Digging deeper towards Debt and Land Inequality

The AR-ODA Complex and the Philippine Debt Quagmire

By the Freedom from Debt Coalition (FDC)

Presented by:

Ana Maria R. Nemenzo

Past President, Honorary Board Member

at the:

Rural Poverty Seminar

CBCP Plenary Assembly

January 22, 2008

Abstract

This paper argues that the ARC (Agrarian Reform Communities)-based framework of ODA-funded Agrarian Reform and Rural Development programs, which focus mainly on support services and are only applied on selected communities, 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, and export-oriented framework behind these ODAs is tangential to the needs of the farmers in the grassroots, is inequitable, threatens national sovereignty (as in the case of RP-China land lease), and can only result in widening 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 for the effort, as manifested by decreasing budgetary allocation to the Department of Agrarian Reform (DAR). Instead, the government relegates this important responsibility to creditors and donors, and consequently, is becoming more and more reliant on ODA to finance its agrarian reform initiatives. The problem is that it is the loan burden caused by ODAs in the first place that compels the government 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-AR 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 key 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

After a decade of implementation, Republic Act 6657 or the Comprehensive Agrarian Reform Law (CARL), the law which has served as the legal justification for land distribution program, is set to end on June of this year. Pressured by public clamor into recognizing the importance of the law, Mrs. Gloria Macapagal-Arroyo has already indicated the legislation that seeks to extend the CARL for another ten years as a priority bill.

The struggle for land reform is one of the few national issues capable of mobilizing the sentiments of the broad Filipino public. In fact, after hundreds of years of land slavery from colonizers to newly installed Filipino elites, it is an issue that is so ingrained in the Filipino psyche, that it is impossible to go on towards any direction of progress without having a program to resolve this singular issue. No government can afford to ignore agrarian reform without risking its own stability and political 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 a 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. This is why the best gauge of whether or not the government gives importance to agrarian reform is the budget it gives to it.

The measly PhP 15 billion that was the actual budget for 2007 of the Comprehensive Agrarian Reform Program (CARP) is proposed to be reduced 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, 2007). 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 in the past. 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 et. al., 2006).

Besides the fact that agrarian reform is not really a government priority, another problem is scarce available funds. Hence, the main strategy of the government is to look outside for financing, i.e., to source Official Development Assistance or ODA.

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)."

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

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, after the Second World War.

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 establish the Development Assistance Group (DAG) as a 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" and identifying aid as specific ODA which is 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 is to be spent on goods or services produced in a selected country, often the donor country itself, or else is extended with 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 entail the Philippine Government's acquisition of Chinese investors/contractors which enjoy 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. National assets are compromised as well by the extension of such sovereign guarantee, as in the case of the US$ 503 million North Luzon Railways Project.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

In truth, since 1970, OECD has been pressured on the need for a progressive reduction of tied aid (Führer, 1996). However, these calls were met with lukewarm responses from developed nations who argued 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 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 US$50-60 B but has reached over US$100 B in 2005 (OECD, 2006). The United States is the world's largest contributor of ODA in absolute terms (US$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 this 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 Revolt in the workings of government and the proliferation of People's Organization (POs) and Non-Government Organizations (NGOs) that actively supported comprehensive land distribution gave credence to the existing agrarian reform program in the early 1990's. The newly enacted CARL, while having fundamental flaws, was nevertheless deemed a progressive piece of legislation by many.

These positive changes in the agrarian reform sector convinced donor countries to pour funds to the agrarian reform program of the government. It was 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, as much as PhP 15.5 billion was left of ODA money in DAR (Bello et. al., 2006).

