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RURAL GROWTH AND DEVELOPMENT REVISITED

Governance Issues and Reform Imperatives for Rural Growth

by

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Public Disclosure Authorized

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LIST OF ACRONYMS

AARNR	Agriculture, Agrarian Reform and Natural Resources
ABRP	Agricultural Bureaucracy Restructuring Plan of the DA
AFMA	Agriculture and Fisheries Modernization Act
AFMP	Agriculture and Fisheries Modernization Program
ARC	Agrarian Reform Communities
BAFPS	Bureau of Agriculture and Fisheries Product Standards
BFAR	Bureau of Fisheries and Aquatic Resource
CARP	Comprehensive Agrarian Reform Program
CADT	Certification of Ancestral Domain Titles
DA	Department of Agriculture
DAP	Development Academy of the Philippines
DAR	Department of Agrarian Reform (now known as Department of Land Reform)
DILG	Department of the Interior and Local Governments
DLR	Department of Land Reform (formerly Department of Agrarian Reform)
DBCC	Development Budget Coordinating Committee
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DFIMDP	Diversified Farm Income and Market Development Project
DILG	Department of Interior and Local Government
DOF	Department of Finance
DPWH	Department of Public Works and Highways
EO	Executive Order
EER	Effectiveness and Effectiveness Review (also referred to as SEER)
ENR	Environment and Natural Resources
GAA	General Appropriations Act
GDP	Gross Domestic Product
GFIs	Government Financial Institutions
GOCC	Government-Owned or Controlled Corporation
ICC	Investment Coordination Committee
IFMA	Industrial Forest Management Agreement
IP	Indigenous Peoples
IPRA	Indigenous Peoples Rights Act
IGAB	Improving Governance of the Agricultural Bureaucracy of the DA
LGUs	Local Government Units
MFC	Municipal Finance Corporation
MFO	Major Final Outputs
MTEF	Medium-Term Expenditure Framework
MTPDP	Medium Term Philippine Development Plan
MTPIP	Medium Term Public Investment Program
NCIP	National Commission on Indigenous Peoples
NEDA	National Economic and Development Authority
NG	National Government
NGOs	Non-Government Organizations
OPIF	Organizational Performance Indicator Framework
OPIB	Organizational Performance Improvement Bureau
PAPs	Programs, Projects and Activities
PEM	Public Expenditure Management
SEER	Sectoral Effectiveness and Efficiency Review (sometimes referred to as EER)
SPM	Strategy Planning Matrix

Introduction: Objectives and Scope of the Study

The purpose of this paper is to describe the cross-cutting issues that influence the operating conditions and overall quality of public services in agriculture, agrarian reform and natural resources development management in the Philippines. It focuses on a few main areas of governance broadly identified as institutional capacity, public expenditure management systems, public accountability systems and devolution.

Institutional capacity basically refer to personnel, organizational structures, assets, legal mandate and operating procedures that altogether make up the machinery by which the agency produces the goods and services it provides to its clients. They are set within bounds by written laws, rules and policies and allowed to evolve through successive legal issuances from Congress, incumbent officers and the Office of the President. Institutional arrangements are also governed by informal rules and power structures that are shaped by historical developments, cultural norms and prevailing social relationships among interest groups in a sector.

Access to financial resources and the institutional capacity of agencies to manage these resources is another determinant of government efficiency and effectiveness among line departments as well as among local government units. Macroeconomic stability requires that the total level of public spending should stay within sustainable borrowing limits, hence agency spending needs to be governed by hard budget constraints. Sound public expenditure management also calls for agency systems and procedures that enable sector planners to allocate the limited resources to activities and functions that would have the most cost-effective impact on its sector objectives.

Systems of accountability embody the entirety of positive and negative motivational factors that push units and people in government to behave responsibly in the performance of their duties and in expending resources. The Congress, the Office of the President and heads of agencies represent the vertical line of management control and policy guidance over the operations of the different agencies as may be expressed through the written laws, the Medium-Term Philippine Development Plan, annual budget guidelines, organizational manuals, and administrative memoranda. Interest groups of varying levels of influence and degrees of formality collectively play a critical role in pressing government policy makers and service providers to improve the quality and responsiveness of government services to the development needs of stakeholders.

The devolution policy defines the system of responsibility assignment between national agencies and local government units (LGUs). Since the enactment of the Local Government Code of 1991, the government of the Philippines has been going through a process of adjustment which started out with the transfer of assets and responsibilities from central government to LGUs and has moved on into building and supporting local capacity for good service delivery. "The challenge facing the Government now is to strengthen the process of devolution, and to more effectively involve communities and qualified NGOs in designing and implementing rural development initiatives" (World Bank: Promoting Equitable Rural Growth, May 29, 1998).

The discussion will focus on the three agencies that are mainly responsible for the implementation of programs to develop the rural sector: the Department of Agriculture (DA), the Department of Environment and Natural Resources (DENR), and the Department of Land Reform (DLR)[1]. Through these three agencies, the national government implements broad-ranging programs for promoting the productivity and growth of the rural economy through

[1] By virtue of an Executive Order issued by President Arroyo in 2004, this new name was given to the Department of Agrarian Reform (DAR) along with expanded responsibilities for providing assistance to urban poor and indigenous peoples in addition to farmers and landowners whose assets are covered by the Comprehensive Agrarian Reform Law.

agricultural enterprise support, regulation and management of user rights to natural resources and support for beneficiaries of land reform. They are working with basically the same target group, i.e. residents in rural areas with formal or informal access to resources that can be used for production and livelihood. There is broad agreement that the work of these three agencies have an important bearing on the results that they can each achieve individually and sustainability of efforts to promote rural growth has to come with a more effective collaboration among these three agencies.

The following section describes the current situation in each agency with respect to institutional arrangements, budgetary issues and other factors that drive or hinder their performance. This is followed by a discussion on broad sets of measures and reform initiatives that have been identified to address some of these issues and recent progress in their implementation. The paper concludes with a set of recommendations on the prioritization and strategic focus for pursuing these various reform initiatives so that they can make the most impact on the quality of public services and rural growth.

Recent Institutional Assessments

Institutional Arrangements

The main responsibility for public services rests with local government units, and this has been so since the enactment of the Local Government Code in 1991. Notwithstanding this policy, the national government retains important functions in promoting rural development and overall economic growth. The succeeding discussions will give a brief overview of the administrative structure of the three main agencies operating in the sector, DA, DAR and DENR. It presents an overview of expenditures for each of the three agencies based on the budget data in the Budget of Expenditure and Sources of Finance prepared by the DBM for 2005 (some expenditure data are also available from the Commission on Audit and from the finance officers of the three agencies which may vary from the DBM data due to accounting nuances).

The Department of Agriculture

The Department of Agriculture takes the lead role in the formulation and implementation of national policies, programs and strategies for the development of agriculture in the Philippines. Its public sector role was given an updated definition with the enactment of the Agriculture and Fisheries Modernization Act (AFMA) in 1997 that introduced the market approach in assisting the agriculture and fisheries sectors and market-oriented policies in agricultural production to encourage farmers to shift to more profitable crops. Yet the agency retained its traditional role of promoting social equity and food security (particularly sufficiency in rice and corn). Among all national agencies, it probably has the broadest scope and most challenging responsibilities as provided for the AFMA's general policy directions, i.e. "adherence to the principles of poverty alleviation and social equity; food security; rational use of resources; global competitiveness; sustainable development; people empowerment; and protection from unfair competition."

Sector Objectives

The AFMA outlines the following sector objectives for the DA:

1) To modernize the agriculture and fisheries sectors by transforming these sectors from a resource-based to a technology-based industry;
2) To enhance profits and incomes in the agriculture and fisheries sectors, particularly the small farmers and fisherfolk, by ensuring equitable access to assets, resources and services, and promoting higher-value crops, value added processing, agribusiness activities, and agro-industrialization;

3) To ensure the accessibility, availability and stable supply of food to all at all times;
4) To encourage horizontal and vertical integration, consolidation and expansion of agriculture and fisheries activities, groups, functions and other services through the organization of cooperatives, farmers' and fisherfolks' associations, corporations, nucleus estates, and consolidated farms and to enable these entities to benefit from economies of scale, afford them a stronger negotiating position, pursue more focused, efficient and appropriate research and development efforts and enable them to hire professional managers;
5) To promote people empowerment by strengthening people's organizations, cooperatives and NGOs and by establishing and improving mechanisms and processes for their participation in government decision-making and implementation;
6) To pursue a market driven approach to enhance the comparative advantage of our agriculture and fisheries sector in the world market.
7) To induce the agriculture and fisheries sectors to ascend continuously the value-added ladder;
8) To adopt policies that will promote industry dispersal and rural industrialization by providing incentives to local and foreign investors to establish industries that have backward linkages to the country's agriculture and fisheries resource base;
9) To provide social and economic adjustment measures that increase productivity and improve market efficiency while ensuring the protection and preservation of the environment and equity for small farmers and fisherfolk; and
10) To improve the quality of life of all sectors.

The core responsibilities of the DA are expressed in terms of a set of major final outputs (MFOs) that define its deliverables upon which budget allocation decisions and administrative arrangements are to be based. They are all linked to a goal statement, hence manifesting a conscious attempt to focus on results rather than on the management of inputs.

