase I assessment.

Thus, we have a case of ODA focusing only on selected areas which, in the first place, may have had a good chance of development already. A national policy that is supposed to inequitably distribute land justice is instead introducing foreign-funded reforms which are delivered piece-meal, and only to targeted communities.

ODA and Market-driven Agrarian Reform: Funding the Sale of Peasant's Power

Not only is the ODA-based agrarian reform inequitable, but it tends to widen and increase this inequity by introducing market-driven reforms. During the time of DAR Secretary Horacio Morales, the World Bank issued a critique on the government Agra policy entitled " Philippines, Promoting Equitable Rural Growth".

The report stated that the Philippine Agrarian Reform program is "less than satisfactory", citing the fact that land transfer had so far been limited to government owned land and that much of the private lands remains to be acquired and distributed. It further cited as major weaknesses of the program the huge funding requirement for landowner compensation and high economic and social cost of compulsory land-acquisition, especially because of the stiff-resistance by the landowners.

Thus, it proposed what it called as Market Assisted Land Reform (MALR) approach. The paradigm is characterized by a "willing seller - willing buyer" framework, or encouraging land transfer through manipulating the supply-demand on the rural land market. On the supply side,

disincentive on land ownership are created in order to discourage retention of land, like higher land taxes. On the demand side, the farms are capacitated to purchase these lands through increased credit and subsidies.

A direct translation of this framework is the Community-Managed Agrarian Reform and Poverty Reduction Project (CMARPRP) as funded by Japan Social Development Fund (JSDF), an affiliate of the World Bank. According to DAR, the CMARPRP “promotes the strategy for effecting land transfer to agrarian reform beneficiaries based on farmer-landowner negotiations (VLT/DPS) and community-state partnership in the planning, provision and management of productive investments and critical support services.”

So what is wrong with the MALR framework? We can begin by assessing the operating principle behind it. In the first place, the framework ignores the core social and political principles embodied in the CARP. It emasculates the government in practicing its expropriatory powers, especially in areas where the market approach will fail.

MALR is actually the start of trend of decentralizing and putting to market control the issue of agrarian reform. We must remember that during the period MALR is introduced, the Joint-Venture Agreement (JVA) model which seeks to corporatize and vertically integrate ownership of lands under Agrarian Reform. This way, the shares of land would be converted into shares of stock. The concept was introduced by a powerful landlord, Danding Cojuanco, and was further institutionalized in AO 2 of 1999.

Both the MALR and JVA runs counter to the very spirit and philosophy of CARP, which is to break feudalism by creating a new class of small-landed citizens. Instead, it converts the feudal elite into a nascent industrial elite, with land and agricultural labor as their base.

Moreover, the market approach will not result into the objective it wanted in the first place, which is land transfer. Due to intense poverty in rural areas, credit will likely be used for basic consumption and other subsistence expenses. As for the landowners, the high cost of maintaining the land would drive them further to hasten land conversion, and, having the land itself as leverage, negotiate with the farmers higher prices for their lands.

ODA thus, with its market-oriented and selective approach, only serves to worsen the plight of Filipino farmers. Worse, inequality and ineffectiveness are only two of the woes the Filipino farmer would be suffering because of ODAs. A much terrible burden of debt and debt servicing further thrusts not just the Filipino farmer but the entire Filipino citizenry into a quagmire of poverty and mal-development.