This policy of dependence on ODAs continues until today. In its 2006 Accomplishment Report, DAR prides itself on its "high absorptive capacity" in utilizing Official Development Assistance. In the year 2006 alone PhP 62.32 billion was spent on implementing CARP yet the Philippine Government provided a paltry PhP 14.91 billion 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)

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

- 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 - JSDF)
- Mindanao Sustainable Settlement Area Development Project (MINSSAD - JBIC)
- Nothern 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 for 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 Technical Assistance (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 ARCDSP-Government of Italy) - The project primarily involves the establishment of three (3) Farmers Support Centers one (1) each in Malabang, Lanao del Sur; Malungon, Saranggani; and Datu Montawal, Maguindanao.
- Agrarian Reform Infrastructure Support Project (ARISP III - JBIC)

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

Surface-level analysis would tell us that ODA is really beneficial to the cause of agrarian reform, really had tangible and lasting impact on the lives of some of the farmers. It did what otherwise the government would not have been able to do 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 reliance on ODA for agrarian reform.

AR-ODA without AR: The ARISP-focused Approach as AR-ODA Model

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 with land distribution.

However, one of the fundamental flaws of the current ODA policy in agrarian reform is that it rarely concerns itself with the issue of land tenure. Instead, ODAs conveniently choose the pre-selected ARCs as target groups for support services to fund.

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 towards enhancing agrarian reform. Instead of funding just one component as proposed by the Philippine Government, which is irrigation, JBIC packaged ARISP with three additional 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 US$40 billion more in ODA to projects that are modeled on the ARISP. The Japanese Government even provided additional funding for the Phase II and III of the project.

At a glance, the ARISP 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 (ARBs). However, the focused approach by the ARISP which targeted selected agrarian reform communities (ARC) is a problematic approach in itself.

The ARCs chosen by the project later become pockets of economic growth in the countryside. However, it leaves behind other communities which might have had more need for assistance. A brief review of ARCs chosen as ARISP-beneficiary reveals that 43 are from the Visayas and Luzon, while only 33 are in Mindanao.

The figures may not show a huge disparity. Considering, however, that most lands included in the Comprehensive Agrarian Reform Program (CARP) are in Mindanao and that a Philippine ODA Law provision states that ODA funds must benefit the poorer parts of the country, this 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 equitably provide land justice for everyone instead introduces foreign-funded reforms, delivered piece-meal, and only to targeted communities. What we have are post-distribution projects without land distribution – agrarian reform aid without agrarian reform.

ODA and Market-driven Agrarian Reform: Funding the Sale of Peasant Labor

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

Why are the foreign donors reluctant to give ODAs that directly address the issue of land distribution? According to Dr. Eduardo Tadem (2008) of the University of the Philippines, Asian Center, the donor community, especially the World Bank, did not want to give any funds for land transfer since it will go to landlord compensation. The landlord class, which they view as parasitic, may not use the compensation money they will get for productive expenditures. For a more efficient method on distributing the land, they instead relied on the market.

Consequently, not only is the ODA-based agrarian reform inequitable, it also tends to widen and increase this inequity through market-driven reforms introduced by International Financial Institutions (IFIs), the same institutions pushing for the neo-liberal reforms of privatization, deregulation, and liberalization.

During the time of DAR Secretary Horacio Morales, the World Bank issued a critique of the government AR 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.
To solve these predicaments, it proposed a 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 is 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. The stiff opposition of landowners is supposed to be reduced through negotiated land transfer.

A direct translation of this framework is the Community-Managed Agrarian Reform and Poverty Reduction Project (CMARPRP) 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 (Voluntary Land Transfer – Direct Payment Scheme [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’s inherent expropriatory powers, especially in areas where the market approach will probably fail.

MALR actually started the trend of decentralizing and putting to market control the issue of agrarian reform. We must remember that during the period MALR was introduced, the Joint-Venture Agreement (JVA) model which seeks to corporatize agrarian reform by vertically integrating management of the lands through converting land ownership into shares of stock was slowly gaining ground. The concept was actually 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. CARL itself states that it aims to establish “owner-cultivatorship of economic-sized farms”. Instead, the market framework converts the feudal elite into a nascent capitalist elite, with land and agricultural labor as their base.