In 2002, a list of four MFOs were listed for DA in NEDA-DBM planning and budgeting workshops and these are shown in

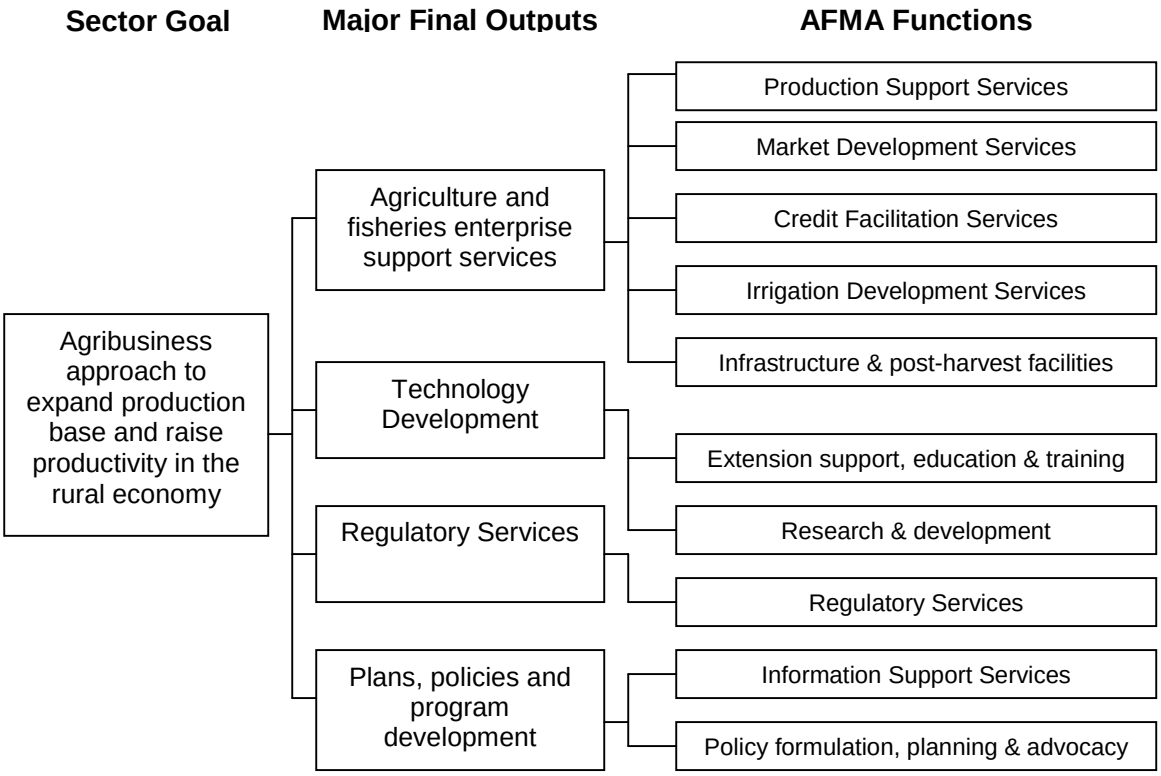
Figure 1 middle column. These MFOs reflect the basic responsibility of national government agencies for the provision of public goods, i.e. hospitable policy environment for doing business through clear and focused sector plans, policies and regulatory services. Direct provision of enterprise support services is essentially devolved to local governments but retained in the list of DA MFOs since government policies at that time included massive investments in programs to achieve national production targets and food security goals.

The third column in

Figure 1 shows a longer list of 10 functions that DA currently adopts based on AFMA provisions. The list of AFMA functions can be reconciled with the agreed MFO list on the basis of their link to sector outcome on the leftmost column[2]. The important thing is not so much the number of MFOs and functions as it is to have a guide or framework for evaluating the need for expenditures on activities that are linked or not linked to the sector goal.

[2] The statement of sector goal is drawn from the Medium-Term Philippine Development Plan 2004-2010, Chapter 2, "Agribusiness".

Figure 1 Department of Agriculture: Structure of Outputs and Functions



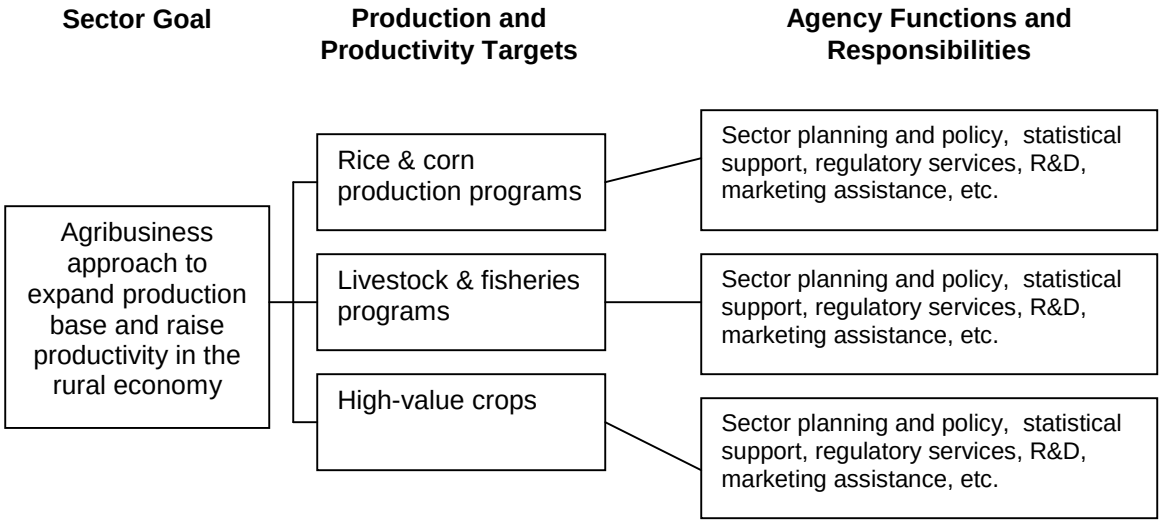
Source: Diversified Farm Income and Market Development Project, Main Report, Department of Agriculture, June 2004.

In operational terms however, the agency is actually structured along commodity lines with major crops, i.e. rice and corn, figuring prominently in the definition of strategic thrusts and operational targets of the agency. As cited in the institutional assessments of the Diversified Farm Income and Market Development Project (DFIMDP) Studies, "the Department advocated, supported and accordingly implemented a development agenda that carried a heavy bias towards the promotion of specific commodities."[3]

This is somehow reinforced by some policy statements in the MTPDP. For the next six years, the DA is going to be responsible for achieving Goal #2 of the Agribusiness Chapter: "***Make food plentiful at competitive prices where the cost of priority wage goods such as rice, sugar, vegetables, poultry, pork and fish and other important non-wage goods like corn must be reduced. This also means that government will continue to fight for self sufficiency in rice production by increasing price and production efficiency and competitiveness.***"

[3] Maria Lourdes Lagarde, Strengthening the Planning, Policy and Budgeting System, Diversified Farm Income and Market Development Project Final Report, Vol.5, June 2004, Department of Agriculture.

Figure 2 Department of Agriculture: Commodity-Oriented Structure of Agency Responsibilities



Organizational Structure

The DA now has a total of 24 attached bureaus and regional field units to carry out these responsibilities. See Annex A for the organizational illustration of DA system with its attached agencies organized according to their core functions. In varying ways, they actualize the role of government through direct intervention in production and pricing decisions, with a strong emphasis on crops, particularly rice. As long as they are responsible for the promotion of a particular commodity, they are expected to be involved in all aspects of doing business in the industry, be it in production, procurement, financing, marketing and distribution processes and these have been noted by the DFIMDP study as exerting tremendous pressure on the very limited financial and logistical resources of the agency as a whole. Because of the agency's inability to access more resources and to adapt to changing policies and opportunities this development approach "generated a lot of unmet expectations in the sector, which critically dampened private sector initiative and undermined its importance and efficacy as an institution".[4]

The Department initiated a number of attempts at organizational reform to shift operations from commodity orientation to a few functional areas as suggested by the AFMA. It restructured the planning, policy and project development units in accordance with the Implementing Rules and Regulations of the AFMA (per Administrative Order 19 issued on December 28, 1998). The Agricultural Bureaucracy Restructuring Plan (ABRP)[5] prepared in 1999 presented ways by which DA would pursue a reorientation of its policies, functions, programs, activities and strategies to achieve a more functional structure of service delivery (per Executive Order 162 issued on October 16, 1999). Implementation of the ABRP was mandated by EO 338 signed by then

[4] Ibid.
[5] The ABRP was a significant attempt at restructuring DA along functional lines, in order to achieve operational efficiency, enhance coordination, improve access of farmers and fisherfolk to support services, strengthen partnership with local government units and reducing the cost of doing business in agriculture and fisheries. It sought to focus agencies on their core function at the same time consolidating units with related functions.

President Joseph Estrada in 2000. To carry the reform further in operational terms, the DA embarked on Improving Governance for the Agricultural Bureaucracy (IGAB) Project which produced a set of operations manuals covering the following functions of DA: planning and resource allocation, project development, agricultural trade remedies, human resources development, field operations monitoring and evaluation, internal management audit, finance and administration, regulatory services, and fishery development management.

The sheer number of bureaus and attached agencies under the DA indicates an urgent need to put in place a more streamlined structure for coherent enforcement of policies and effective coordination of programs and services. Despite the mandated functions under the AFMA and subsequent initiatives to move towards a functional structure, the commodity-bias of many existing agencies and their programs has persisted in the DA system. Not only has this slowed down the desired transformation of the DA to a client-oriented service agency, but it has also kept resources from the provision of new functions that are more relevant to current needs of the private sector.

Overview of Expenditures

The programmed expenditures for the DA are reflected in the budget of the national government under three categories. The Department proper gets an allocation of funds for its programs, projects, and activities and these are made to flow down to its various implementing units comprised of bureaus, attached agencies and regional field units. A number of government corporations attached to the DA are also programmed to receive a substantial budgetary allocation in the form of equity, advances and other forms of subsidies. These are the National Food Authority, Quedancor, National Irrigation Administration, among others. These two sources of funds together make up the total amount of annual budgetary appropriations for agriculture and are administratively under the management control of the Department of Agriculture. However, DA control over the government corporations is not as straightforward because their operations are controlled by independent governing boards.

The budget appropriated for the regular activities of the DA appears to be severely restricted in the past two years and may remain so for the coming year 2005. As presented in Table 1 below, the total budget allocated to agriculture was increased substantially from P28.70 billion in 2003 to P32.84 billion in 2004, but the increment went exclusively to government corporations under the DA.

The bulk of the total amount of funds appropriated for agriculture comes from the Agriculture and Fisheries Modernization Program—a special purpose fund that was to finance new functions and additional responsibilities mandated by the AFMA. However the amounts that appear to be allocated under this item are actually attributions from other regular appropriations. Hence, the enactment of the AFMA has not resulted in increased access of the department to additional funds that it needs to carry out new activities and services that are required by its clients.

Table 1

Summary of Budget Allocation to the Department of Agriculture, 2003-2005 (in billion Pesos)

	2003 Actual	2004 Adjusted	2005 Proposed
Department Proper	13.46	13.49	14.49

Budgetary Support for Government Corporations	15.24	19.35	7.76
Total	**28.70**	**32.84**	**22.26**
Of which amount is under the Agriculture and Fisheries Modernization Program	10.06	10.43	11.44

Source: DBM, Budget of Expenditures and Sources of Funds, 2005

The management of resources within the DA has been based on priority commodities, driven mainly by the desire to achieve equitable distribution of economic benefits and a long standing policy to maintain food security in staple crops. This practice persists up to now despite the new policy framework enunciated by the AFMA to focus on developing public sector functions and despite the failure of past programs to secure the sources of competitiveness and growth in these and other agricultural commodities.