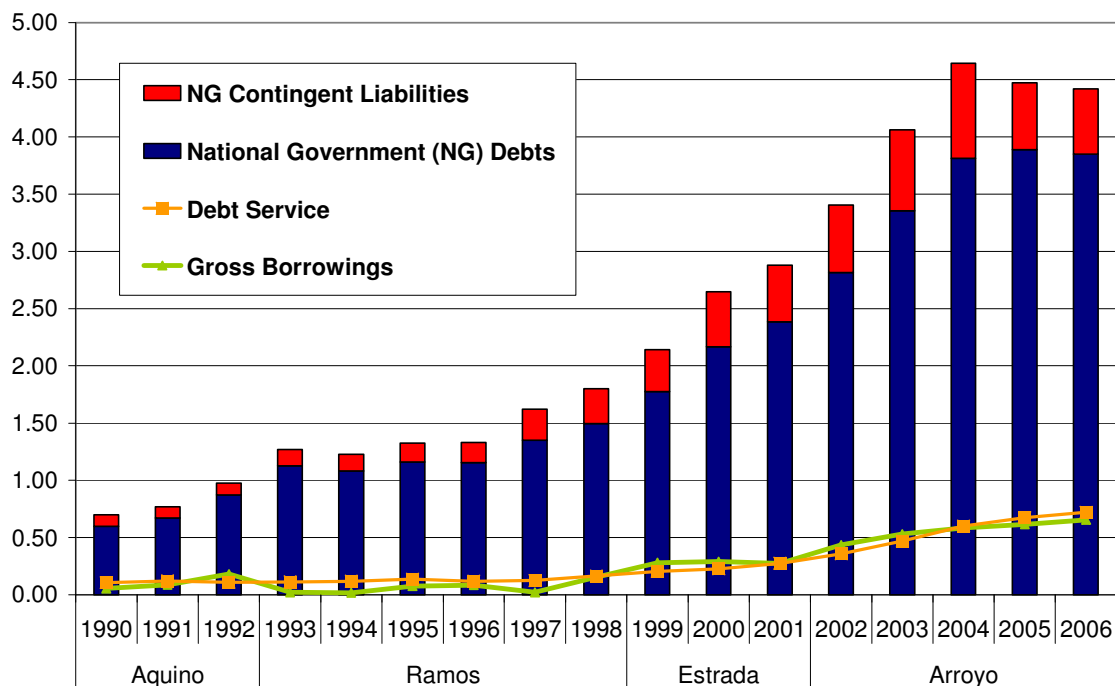
IV. ODA-caused Debt Quagmire and the Automatic Debt Servicing Provision

ODA is one the primary sources of national government debt, primarily because of the loan-grant mix. Dr. Eduardo Tadem of the University of the Philippines, Asian Center reported that the loan-grant distribution of ODA to the Philippines remains unfortunately skewed in favor of loans, with shares of loans to total ODA even increasing from 82% in 1987-2000 to 84% in 2001-2007.

Thus, the addiction of Philippine government to ODA resulted to a huge debt stock that continues to increase year by year. As of September 2007, the Bureau of Treasury reported that the National Government Outstanding Debt reaches a staggering PhP 3.83 trillion, PhP 1.63 trillion of which is foreign debt. Debt service for 2008 as proposed by the Department of Budget and

Management reaches PhP 624.09 billion: PhP 295.75-billion of which is earmarked for Interest Payments and PhP 328.34-billion off-budget expenditure for Principal Amortization.

Growing Debt Problem (in trillion pesos)



Sources: Bureau of Treasury for NG Debts and Contingent Liabilities, Bangko Sentral ng Pilipinas on Gross Borrowings, and Department of Budget and Management (General Appropriations Act) for Debt Service

This overwhelming debt burden siphons away resources which could have been spent for other more productive aspects of society and the economy. We thus end-up in a vicious cycle: the government cannot spend more on social services because of huge burden, which is why it ends up relying on debt-creating instruments such as ODAs. Meanwhile, the debt stock continues to increase due to government reliance on such financing instruments. The government is trapped in a vicious cycle of debt and debt-dependence.

DAR: Debt-creating Agrarian Reform

DAR itself is responsible for the some of the countries debts. Looking at the Budget of Expenditure and Source of Financing (BESF) for fiscal year 2008, the Department of Agrarian Reform is projected to be directly responsible by as much \$ 523.53 million of our countries external debt at the end of 2008 even with the government proposing to pay \$ 12.56 million in principal payments alone.

Creditor	Loan Account	Loan No.	Project Name	Outstanding (end 2007)	2008		
					Added Borrowings	Principal Amortization	Outstanding (end 2008)