Moreover, the market approach will not bring about the objective it wanted in the first place, which is land transfer. Due to intense poverty in certain 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

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

them further to hasten land conversion, and, having the land itself as leverage, negotiate with the farmers higher prices for the acquisition of the lands.

It is thus not a surprise that MALR was implemented only in a few pilot areas, and farmers went back demanding for the strengthening of government's expropriation mechanism, a call that the Philippine Government has chosen to ignore.

Agrarian Invasion: The RP-China Deals and ODA

Perhaps due to the market-driven outlook of the government, another bunch of ODAs is seriously threatening to reverse the earlier gains in land/agrarian reform – this time, in order to reap earnings for the economy. In 2007, thirty-one separate agreements were signed between China and the Philippines to promote bilateral trade and development in agriculture, fisheries, and other food products. These agreements were signed together with US$1 billion worth of loan agreements[1].

Some of these crucial deals oblige the Philippines to the lease of its land to produce products for Chinese consumption, as signed by DAR, the Department of Agriculture (DA), and Department of Environment and Natural Resources (DENR):

- Lease of 1 million hectares of land to the Fuhua Corporation, a Chinese conglomerate based in Jilin province, for 25 years and renewable for another 25 years, to set up a grains production and processing base for Hybrid Corn, Hybrid Rice, and Hybrid Sorghum farming in the country ;

- Lease or other agribusiness ventures in at least 40,000 hectares of lands with Agricultural Department of the Guangxi Zuang Autonomous Region for the establishment of agro-fuel crop plantation (sugarcane and cassava);

- Lease or other agribusiness ventures in at least 200,000 hectares of land with Beidahuang Seed Group for production of rice, corn, and for organic farming and agro-tourism purposes;

No details yet have been released on the locations of these lands, which might be the lands already awarded by CARP to farmer beneficiaries. Agrarian Reform Beneficiaries (ARB), without extensive and effective legal support, might be pressured into signing prejudicial contracts pertaining to these RP-China projects, reversing equitable land distribution as programmed in CARL and CARP. These deals would compel the hastened consolidation of large landholdings.

At least 1.3 million hectares remain to be distributed under the CARP. DAR even faces 700,000 hectares of backlog in land acquisition. Leasing at least 1.2 million hectares to just three or five corporations is not merely an insult to the agrarian reform program – it is a direct assault aimed at destroying, in spirit, the direction towards land justice.

So here we have another case of foreign money being dangled to the Philippines – this time, not to merely engineer the government policies and strategies of agrarian reform, but to assault it directly. No other sector but the agrarian sector is set to face the biggest assault of all, as their traditional farming and

[1] The Memorandum of Understanding (MOU) regarding the loan agreements on the utilization of US$500 million Preferential Buyer's Credit between the Department of Finance (DOF) and the Export and Import Bank of China, and the loan agreement on the provision of US$500 million Preferential Buyer's Credit Loan for the Northrail Project Phase 1, Section 2, was signed by Finance Secretary Margarito Teves and Li Ruogu, governor of the Export-Import Bank of China