Analysis of trends in government expenditures on agriculture undertaken by David[6] by policy instrument explains that "a large proportion of public expenditures has been redistributive in nature, financing what are essentially private goods and services, such as foreign and domestic grains trading, and the provision of seeds and planting materials, animals, agro-processing facilities, tubewell irrigation, post-harvest equipment and facilities, credit and so on. Less than 50% of public spending on agriculture has been devoted to productivity-enhancing, public-good type expenditures." She notes the utter lack of attention devoted to regulatory functions, statistical data collection, policy analysis and planning, and market development.

The DA budget proposal for 2005 still reflects a system of budget allocation that is commodity-oriented with the first cut going to their banner programs such as GMA Rice and Corn. The list of priority commodities includes livestock, vegetables, high-value crops and fisheries. Within the budget for these commodity programs, the DA sub-allocates resources for other critical functions such as sector planning and policy development, regulatory services, and infrastructure support. If one goes by the usual content of such commodity programs, the priority of the Department goes into the production of private goods rather than on the provision of more essential public services such as food safety and other regulatory services, technology development and dissemination, trade and business facilitation, and price monitoring.

The agency is in the process of introducing innovations in budgeting so that the allocation of funds would align with expenditure priorities set out in the plans of the agency. The most critical budgetary gap has to do with the delivery of services that the private sector needs in order to take advantage of new market opportunities under globalizing trade. As envisioned by the framers of the AFMA, these functions have to do with market linkage assistance, market information, market-oriented technology development and dissemination, product standards development and enforcement, trade facilitation and export/import processing. Since the likelihood of obtaining additional funds from the national government budget is nil, the agency has to be able to allocate the needed funds for these functions through the reallocation of resources from within the usual budget.

[6] Christina David, The Philippine Economy, Development, Policies, and Challenges: Agriculture, Arsenio Balisacan and Hal Hill (eds.), Ateneo de Manila University Press, Quezon City 2003.

The Department of Environment and Natural Resources

Public Sector Role and Objectives

The Department of Environment and Natural Resources is the national agency responsible for conservation, management, protection, development and proper use of natural resources and promotion of sustainable development. It performs these functions through the exercise of state authority for granting conditional use-rights for all lands of the public domain, water, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources. The objective for effective governance is to minimize conflict and promote equitable access of various user groups to these common property resources.

The Department has five basic functions as defined by the recent efforts to specify its outputs and performance indicators, as shown in Table 2 below. The ideal organizational structure would have responsible managers and units for each function area but since the MFOs were recently adopted, the DENR has yet to depart from its traditional sub-sectors, dealing mainly with industries in mining, forestry, and environmental management.

Table 2 Department of Environment and Natural Resources: Major Final Outputs

	Function Area	Final MFOs
MFO 1	Planning and Policy	Required ENR policies, plans, information and pertinent advocacy services initiated, generated and coordinated
MFO 2	Ecosystems Management	Ecosystems protected, enhanced and degraded ones rehabilitated
MFO 3	Administration of User Rights	Resource use and access managed (regulated) within the framework of sustainable development equity consideration
MFO 4	Regulatory Services	ENR law, policies and pertinent rules and regulation strictly enforced and compliance regularly monitored in coordination with pertinent law enforcement authorities
MFO 5	Technology Development and Dissemination	Environment-friendly resource production and utilization technologies adopted, developed and technical assistance provided

Source: Department of Budget and Management, as of June 2004

While it is mainly a regulatory agency, the DENR is also in the business of providing public goods by way of environmental benefits that communities enjoy from natural ecosystems. It implements programs and projects to protect, enhance or rehabilitate critical ecosystems and undertakes technology development and dissemination for environment-friendly resource production and utilization. The focus of the agency's operations had undergone a shift since the 1908's from purely exploitation to long-term sustainable management or conservation.

Operating Systems

The last major reorganization of the DENR took place in the late 1980s. It was done in line with the foregoing definition of the public sector role in ENR management, wherein central office agencies were to focus on staff functions providing technical and advisory services to the Office

of the Secretary and field units providing line functions. This set-up pertains to the Mines and Geo-Sciences Bureau, Lands Management Bureau, Protected Areas and Wildlife Bureau, Forest Management Bureau, Environmental Management Bureau and the Ecosystems Research and Development Bureau. Their line functions were decentralized to 15 regional offices that were each headed by a Regional Executive Director and four Assistant Regional Directors.

The structure and mode of operations of the DENR have evolved over the past two decades with the emergence of new legal instruments for assigning use-rights, devolution of public service delivery to local government units, a new law recognizing indigenous peoples' rights over ancestral domain claims, and successful community-based approaches for local resource protection and management. As a result, the overall implementing mechanism for the performance of the DENR's responsibility is one that allows shared responsibility for sustainable management of resources with other stakeholders among national agencies and local institutions.

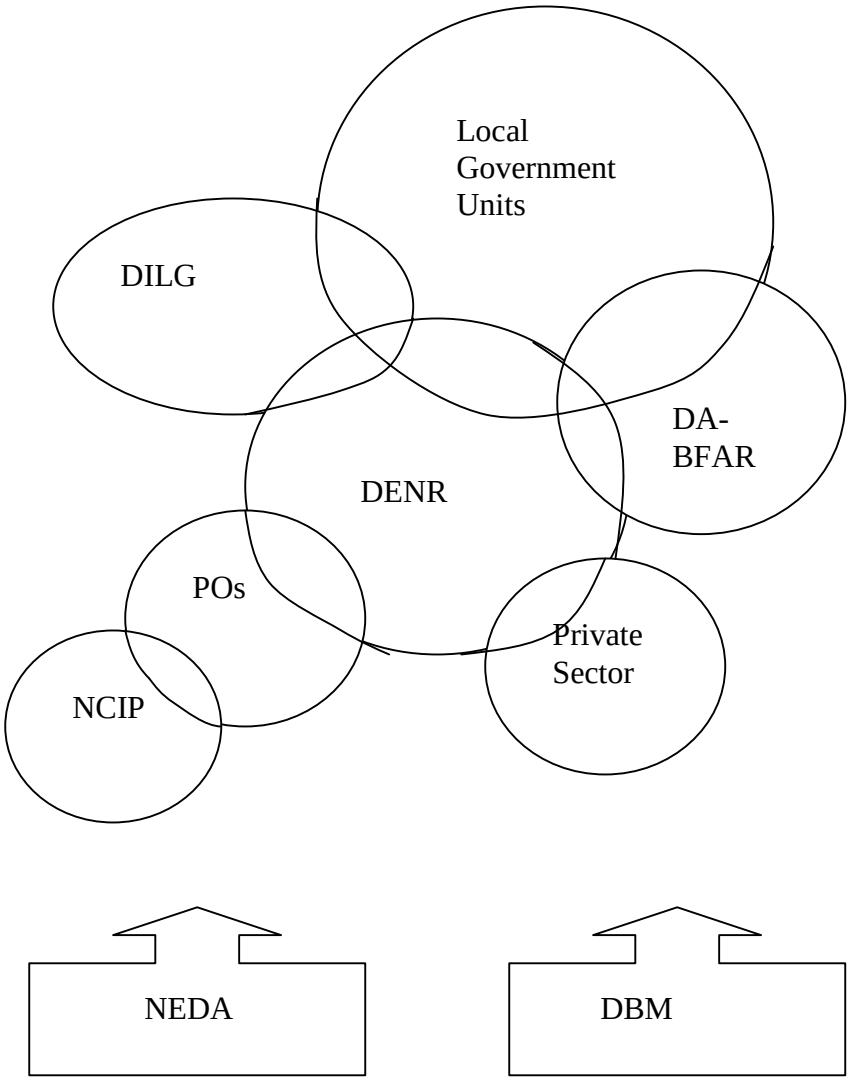
The Local Government Code of 1991 assigned the responsibility for implementation and coordination of DENR policies, regulations, programs, projects and activities to local government units (LGUs). Small watersheds, small-scale forestry projects, tree parks and ecotourism resources, small-scale mining operations, quarrying activities, hydroelectric power projects were placed under the jurisdiction of LGUs. These are mainly considered as delegated responsibilities from central government, which retains in the DENR the power to supervise, control and review the implementation of these functions by LGUs.

The Indigenous Peoples' Rights Act of 1997 (IPRA) is another newly passed law that recognized the right of indigenous peoples (IP) to own and control access to ancestral domain lands and natural resources within such claims. The IPRA created the National Commission on Indigenous Peoples (NCIP) which now exercises significant authority for resolving disputes and developing the capacity of IP communities for sustainable development and protection of ancestral domains. The NCIP therefore functions like the DENR in resource management for ancestral domain lands, but at a low level of capacity since the build-up of its staff and resources has been constrained by limited budgetary support from the national government.

The functional areas and scope of responsibility of each of these institutions is presented in

Figure 3 Institutional Structure and Agency Mandates for Natural Resources Management. The development of institutional capacity appears to follow an expansion pattern that seeks greater coverage rather than a linear structure that can more narrowly focus on a few areas of intervention. The roles of the National Economic and Development Authority (NEDA) as well as the Department of Budget and Management (DBM) are included in the illustration to express the impact of policy and financing decisions of these oversight agencies on ENR management.

Figure 3 Institutional Structure and Agency Mandates for Natural Resources Management



Source: Governance of Natural Resources in the Philippines: Lessons from the Past, Directions for the Future, RDNSU/EAPR World Bank, November 2003

The emergence of communities and the private sector as important players in the overall implementing structure for the management of the ENR sector has come about with new legal instruments for resources ownership, access and control, e.g. Community-based Forest Management Agreement, Certificate of Stewardship Contracts, Socialized Industrial Forest Management Agreement (IFMA) and fishery licenses for municipal waters. The DENR however has hardly been able to monitor the performance of the different partners and in remote locations in different parts of the country. As it delegates field responsibilities to the community-based institutions, the agency has not clearly been able to learn and discern from successes and failures of such community-based strategies so that policy for replication and scaling up can be made to support and achieve its sector goals.