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ADB	1667-PHI	21187000	AGRARIAN REFORM COM PROJECT	61,290.80	0.00	1,650.46	59,640.34
KFW	No.1938304 / 7965320	27153000	WESTERN MINDANAO COM. PROJ.	447.34	0.00	93.56	353.78
IFAD	474-PH	28130000	NORTHERN MINDANAO INITIATIVE C	11,923.58	0.00	279.72	11,643.86
IFAD	577-PH	28131000	IMELDA RESETTLEMENT PROJECT	6,888.21	386.09	0	7,274.30
JBIC/OECF	PH-P152	23402000	AGRARIAN REFORM INFRA SUPORT	42,948.85	0.00	2,374.07	40,574.78
JBIC/OECF	PH-P203	23433000	AGRARIAN REFORM INFRA PH2	103,694.63	0.00	0	103,694.63
JBIC/OECF	PH-P222	23449000	MINDNAO SUSTAINBLE SETLMT DEV	44,290.01	0.00	0	44,290.01
USAID	492-T-046	24112000	BICOL INTEGRATED AREA DEV	681.2	0.01	53.13	628.08
USAID	492-T-046A	24113000	BICOL INTEGRATED AREA (\$750T)	331.85	0.00	25.88	305.97
IBRD	7152-PH	22188000	2ND AGR'N REFORM COMM. DEV'T.	43,927.67	1,632.65	0	45,560.32
IBRD	4109-PH	22172000	AGRARIAN REFORM COMMUNITIES	36,270.47	0.00	2,933.10	33,337.37
Other Loans	BBVA USD12.9M	29494002	CAGAYAN VALLEY COOP DEVT	7,392.75	0.00	1,848.19	5,544.56
Other Loans	BNP PARIBAS USD13M	29606000	LAND & GEOGRAPHIC INFO.	7,645.42	0.00	2,648.69	4,996.73
Other Loans	CIDA	29157000	AGRARIAN REFORMS BRGY	1,420.17	0.00	87.08	1,333.09
Other Loans	DEUTSCHE / BNP Y19B	29603000	AGRARIAN REFORM BRGYS (ARCs)	41,238.61	72,913.06	0	114,151.67
Other Loans	DEUTSCHE / BNP Y3.3B	29604000	TULAY PANGULO MAGSASAKA PROJ	28,360.18	0.00	0	28,360.18
Other Loans	ICO USD12.9M	29494001	TULAY PANGULO PARA MAGSASAKA	12,937.31	0.00	0	12,937.31

Other Loans	ICO USD13.495M	29605000	SOLAR PWR TECH SUP PH2 SPOTS2	11,904.40	0.00	0	11,904.40
Other Loans	SIDA (SEK18M)	29467000	SOLAR PWR TECH SUP PH2 SPOTS2	570.22	0.00	570.22	0
TOTAL				464,163.67	74,931.81	12,564.10	526,531.38

Table: Agrarian Reform Loans. Source: BESF 2008

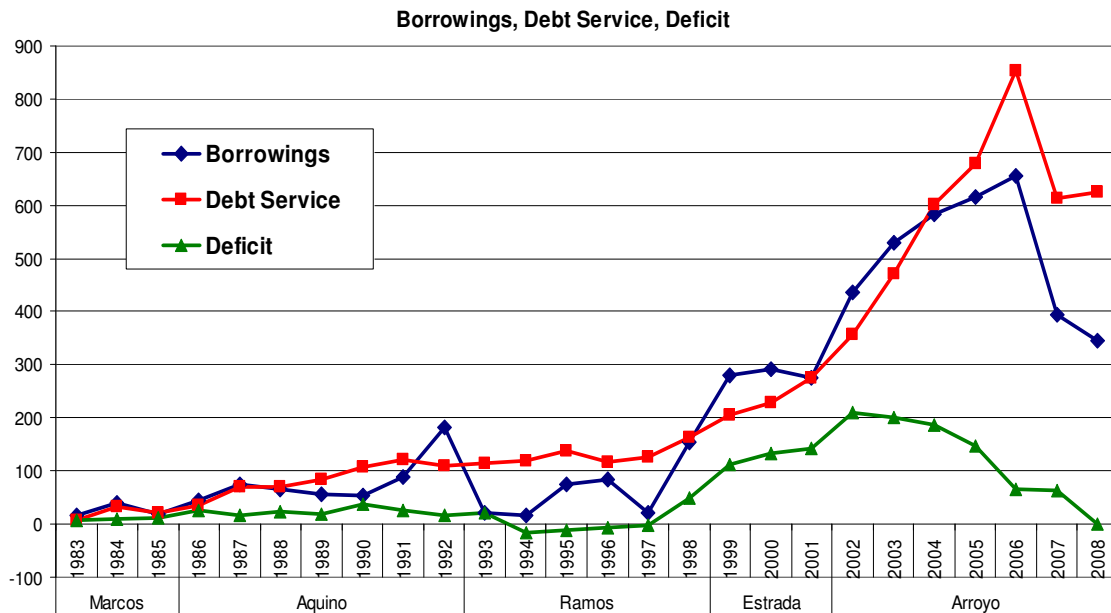
Added borrowings, which are in effect additional ODAs, are projected to amount to \$ 74.93 million, much more than what is to be paid. Thus, the total agrarian reform debt jumped by \$ 62.37 million from this year's \$ 464.13 million. This is on top of the two new loans, namely AGRARIAN REFORM INFRA PROJECT III and AGRA REFRM INFRA SUP PROJECT as funded by JBIC/OECF, that is being proposed.

