MARKET-ASSISTED LAND REFORM: AN INDECENT PROPOSAL

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I remember the Robert Redford film about a super-rich guy who proposed to a newly married couple a million bucks in exchange for a night in bed with the young wife. Dazzled by this offer of sudden wealth, the young couple accepted the proposal. They psyched themselves to the idea that the big money could secure a stable and lasting relationship between the two of them only to find out that the experience eroded their marriage faster than they ever imagined. At the end, and after so much pain and confusion, they realized that it was all folly, that there is no easy way, like easy money, to a loving and enduring relationship.

The lesson of this story keeps on flashing into my mind everytime colleagues from NGOs and POs discuss the merits of the World Bank proposal for a market-assisted approach to agrarian reform, a proposal backed up by an offer of an initial $ 15 million dollar grant which may include land purchase for piloting in some selected communities covered by the Comprehensive Agrarian Reform Program (CARP). The proposal, according to the World Bank, is meant to expedite completion of land acquisition targets under CARP and make the reform gains for the beneficiaries sustainable financially and environmentally. Is the World Bank approach supportive or complementary to CARP or will it only undermine and later, supplant it?

The idea of a market-assisted approach to agrarian reform started to gain currency among wider audiences, especially the stakeholders in agrarian reform, in June 1997 when the World Bank released its draft report on a strategy to fight poverty in the Philippines. Part of the paper touched on CARP implementation and made recommendations which included a shift to a market-assisted approach to land acquisition and distribution of 5-24 hectare-landholdings coupled with some other market-sensitive measures. After a round of discussions with civil society groups, many of whom roundly criticized the proposal as inconsistent with the basic equity objectives of CARP, the World Bank representatives led by its country director for the Philippines, Vinay K. Bhargava, remained insistent on the original proposals of the report.

Come May 29, 1998 and the World Bank released the final copy of its report entitled " Philippines, Promoting Equitable Rural Growth". It criticized the Philippine agrarian reform program in no uncertain terms. It scored government performance in implementing CARP as "less than satisfactory" (WB Report, 1998, p.35) citing that "most of the land transfer that has taken place so far is mainly of lands which have some form of government ownership or control related to it, virtually all (94 percent)of private lands-potentially the most contentious and costly component of the program-remains to be acquired and distributed" (WB Report, 1998, p.35). The Report then proceeded to enumerating what it considered as the major weaknesses of the reform program, namely: 1) the huge funding requirements for landowner compensation which could range from PhP 60-100 billion, a tall order for a cash-strapped government in the midst of an economic crunch; 2) the high economic costs of the slow implementation of the program as manifested in low and declining private investments, and consequently of productivity in agriculture, owing to increased uncertainty of ownership and use rights, severe limits on land supply and optimal use of the land, and eroded collateral value of the land- all attributable to the slow implementation of CARP; and the 3) the high social costs emanating from the social conflicts and tensions provoked by the use of compulsory instruments of the state especially in medium-sized lands of 5 to 24 hectares where landowner resistance is expected to be strongest. (WB Report, 1998, pp.35-38)

On the basis of its program review of CARP, the WB Report declares that "it is now critical to seek improvements in program design and implementation, and to look for alternative ways of achieving the objectives (that is, alternatives that reduce , to the extent possible, the financial and social costs of the program, and the economic costs resulting from uncertainty." (WB Report, 1998, p.38). Of these improvements and alternative ways, what catches most our attention for its novelty is the proposal to adopt a market-assisted approach for holdings of 24 hectares and below, complemented by the introduction of a progressive land tax for holdings above, say, 5 hectares while redistribution of holdings above 24 hectares should be completed as soon as resource availability improves. (WB Report, 1998, p.41)

Negotiated vs. Expropriative models

The task of amplifying the conceptual meaning and fleshing out the operational design of the market-assisted approach to agrarian reform is left to two World Bank experts, Dr. Luis Coirolo and Dr. Klaus Deininger who visited the country in January this year, 1999, and did rounds of consultations with leaders of the Executive branch and Congress, the Department of Agrarian Reform officials and policy advisers, and NGO and PO leaders, including a local consultation in Mindanao.