The management of coastal resources also went through some changes with the enactment of the 1998 Fisheries Code. It assigned to the Bureau of Fisheries and Aquatic Resources (BFAR) of the DA the authority to formulate and enforce all rules and regulations governing the conservation and management of fishery resources (except for municipal waters). It is in charge of both conservation of the resources and the promotion of the fishery industries and unlike other public services in the agriculture sector, this national agency is directly involved in implementation of regulation and production support services down to the provincial level.

Despite the entry of new partners in ENR conservation and management, the existing institutional arrangements are hard put to meet the demands of the sector. The DENR itself was described by a World Bank study as "a profusion of underfunded, centralized institutions (that) have unclear and overlapping mandates, ineffective processes for stakeholder participation, and inadequate mechanisms to ensure accountable performance and service delivery."[7] Consequently, the expansion of program coverage through various new partners have introduced both opportunities and problems as DENR capacity for monitoring field activities was not being strengthened accordingly and results have been mixed.

An important area for governance reform in the ENR sector pertains to land administration and management. Under existing institutional and legal arrangements that were evaluated by the Land Administration and Management Project (LAMP) technical assistance, the formal system of titling and registration of lands in the Philippines is undermined by the existence of multiple land administration agencies, governed by different land administration laws, operating multiple parallel land titling processes, and issuing different forms of certificate of title. The bad state of land administration gives rise to many problems such as boundary disputes, illegal occupation of state and forestlands, fake titles, disputes in land valuation, and inappropriate land classification that impinge on the development of an efficient land market.[8] A comprehensive program to introduce needed reforms in the system is currently being pursued by the government through the leadership of the DENR.

Table 3 Key Duplication/Overlap between Agencies in Land Administration

Activity/Function	Agencies Involved
Primary classification of public land as A&D	DENR/NAMRIA and NCIP
Land surveys for titling purposes	DENR/Land Management Bureau, DLR, and NCIP
Award of original private rights in A&D lands	DENR (Patents), DLR (CLOA), Courts (Court Decrees) and NCIP (Cert of Ancestral Domain Titles)
Maintenance of cadastral maps and records	DENR/Land Management Bureau, Land Registration Authority
Land valuation and related mapping for tax purposes	Bureau of Internal Revenue, Local Government Units

Source: Philippines-Australia Land Administration and Management Project, Institutional Arrangements Policy Study, July 2004

[7] The World Bank, Governance of Natural Resources in the Philippines: Lessons from the Past, Directions for the Future, RDNSU/EAPR World Bank, November 2003.
[8] Land Administration Reform: Policy Studies Integration Report, Philippines-Australia Land Administration and Management Project (PA-LAMP), October 2002.

Overview of Expenditures

The budget of the DENR has been kept at the same nominal level over the past recent years at about P6.8 billion as shown in Table 4 below, reflecting a reduction in real terms after accounting for inflation. The level has virtually been the same in nominal terms averaging on only at P6.3 billion annually from 1998-2002.

Table 4 Summary of Budget Allocation to Environment and Natural Resources 2003-2005 (in Billion Pesos)

	2003	2004	2005
Department Proper	6.75	6.77	6.80
Budgetary Support for Government Corporations	0.10	0.19	0.19
Total	**6.85**	**6.96**	**6.99**

Source: DBM, Budget of Expenditures and Sources of Funds, 2005

A recent World Bank study on the analysis of governance in the natural and resource management sector pointed out a number of important issues in the financial status and spending policies of the DENR[9]. These are summarized as follows:

1 The DENR budget is spread over too many programs and projects and funding for such projects is subject to shifting priorities with frequent changes in environment secretary

2 Frequent reshuffling of the DENR budget limits the effectiveness of programs that are meant for natural resource management schemes that require support for a number of years

3 The use of the DENR MFOs is to rationalize the allocation of funds to support the development of the agency along functional lines but has not yet been able to influence the structure of the DENR budget.

4 NEDA noted that the DENR performance in the implementation of foreign-assisted projects has been declining in both physical accomplishment and financial disbursements; sustainability is a concern, especially for activities that are presumed to be integrated into vital functions of the Department.

Department of Land Reform

Sector Objectives

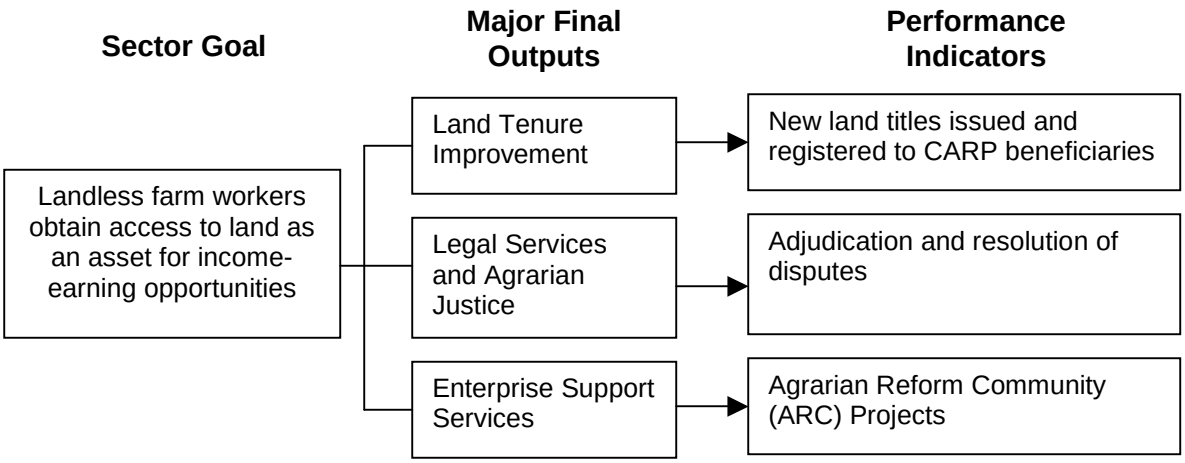
The Department of Agrarian Reform was created to carry out and complete the government's land reform program by 1998 or about 10 years after the passage of the Comprehensive Agrarian Reform Law in 1987. Its mission as an organization is to correct past inequalities in landholdings and thereby enable poor, landless farm workers to obtain access to land as an asset for income-earning opportunities.

As such, the operations of the DLR consist only of three core functions: land tenure improvement, legal services and support services to land reform beneficiaries (See Figure 4

[9] *Governance of Natural Resources in the Philippines: Lessons from the Past, Directions for the Future*, The World Bank, November 2003.

below. The DLR is the lead agency that does the survey, documentation and issuance of titles to parcels of land that are covered by the Comprehensive Agrarian Reform Program as a formal system of transferring ownership of farm lands to intended beneficiaries. A related function is the provision of legal assistance to farmers who need help in the settlement and resolution of conflicting claims in CARP areas. Providing support services such as access roads, irrigation, post-harvest facilities, and water supply has become an important function of the DLR as it sought to respond to the needs of beneficiaries other than land ownership.

Figure 4 Department of Land Reform: Major Final Outputs



Starting with the term of former DAR Secretary Ernesto Garilao in the early 1990s, the DLR grew in importance as a service provider of rural infrastructure and other support services. It introduced the Agrarian Reform Communities (ARC) approach in many sites where CARP was being implemented as a convergence point for national, external and local resources whereby benefits could be felt immediately by farmers. It proved to be an efficient channeling mechanism for external assistance to needy communities hence the program drew support and sustained interest not only from the donor community but also the local government units. Presently, the ARC model is one of the major programs of the government's anti-poverty strategy because it in support of asset reform and targets a very marginalized segment of society, i.e. landless farm workers.

Institutional Assessment

DLR's functions are not devolved and this has led to the maintenance of an expansive structure that reaches down to every municipality in the Philippines. Weak coordination with LGUs affects the effectiveness of land reform operations. As a result the progress of the Agrarian Reform program is increasingly bogged down by issues of conflicting claims, unsettled boundary disputes, land valuation issues, etc.

Achieving growth in agrarian reform areas requires not only land tenure but also support services of productivity enhancement and strong local institutions. While this concept is well demonstrated in its ARC programs, the basic skills of most of DLR's personnel at the municipal and provincial offices have not been adjusted accordingly.

The scope of the Department's functions was recently expanded when the President changed it to the Department of Land Reform (DLR). The functions are basically the same but the plan includes measures to resolve overlapping functions with the National Commission on Indigenous Peoples (NCIP) in dealing with ancestral domain lands.

Overview of the Budget

The expenditures of the DLR as shown in its 2005 budget proposal are structured neatly according to only three Major Final Outputs, namely:

1. **Land Tenure Improvement**: 130,000 hectares of land surveyed, documented and for which new titles are issued and registered to 83,460 farmer-beneficiaries costing about P592.5 million for 2005. Also for the same year, about 31,600 hectares are targeted for leasehold contract agreements costing DAR about P30 million.
2. **Legal Services and Agrarian Justice Delivery**: 24,216 adjudication cases to be resolved for which the Department has to spend about P35.5 million; Legal assistance provided to ARBs to submit for resolution about 31,000 cases costing P45.4 million.
3. **Support Services Delivery**: 79 new ARCs and 63 Kalahi Agrarian Reform Zones to be established/delineated and provided support services in 2005 costing P300 million for credit/microfinance services, rural infrastructure, post-harvest facilities, entrepreneurial skills trainings etc. At the end of the year, DLR would have completed about 1,700 ARCs nationwide. Under special foreign-assisted projects, DLR provides ARCs with school buildings, water supply systems, health centers, multipurpose centers and solar energy packages

Activities planned for 2005 include several activities that are geared towards agribusiness and entrepreneurial development of farmers who would benefit from the land transfer. This would have strong potential for enhancing productivity and business growth in project areas because the integrated local planning approach for site development may include investment support for farm-to-market roads, microfinance services and post-harvest facilities as needed.

The budget of the DLR is predominantly driven by redistributive policies as the bulk of its budget goes to land transfer and case adjudication to respond to the clamor of farmers for individual titles to their land. The process is inherently protracted by disputes arising from land valuation policies that set the price of land below market prices and poor land database management (See LAMP studies). The provision of legal services also has a redistributive slant since the value of land being transferred is usually above the value of earnings that farmers can potentially realize from doing business on that land, hence the legal services in effect strengthen the bargaining power of farmers who want to own land.