Ironically, the Agra-related debt expenditure for this year could have been used to augment the Agra-budget instead. The total of \$ 40.48 million or about PhP 1.62 billion earmarked for interest payments (\$ 27.92 million) and principal amortization is will do a lot in increasing the meager PhP 7.69 billion DAR's proposed budget. Instead, this will go on paying debts which might have not benefited the farmers at all.

Automatic Debt Service Provision: Bane of all Social Services

Looking deeper into the government spending policy, the reason for this debt quandary is the Automatic Appropriations provision in Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987 as copied in toto from Sec. 31 (B) of Presidential Decree 1177. It roots from a Marcosian directive to ensure the automatic allocation for principal amortization and interest payments of loans. Thus, all administrations are forced to allocate first on debt before any other social services, notwithstanding the fact it is the policy of the government anyway to please the creditors, because it is illegal not to do so.

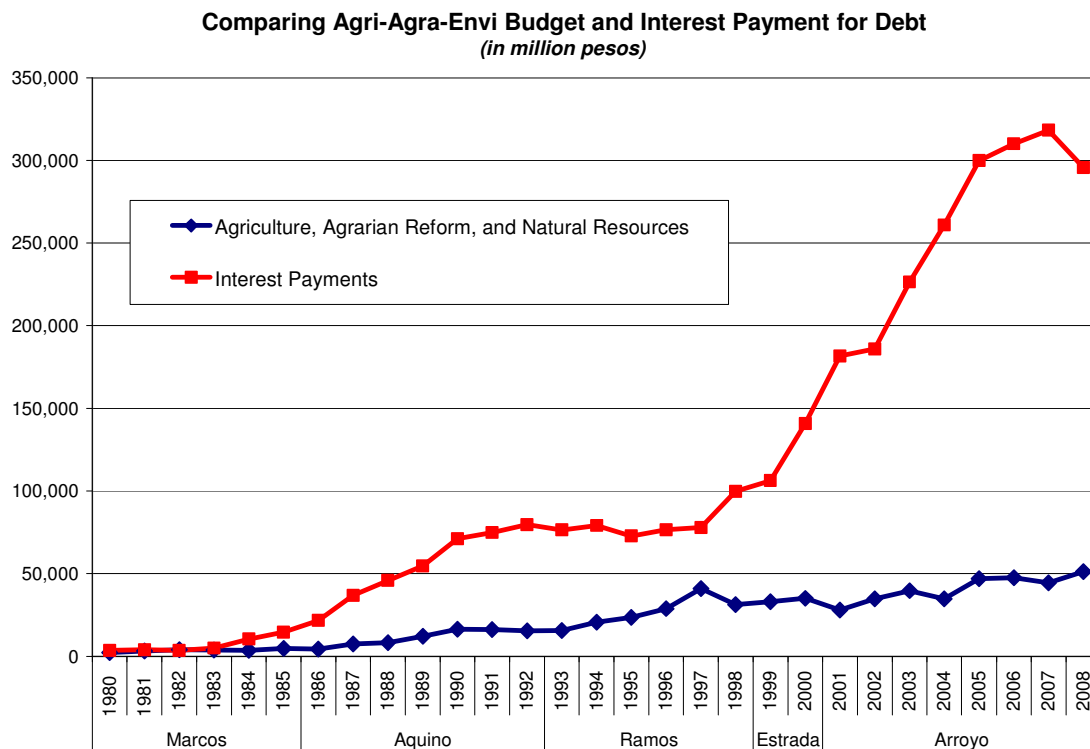
Because the automatic appropriation on debt service exhausts the country's resources, the government is forced to borrow in order to support its budget and pay its debts. Looking at the graph below, the gap between borrowings and debt service remains to be relatively small, which means that we are borrowing as much as we are paying year by year. This only proves that we really do not need to borrow in order to pay.



Sources: Bureau of Treasury, Department of Budget and Management

Agrarian Reform is not only the service which suffers from lack of budgetary allocation. Other services like health and education, while receiving augmentations year after year, don't receive the budget it really needs. The cause for this is the increasing allocations for debt servicing due to the automatic appropriation provision.