In their presentations, the two World Bank experts not only affirmed the criticisms on CARP raised by the World Bank Report on the Philippines in 1998 but brought their discourse to a general criticism of what they called expropriative or administrative land reform. Citing the experiences of many countries which undertook agrarian reform, successful or not, but focused on the particular cases of Colombia, Brazil and South Africa where pilots for market-assisted approaches are being tested, the two experts enumerated the major weaknesses of expropriative reforms which are as follows:

- creation of overstretched bureaucracies,
- conflictive, lengthy and high financial cost of land acquisition, and
- politicized choices guiding the implementation,

all of which resulted to:

- little change in pattern of production, minimal impact on productivity, and no generation of additional rural employment;
- little improvement in beneficiary welfare and therefore, poverty alleviation, and
- dearth of complementary investments in infrastructure, schools, health services and housing.

Highlighting conclusions made by Deininger and Binswanger to the effect that "many of the land reforms that have been undertaken since the 1960s have not achieved their objectives" and that "evidence on the longer-term impact of land reform on poverty and productivity is more limited than desirable" (Deininger and Binswanger, The Evolution of the World Bank's Land Policy, 1998, p.26), the World Bank team made a sales pitch for a new model of agrarian reform which they called negotiated land reform which is another name for the market-assisted approach.

Key elements of this new model are:

1. a land purchase grant to support freely negotiated land transfers or transfers resulting from a willing buyer-willing seller bilateral land price negotiation where the government's role is restricted to establishing the necessary framework for negotiation and making available a land purchase grant to eligible beneficiaries;
2. beneficiaries are obliged to come up with a productive project before approval of the purchase grant, a plan on how to develop the land after acquisition based on crop choices, identification of marketing channels and sources of working capital to determine if the whole process is economically viable and merits support from financial intermediaries like banks, and to facilitate land price negotiation on the basis of the productive capacity of the project--thus ensuring integration of land transfer with productivity increases and clarifying the potentials and limits of land transfers to ensuring sustainable poverty reduction goals;
3. the program is demand-rather than supply-driven which means that areas and production systems are to be matched with beneficiaries capacity and plans, and that beneficiaries must show ability to make good use of public funds which are the purchase grants;
   decentralized implementation, thus bringing down transaction costs and achieving better integration of land reform with local government development priorities and investments; and

4. maximization of private sector involvement is sought, particularly in credit access and investments. (Deininger, Making Negotiated Land Reform Work, 1997, pp.28-30)

Why can negotiated reform do better than the exproriative and administrative type, asks the World bank team. They have the following answers to their question:

- it is cooperative rather than confrontational, thus reducing the social cost of agrarian reform;
- it encourages beneficiary initiative and participation by making them work out productive projects and engage more actively in land price negotiations;
- it utilizes capacity of local governments and NGOs; and
- it builds on markets rather than work against them.

To all intents and purposes, the World Bank is proposing a new model for agrarian reform in the Philippines, which it alternately calls market-assisted or negotiated approach. The approach may be limited to landholdings, 24 hectares and below, but considering the magnitude of potential beneficiaries 1 and farm hectarage within this landholding size range, the World Bank proposal assumes macro significance and if implemented, would alter CARP in a major way.

A Gambit to replace CARP?

My own studies with MODE, Inc. and other NGOs on Philippine agrarian reform as well as reform experiences in other countries lead me to take up the following considerations in evaluating the merit of the market-assisted or negotiated approach in terms of validity, feasibility and its consistency with the national objectives of equity and social justice, growth and sustainability:

First, a willing buyer-willing seller negotiated transfer may not necessarily hasten land transfer and bring down the financial cost of agrarian reform. Unlike in the three countries cited by the World Bank study, namely Colombia, Brazil and South Africa, where exist, according to the study, a land surplus and falling land prices, land market conditions in the Philippines are not encouraging to negotiated land transfers. There is land scarcity, and total demand for land of poor rural households greatly exceeds that available to CARP. Land prices remain high and at times, at speculative levels. The policy environment plus the slow implementation of CARP induce land conversions and land speculation. Extra-economic reasons like kinship, prestige and political power persist as powerful motivations for landowners to hold on to their lands. The current economic crunch discourages landowners from leaving their lands in favor of other business opportunities. Knowledge of the existence of a World Bank program to support land purchases may even contribute to a further increase in land prices. In fact, the Colombian program adopted a measure to check this: for a municipality to be entitled to program benefits, it must show evidence that existing land supply is at least three times the amount of land to be transacted under land reform. (Deininger, Making negotiated landf reform work, 1997, p.15)