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

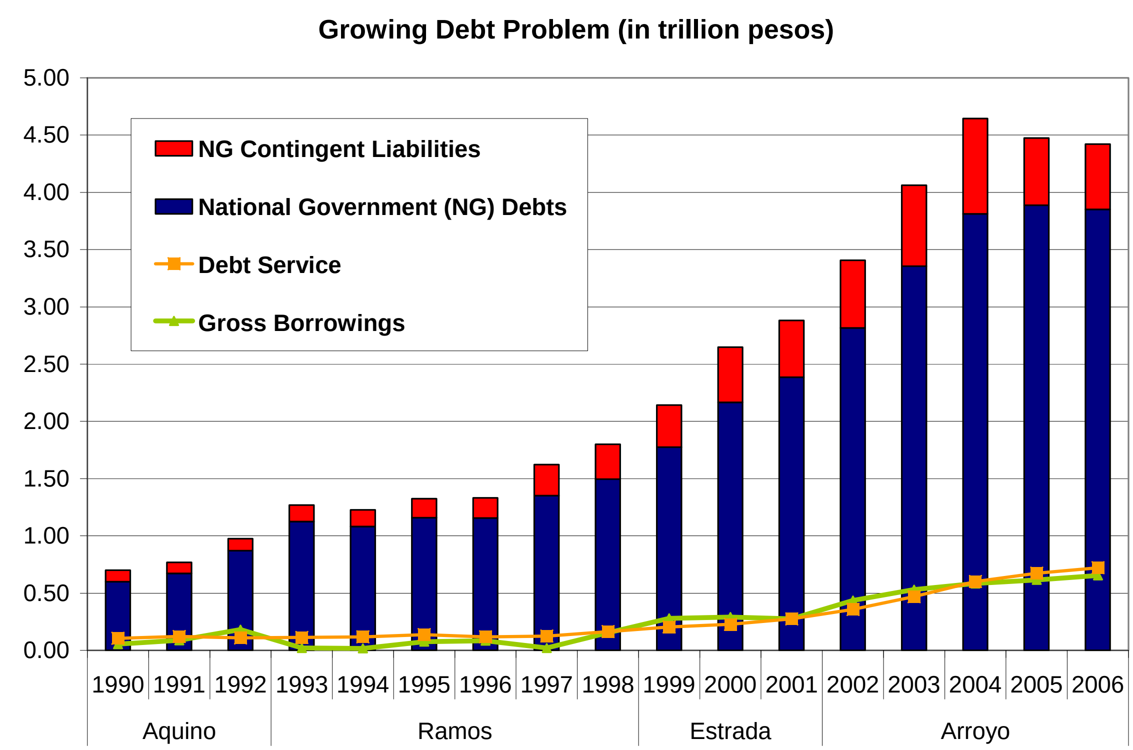
fishing livelihoods are threatened to be decimated by the mass production of large-scale corporate farms dominating the Philippine lands.

ODA thus, with its market-oriented and selective approach and agro-imperialist consequences, only serves to exacerbate the plight of Filipino farmers. Worse, inequality and ineffectiveness are only two of the woes caused by ODA to the Filipino farmer. A much terrible burden of debt and debt servicing further thrusts not just the Filipino farmer but the entire Filipino people into a quicksand of poverty and mal-development.

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

ODA is one of the primary sources of national government debt, primarily because of the loan-grant mix. Dr. Tadem 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 the Philippine Government to ODA resulted in 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 reached 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.



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*

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

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 the huge debt 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

Agrarian reform has been incurring debts throughout the years. From 1992 to December 2005, DAR reported that at least PhP 44.5 million loans had been transacted in support of Foreign-Assisted Projects. For on-going and completed projects, PhP 23.9 million or 68% of the total DAR FAP funding comes from loans. See Table below.

Status of Resource Mobilization, Department of Agrarian Reform
1992 – December 2005

Type of Project/Assistance		No. of Projects	Total Cost (PhP Million)			Total
			Loan	Grant	GOP	
1	*Completed*	*32*	*4,768.45*	*3,972.90*	*3,924.21*	*12,665.56*
2	*On-Going FAPs*	*21*	*19,132.88*	*2,208.80*	*7,199.80*	*28,541.48*
	Capital Assistance (CA)	11	19,132.88	1,407.84	7,169.80	27,710.52
	Technical Assistance (TA)	10	0.00	800.97	30.00	830.97
3	*For Implementation*	*1*	*1,341.00*	*0.00*	*57.00*	*1,398.00*
Sub- Total		**54**	**25,242.33**	**6,181.70**	**11,181.01**	**42,605.04**
4	*In the Pipeline*	*22*	*19,264.00*	*3,759.95*	*8,481.81*	*31,505.76*
Total		**76**	**44,506.32**	**9,941.65**	**19,662.83**	**74,110.81**

Source*: Status of Resource Mobilization, DAR, 1992 – December 2005.*

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 for as much US$ 526.53 million of our country's external debt, with the government even proposing to pay US$ 12.56 million in principal payments alone.

