

Most of the food in the developing countries of Asia—of which the Philippines is a good example—is cultivated by small farmers, share tenants, and landless sharecroppers. Thus, the nutritional needs, economic incentives, and access to resources of this group are of critical significance to food production and consumption. In sharp contrast to the large, relatively profitable mechanized agriculture of North America, these financially marginal farmers work small plots of land for minimal returns, either in kind or in cash. Consequently, many of them suffer from malnutrition.

Seventy-one percent of the Philippines' population lives in rural areas, and nearly half of these do not earn or produce enough to provide themselves with adequate diets. Fifteen percent of the urban population is also very poor and malnourished.¹ As of 1976, the National Nutrition Council reported 24.8 percent and 5.8 percent of all Filipinos to be, respectively, moderately and seriously malnourished. Most of these were in the impoverished and rural areas of the Eastern and Western Visayas. Other areas of high malnourishment were shown to be the highly populated rural areas of central and northeastern Luzon.

Estimates of average per capita consumption in the Philippines vary, but one thing is clear—the calorie intake of the poorly nourished is significantly lower than that of their better-fed compatriots. A National Nutrition Council survey taken in 1974 showed, for example, that rice farmers throughout the Philippines had a mean intake of only 74.4 percent of required calories.²

Overall, consumption levels of the poorest third of the population are estimated to be at least 25 to 30 percent below standard.³

Assuming the present level of consumption to average approximately 2,050 to 2,100 calories and 53 to 54 grams of protein per person per day, recommended dietary allowance developed by the Philippine Food and Nutrition Research Center is more or less being met (see Figure 1). But because of maldistribution, food supply might have to be as much as 50 percent greater in order to provide the entire population with at least the recommended minimum.⁴ FAO estimates of the biologically necessary minimum are somewhat higher than those of the Philippine government, so that an adequate food supply might require that average per capita consumption amount to as much as 3,500 calories per day.⁵

Origins of Food Policy in the Philippines

Despite the implications of these data, the food problem in the Philippines is regarded primarily as a problem of production and distribution of resources and secondarily as a nutrition problem. During the disastrous harvest years of 1972 and 1973, the long lines of peasants waiting their turn to buy rice from mobile banks and retail outlets convinced the government of the importance of providing an adequate food supply to the country's poor. Yet at that critical time, traditional rice exporters in the Asian region were unable to supply the country's immediate requirements, even though foreign exchange was available to pay the high prices then prevailing. Thus by early 1974 the government had decided to

launch a major effort to increase rice production, and make the country self-sufficient in staple cereals at least at current consumption levels.⁶

Most developing Asian nations desire to achieve food self-sufficiency and eliminate hunger, and in order to do this, the importance of small-farmer productivity is increasingly perceived. In addition, there is growing concern among the international development community and domestic policy makers for the economic equity of these producers—both in terms of equal access to critical inputs such as land, capital, and markets, and in terms of equitable pricing policies for food crops vis-à-vis export crops.

In traditional, patronage societies, no matter how many formal democratic institutions may exist, economic equity depends on the political determination of national leaders to make financial, technical, and natural resources accessible to the small producer, and to pursue remunerative price policies. Too often in the past large landowners controlled access to inputs and favorable price policies, at the expense of the small farmer. Equity also depends on the willingness of political leadership to undertake financial risk and to allow mobilization of the small producers to organize and cooperate collectively. Such mobilization could have positive economic effects, but it also generates opposition to existing political leadership and to conservative investment policies which limit the access of small producers to necessary production resources. This conflict lies at the heart of the politics of food in the Philippines.

A few efforts were made before 1972—prior to imposition of martial law by President Marcos—to direct financial and other resources to the small farmers, tenants, and landless workers cultivating staple crops. Since 1952, the government had established or promoted several credit facilities—most notably the Agricultural Credit Administration (ACA), the Farmers Cooperative Marketing Associations (FACOMA), and the privately owned rural banks. The former two were directly under government administration even though they sought to serve a cooperative movement. The latter, the rural banks, were a product of Central Bank incentives; largely

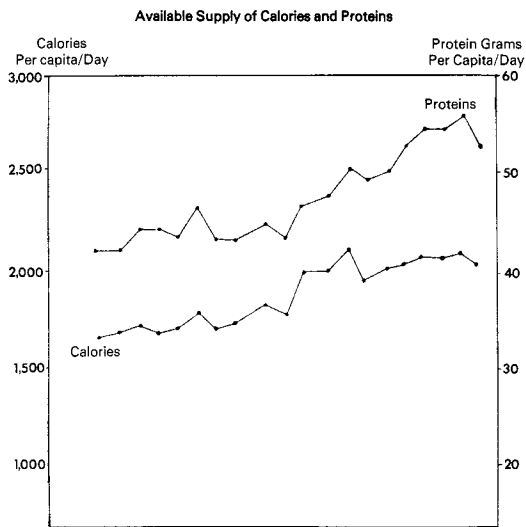
through rediscounting, opportunities were afforded to provincial entrepreneurs and wealthy landowners to establish banks to serve the credit needs of the small farmers. Finally, a half-heartedly implemented land reform sought to restructure the basic ownership of land and control rents.

None of these efforts to confront the problem of rural poverty had any significant effect. The rural banks' lending policies largely favored those wealthier farmers with collateral assets. The small producers without collateral remained unrecognized. In fact, most agricultural lending, including commercial banks, by-passed the production of food staples to a very large extent in favor of export crop production and marketing—most notably sugar.

Other efforts at providing credit through ACA and the FACOMAs ran into a host of administrative, financial, social, and political problems. As a result, the first two decades of ACA and the FACOMAs were, at best, a learning experience, and, at worst, a disaster. Including the rural banks, these institutions represented the major mechanism for agrarian policies of the Philippines until martial law. Consideration of reasons for their failure is therefore appropriate.

First, the ACA program never began to reach the level required by the rural economy. Annual lending to and through the FACOMAs to small producers rarely exceeded P50 million or less than 7 million current (1978) dollars. This could only scratch the surface of the need. A disproportionate share (approximately 18 percent) normally went to the one province of Nueva Ecija.⁷ Other Central Luzon provinces received most of the remainder. And the loans themselves averaged only P300, hardly enough to finance any significant change in production technology and affect the productivity of individual small farmers.