The budget of the DLR also indicates a certain degree of responsiveness to poverty alleviation thrusts of government whereby poor landless farmers in marginalized areas are particularly targeted. Kalahi ARCs is a new addition in the DLR's list of priority projects for 2005. In the new Medium-Term Philippine Development Plan, the activities and strategies of DAR for tenure improvement is included in Chapter 22, "Responding to Basic Needs of the Poor" hence drawing priority status from the potential impact of their programs on the poor.

However, DLR is not totally excluded from government efforts to promote enterprises and comptetitiveness. Operational plans to support Chapter 2 of the MTPDP on agribusiness

development lists many activities that DLR will undertake to promote agriculture modernization, e.g. extension services, market linkages and rural infrastructure[10]. Unlike DA and DENR which are forced to consolidate their programs and go into attrition of services that are not relevant to their MFOs, the DLR is poised to expand its services and is hoping to contribute to two major national thrusts: poverty alleviation and for business enterprise promotion.

Government Reengineering and Streamlining of Operations

Policy and Strategy Context

Since the year 2000, the Department of Budget and Management had been trying to pursue a re-engineering program to improve government institutional capacity for services delivery. The intent of such a program was to circumscribe the sphere of government operations so that this is narrowly focused on a core set of functions in accordance with a development role that is appropriate to its economic and social milieu. It espoused principles of sharing governance with the business sector and civil society organizations through strategic partnerships and through market mechanisms with government as an effective policy designer, mobilizer, catalyst, and monitor of development performance.

Initially, the intention was to go for a comprehensive structural, functional and operational set of changes in the different agencies. A high-level Governance Committee led by the DBM sought a grant of authority from Congress for the President to reorganize the executive branch of government. However, the bill was never acted upon by Congress—not even when there had been a good enough reason to reorganize government after the second EDSA revolution and a change in administrations from Estrada to Arroyo.

Wisely enough, the DBM had mounted a parallel strategy to pursue the reforms through an administrative track. It was to apply the same reorganization principles but worked through measures that were authorized by existing laws, including the powers of the President to reorganize agencies. The goals were undertstandably more modest, with impact that would be more strategic rather than comprehensive, and measures that were perceived to be more benign than mergers and abolitions, i.e. functional streamlining and organizational rationalization.

Reforming the bureaucracy continues to be important to the government as expressed in the Medium-Term Philippine Development Plan 2004-2010:

> *"The institutional design, systems and processes of government pose a challenge on the quality of public goods and services. A number of factors impinge on this quality, these are: (a) redundant, duplicating and overlapping programs/activities, (b) diffused resources to non-essential undertakings, (c) uncoordinated policy and program implementation, (d) poor sector management, (e) proliferation of special task bodies or interagency committees, (f) ineffective performance management systems, and (g) highly politicized bureaucracy.*
>
> *"Despite previous efforts to trim the bureaucracy, the government is still weighed down by unclear delineation and overlapping of functions. This results in high transactions costs internalized by government, business, nongovernment organizations and the general public as a result of poor coordination in policy and program implementation, weak sector management and wastage of resources."*

[10] This is based on a review of the Strategy Planning Matrix (SPM) as of January 2005 provided by the NEDA staff reflecting inputs from various implementing agencies as their operational plans to achieve the targets of the MTPDP.

Government Policy and Strategy for Streamlining

Streamlining is the term that is widely used in Philippine government documents to refer to a process of public sector downsizing with the intention of bringing down recurrent costs (as these traditionally take up a substantial share of the annual budget and limit financial flexibility with which to undertake discretionary public investment spending). The term also indicates the desire of government to downsize government with the end-in–view of strengthening institutional capacity and improving the quality of public services. The program for many years looked at opportunities for eliminating overlapping functions so that a single agency—and not a multitude of agencies reporting to different policymakers—is fully responsible for a set of results. Replacing multiple layers and steps in the performance of functions was also a priority measure that offered opportunities to cut down manpower requirements and operating costs.

Streamlining measures were mainly carried out through the budget preparation, analysis and approval process, coupled with performance evaluation and policy review. "Scrap and build" was the basic guideline for agencies proposing to undertake new activities or functions—a crude way of introducing reforms without any impact on total expenditures.

The DBM initiated a number of critical reforms in this area through its Organizational Performance Indicator Framework (OPIF). This has been a major effort of the DBM to rationalize all functions and activities of government agencies and using this as framework for the allocation, reallocation or phasing down of recurrent expenditures. The OPIF has so far been able to come up with the following budget policy instruments and measures:

1. Major Final Outputs for all Government Agencies – Statements of the goods and services that are enjoyed by the agency's clients. It indicates preferred modes of intervention based on an agency's mandate and is linked to a sectoral outcome or development result.
2. Budget Preparation Guidelines and Formats – Presentation of proposed agency expenditures by MFOs thereby facilitating an analysis of budget priorities based on planned outputs and sectoral results.
3. Mid-Year Performance Assessment Review – Budget management (which is highly centralized at the DBM) benefits from an assessment of ongoing performance of an agency thereby enabling DBM and the implementing agencies to adjust expenditure programs on account of actual operating efficiency.
4. Sectoral Effectiveness and Efficiency Review (SEER) – A process that enables the NEDA and the DBM to draw from program evaluation findings and recommendations as the first step in the cycle of planning, priority-setting and expenditure programming.

Since most of these initiatives are still part of a work-in-progress, the impact on actual expenditures cannot be discerned yet. The application of the above instruments varies across agencies and their impact on organizational development largely dependent on the quality of leadership and internal management styles in each agency. For the most part, budget management and execution for national government is used as a tool for meeting deficit targets rather than as a tool for institutional strengthening and expenditure re-allocations. None of the major line departments have been able to mount a downsizing program recently.

In the meantime, the DBM continues to exert efforts to translate the principles and guidelines of the OPIF in terms that can be easily internalized and practiced by implementing agencies. DA, DENR and DLR are among the eleven national agencies that are beginning to make some

progress in introducing these reforms and are giving priority attention for technical assistance for OPIF-related innovations.

A specific measure that was initiated by the current administration is Executive Order 366 signed by the President a few months into her new term that started in June 2004. It officially mounted an organizational reform program that agencies could work on internally but to be given presidential support through funding for separation benefits of employees who may be affected by such organizational changes.

According to the DBM, work has been ongoing for the preparation of Rationalization Plans for each agency. It is mostly left to each agency to formulate with technical assistance from the DBM Organizational Performance Improvement Bureau (OPIB). They are also tapping the Development Academy of the Philippines to provide technical guidance for each agency in preparing their rationalization studies to generate an action plan for their streamlining and organizational development. For the next few years DBM expects to be able to mobilize external assistance that agencies may avail of in developing internal performance indicators and change management strategies. The terms of reference for the Rationalization Plans appears to be flexible enough to accommodate restructuring of functions and activities in accordance with MFOs, anti-corruption measures, capacity building activities, and functional delineation between LGUs and national agencies.

Major Impediments to Government Streamlining Efforts

Some of the common factors that have hindered the progress of streamlining efforts are the weak systems for performance monitoring and evaluation, increasing rigidity in the allocation of budgetary resources, and lack of coordination and oversight for managing public sector reforms and change management at the agency level.

Monitoring and evaluation of performance in central government agencies is generally weak. DBM allows agencies wide latitude in defining their performance indicators and targets for a given period. At the end of an evaluation period there is very little information that can be used by policymakers in the formulation of policies, plans and budget priorities. The use of independent external evaluators and client satisfaction surveys is hardly practiced and, if at all, is limited to foreign-assisted projects.

Notwithstanding some progress in budget reforms, substantial resources of these agencies are still going to many activities do not reflect new priorities set out by rationalization plans and streamlining programs. Organizational development and process reforms require substantial resources which have to be supported by the budget of agencies in order that streamlining efforts generate the desired results. However due to the tight cash position of government and the general resistance among fiscal policymakers to the creation of new units and positions in government, the reform of agencies can only move at a very slow pace. Agencies budgets have very little flexibility to reallocate existing budgetary resources to new functions and activities as an increasing share of the budget goes to salaries of employees. Attempts to increase discretionary spending in the late 1990s resulted in the contraction in the budget for maintenance and other operating expenses which directly affected the quality of public services.[11]

Reform initiatives were hampered by prolonged consensus building processes that anyway failed to come up with a shared vision of development for the sector and an appropriate role for the public sector. Agency level reforms were hounded by implementation issues that were not being addressed by a well-designed change management strategy. Many agencies lacked the

[11] Improving Government Performance: Discipline, Efficiency and Equity in Managing Public Resources (A Public Expenditure, Procurement and Financial Review), jointly prepared by the Government of the Philippines, The World Bank and the Asian Development Bank, April 30, 2003, pp.14, 30.

experience and the technical capacity to mount a concerted campaign for organizational reform with critical support from internal and external stakeholders. There was no centralized and effective means for monitoring of reform efforts and reform was pursued in an opportunistic manner, where a strong manager, a well-publicized crisis, or a supportive legislator may provide the needed triggers for reform but without the sustaining factors to keep it on track for as long as it takes to make an impact on the quality of public services.

Most reform programs were met with opposition from government employees whose positions, operations, and/or existing powers were perceived to be vulnerable to abolition or changes under a streamlining or rationalization program. Sometimes the opposition is openly declared and would use a variety of strategies that include legal challenge citing antiquated laws and mandates, public statements in media and opinion with wrong or incomplete information, and protest actions. In many circumstances, opposition is not expressed openly but make their way anyway into the fray through poor or lethargic performance under the new institutional arrangements.

Streamlining Efforts in the Agriculture, Agrarian Reform and Natural Resources AARNR Sector

The AARNR group of agencies has been eyed for streamlining and rationalization since the mid-1990s in view of the increasing similarity in the types of services provided by these agencies, especially in production support. Their operations are also commonly targeted for downsizing because these services have been substantially devolved to local government units.