Agrarian Reform Loans (in million dollars)

Creditor	Loan	Loan No.	Project Name	Outstanding	2008

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

	Account			(end 2007)	Added Borrowings	Principal Amortization	Outstanding (end 2008)
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 SETLM'T 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 (US$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

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

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**

Source*: BESF 2008*

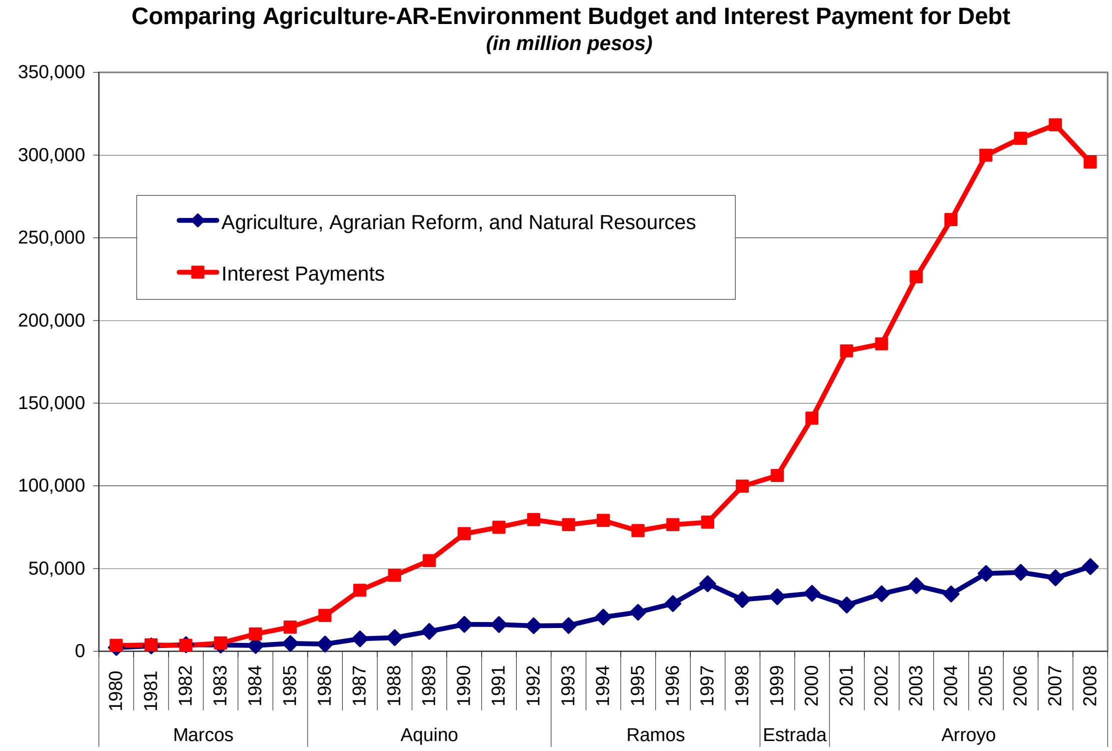
A total of US$40.48 million or about Php1.62 billion has been earmarked for debt service this year, which is composed of US$ 27.92 million for interest payments and US$ 12.56 million for principal amortization. Added borrowings, which are in effect additional ODAs, are projected to amount to US$ 74.93 million, much more than what has to be paid for debt service. Thus, the total agrarian reform debt jumped by US$ 62.37 million from last year's US$ 464.16 million to this year's (2008) US$ 526.53 million. This is on top of the two new JBIC/OECF[2]-funded loans that are being proposed, namely, the Agrarian Reform Infrastructure Project III and Agrarian Reform Infrastructure Support Project. Sadly, the government will go on paying for AR-related debts but which do not benefit equitably all agrarian reform beneficiaries.