Second, the FACOMAs—the farmers' cooperatives through which the ACA credit operated—were subject to a number of problems. Some FACOMAs had memberships of 5,000 which made effective individual participation impossible. Membership meetings were unwieldy



Source: Development Academy of the Philippines
Measuring the Quality of Life: Philippine Social Indicators Manila, 1975

The Cebu Institute of Medicine (C.I.M.), through its Community Medico-Social Services, attempts to upgrade nutritional levels among Filipino children like these in Barrio Pakna-an, a village six miles north of Cebu City near the coast.



and ineffective. Moreover, FACOMA membership was open to any farmer. It was not unusual to find in many instances that the rich powerful farmers in the community dominated the cooperative, thus it often failed to reflect the interest of the economically powerless. In political terms, this meant that the landowners and patrons were able to use the ACA/FACOMA establishments to further their own interests. ACA credit, if not simply mismanaged, often became political dole with subsequent repayment problems. By 1971, only two-thirds of all matured loans had been collected.⁸ Entrenched economic and political interests had so intervened in the administration of credit and cooperatives that the FACOMAs and ACA by 1971 had become an insignificant effort to support the small food producer.

Given these failures in rural reforms and institutions throughout the 1960s and early 1970s, political resistance to the regimes which failed to implement change grew at a rate inversely proportional to their failure. The radical Hukbalahap movement flourished in the 1950s; but the "Huks" succumbed as much to their own internal dissension as to the Magsaysay regime's repression and half-hearted reforms. Their successor, the New People's Army (NPA) of the Communist Party of the Philippines, has yet to be adequately assessed in its efforts to mobilize financially marginal farmers in revolutionary resistance to administration policies. The NPA is, nonetheless, a constant threat to the national authorities in many local communities throughout Luzon and in a few localities on other islands.

A more persistent and widespread political mobilization on behalf of the small farmer—especially the tenant—came from the Federation of Free Farmers (FFF). Founded originally to organize tenant farmers to press for land reform as well as to counter the Huk movement, the FFF throughout the 1960s mobilized tenant farmers on land issues. It did not participate significantly in the cooperative movement except to support some small farmers in the FACOMAs. By the late 1960s its membership reputedly reached more than 750,000. But it also became increasingly divided between the less militant faction under its founder, Jeremiah Montemayor, and a more militant faction led from a Mindanao

base of organizers who campaigned initially against the incursion of large plantations on small-holder agriculture and ultimately fought to mobilize a political lobby which would pressure for general land reform. Many of the more militant, anti-mainstream, anti-Montemayor leaders were increasingly disenchanted with the promised land reforms, and the small-farmer credit and cooperative efforts of the 1960s; as they turned to Catholic liberation social doctrine, they became increasingly Marxist.

By 1972, the rural Philippines was at a point of social combustion. The FFF and a few smaller peasant movements had mobilized a potent political movement of tenant farmers, even though the FFF was deeply split. The Huks had lost their grip on the radical revolutionary movement and had been pushed aside by the more ideologically pure and the better organized Maoist NPA. On the other hand, most landed and capital interests remained intact as land reform and government credit programs proved ineffective. All this contention, kindled with political promises of institutional reform and economic policy promises to the small producer, along with economic decay, bad harvests in 1971 due to heavy monsoon rains and floods, and political strife in other sectors, brought on Marcos' decision to declare martial law and stridently proclaim the "new society." The economic situation was so severe that according to some sources the country at one point had only a three-day supply of rice. His solution to rural discontent consisted of land reform, along with credit and cooperative programs, serving the productivity and nutritional needs of tenant and financially marginal farmers.

Structure and Performance of Philippine Agriculture

Compared to many other developing countries Philippine agriculture has performed well. The production growth rate for staple food crops (cereals, pulses, and root crops) averaged 3.9 percent per year from 1960 through 1975, more than keeping pace with population growth. Yet, because average per capita consumption is not adequate, keeping pace is not enough to eliminate malnutrition. The International Food Policy Research Institute estimates that a production

growth rate of nearly 6 percent per year is needed to provide adequate nutrition to the poor and satisfy increasing demand among higher income classes.⁹

In considering what strategy the Philippines must follow in order to achieve this objective, it is important to recognize that until the mid-1960s the availability of unused lands permitted farmers to increase production by expanding crop acreage without increasing yield. Thus, in terms of yield per hectare, Philippine agriculture has performed very poorly, despite its relatively high production growth rate. Further, because of the increasing importance of the land constraint and the relatively poor yields, the agricultural production growth rate has been declining steadily¹⁰ (see Table 1).

Some new land is still being brought into production, primarily by clearing forests, but in the future, significant improvements in farmer productivity can only come about through yield increases. Increasing production on the many small farms which supply the country's two major food crops—rice and corn—will require irrigation, multiple cropping, and increased use of fertilizer and chemical pest and weed controls, along with the introduction of improved plant varieties. Although the Philippine rice farmer's yield is still very low compared with other countries of South and Southeast Asia, some improvement in productivity has already taken place in response to introduction of high-yielding varieties and related technology associated with the Green Revolution (see Table 2).

Small farmers, cultivating less than 5 hectares each, make up nearly 85 percent of the farm population of the Philippines; 57 percent work less than 1 hectare.¹¹ Although estimates as to the number of families engaged in farming vary, the figure of 2.3 million obtained by the World Bank for 1971 is probably fairly accurate (see Table 3). Before imposition of martial law, nearly one million of them did not own the land they tilled.¹²

Altogether, including landless laborers along with farm operators, about three million families engage in agriculture as their primary source of

income. These families comprise roughly two-thirds of the country's rural population. Other activities that provide employment to the rural population include fishing, forestry, mining, trade, and transport. Many small farmers do not depend solely on agriculture for their income, but seek supplementary nonagricultural employment for themselves or their family members. Eighty-two percent of all rural families receive incomes of less than 4,000 pesos per year. Average family income for this group is less than half that amount, and many of these poor families are heavily indebted.¹³



In Barrio Pakna-an, home manufacture of brooms provides cash income for many women who cannot otherwise find employment.

The majority of the rural poor are engaged in agriculture as small and tenant farmers, many of them eking out little more than a subsistence living for themselves and their families. This is the group for which malnutrition is a serious problem, and which could most benefit from a shift in government policy favoring distribution of more production resources to small farm operations. Rice and corn are by far the most important crops grown on these small farms, accounting for 62 percent of the country's total harvested acreage in 1970. Coconuts, the other major small farm crop, occupied another 21 percent. Mixed farming is not uncommon, and some sugar may be grown as a secondary crop on small farms, although more than half the country's total sugar output comes from large estates. Despite its importance as an export crop, sugar uses less than 5 percent of the country's cropland. Specialty items such as hogs, poultry, and fruits are raised on very small farms—many of them less than one hectare¹⁴ (see Table 4).