Perhaps more urgent than downsizing is the need to achieve better coherence and integration of services among the three agencies. Even as the mandate of each agency is clearly delineated, their programs and strategies are invariably aimed at the same goals for rural development, as follows:

5 Increased rural incomes and employment (to include food security)

6 More equitable access to productive resources

7 Sustainable development of natural resources and enhanced ecological integrity

8 Empowerment of rural communities and human capital development

The Medium-Term Philippine Development Plan lists a set of policy guidelines and specific targets for implementing institutional reforms in the rural development and natural resources sector up to 2010. These are as follows:

1. Focus the role of NG on providing technical and funding assistance while promoting LGU delivery of public services in accordance with AFMA, the Fisheries Code and LGC; Review fund transfers from NG to LGUs with a view to transforming them to performance-based incentives for LGUs
2. Improve convergence and complementation of services of the multitude of agencies; Address overlaps and resolve attendant issues by June 2005
3. Consolidation and unification of the RDE system by 2010;
4. Integration of agencies (services) involved in land titling;
5. Shift service protocols from commodity-specific to functional lines starting October 2004 in line with needs of agricultural modernization;
6. Improve transparency, accountability, timeliness, effectiveness and efficiency of procedures and processes of regulatory agencies;

7. Comprehensive restructuring plan for NIA to improve its financial and operational performance.

It spans a wide range of concerns and tasks for the agencies concerned but nonetheless focuses on growth and what the private sector needs to improve the way of doing business in agriculture. It also implies that while the task falls heavily on the Department of Agriculture, other agencies in the sector including LGUs have to integrate the same strategies in their respective plans and operations.

So how exactly is the process of reform to be managed to achieve the above objectives of the sector and of the MTPDP? This is what a NEDA project tried to answer. Starting in 2002 NEDA developed a performance indicator system for the rural development and natural resources sector.

It was this project that generated the above listed goals for DA, DAR and DENR for the integrated development of the rural sector. The adoption of this unified set of goals is in itself considered a significant achievement as it motivates coordination and combining of resources among the three agencies and, more importantly, provides a framework to fit the agency-level goals with a sector-wide outcome. The possibility of merging the three agencies was tentatively considered by the DBM and its working committees in their initial government-wide re-engineering and restructuring plans. However, this option did not gain support even as their agency-level goals of equity, productivity and ecological integrity were clearly interdependent.

The project, RD/NRM Plan Performance Indicator Project[12] (PPMIS) is noted for having successfully put in place a positive climate conducive to the development of a performance management system for the public sector in AARNR. Among its significant achievements was a common understanding and acceptance by key players of the basic objectives of the reform program in the rural sector. However it was well recognized that this was simply a good starting point and the challenge remains for government to oversee the development of the reform program through a policy and reform coordinating body and further work on the operational aspects of management performance.

Through the PPMIS a working relationship was established between NEDA and the DBM for the joint assessment of plans and organizational changes in the AARNR agencies. Proof of the effectiveness of this relationship is the fact that this is the only sector that was able to complete a SEER and use this as take-off point for future policies and strategies under the Medium-Term Philippine Development Plan 2004-2010. Because of this collaboration between NEDA and DBM, there is a unified ranking system for prioritization of PAPs that is not only driven by the need for downsizing government but also by the need to strengthen government delivery of services where they are relevant to desired sector outcomes. Both DBM and NEDA can directly influence the operations of these three agencies by the exercise of their oversight functions with respect to their access to budgetary resources and to ODA resources. Hence, if they continue and further enhance their collaboration by using the same set of criteria in evaluating the value and priority of an investment or expenditure, then the organizational moves of the three AARNR agencies can be made to stay on track of the reform agenda and overall sector strategies.

The arrangements to keep this process in motion are however quite ad hoc in nature. It is mainly task-oriented—seeking out ways to complete inputs for planning and budgeting decisions in the most efficient manner. With a more formal structure and work plan, the value of the work being done collaboratively by NEDA and DBM can be taken more seriously by the three AARNR

[12] The complete project name is Capacity Building for Operationalizing a Rural Development and Natural Resources Management Plan Performance Monitoring Indicator System and it was implemented by the NEDA in collaboration DA, DAR and DENR.

agencies so that the PPMIS can truly gain inroads into their organizational culture and service delivery performance.

Public Expenditure Management

The Reform Context

The very act of appropriating funds from a central authority to implementing units is one of the most concrete ways that accountability for producing an output or service is formalized in an organization. Realizing its critical importance, the government since 1998 (during the term of Budget Secretary Benjamin Diokno), has been in the process of improving the national budgeting system to improve its relevance to development planning and to elicit better performance from implementing agencies.

The strategy and approach for reforming the Public Expenditure Management (PEM) system of the Philippine government has evolved through a series of studies, technical advisory assistance from experts, training and varied forms of guided learning for practitioners.

The current scope of government's Public Expenditure Management Reform Program has three basic components (See Figure 5):

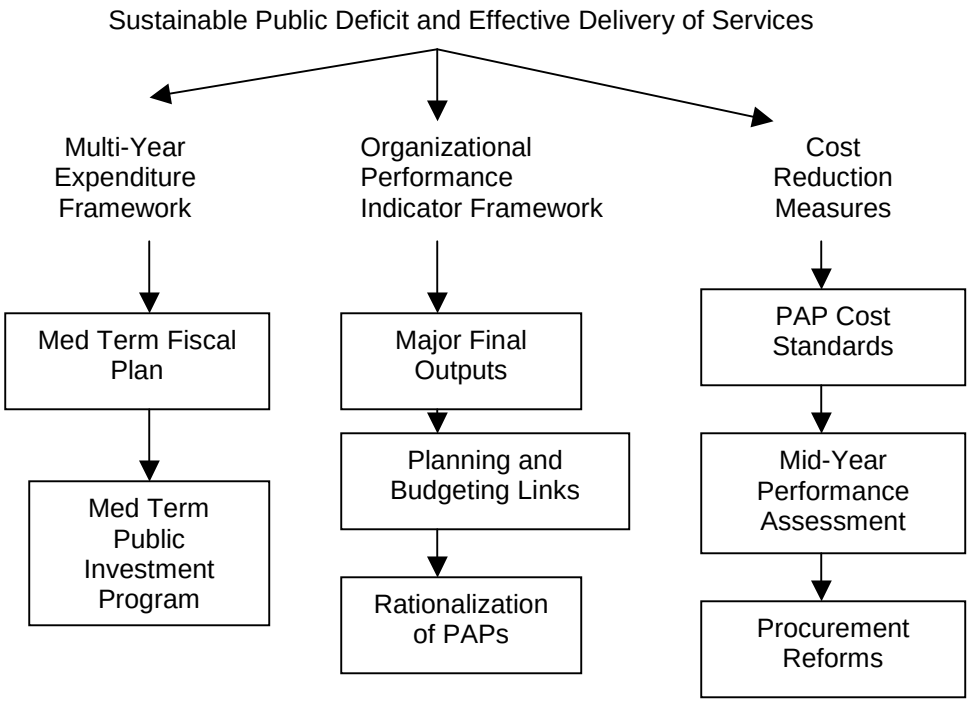
- Multi-Year Expenditure Framework – A multi-year fiscal planning approach and strategic investment programming that enable policy makers to achieve a shift in the allocation of expenditures from routine expenditures such as salaries and interest payments to discretionary investments for high-impact programs and projects. The Development Budget Coordination Committee, a cabinet-level policy making body makes policy decisions on the level of sustainable public sector deficit and formulates a fiscal plan over 6 years to achieve its targets. The NEDA formulates the Medium-Term Public Investment Program (MTPIP) to determine the desired level of investment for priority programs and projects to support the MTPDP goals and strategies.

- Organizational Performance Indicator Framework – A system of clearly defined major final outputs (MFOs) for each government agency to serve as objectively measurable units of expenditures and performance in a given period to facilitate allocation and reallocation of resources to programs, projects and activities (PAPs) of high relevance and priority. The DBM takes the lead in this effort but most of the analysis, workshops and consultations involve the NEDA staff as well.

- Cost Reduction Measures – Improving the cost-effectiveness of government operations through the development of cost standards for PAPs, new policies and procedures to increase competition and transparency in government procurement and mid-year agency performance assessments to guide disbursement plans for the current budget year. The DBM takes the lead in this role and is earnestly being pursued to improve its techniques and the analytical process in budget execution.

Due to the comprehensive scope of the reform and the inherent difficulty of changing a system that has existed for many years, the process of introducing PEM reforms has been moving at a very slow pace in recent years. Nevertheless, it has started to find its way into the budget guidelines, budget-planning processes and in the terms of reference of planning and budgeting officers in a number of agencies.

Figure 5 Current Public Expenditure Management Reform Initiatives



Recent Public Expenditure Performance of the National Government

Underpinning these reform initiatives is basically the simple intention to increase the allocation of resources to sectors and programs that have potential development impact and are in line with the development strategy for sustainable growth of certain sectors. However, the beneficial impact from the various measures (if any) has been somewhat diffused by adverse developments in the total fiscal position of national government. Across most agencies, the level of available resources has suffered cutbacks due to serious shortfalls in the government's revenue performance. Since the onset of the Asian Crisis in 1998, the government's fiscal position started on a downward pattern and in response, fiscal managers reinstituted tight cash programming measures to rein in the growing deficit.

As cited by Manasan (2001)[13], the share of the total National Government budget that goes to actual operations of national agencies has been going down since 1998 due to the growing relative share of debt service payments and the internal revenue allotment of local government units. From about 70 percent in 1997, the portion of the national budget that can provide funds for actual operating expenses of national agencies has steadily declined to only about 56 percent in 2002.

[13] Rosario G. Manasan, Analysis of the President's Budget for 2002: Accounting for New Modes of Financing the Fiscal Deficit. Philippine Institute of Development Studies Discussion Paper Series, October 2001, Makati City

Figure 6 Percentage Share of the National Budget Going to Operations vs. Debt Service and IRA

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Source: Analysis of the 2002 President's Budget, Rosario G. Manasan, PIDS 2002,
DS stands for debt service and IRA stands for internal revenue allotments for local government units

Notwithstanding this decline on total spending for operations, the economic sectors have managed to obtain modest growth rates in their budgetary allocations in 2001 and 2002. For instance, Manasan cites that in 2001 national government spending on these sectors was programmed to grow by 14.7%, higher than the 11.5% average annual rate of increase in the 1993-1998 and the 5.9% yearly growth in 1999-2000. The sectors' 2001 share in the GNP was registered at 3.4% (from 3.3% in 2000) while their share in the 2001 national budget stood at 18.4% (from 17.9% in 2000). However, the economic sectors had yet to recover from big spending cutbacks in the late 1990s as contractionary measures were resorted to in response to the fall in revenues when the Asian crisis set in.[14] Again in 2002, the economic services sector was favored with the biggest budget increment over other sectors. The combined budget for agriculture, agrarian reform and environment/natural resources accounted for 24.1% or P11 billion of the increment in the net budget. It was also remarkable to note that the President's budget was able to allocate substantial amounts of the additional spending to productivity enhancing investments, as 72% or P8 billion went to capital outlays, leading to a 96% increase in capital expenditures of the group. Some P6.8 billion was to be spent on the rehabilitation and construction of irrigation systems while P3.8 billion would go to production support (distribution of certified seeds, yield-enhancing technologies and marketing support) to farmers and P0.5 billion for the construction of farm-to-market roads.