To compare Agrarian Reform and Debt Expenditures, let us take a look at the chart below:



Source: Department of Budget and Management

V. Conclusion

Decreasing Agra Support: Externalizing State Obligation

The primary cause of the ineffectiveness and inefficiency with which the government conducts the agrarian reform obligation is the deteriorating government support on the effort, as manifested by poor budgetary allocation for the Department of Agrarian Reform (DAR) and other departments within the agrarian reform family (Department of Agriculture, Department of Environment and Natural Resources, etc.). This severely stifles the capacity of the agencies to conduct land acquisitions and expropriation.

The decreasing support is only indicative of the fact that the government is gradually relegating the important obligation to conduct Agrarian Reform to creditors and donors, and consequently, had even been more reliant on ODA to finance such initiatives. More and more Agra-related FAPs enter into the picture, filling in the vacuum of the lack of government support.

The reason why the government is so much eager to get out of hands the task of agrarian reform is not simply because of the neo-liberal paradigm it is operating on (which hails deregulation, privatization, and liberalization). Rather, it is because the government itself lacks a coherent vision for the policy itself. It doesn't know where to locate land reform in its developmental direction and national objectives.

Thus, there is an absence of strategy-financing program for agrarian reform because there is no strategy to begin with. Again, it depends on policy framework imposed by ODAs for its strategy, which has its own problems to begin with.

Flawed Agra-ODA Framework

The policy of reforming land tenure in the Philippines had already been in place prior to the entry of ODA's in the country. It is unfortunate, thus, the strategies involved in accomplishing this policy had been mutated in order to accommodate foreign financing for it. This could have been effective if not for the fact the institutional responses being offered by the ODA policy conditionalities are apt for the needs in the grassroots level.

This is not the case. The entry of donor countries made an impact more on the nature of the projects that were implemented to enhance agrarian reform. Unfortunately, there had been such passive acceptance of these programs that the gauge had no longer been how many hectares of land had been distributed but how much increase in income of pre-selected ARCs was made possible by existing ODAs.

The purpose of agrarian reform is to equitably distribute land to the landless. The most pressing question that should be answered by any agrarian reform policy or program is, was it able to effectively implement the distribution of land? Making the agrarian reform policy of the country a program of ragtag projects prescribed by foreign consultants that takes a hit or miss approach, will not accomplish agrarian reform – it will only reverse what we already gained.

The current ODAs may have strengthened the income generation of ARCs, but it failed to promote genuine land reform. The ARC-based framework by ODA-funded agrarian reform and rural development programs, which focuses mainly on support services, is ineffective inasmuch as it does not tackle the root of the problem, which is the redistribution of land.

Furthermore, the market-driven, infrastructure-based, agri-industrialization framework behind these ODAs is tangential to the needs of the farmers in the grassroots. The Market-Assisted Land Reform (MALR) framework as implemented by various ODA-funded projects such as the World Bank funded Community Managed Agrarian Reform Project (CMARP) is not only ineffective, is as much as it has wrong assumptions to begin with, but also runs counter to the spirit of the Agrarian Reform, which should be based on social justice and not simply economic supply and demand.

Under the ODA regime, agrarian reform in its genuine character is at a losing path. It suffers from wrong framework – lack of cohesive framework even, making it unjust, ineffective, and inequitable.

Debt and Budget

More than the problem of wrong framework, it is the loan burden caused by ODAs that compelled the government in the first place to exhaust its resources in payment of its debts, which it prioritizes due to the automatic appropriations act on debt servicing.

Clearly, the root of the problem is the government's policy of relying heavily on creditors to finance social projects that are tangential to the needs of its supposed beneficiaries on the grassroots – a policy which, ironically, would have been unnecessary had the government chosen to allocate more to social services than debt payments. In fact, there is no shortage of cases of loan-financed projects going to waste due to inefficiency, corruption, or simple needs mismatch.

Agrarian Reform is not an exemption. Its slow-moving pace might have been because of there is no coherent policy linked with its financing, except the overall neo-liberal framework that ties the ODAs financed by foreign creditors, in order to address the needs in the grassroots level.

The result is more useless debts that only served to finance ineffective and tangential projects. These debts, unfortunately, causes the government to spend less and less on social services such as agrarian reform because of the automatic debt service provision in the administrative code. Notwithstanding that, the neo-liberal framework that had been imposed by earlier ODAs is already entrenched in the nation's development strategy.