Philippine agriculture is dualistic in nature—whereas the traditional domestic food-producing sector is characterized by small landholding with little access to credit and other services, a more developed commercial export sector exists side by side with it. Since colonial times, when much of the best agricultural land was put into sugar and coconut production for the American market, the export sector has been heavily favored. In the past, this sector has received a great deal of the development expenditure for agriculture, and has been the primary beneficiary of institutional credit. It is dominated by powerful families, who also control much of the rice and corn land farmed by tenants in the traditional sector. As long as food production could be increased by expanding acreage, the channeling of capital resources into agricultural export growth seemed to many development strategists as well as Philippine officials a sound strategy. But the combination of increasing rural demand for food and the disappearance of the land frontier have forced a change in approach.

Production and trade data for the food and export sectors bears out the importance of this change (see Tables 5 and 6). The government has, at various times, tried to use price policy to

achieve production and food distribution objectives, but without too much success. Therefore, the current policy focus is on institutional reform and direct assistance to staple food crop producers.

Agriculture Under Martial Law

When President Marcos established martial law in 1972, his first decree was to declare the entire nation under land reform. Subsequent decrees limited land reform programs to the rice and corn lands leased or sharecropped in small parcels on behalf of a relatively few wealthy landlords.

Extensive administrative infrastructure under the Department of Agrarian Reform has been established to redistribute these lands to a reported one million tenant farmers. As of early 1978, however, only 46,000 of these have actually entered into formal land transfer amortization procedures while 258,000 have been given certificates of transfer conditional on the crucial agreement with the landowner on the financial terms of the transfer. Tenanted holdings of seven hectares or less (about half of the total) have been excluded from the land transfer operation. Under previous land reforms a leasehold system intended to assure security of tenure and a legally fixed rent was established. The degree to which it is effective is uncertain.

Whether the land reform is succeeding or failing at this time is a matter of substantial, often heated, debate. But for purposes of this Report, the issue must be set aside.

Of more importance is whether Philippine government policies can establish a credit and cooperative structure to serve the small producers—particularly the declared million new landowners if and when they become commercial, independent producers. Under the previous system, landlords played an important role by providing credit, seeds, and other inputs to their tenants. Now the government must provide and improve upon these necessary services if the social and economic objectives of the land reform are to be achieved. Without the successful functioning of new structures and institutions to provide these services, agricultural productivity will not improve, economic frustration in the

rural areas will continue to foster unrest, and the social fabric of Philippine rural society may again become as unsettled as before martial law.

In the Philippines, there are two general views of Marcos administration's rule by martial law. One view sees local, independent political mobilization either carefully controlled from the center or virtually absent. Consequently, economic institutional reform in favor of the small producer frequently appears to be from the top down rather than bottom up, highly dependent on centrally administered projects and programs rather than on local self-reliance, and consequently risk-averse. Also in this view, the marginal farmers who are critical to the nation's food economy appear more often as recipients of the benefits of development rather than as actors in the process. They are "target" groups for greater access to whatever the central administration passes down to them through "bureaucratic patronage," but they do not participate actively in the political decision-making process upon which national policies are based.

The other view sees the Philippines as more complex. It recognizes the top-down quality of the development programs, the still dominant emphasis on growth and risk-minimization, and the political factors constraining small producers. At the same time, however, it also sees more opportunities for participation—at least economic participation—through the new national policies declared by presidential decree, and aimed more directly at the basic needs of the small producer than those of past administrations.

Whichever is the case is of enormous debate. Yet whatever is ultimately concluded, it is increasingly clear in the Philippines and elsewhere in Southeast Asia that without effective participation from the bottom-up, top-down administration of development programs and policies will not be sufficient to meet the basic needs and welfare of the small food producers.

Philippine development under martial law has attempted several economic and social institutional reforms with real potential for helping the small producers. Socially and politically, the land

reform is the most critical effort. It is essentially a top-down effort as all successful land reform efforts in Asia have been. But in other ways, the credit and cooperative efforts may be the critical test for the land reform since its success may depend less on its implementation than on the economic viability of the new land-owning small farmers supported by cooperatives and credit. Without genuine participation and initiative by the intended beneficiaries in the cooperative and credit institutions being created, the reform is unlikely to take hold.

Success depends on much more than good planning, good administration, good projects, and comfortable offices in departments and ministries. It involves the intricate participation of the small producers in many areas of economic and political life. It often involves allowing the small producer to make mistakes and learn from them. This requires administrative and political leadership willing to take greater risks with credit and tolerate increased political opposition.

In the words of an Indonesian planner:

The Basic Needs Model, with its emphasis on development from the bottom up, community participation and initiative, and autonomy and village self-reliance, puts a premium on the development of the organizational and management capacity of rural communities, as well as on the development of cooperatives and other forms of organization, often derived from traditional institutions—with the right to run them under their own leaders.

It means, in short, the adjustment of traditional hierarchical and patron client relationships to more modern, more democratic forms of social organization, capable of addressing new problems. All of this runs directly counter to the conventional bureaucratic approach to the village which tended to strengthen those traditional structures. It means, in effect, a quantum jump, from paternalism to emancipation, requiring fundamental changes in attitude on the part of administrators, and in prevailing, deeply rooted concepts of the relationship between the governing and the governed....

*The absolute necessity that our institutions be given the opportunity to make their own mistakes is likely to be considered a waste of time. Still it is only in freedom that these institutions can learn and can develop skills, and also the self-discipline that is essential to their further development.*¹⁶

How well has the Philippines done under Marcos? The remainder of this Report will assess the strengths and weaknesses of the programs aimed at small farmer development and suggest ways in which these programs could become an effective strategy for feeding the country's rural poor.

Two important programs the Marcos government has implemented to meet credit and cooperative needs of the small producers are the Masagana-99 small farmer credit program and the village level associations called Samahang Nayan (or "pre-cooperatives"), which serve as bases for cooperative rural banks and area marketing cooperatives.