Expenditure Allocation by Agency

Even as the budget for economic services had been allowed to grow in 2001 and 2002, its share of total budget was declining since 1998. This is mainly because the budget was being gradually squeezed by the statutory increase in the allocation of funds for the internal revenue allotment of local government units and the rising payments for debt servicing. Both the DA and DENR had to absorb the impact of this deteriorating fiscal picture with their share of the annual budget following the same pattern of decline from 1998 to 2002. In the AARNR group, the DAR was the only agency that benefited from a substantially higher share of the total budget from 0.9 percent in 1997 to 1.6% in 2002. This pattern is mainly attributed by fiscal managers to deteriorating efficiency of these agencies in the implementation of programs rather than as a result of centrally-enforced spending cutbacks.

Table 5 Percentage Distribution of NG Budgeted Expenditures for Agriculture, Agrarian Reform and Environment/Natural Resources

	1997	1998	1999	2000	2001	2002

[14]The 2001 figures were lower than the 1993-1998 levels—4.0% of GNP and 2.1% of the national budget. This is an indication that national government spending in the economic service sectors has not fully recovered from the fiscal cuts in the late 1990s.

Total for Economic Sectors	22.27	19.05	18.78	19.06	14.26	14.36
Agriculture	4.76	3.15	3.91	3.04	2.39	2.89
Agrarian Reform	0.90	0.91	0.85	0.99	1.37	1.58
Natural Resources	1.92	1.23	1.08	0.95	0.90	1.11
Net Budget[15]	69.70	67.12	65.27	62.61	56.65	56.62

Source: Manasan (2002)

According to the DBM, the allocation for the DA was originally allowed a liberal increase after the enactment of the AFMA and to support the high priority given to this sector by the new administration of President Joseph Estrada. However, since operating systems for absorbing incremental funds for new functions and activities were not yet fully developed, the agency ended up with substantial amounts of unused fund allocations and the fiscal program adjusted downward the allocations for succeeding years.

As explained in 0 the DENR frequently shuffled resources over many programs in accordance with greatly varying priorities of successive secretaries. This affected not only their disbursement efficiency but also their effectiveness in development management, as ad hoc project decisions prevailed over well-considered reform-oriented spending that would take a number of years to successfully implement.

The increased allocation for the DAR budget is explained by the sustained expansion of the Agrarian Reform Communities under various foreign-assisted projects. Coincidentally during this period, the anti-poverty framework called for increased support for community-based enterprise support to offer poverty groups greater opportunities for livelihood, and the ARC concept was among the programs that was given priority.

In all, these budget allocation strategies and funds programming measures did not help the agencies in turning out a better performance. As cited in a recent public expenditure assessment conducted by the government, jointly with the World Bank and the Asian Development Bank, measuring agency performance under past budget management practices was based on input management rather than on their ability to manage resources to achieve sector outcomes or results. It involved tedious reporting on input indicators and coming up with a view of the agencies' absorptive capacity as the starting point for determining the right allocation for the succeeding year.

These three agencies along with the DBM and NEDA constituted themselves as a Sub-Committee on Plan Performance Indicator System (SCPPIS) for the agriculture and natural resources sector to work out a more effective system for coordinating sector plans and budgets to motivate better performance of government in terms of its major development objectives. It was primarily responsible for coordinating the development of a unified set of sector goals and has since moved

[15] Net Budget indicates the share of the total budget that goes to operations after setting aside allocation for debt service and internal revenue allotments for local government units,

further in the development of agency-specific outputs of the three agencies in the context of the Organizational Performance Indicator Framework (OPIF).

The OPIF output statements were used to structure the planned expenditures and rationalize the allocation of resources across functions and activities, rather than on the basis of inputs. The process served to reiterate the high priority that government gives to its role in promoting rural development. As shown in Table 6, the share of economic sectors was restored to its pre-Asian Crisis level of about 25 percent. This was driven up by the increased allocation for agriculture and agrarian reform.

Table 6 Amount and Percentage Allocation for AARNR, by Agency, 2003-2005

	2003		2004		2005	
	P billion	% share	P billion	%share	P billion	%share
Total for Economic Sectors	264.17	26.4%	308.06	27.7%	293.08	25.6%
Agriculture	28.70	2.9%	32.84	4.5%	22.26	3.4%
Agrarian Reform	7.77	0.8%	10.16	3.0%	9.85	0.8%
Natural Resources	6.85	0.7%	6.96	0.6%	6.99	0.6%

Source: DBM, Budget of Expenditures and Sources of Financing, 2005

While the allocation of government resources to AARNR appears to be effectively protected, the three agencies continue to feel severely restricted in the performance of critical functions. Various studies have put forward the following possible explanations:

- Spending for routine expenditures such as salaries and administrative operating costs takes up a large portion of their budgets and is not easy to realign to new activities or functions.
- During times of serious budget shortage, the spending for developmental activities are considered discretionary and are usually deferred for periods when cash resources are available.
- Redistributive programs such as subsidized production inputs, food security, land transfer and community-based forest management schemes continued to get prioritized claims on the available agency budgets.

For 2002, Manasan notes that "P4.8 billion is budgeted for the acquisition of compensable land for distribution to agrarian reform beneficiaries and P1 billion is allotted for the Price Stability and Food Security Program of the NFA." In the same vein, David noted that public programs in the sector, particularly irrigation, technology development and extension, suffer from poor design and implementation and delivery is hampered by organizational issues. [16]

[16] Christina David, The Philippine Economy, Development, Policies, and Challenges: Agriculture, Arsenio Balisacan and Hal Hill (eds.), Ateneo de Manila University Press, Quezon City 2003.

Factors That Hinder the Progress of Public Expenditure Management in AARNR

One factor that is commonly affecting the progress of PEM reforms in most agencies is the assignment of planning and financial management functions to two different officers. Strategic planning and financial management functions are carried out by separate units in each of the three agencies; Planning staff help the Management to map out sector reforms and policies. In performing their tasks, they work closely with consultants, their counterparts in NEDA and other oversight agencies. Since NEDA is effectively networked with the planning and policy groups in these agencies, they work well together in establishing reform goals and strategies for achieving them. Investment programming and expenditure allocation decisions in the agencies fall under the responsibility of a separate unit, reporting to an Undersecretary for Finance and Administration. This makes it difficult for strategic plans and prioritization of programs to directly influence relevant budgeting and spending decisions of their agency. Of course it sometimes happens that under informal arrangements the budget preparation work and the annual strategic planning work are done collaboratively. In crisis situations where hard choices have to be made and when the needed adjustments are tough on some influential groups in the agency, the actual spending decisions usually deviate from agreed priorities and lose track of the desired institutional reform.

Another major problem in instituting MFO-based expenditure management reforms is the difficult process of realigning the structure of operating units with the most cost-efficient and logical process of producing the outputs. This is a desired transformation in all the three agencies but is a process that requires intensive consultations and time for new institutional arrangements to gel and render existing structures and procedures superfluous. The DAR budget proposal for 2005 is neatly structured by its MFOs and this facilitates the analysis of the contribution of expenditures to rural growth. For DA and DENR, structure of the budget proposals indicates that the responsibility for the delivery of their MFOs are splintered over several unit managers and accountability of operating units for the efficient use of these resources is not as easy to discern.

The whole PEM reform framework sometimes suffers from weak credibility of the government's forward estimates, especially with respect to meeting its revenue targets. For agency planners and financial management specialists, this situation cannot motivate the practice of medium-term planning within realistic resource limits. Always the actual levels or resources are way below programmed levels when the revenue agencies do not perform well. When this happens, the agencies run into cash problems, especially for activities that are already in midstream. As a strategic response, agencies overprogram their real funding needs so that they can have buffers to absorb spending cuts in the middle of the year.

Problems with expenditure tracking also hinders PEM reforms. There usually is a big difference between what is budgeted and how much is actually spent by an agency. Actual spending is higher than budgeted in DA and DAR and this indicates multiple fund sources and procedures for reallocation that make it difficult to trace funds flow. The existence of alternative fund sources such as the Philippine Development Assistance Fund[17] and the Agricultural Competitiveness Enhancement Fund[18] that are governed by different rules and systems of approval tend to intervene in the prioritization of activities in these agencies. Financial reports from the DBM and

[17] The PDF is commonly known as pork barrel funds where each member of Congress is given funds to allocate to individual projects of the different implementing agencies. In the 2004 budget, each member of the House of Representatives was given P40 million and senate P200 million.

[18] ACEF is an extra-budgetary funding source for agribusiness projects. It comes from the proceeds of tariff duty collections from imported agricultural commodities under the Minimum Access Volume (MAV). Projects for funding under the ACEF are approved by a special committee composed of DA officers and Congress members.

the Commission on Audit (COA) are not designed to evaluate agency performance in their functions but still oriented towards input management. It is difficult to see how much funds are actually spent on some basic functions such as regulation, rural infrastructure support and policy research that are deemed critical for promoting growth.

The AARNR agencies do not maximize their revenue-making potential that could generate additional funds with which to modernize or improve the quality of their services to the public. Government owned or controlled corporations (GOCCs) are expected to generate revenues to fund their own operations and/or to support other development activities in the sector. There are a total of 15 government-owned and controlled corporations (GOCCs) in this group, including the National Food Authority and the National Irrigation Administration among the largest of them and two major financial intermediaries, namely the Land Bank of the Philippines and the Quedan and Rural Credit Guarantee Corporation. Based on financial reports published by the Commission on Audit, 13 out of the 15 GOCCs experienced deteriorating cash positions in 2003 where disbursements exceeded receipts. They are even a drain on national government resources, with subsidies and advances amounting to a combined total of P4.44 billion in 2003. Other than GOCCs, there are also line bureaus that have been cited by previous studies to have the potential for higher internal cash generation, such as the Land Management Bureau of the DENR for survey and titling of public lands and the various laboratories of the DA that conduct testing and inspection of agricultural commodities for export or import.