VI. Recommendations

On Agrarian Reform

The problem of Agrarian Reform is basically a problem of relegating state responsibility to external actors, primarily the private sector and foreign creditors. Thus, resolving the predicaments of agrarian reform should consist of "reclaiming" the agrarian reform function. This presents us with another issue: is there a rationale for the government to bring its hands back at agrarian reform?

Answering this would require an assessment of how the existing government sees agrarian reform as a component of its overall developmental strategy. Looking at the neo-liberal character of recent administrations, we will see that it only looks on agriculture as merely an export industry. There is no agri-industrialization strategy that would have determined how it sees agrarian reform as a part of this strategy and thus, what financing it should get.

FDC thus echoes many of the calls of progressive peasant groups on agrarian reform. It specifically calls for the following:

1. The government must formulate of a long-term agri-industrialization strategy which puts at its core the completion of a socially just agrarian reform and equitable, optimal, and continuing access to rural credit and productive resources. This strategy should include pump-priming agricultural modernization by increased government investments in irrigation, post-harvest facilities, and other support infrastructure, and making the departments involved effective instruments of agricultural modernization.
2. In the immediate, the government should mobilize internal funds towards full and focused compliance with the existing Agri-Agra Law (PD717) before it looks for other external sources of financing such as loans and official development assistance.
3. In the immediate, the executive and the legislature should, through increased budgetary allocation and more effective auditing and evaluation, strengthen all the agencies and institutions involved to agricultural and rural development and other peripheral agencies.

On Official Development Assistance

ODA, which by its very character is supposed to be for development, only increases the debts of the national government. These debts in turn deteriorate the capacity of the state to finance its own development, resulting to an increased dependence on loans and ODAs.

This policy should be discouraged. The government should, as much as possible, conduct internal resource mobilization in financing for its own social services and social programs instead of looking outwards as first resort. To accomplish Agrarian Reform, for example, which by its very nature should be a national program shielded from foreign intervention, it is important that the government be the one to finance it all the way, using only ODAs when necessary.

On the reform of ODA itself, FDC is proposing the following:

1. The government should reject tied aid, or aid with conditionalities. Agrarian Reform itself is being shaped through policy conditionalities imposed by ODAs and other loans, which only results to defective and ineffective Agra policy.
2. The executive should ensure the meaningful participation of stakeholders, especially the poor and socially excluded both in the formulation of national development strategies and in the implementation of ODA programs by providing venues for the participation of civil society representatives (as well as of local governments) in the Country Coordinating Groups (or Country Development Fora) and in the government oversight agencies for the implementation of ODA projects.
3. The share of ODA allocation to social services and pro-poor infrastructure development should progressively increase from at least 30 percent to 100 percent. There must be negotiations for ODA allocations earmarked for social services must be in the form of grants. As for other loans, loan-grant mix should be realigned, in the immediate, such that grants constitute at least 30 percent of ODA.
4. Conduct ODA audits in consultation with civil society and b) third party auditors.

On Debt and Budget

So that the government can “reclaim” its agrarian reform function, it should again increase its stake in the field. This can only be done through progressively increasing its direct support for the program itself. The logical translation of such support must be stated through a budget language, an adequate budgetary allocation for agrarian reform which assesses the needs of the departments involved and the needs of the farmers themselves.

The budget’ institutional, legal, and process environment, however, had been emasculated by the debt problem and its accompanying legal instruments, making it incapable of responding to social needs and needs for reform. Thus, we should resolve the issue of budgetary allocation through the resolution of the debt problem.

As for this, FDC is proposing the following:

1. Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987, as copied in toto from Sec. 31 (B) of Presidential Decree 1177, which ensures the automatic appropriation of payments for principal and interest on public debt, must be repealed.
2. A Congressional Debt Audit that will create a commission tasked to a) investigate all public sector debts and contingent liabilities and b) review all government policies regarding borrowings and payments of debts, must be conducted. Debts found to be illegitimate (fraudulent, behest, onerous, etc.) must be repudiated, with appropriate sanctions to be applied against erring parties, whether government or private entities.
3. There should be legislation imposing tighter regulation of government borrowings and awarding of sovereign guarantees and performance undertakings. This legislation should include congressional scrutiny and approval of loans designated for specific Foreign Assisted Projects (FAPs) and programs.

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