Masagana-99 Credit

Masagana-99 is intended to provide an extensive line of unsecured but supervised credit to small farmers, regardless of tenurial status.¹⁷ It has been a unique and largely successful credit program, viewed from three perspectives. Since its introduction in 1973, yields and production have been raised to the politically desirable level of self-sufficiency in rice—even to a minimal but highly symbolic export capacity. Second, it did so under all of the risks inherent in unsecured loans to small and often tenant farmers of US\$365,000,000. Third, while repayment losses have not been negligible, repayment has been much better than previous small farmer credit through ACA and the FACOMAs prior to martial law. These achievements command considerable respect.

The Central Bank of the Philippines has been ultimately responsible for this money through its rediscounting to the rural banks, the government-owned Philippine National Bank and, to a much lesser extent, to the still functioning Agricultural Credit Administration (ACA). The bulk of the funds has gone through the rural banks.

The technique of rediscounting is critical to understanding the process of how this small farmer credit gets to the small farmer and the crucial relationship between the rural banks and the Central Bank—most notably its Department of Rural Banks and Savings and Loan Associations. The Central Bank, in effect, makes deposits in the form of "special time deposits" (STDs) in rural bank accounts at 3 percent interest per annum, payable by the rural bank. With this seed money, the rural bankers through the government or their own technicians and their more than 600 independent, privately owned banks throughout the country, seek farmers requiring credit. After the farmers have signed promissory notes for production loans worth double the amount of the STDs, the rural banks bring the promissory notes to the Central Bank and borrow again on the full value of the notes. They immediately pay off the STDs and are given another loan at an interest rate of one percent per annum on the basis of the promissory note. If the initial STD was worth ₱500,000, the rural banks are, in effect, in control of Central Bank funds of ₱1,000,000 to be loaned to farmers. The small farmers' interest rates are one percent a month or 12 percent per annum, while the rural bank's interest due to the Central Bank will vary between one and three percent per annum—depending upon the time they take to gather the promissory notes and rediscount the second loan at one percent. The incentive for the rural banks to avail themselves of this Masagana-99 credit is thus substantial.

In spite of the apparent success and the unique, risk-taking commitment of the Central Bank on behalf of the small farmer, there are many political and economic issues at stake and subject to hot debate.

First and foremost is the problem of repayment and whether the rural bankers want to avail themselves of this credit opportunity in the future in light of repayment problems. Tables 7 and 8 give some indication of these difficulties.

It should be noted at the outset that Phase IX is still in the collection process so that the 83 percent repayment is not a final percentage figure.¹⁸ There is no reason to expect, according

to Central Bank sources, for it to be much above the average of 77 percent for the previous 3 or 4 Phases. Phase X is in process at time of writing, so final repayment figures are not now available.

Repayment, of course, is the central issue in the Masagana-99 controversy. Central Bank repayment rate data are subject to questioning. They may be too high. Rural bankers, in order to avail themselves of rediscounting, must show good repayment. They have a number of ways to conceal bad loans. First, they can draw on other accounts, since most of them have in-family retail operations, to cover for losses. Or they can make private deals with overdue farmer-borrowers to reschedule while carrying current account payments on their books. Or, third, they can create fictitious borrowers, both to inflate their rediscounting availabilities as well as to cushion losses. To a greater or lesser degree, all three ways are used.

Rural bankers, of course, deny this. They claim they are bearing a major risk and need protection from bad repayment. Others argue they have served the rural small farmer production needs well for the past 25 years and the Central Bank should be grateful. Losses should be appreciated and tolerated by the Central Bank. Finally, rural bankers recognize, although it is not stated openly, that the Central Bank has a substantial amount of credit out through their institutional participation in Masagana-99 and therefore they have some leverage over the Central Bank because of their liabilities. If, in other words, a bank loans a client \$100, the bank controls the client; but if the bank loans a client \$1,000,000, the client controls the bank. The Central Bank, as of December 1976, was owed ₱1.16 billion by rural banks. This is a relatively small share of the total Central Bank liabilities of ₱32 billion. But most of this was in sectors other than food-crop production, and the majority of lending to small farmers was dependent on the rural bankers. Given the increased political importance of the small farmer in the Philippines, this liability has important political as well as economic significance.¹⁹

Another reason for concern about the present Central Bank relationship with the rural banks is

that Masagana-99 credit has become the major source of rural bank finance—to the extent of being alarmingly disproportionate to other motivation for the mobilization of savings. At present, over 50 percent of rural bank assets are through borrowings (largely Masagana-99) and not more than 25 percent through deposits and savings. In effect, Masagana-99 has bloated the liability of rural banks to a potential crisis level.²⁰ If serious repayment problems develop in Masagana-99 from the farmers to the rural banks, much of the financial apparatus for small farmer production credit could collapse. The bubble could burst on any one of a number of pinpoints—including market prices or natural calamities.

The Central Bank seems to be out on a delicate limb. While having risked much for the small farmer, it has promoted the rural banks to the point where negative effects are beginning to be felt. The rural banks, in order to protect their liabilities from the farmers, have begun to find ways and means of making more selective lending. Consequently, they are increasingly lending to proven productive farmers. More often than not, this means farmers with irrigation and in regions where irrigation is more developed. Thus, wealthier farmers in Central Luzon get much more production credit than, for example, poorer coconut farmers on other islands where malnutrition is most prevalent. Upland rice farms—probably 85 percent of all rice production and with only single crops dependent on rains—are getting relatively, if not absolutely, less. Here, too, malnutrition is more noticeable.

The dangers are therefore twofold. First, there is a major fear that Masagana-99 has benefited the rural banks more than anyone else (their total resources have grown from ₱105 million in 1961 to ₱2.75 billion in 1975). Second, while the rural banks may play an important role in Masagana-99 lending, by introducing creditworthiness as a criterion they are contributing to the more privileged farmers and thwarting the risk-taking objective of the program. Traditionally, more than half, and among small farmers virtually all production credit has come from noninstitutional sources—landlords, relatives, merchants, and moneylenders—at very high interest rates. While

rural banks have accounted for three-fourths of the recent increase in institutional credit, this is still a relatively small portion of the total. Further, most of it is still lent on a short-term basis to cover seasonal credit needs rather than to finance investment in new production technologies. A growth rate of 6 to 8 percent per year in institutional credit to agriculture will have to be maintained over the next decade to meet production objectives.²¹ This rate of growth cannot be achieved unless Masagana-99 is made available to the many poor farmers as intended.