Automatic Debt Service Provision: Bane of all Social and Economic Services

Looking deeper into the government spending policy, the reason for the debt quandary is the automatic appropriation provision in Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987 as copied en toto from Sec. 31 (B) of Presidential Decree 1177, a Marcosian directive to ensure the automatic allocation for principal amortization and interest payments of loans. Since 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, resulting in a never-ending debt cycle.

Let us now take a look at agrarian reform and other related programs and debt expenditures:

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.



***Source**: Department of Budget and Management*

The chart clearly shows the effect of the automatic appropriation on debt service which obligates legally all administrations to prioritize debt over any other social and economic services.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

V. Conclusion

Decreasing AR Support: Externalizing State Obligation

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

This decreasing support is indicative of the fact that the government is gradually relegating the important obligation to conduct agrarian reform to creditors and donors, and consequently, has been more reliant on ODA to finance such initiatives. More and more AR-related FAPs enter into the picture, filling in the vacuum of the lack of government support.

Because the government itself lacks a coherent vision for the policy, it does not 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. Moreover, dependence on the ODA policy framework for agrarian reform brought about its own problems.

Flawed AR-ODA Framework

The policy of reforming land tenure in the Philippines had already been in place prior to the entry of ODAs in the country. It is unfortunate that the strategies involved in accomplishing this policy had been mutated in order to accommodate foreign financing for it. These foreign-backed strategies could have been effective if the institutional responses offered by the ODA policy conditionalities were apt for the needs in the grassroots level.

This was 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 no longer was how many hectares of land had been distributed, but how much increase in income of pre-selected ARCs was made possible by existing ODAs.

A long history of agrarian unrest in the country has defined the social justice character of agrarian reform, and that is to equitably distribute land to the landless. The first pressing question that should be answered, therefore, by any agrarian reform policy or program is whether there has been effective land distribution or not. In fact, the ODA-funded agrarian reform programs, delivered piecemeal and only to targeted communities, may even reverse what has already been gained.

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

Furthermore, the market-driven, infrastructure-based, and export-oriented framework behind these ODAs is tangential to the needs of the farmers in the grassroots. The Market-Assisted Land Reform framework as implemented by various ODA-funded projects such as the World Bank funded CMARPRP is not only ineffective, it has wrong assumptions to begin with), and it also runs counter to the spirit of agrarian reform, which should be based on social justice and not simply economic supply and demand.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

Under the ODA regime, agrarian reform in its genuine character is at a losing end. It suffers from a wrong framework – lack of cohesive framework even, making it unjust, ineffective, and inequitable. As in the case of the RP-China 1.24 million hectares land lease, it threatens the very core of agrarian reform itself, and facilitates the further reconsolidation of land in the hands of the elite in partnership with foreign capitalists and creditors.

Debt and the Budget

Aggravating the problem of wrong framework is the loan burden caused by ODAs that compels the government in the first place to exhaust its resources in payment of its debts, which it prioritizes due to the automatic appropriation law on debt servicing. The government has thus relied heavily on creditors to finance social and developmental projects. 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 exception. Its slow-moving pace might have been due to lack of a coherent policy linked with its financing. The result has been more useless debts that only served to finance ineffective and tangential projects. These debts, unfortunately, cause the government to spend less and less on social and economic services such as agrarian reform because of the automatic debt service provision in the revised administrative code.

VI. Recommendations

On Agrarian Reform

The problem of agrarian reform basically stems from the relegation of 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 program.

But how does the government see agrarian reform within its overall development strategy? Judging by its programs on agriculture, the government regards agriculture primarily as an export industry. There is no clear agri-industrialization strategy that would determine the role of 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 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 Presidential Decree 717, an act "Providing an Agrarian Reform Credit and Financing System for Agrarian Reform Beneficiaries through Banking Institutions", also known as the Agri-Agra Law, before it looks for other external sources of financing such as loans and ODA.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

3. The executive and the legislature should, through increased budgetary allocation and more effective auditing and evaluation, strengthen all the agencies and institutions involved in agricultural and rural development and other peripheral agencies.