All the abovementioned factors encourage landowners to be stubborn in their demand for high land prices. This has long been manifest in long-drawn out fights over land valuations whether they be in the courts or in the Land Bank in many cases belonging to all modalities ranging from voluntary land transfers to compulsory acquisitions. Why should the World Bank formula fare any better?
Occupancy of land (which is not the case in some pilots described by the World Bank study), a strong community organization and backing from the state' s compulsory powers under CARP are indeed leverages beneficiaries may use in negotiating with landowners for a lower land price. Further state involvement as well as that of financial intermediaries in informing beneficiaries of reasonable ranges of land prices to reduce informational imperfections and help the negotiations be more transparent and fluid may also improve the negotiating position of beneficiaries. But these advantages may be offset by a weakening of the state position once it adopts the market-assisted approach as policy for a major coverage of agrarian reform.
If land grants are intended to compensate for these market imperfections and discrimination, financial requirements may balloon to huge proportions, in effect eliminating the oft-cited advantage of the market-assisted approach which is to bring down the financial costs of agrarian reform.

Second, and of more significance than the first, the market-assisted or negotiated approach appears to be the latest in a long series of approaches and moves to put more and more of the cost burden of land transfers on the shoulders of farmer beneficiaries and less and less on landowners. While indeed program demands on the beneficiaries to improve their knowledge and skills in the negotiating table and to come up with productive projects to ensure viability and sustainability of the farm enterprise once they take over the land may enhance beneficiary participation and welfare, such demands also entail additional costs on the part of beneficiaries like hiring the services of NGOs and financial intermediaries like banks. These are on top of the daily costs and risks of survival, making their farming weather unfavorable market conditions and policy environment as well as the vagaries of nature, and the risks, even to their lives, of fighting to become beneficiaries of agrarian reform.

This stands in sharp contrast to a series of moves to make CARP implementation more and more attractive or less threatening to landowners. At the beginning, CARP was made to cover first public lands and those voluntarily offered by landowners (which turned out to be less productive lands or those in interior and upland areas) or as the previous DAR administrations would say, easy cases, leaving the great bulk of private landholdings or hard or problematic cases for later implementation which stretched beyond the original ten-year deadline for CARP. Then, successive DAR administrations issued a series of administrative orders aimed at making compensation more attractive to affected landowners, with valuation exceeding market prices. These administrative orders are Administrative Order No. 6, Series of 1988 and Administrative Order No. 6, Series of 1992. (Riedinger, Revising CARP, Risking Reform, 1997, p.4) Where CARP was made to apply to private landholdings, there was great reticence to use compulsory acquisition even if negotiations and persuasions had dragged on for an unreasonable period of time.

The World Bank pleads for the Philippines to build on markets instead of working against them in carrying out agrarian reform. But what about making markets work and work better for the poor farm tillers and rural householders? For years and years, the macro economic policy has been employed to improve capital markets and land markets for big industry and agribusiness, but liitle has been done to improve small farmer access to land markets and credit markets.

On both counts of feasibility and fairness, especially toward the main beneficiary of agrarian reform-the small tiller, the market-assisted or negotiated model is out of synch with reality and the imperatives that make this nation adopt a comprehensive agrarian reform program. The odds against the small farmer and farm worker in the Philippines are so great and so embedded in history that the state has to intervene to give them a fair chance at accessing to land and credit markets, or at the very least, level the playing field between them and landowners in land transfer negotiations.

It is good to know that the new DAR administration has so far refused to adopt the market-assisted approach as a major component of its macro strategy for completing agrarian reform. It is also good to know that DAR has avoided being "jumpy" on World Bank offers to initially fund pilot experiments for negotiated approaches, despite the successful bid this year by anti-reform elements in Congress to deny CARP funds for new land acquisition. In a dialogue with NGOs and POs last March 22 at UP Diliman, DAR Undersecretary Navarro told the audience that DAR is more interested in finding out the really empowering elements in the model and incorporating them into the implementing framework of CARP.

I also recognize empowering elements contained in the market-assisted model like the community approach and the value assigned to plan a viably productive project for the farm before tiller takeover to integrate land transfer with productivity and environmental soundness. But these empowering devices should not be used to undermine, much less replace the prior preference for the state to intervene to ensure the great numbers of small farmers and tillers access to land ownership and control, which is the spirit and intent of CARP and and which is in line with the social justice provisions of the Philippine Constitution.

1 A MODE survey done in late 1996 shows that more than 80 percent of farmer respondents in a nationwide sample who are potential CARP beneficiaries work in landholdings, 24 hectares and below. While the data are taken from farmers alone and need further checking and verification, they may indicate that parcellization of legal ownership of bigger landholdings to avoid agrarian reform laws may have progressed fast over the years.