The Cooperative Movement

The cooperative movement was intended to create a democratic, participatory base of support for the credit program and other agricultural policies designed to help the small farmer, but in practice the Samahang Nasyon have so far been largely controlled from the top down, with policies and procedures determined by the central government. Under the land reform program a farmer cannot qualify for land ownership without being a member of a Samahang Nasyon. The Samahang Nasyon are called "pre-cooperatives" because the Bureau of Cooperatives in the Department of Local Government and Community Development sees the need for education, discipline, and savings before true cooperative enterprises with business functions are established. Past history (namely the FACOMAs) have convinced the Undersecretary of the Department of Local Government and Community Development, Orlando Sacay, that village-based Samahang Nasyon should include not more than 200 members and these should receive extensive discipline, training, and education in the meaning, spirit, and functions of cooperatives and learn how to save.²² In addition to overseeing implementation of the land reform and disseminating information on credit, markets, and technology, the Samahang Nasyon are expected to perform the functions demanded of earlier cooperatives—to promote modern farm practices and to engage in the collective purchasing of inputs and the marketing of output. By limiting size of membership and promoting a "sense of belonging," however, it is hoped to avoid the nonrepayment problems and corrupt practices of earlier associations (FACOMA).

It was intended that Masagana-99 would be used in part to serve the needs of the Samahang Nasyon. As part of the Samahang Nasyon "forced savings" program, each member of a Samahang Nasyon who borrows Masagana-99 funds through the rural banks or the Philippine National Bank must place 3 percent of the value of the loan (formerly 5 percent) in a special savings fund deposited in the lending institution by the Samahang Nasyon. These "forced savings" are to be used for financing the cooperative institutions. Second, and more important, the cooperative rural banks—at least the four that currently exist, can receive Masagana-99 loan funds from the Central Bank.²³

As of December 1977, 17,555 Samahang Nasyon had been registered with the Bureau of Cooperatives, involving 896,708 members. The vast majority of these were small, often tenant farmers who had little collateral for commercial non-Masagana-99 loans and were therefore willing to participate in the "forced savings." Through the saving programs, these Samahang Nasyon had saved ₱84,171,000. Obviously, some have done much better than others in achieving the discipline, educational, and saving requirements to participate in cooperative activity. For example, only 3,226 Samahang Nasyon were members of the cooperative rural banks. Many of these would be the same 2,168 Samahang Nasyon which were members of the 29 operating area marketing cooperatives.²⁴

The fact that there are only four cooperative rural banks attests to the slow pace of cooperative development in the Philippines as well as to the general complexity and difficulty of establishing viable banking institutions. Not only must the bank rely on farmer savings for the base of its capitalization, it must also find adequate management. In fact, the cooperative rural banks have had to contract professional management. Both capital and management are in short supply.

The same has been true of the area marketing cooperatives, although perhaps less so in light of the larger number organized and operating, as well as the existence of management trained during the FACOMA era. The area marketing



Dr. Edgar Sabitsan, C.I.M. intern at the Community Medico-Social Services clinic, tries to reassure a sobbing child whom he is treating for gastrointestinal illness.

cooperatives supply farmers with inputs, and buy and sell Samahang Nayon members' produce. Marketing cooperatives do not make loans; however, funds for inputs supplied to members are borrowed from the cooperative rural banks. Because the banks do the lending, they have the ultimate responsibility for supervising the use of production credit. This supervision is the critical test as it determines repayment rates.

Still, the area marketing cooperatives also depend on good management. Profit margins can be thin and there is competition from private traders and the government's National Grains Authority—which also buys rice. As of December 31, 1976, only 8 of the then existing area marketing cooperatives had net profits—totaling ₱351,465. The remaining 5 had lost a total of ₱379,000.²⁵

The ultimate objectives of the cooperative banks and marketing systems—to provide established small farmers and new land owners with a savings mechanism, access to credit, and assured markets—should remove the present domination of trade, credit, and marketing by the usually usurious private trader, supplier, and money-

lender. Much remains to be done, however, to achieve these ends.

Some of the problems are external to any faults within the cooperative movement and extremely difficult for the young movement to solve. First, the Bureau of Cooperatives recognizes as a problem "the proliferation of functionally overlapping and sometimes conflicting organizations at the *barangay* (village) and other levels."²⁶ It is not a question of too much assistance, but a matter of lack of integration among government agencies involved in the agricultural sector at village level. This is a clear manifestation of smothering, top-down development.

Second, and possibly the bitterest of all disputes in rural finance and cooperatives, has been the reluctance of the privately owned rural banks to allow withdrawal of Samahang Nayon funds for redeposit in the new cooperative banks. There are a number of reasons for their reluctance. First, many of these funds represent the savings deposits required of each Samahang Nayon member when he obtains a Masagana-99 loan. Since the repayment rate of these loans has not been good, the rural bankers claim the right to hold this money as a kind of protection against default. Nonetheless, withholding of these deposits is illegal and it remains for someone to challenge the rural banks in court. Unfortunately, the Bureau of Cooperatives' legal advisers cannot practice in court; thus the Justice Department bureaucracy must represent the small farmers. Given the rural bankers' enormous strength, combined with the bureaucratic red tape involved in legal action, it is unlikely the government will challenge them.

Another problem the cooperatives cannot easily solve is the outright competition the rural banks are giving to the cooperative rural banks. Withholding cooperative members' savings is just one tactic. The rural bankers quite naturally fear cooperative banking and, it appears, have used their influence on the Central Bank to act on their behalf. For example: the Central Bank at first allowed the cooperative rural bank to use 100 percent of Samahang Nayon savings funds usually deposited in the private rural banks as capitalization for cooperative business ventures.



Malnutrition is the major contributing cause of illness and the most critical health problem for young Filipinos. In addition to providing nutrition information and better rural health care, government-supported extension programs encourage cultivation of higher-yielding, more nutritional crops. Gustavo Sasis, horticulturist, grows a sweet potato known as N.C. 317 on his demonstration plot in Cebu. This variety is exceptionally rich in Vitamin A.