On Official Development Assistance

ODA, which by its very definition is supposed to be for development, has increased the debts of the national government. Yet these debts in turn undermine the capacity of the state to finance its own development, resulting in further increasing dependence on loans and ODAs.

This policy should be discouraged. The government should, as much as possible, conduct internal resource mobilization in financing social and economic services and 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 proposes 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 results in defective and ineffective agrarian reform 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 and economic development should progressively increase from at least 30 percent to 100 percent. There must be renegotiations for ODA allocations earmarked for social services to be in the form of grants. With regard to other loans, a loan-grant mix should be realigned, in the immediate, towards grants constituting at least 30 percent of ODA.

4. The government should conduct ODA audits in consultation with civil society and third party auditors.

5. In the immediate, the government should reverse the RP-China bilateral agreements on the basis of unconstitutionality and grave threat to agrarian reform, food security, the environment, and economic viability.

On Debt and the 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.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

The budget's 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 the need for reform. Thus, we should resolve the issue of budgetary allocations through the resolution of the debt problem.

In this regard, FDC proposes the following:

1. Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987, as copied en 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 must be conducted with the creation of 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. Debts found to be illegitimate (fraudulent, behest, onerous, etc.) must be renegotiated and/or condoned, 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.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.

Sources

Bello, Walden et al. (2004). The Anti-development State: The Political Economy of Permanent Crisis in the Philippines. Focus on the Global South.

Bureau of Treasury website (2008). http://www.treasury.gov.ph.

Department of Agrarian Reform website (2008). http://www.dar.gov.ph.

Department of Budget and Management website (2008). http://www.dbm.gov.ph.

Führer, Helmut (1996). The Story of Official Development Assistance: A History of the Development Assistance Committee and the Development Co-operation Directorate in dates, names, and figures. Organization for Economic Cooperation and Development. Paris.

JBIC Development Assistance Operations Evaluation Office. (2004, May 25-27). Philippines: Agrarian Reform Infrastructure Support Project. Making Agrarian Reform Work, A case study from Reducing Poverty, Sustaining Growth. What Works, What Doesn't, and Why. Shanghai.

Madueño, Gerundio (2006, 17 March). The Department of Agrarian Reform's Official Development Assistance (ODA) Portfolio. DAR Undersecretary's presentation to ODA Watch.

Mayuga, Jonathan L. 20 years of CARP: Is there still a need for it? BusinessMirror (http://www.businessmirror.com.ph/1005&062007/economy01.html).

Ortiz, D'laarni A. (2006, November 3). Popular Economics – Agrarian Reform: Impact and Controversies. Business World Online. (http://www.bworldonline.com/Research/ populareconomics.php?id=0027).

Reject RP-China Anti-Farmer Deals! Defend Foood Sovereignty! (2007, February 8). Task Force Food Sovereignty (TFFS).

Reyes, Celia M. (2002, January). Impact of Agrarian Reform on Poverty. Discussion Paper Series No. 2002-02. The PIDS Discussion Paper Series, Philippine Institute for Development Studies (Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas).

Reyes, Rick (1999, March 27). Market-Assisted Land Reform: An Indecent Proposal. Agrarian Reform Desk, Management and Organizational Development for Empowerment (MODE).

RP-China Agreements: Legal Issues and Implications of the Agriculture and Fishery MOUs (2007, September 24). Initiatives for Dialogue and Empowerment through Alternative Legal Services (IDEALS).

Tadem, Eduardo C. (2007, March). The Crisis of Official Development Assistance to the Philippines: New Global Trends and Old Local Issues. Asian Center, University of the Philippines.

Tadem, Eduardo C. (2008, January 18). Interview.

#11 Matimpiin Street, Barangay Pinyahan, Quezon City, Philippines 1100.
http://www.fdc.ph. mail@fdc.ph. +63(02)9246399 (telefax). +63(02)9211985.