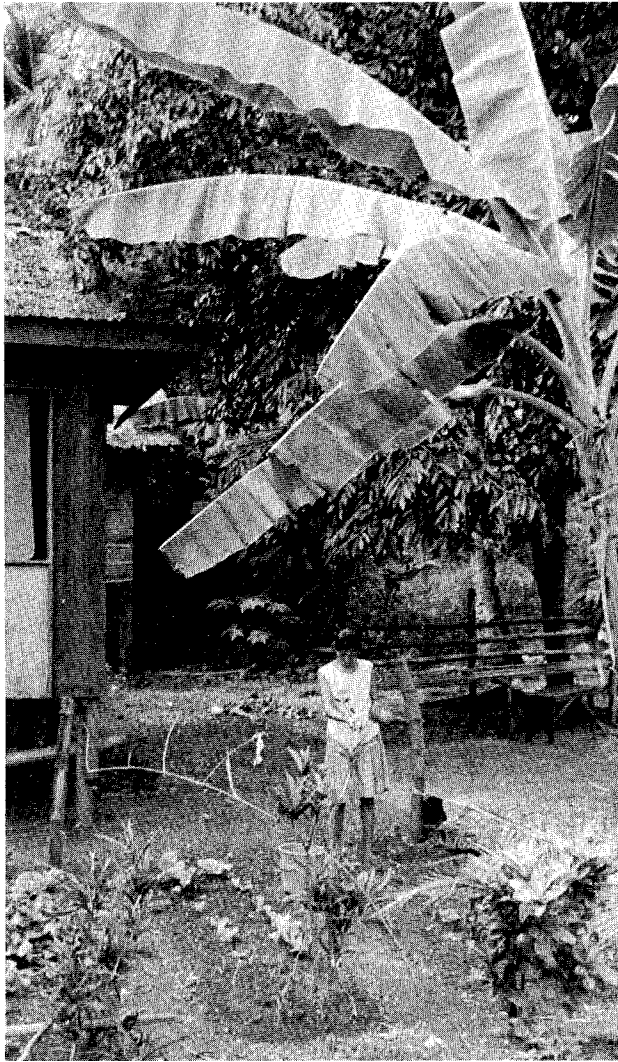
This has since been lowered to only 25 percent, with another 25 percent earmarked for guaranteeing the loans of defaulting Samahang Nayon members. This further supports the rural banks withholding of the savings funds. The Central Bank has directed the release of these deposits—except where individual rural banks' liquidity is threatened—but rural banks are still refusing to comply with this directive.

A fourth problem arises because of obstacles preventing cooperative rural banks from merging effectively with the rural banks, as intended by the original savings fund policy. Supposedly rural bankers were to give equity positions to the savings deposit holders—up to 50 percent of common shares—and in this way allow, in effect, a cooperative rural banking system to be built on an already established, efficient, private rural banking system. But rural banks are usually the financial domains of wealthy families and are not about to give up very much control to small farmer interests. They see their private affairs potentially subject to incompetent meddling through small farmer shareholders. It is a bitter dispute; and again the cooperatives are losing.

Taking the best from the past has been a tactic used in creating the area marketing cooperatives. Here, these new area marketing cooperatives have often been built on the surviving FACOMAs and their management, some of which have done quite well. The latter are able to supply experience. Had this been able to work with the rural banks, the cooperative movement might be moving much more rapidly in building the financial institutions upon which introduction of improved production technology to small farmers must depend. That it has not worked testifies to the continuing strength of rural banks' interests.

Management skills—or the lack of them—is the final critical problem. It takes a generation of education to build good management and at present there is little of it available for the Samahang Nayon movement. To a certain extent this is a result of the top-down administration of the Samahang Nayon. Also, in launching the cooperative system, the Department of Local Government and Community Development required all cooperatives already established in the country (some by private, secular groups, some by church organizations) to re-register—a long and complete process often setting back their programs. This alienated much of the private cooperative management experience there was in the Philippines in 1972.

The most notable and acrimonious debate came between Orlando Sacay and the Mindanao Cooperative Alliance with its 40,000 members



With advice from horticulturists like Gustavo Sasis, Pakna-an village gardens are beginning to flourish with bananas and vegetables. They need fencing, however, to protect the plants from pigs, goats, and chickens.

and highly competent staff. The latter's alienation and decision to operate as a nonprofit organization rather than join the Samahang Nayon was a loss of talent. It was also symbolic of the reaction of many of the private cooperatives and socially conscious rural workers to martial law. This has, to an important degree, hurt the Samahang Nayon movement by depriving it of experienced leadership.

Although they are central to the success of the government's agrarian reform policy, the

Samahang Nayon are not the only form of agricultural association open to the small Filipino farmer. A different approach is that being tried by the Farm Systems Development Corporation, which is encouraging the formation of Irrigators' Service Associations (ISA). These associations are being organized to own, operate, and manage small-scale irrigation systems averaging 100 hectares each. However, their scope is not limited to the use of water. They will provide production credit, sometimes absorbing the loss of Masagana-99 farmers with bad debts, regrouping them, and refinancing their loans through the Agricultural Credit Administration (ACA). They provide an integrated program for the purchase and resale of production inputs to association members; some are even producing their own seeds based on local experience as to which varieties would give the highest yields. Although a permanent field worker supervises each ISA program, the farmers themselves participate in the decision-making process as to the kinds of enterprises for which financial and technical assistance should be provided. As yet, however, this program can service no more than 25,000 members.²⁷

It is difficult and perhaps foolhardy to make a general assessment of the Samahang Nayon only six years after they have been launched. Historically, cooperative movements in other countries (e.g., Holland, Scandinavia), have taken decades, if not generations, to build. New attitudes must be formed—something which Orlando Sacay reiterates constantly in his speeches and writings on the Samahang Nayon. Enormously complex institutions must then be built—bottom up—on these new attitudes. The question is constantly present: to what extent are the disciplining, attitude-changing efforts by a central administration necessary or desirable? Does this not imply an imposing of behavior and structure by a central administration through a bureaucracy which has all the problems government bureaucracies suffer throughout developing countries? Is not the spirit of cooperatives ultimately dependent on private efforts by individuals to build their organizations in light of their perceived needs? The Bureau of Cooperatives repeatedly maintains that the Samahang Nayon are private—and are only government-assisted. But still, the

bureaucratic weight and control mechanisms appear top heavy and individual Samahang Nayons are more passive than active.

In its report to the President the Bureau of Cooperatives in early 1978 noted the need "...to bolster the sagging morale of the farmer cooperatives belonging to the Samahang Nayon movement."²⁸ One solution is to give strong support to the cooperative rural banks in their struggle with the rural banks by encouraging greater mobilization and participation at the local level. Yet an institutional framework of greater freedom and less centrally administered discipline might open the door for the abuse of some of the cooperative efforts prior to martial law—as in the case of some private cooperatives used for tax havens, and the political use of cooperative loans to buy votes.

Another solution might be to tighten martial law, force the rural banks to cooperate, and totally restructure economic ownership with further loss of established economic privileges. Politics and political interests suggest this is impractical.

Cooperatives have worked well in Japan under democratic political regimes because of strong grassroots participation, private mobilization, and firm national support. In China, communes appear to have worked well because of strong leadership, restriction of many economic freedoms, and a good response from the poorest farmers. The Philippine formula is yet to be found.

Conclusions

The small producer in the Philippines has been the object of cooperative mobilization to instill savings habits and to foster a credit program while promoting savings. This effort is an expression of the political desire of the Marcos administration to increase rice production—especially since the bad crop years of 1972 and 1973 and the 1972 declaration of martial law. But it may not fully reflect the needs and potentials of the poorer farmers.

Discipline, education, and savings affect all farmers, but increased loan selectivity does not

benefit all equally. This raises the question whether Philippine agricultural development directed toward productivity must be at the expense of equity. Masagana-99 has proved successful for many small farmers with assets—especially irrigation. But the poorest group—those recently converted from tenancy to land-ownership and others tilling very small plots—are the least creditworthy. With a land reform only barely implemented and with the majority still without the critical infrastructure of irrigation, forced savings are not meeting their needs. They remain unable or unwilling to repay easy loans. And rural banks are not cooperating for obvious reasons of self-interest. The lessons of the past are self-evident, but whether the solutions now available will work is a more important concern.

A critical issue is whether the present tightly controlled and oligopoly-based rural bank financial structure and the centrally controlled Samahang Nayon cooperative movement can provide the right institutional structure for encouraging full participation by small farmers in the economic and political life of the country. Can the Department of Local Government and Community Development administer cooperative development by disciplining a small farmer who lacks an economic incentive to save? Can Masagana-99 take the risks and meet the needs of these small farmers when the economic interests of the rural banks and their owners are so fundamentally at stake?

Many producers with very small holdings earn part of their income from nonfarm employment. As irrigation becomes more widespread, there will be increased opportunities for underemployed farmers to make a living as agricultural laborers. Yet one must still wonder about the fate of many of the million or so small farmers whose welfare depends on the equitable implementation of current agricultural policies in the Philippines. It would seem that greater, not lesser, financial risk-taking in providing credit and lesser, not greater, control of cooperative efforts (in spite of their political potential) are required to meet both the production and the food needs of new Filipino landowners.

(September 1978)

NOTES

The author wishes to gratefully acknowledge the many perceptive comments and helpful advice given by Mrs. Meliza Agabin, of the Technical Board for Agricultural Credit, on the complex problems related to credit, land reform, and cooperatives in the Philippines. In addition, the Department of Local Government and Community Development, the Central Bank, and the Rural Bankers' Association were generous with their time and made an invaluable contribution to the author's examination of the problem.

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3. USAID/Philippines, *Development Assistance Program for the Philippines*, Vol. I, June 1975, p. II-2.1.
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14. World Bank, *op. cit.*, pp. 100-105; ILO, *op. cit.*, pp. 55-64.
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18. Phases are based on six-month cropping seasons and interest on one percent per month. Collateral is based on sale of crop.
19. Central Bank of the Philippines, *Statistical Bulletin* (Manila: Department of Economic Research, 1976), p. 98.
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25. Bureau of Cooperatives, *Report on Cooperatives Development, FY 1975-76* (Manila: Department of Local Government and Cooperative Development, 1977), Appendix A.
26. *Ibid.*, p. 14.
27. Agabin, *op. cit.*; USAID/Philippines, *op. cit.*, pp. II-3.10-3.10.
28. Bureau of Cooperatives, *Report on Cooperatives Development, FY 1975-1976, op. cit.*

Table 1
Contributions of Area and Yield per Hectare to Agricultural
Growth Rates, 1948-52 to 1958-62 and 1958-62 to 1968-72

	<u>Annual Growth Rate</u>			<u>Relative Contribution</u>		
	Output	Area	Yield	Output	Area	Yield
(percent)						
1948-52 to 1958-62						
Rice	3.5	3.5	- 0.04	100	101	-1
Corn	6.4	7.4	- 1.0	100	116	-16
Sugar	6.2	4.6	1.5	100	75	23
Total Agriculture	4.1	3.4	0.7	100	83	17
1958-62 to 1968-72						
Rice	2.9	- 0.1	3.0	100	- 3	103
Corn	5.2	2.0	3.2	100	39	61
Sugar	3.3	4.7	-1.4	100	142	- 42
Total Agriculture	3.6	1.8	1.8	100	50	50

Source: Crisostomo and Barker, IRRI Report No. 75-14, *Agricultural Growth against Land Constraint: the Philippine Experience*, IRRI, November 1975, Tables 1 and 2

Table 2
Rice Yields and Annual Compound Growth Rate of
Paddy Area and Yields in Selected DMCs^a

Country	Paddy Yield (tons/hectares) ^b			Annual Growth Rate (percent)			
	1955	1965	1973	1955-65		1965-73	
				Area	Yield	Area	Yield
Pakistan	1.3	1.5	2.4	3.25	1.21	1.11	6.44
Indonesia	2.0	2.1	2.7	0.90	0.51	1.84	2.76
Philippines	1.2	1.3	1.6	1.24	1.10	0.86	2.52
Sri Lanka	1.6	1.9	2.3 ^c	2.88	2.10	3.16 ^d	2.37 ^d
India	1.3	1.5	1.7	1.26	1.30	0.61	1.86
Korea	2.6	4.3	4.9	1.08	4.90	-0.12	1.82
Malaysia (West)	2.1	2.5	2.9	3.42	1.97	4.67	1.72
Burma	1.5	1.6	1.7	1.93	0.94	0.13	0.71
China, Republic of	2.8	3.9	4.0	-0.03	3.53	-0.30	0.45
Bangladesh	1.4	1.7	1.7	1.10	1.98	0.60	0.45
Thailand	1.6	1.9	1.9	1.73	1.73	1.84	0.23
Nepal	0.9	1.9	1.7	1.71	8.24	3.02	-1.42
South and Southeast Asia ^a	1.4	1.6	1.9	1.28	1.41	0.91	1.71

a. Countries included in South and Southeast Asia are Bangladesh, India, Nepal, Pakistan, Sri Lanka, Burma, Indonesia, West Malaysia, Philippines, and Thailand.

b. Five-year average centered on the years shown.

c. Average for the period 1970-74.

d. Annual compound growth rate for 1965-72.

Source: Asian Development Bank, *Rural Asia: Challenge and Opportunity*, Praeger Special Studies, 1977, p. 67.

Table 3
Rural Families Classified by Level and Main Source of Income, 1971

Main Source of Income	Families in Lower 40 Percent		Families in Upper 60 Percent		Total Families		Total Population	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Farming	1,756	64.8	1,208	31.2	2,964	45.1	18,440	48.5
Self-employed	1,409	52.0	852	22.1	2,261	34.4		
Wage Labor	347	12.8	356	9.1	703	10.7		
Forestry and Fishing	165	6.1	117	3.0	282	4.3	1,635	4.3
Other Occupations	388	14.3	900	23.4	1,288	19.6	7,280	19.2
Self-employed	190	7.0	231	5.9	421	6.4		
Wage Labor	198	7.3	669	17.5	867	13.2		
Other Sources	130	4.8	107	2.9	237	3.6		
Agricultural Rents	54	2.0	31	0.9	85	1.3		
Other	76	2.8	76	2.0	152	2.3		
Total Rural Families	2,439	90.0	2,332	60.5	4,771	72.6	27,355	72.1
Total Urban and Rural Families	2,710	100.0	3,862	100.0	6,572	100.0	37,901	100.0

Note: The data presented here were adjusted in two ways. First, all urban household reporting their main earnings from agriculture, forestry, and fishing were shifted into the rural category. Second, to allow for the fact that the surveys underestimate the national population, the number of families in each group was increased using the following ratios: for 1961, 1.0879; for 1965, 1.0403; and for 1971, 1.0355.

Source: World Bank, *The Philippines: Priorities and Prospects for Development*, Washington, D.C., 1976, pp. 93 and 96.

Table 4
Actual and Projected Harvested Area of Crops

Crop	Actual ¹		
	1950	1960	1970
('000 hectares)			
Food crops			
Rice	2,210	3,278	3,186
Corn	909	2,000	2,350
Other	485	882	855
Subtotal	3,604	6,160	6,397
Export and Other Crops			
Coconuts	979	1,088	1,926
Sugarcane	143	242	384
Other	353	291	280
Subtotal	1,475	1,621	2,590
Total	5,079	7,791	8,987

1. Based on three-year averages of 1949-51, 1959-61, and 1969-71, respectively.

Sources: World Bank, *op cit.*, p. 130.

Table 5
Cereals Production and Imports, 1965-1975
(^{'000} metric tons)

Calendar year	Milled Rice			Wheat			All Cereals			
	Domestic Production	Net Imports	Import Dependence ^a	Domestic Production	Net Imports	Import Dependence ^a	Net Imports	Domestic Production	Net Imports	Import Dependence ^a
1965	2,690	569	17.5	1,346	6	...	506	4,036	1,081	21.1
1966	2,747	108	3.8	1,407	2	...	495	4,154	605	12.7
1967	2,844	237	7.7	1,481	50	3.3	476	4,325	763	15.0
1968	3,289	- 41	...	1,537	3	...	525	4,826	487	9.2
1969	3,264	...	...	1,870	29	1.5	505	5,134	534	9.4
1970	3,582	...	...	2,007	...	...	449	5,589	449	7.4
1971	3,496	370	9.6	2,002	83	4.0	485	5,518	936	14.5
1972	3,149	451	12.5	1,920	168	8.0	490	5,069	1,109	18.0
1973	2,870	310	9.7	1,830	100	5.2	504	4,700	914	19.4
1974	3,279	168	4.9	2,289	110	4.8	...	5,568	278	4.8
1975	3,861 ^b	152 ^b	3.8	2,568	121 ^b	4.5	557	6,429	830	12.9

... Zero or negligible.

a. Import dependence is the ratio of imports to total supply.

b. Projected as of November 1, 1975.

Source: World Bank, *op. cit.*, p. 132.

Table 6

Production and Imports of Sugar and Coconuts
(**'000 Metric Tons**)

Crop Year ^a	Sugar Production	Exports	Calendar Year	Copra Production ('000 MT)	Exports
1970	1,927	1,178	1970	1,356	1,036
1971	2,056	1,444	1971	1,756	1,456
1972	1,816	1,299	1972	2,174	1,820
1973	2,245	1,359	1973	1,871	1,514
1974	2,446	1,587	1974	1,424	1,085
1975	2,394	1,065	1975	2,217	1,867
1976	2,875	1,466	1976 ^b	2,742	2,338

a. The crop year for sugar begins September 1 and ends August 31.

b. Preliminary.

Sources: Philippine Sugar Institute. Export data is provided by the Sugar Administration and is by crop year. United Coconut Association of the Philippines, based on information provided by its members.

Table 7

Loans Granted by Rural Banks of January 31, 1978
(**Amount in million P**)

	Number of rural banks	Number of borrowers	Amount	Fallen Due	Repayment	Percent of Repayment Fallen Due
Phase I	443	168,001	152.9	152.9	150.1	98.2
Phase II	415	118,490	117.2	117.2	114.1	97.3
Phase III	416	237,997	303.6	303.6	284.6	93.7
Phase IV	484	217,020	333.3	333.3	281.6	84.5
Phase V	517	132,403	235.4	235.4	186.8	79.3
Phase VI	397	86,637	127.2	127.2	99.5	78.2
Phase VII	401	75,942	139.1	139.1	105.2	75.6
Phase VIII	300	43,675	78.5	78.5	59.9	76.3
Phase IX	331	61,898	114.1	65.4	54.9	83.9
Phase X	224	28,146	53.4	--	--	--

Source: Central Bank of the Philippines

Table 8

Status of STD Releases to Rural Banks
 Under the "Masagana-99" Rice-Financing Program as of
 March 17, 1978 (in million-P)

	Gross Releases	Repay- ment	Outstanding Balance	Percent of Repayment to Gross Releases
Phase I	84.0	83.7	0.3	99
Phase II	50.0	49.0	1.0	98
Phase III	102.5	99.5	3.0	97
Phase IV	103.3	100.2	3.1	97
Phase V	115.7	110.2	5.4	95
Phase VI	66.2	60.7	5.5	91
Phase VII	76.7	72.8	3.9	94

Source: Central Bank of the Philippines