The slow process of institutional change in the DBM itself sometimes poses as a hindering factor for advancing further PEM reforms. Staff skills, review procedures and information systems are geared towards financial control of NG cash operations. In order to be effective in their function, majority of the DBM staff (particularly those in operations who deal with agency budget execution decisions) have had to be quite impartial to and virtually ignorant of the nature of agency functions and programs. Since 1998 under two successive DBM secretaries there had been increasing awareness in the organization for a need to shift their orientation towards organizational effectiveness rather than financial control. A series of capacity building programs and technical advisory assistance has been implemented in DBM to institute innovations in output-based budgeting and performance-based financial management of NG operations.

Devolution and LGU Capacity for Public Service Delivery in the Rural Sector

Governance and Corruption

The image of the Philippines as an investment destination is marred by widespread perception that graft and corruption is a practice that abounds in many areas of government operations—a view held not only by foreign investors but also perceived by majority of Filipinos. On top of improving national image, reforms to stem corruption can help enhance government performance to be responsive to the needs of agriculture and agribusiness development.

MTPDP Thrust: Corruption

The present administration of President Arroyo places top priority to addressing corruption in government. In the Development Plan among the basic strategies for anti-corruption are preventive measures to minimize opportunities for misconduct of government officials in the performance of their functions and duties. It cites the need to (a) audit systems and procedures to simplify and speed up agency processes, (b)

strengthen procurement reforms and (c) engage all sectors at all levels to scrutinize government projects.

Policy and Institutional Reforms

For agriculture and agribusiness development, reform measures have to be directed at addressing petty corruption by enforcing mechanisms to extract better performance and accountability from agencies providing frontline services. Considerable gains can be immediately realized from focused and streamlined regulatory procedures without even having to institute new policies and structures. The need to reorganize government agencies to address conflict of interest in development and regulatory functions (e.g. National Food Authority) is within the power of the President to implement but is potentially controversial and requires adequate social preparation and planning involving internal and external stakeholders. The most complex of pending reforms in regulatory functions involve the enactment of new laws pertaining to land administration to replace antiquated and conflicting arrangements that have been accumulated over many decades. While no one argues against the need to promote efficient land markets, government has to be able to address the resistance that typically comes from interest groups that are benefiting from existing inefficient arrangements.

Conceptual Framework and Implementation Strategy

Dealing with a wide diversity of clients and client needs in the rural sector calls for service delivery mechanisms that are open to participation of private sector, community-based organizations and local governments. Devolution of services to local government units allows for differentiation of products and convergence of implementation strategies to suit local needs and conditions. However it requires LGUs to exert more effort and expend more resources in order to improve the quality of public services and realize their own development goals.

The legal framework that the Local Government Code provided is simply one of the necessary conditions for devolution to work. It paved the way for the transfer of responsibilities and assets to local government units. However, the delineation of responsibilities between national agencies and LGUs varied from sector to sector and was also allowed many variations for special and foreign-assisted projects. The detailed assignment of responsibility was determined by policy makers by referring to specific provisions in the law itself rather than through the application of a set of criteria for devolution.

In the AARNR group, each agency was operating under different policies and strategies for engaging LGUs. Agricultural promotion is, by policy, substantially devolved to local governments. Management of natural resources remains heavily centralized in the DENR although the agency is introducing and expanding opportunities for co-management arrangements involving local governments and communities. Agrarian reform is a central government program and remains with the DLR as the lead responsible agency for its implementation.

Table 7 Functional Delineation of Public Sector Roles in AARNR

Agency	Devolved Functions: LGUs	Central Government Functions
DA	Extension services, production support, cooperatives facilitation, integrated pest management, small-	Product standards and food safety regulations, research and development, irrigation development,

	scale irrigation, farm-to-market roads	agricultural trade facilitation, post harvest facilities
DENR	Enforcement of natural resource regulations at the local level	Land classification and surveys, national parks, EIA regulation, administration of tenurial instruments, foreign-assisted projects
DLR	Implementation of community-level projects for agricultural support services in program areas	Land transfer procedures from mapping, survey, titling and financial compensation

LGUs also assumed the critical responsibility for infrastructure development. Under specific provisions of the Local Government Code, LGUs are responsible for the following functions:

Table 8 Devolved Responsibilities for Infrastructure Development

LGU Level	Functions and Responsibilities
Barangay	Maintenance of farm-to-market roads and bridges and water supply systems
	Operation and maintenance of barangay halls, multipurpose pavements and plazas, sports centers and similar facilities
Municipality	Municipal buildings, cultural centers, public parks, playgrounds, sports centers and similar facilities
	Municipal roads and bridges including drainage and flood control structures, schoolbuildings, clinics and health centers, communal irrigation and small water impoundments, fish ports, rural water supply systems, solid waste management
Province	Provincial buildings, jails, freedom parks, and other public assembly areas
	Provincial Roads and bridges, waterworks systems, drainage and sewerage systems, flood control and irrigation systems, and similar facilities
City	City hall, jails, cultural centers, parks, sports centers and similar facilities
	City road networks, flood control and drainage structure including sewerage systems, solid waste management system

Another provision in the law makes exceptions in the LGU responsibility assignments presented above for infrastructure projects and facilities that are funded by the national government and official development assistance. Mostly this involves projects implemented by the Department of Public Works and Highways including those that are funded out of the discretionary resources of Congressmen and Senators. As such, it was not mandatory for the DPWH to transfer its personnel and its facilities to the LGUs even as the bigger burden of constructing and maintaining local infrastructure was already assumed by the LGUs.

Over the past decade of devolution policy, the national government was rather liberal in allowing each agency latitude in deciding how far, at what pace and by what means they would devolve of their functions and resources to LGUs. Without a strong and centralized policy coordination for devolution, the policy environment under which LGUs operated was quite confusing. Project development and implementation strategies were simply allowed to test varying rules which was good for drawing lessons learned but did not result in the development of a unified and coherent set of policies for moving forward with devolution. In all, national agencies were generally indifferent to the capacity building needs of LGUs and were quite preoccupied with internal issues of adjustment.

The policies and strategies to make devolution work also do not fully explore the positive role that the provincial governments, congressmen, trade associations and other local institutions can play in supporting critical activities in certain municipalities and barangays. Assistance for market linkages, transport planning, and controlling the spread of pests and diseases can be more efficiently provided by provincial governments but are largely untapped by agricultural promotion programs. Low-income municipalities spend a lot of time and effort figuring out ways to raise funds for critical projects and develop approaches through trial and error rather than through rational policy-based approaches.

Financing of LGU Infrastructure Projects[19]

To help meet the cost of devolved services, the Local Government Code set the share of local governments to national revenue collections at 40 per cent (with a 3-year lag). This Internal Revenue Allotment (IRA) was released automatically to LGUs and served to increase the degree of local autonomy in making spending decisions. From a level of about P10 billion in 1991, total IRA has grown to P141 billion in 2004 representing a major source of financing for improvement and expansion in coverage of public services to local communities[20].

LGUs in general are heavily dependent on the IRA to finance their operations. Based on the latest available data, municipalities on the average get 79% of their income from their share of the IRA. Provinces have very limited opportunities for raising local revenues and rely on the IRA for 86% of their total income in 2002. In contrast, the share of the IRA in the total income of city governments was only 48% with the bulk coming from real property and business taxes. Many studies have shown the fiscal imbalance in the financial resource endowments of LGUs with rural municipalities at a great disadvantage both in terms of the IRA sharing formula and their ability to raise revenues from local taxes. This has resulted in the very uneven quality of LGU performance in the delivery of services.

The Local Government Code mandated all LGUs to maintain a Local Development Fund by earmarking at least 20 percent of its IRA in that Fund for local development projects. The Local Development Fund can finance civil works and the procurement of heavy equipment for infrastructure, agriculture and environmental projects. But it is not exclusively for infrastructure as it can also be used for food security programs and livelihood support projects.

Table 9 presents a summary of LGU expenditure priorities over the first decade of implementing the LGC. LGUs on the average allocated a third of their budget to civil works in the initial year of the LGC implementation but this has gone down to only about 20% in 1998. As the IRA

[19] A detailed discussion on this topic can be found in another chapter of this study on Rural Infrastructure by Mr. Joselito Supangco.

[20] The IRA is distributed among LGUs in accordance with the following schedule: 23% goes to 79 provinces, 23% goes to 117 cities, 34% goes to 1,495 municipalities and 20% goes to about 42,000 barangays. The IRA is distributed to individual LGUs based on population (50%), land area (25%) and equal sharing (25%).

increased over the decade of the devolution policy, the additional resources went more to social services such as health care, hospital operations, education, and welfare services. This pattern may be attributed to the aggressive promotion programs that central agencies like Department of Health, Department of Social Welfare and Development and the Department of Education to engage LGUs in national strategies to address some problems through community-level responses. In contrast, the Department of Public Works and Highways (DPWH) and the National Irrigation Administration (NIA) were not able to clearly define NG-LGU arrangements and continued to undertake civil works projects and field contractors to implement such local infrastructure projects as roads, water supply and sanitation and small-scale irrigation.

Economic services which include agricultural extension and environmental management take up a very minimal share of total LGU expenditures. For the most part of the period, spending for economic services was allowed to grow at the same rate of expansion of the LGUs and maintained a 4% share of total spending.

Table 9 Percentage Share of LGU Expenditures by Sector, 1991-1998

% Share	1991	1992	1993	1994	1995	1996	1997	1998
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Economic Services	2.2	1.6	4.7	4.1	4.0	4.2	4.0	4.3
Public Works	33.5	23.9	20.8	22.2	23.6	22.4	22.0	19.7
Social Services	15.4	20.0	27.9	27.0	26.5	27.1	26.8	27.8
Gen. Services	44.5	49.3	40.8	40.0	38.4	39.4	39.2	39.9
Others	3.5	4.4	4.7	5.4	5.1	4.8	5.4	6.2
Debt Service	0.8	0.8	1.0	1.2	2.4	2.1	2.6	2.1

Source: Manasan and Mercado (2002)

National Government provides financial assistance to LGUs on top of the IRA in the form of grants and loans. The design of financing arrangements is centrally guided by fiscal policy oversight agencies led by the Department of Finance. Through the NEDA guidelines for project approval, the oversight agencies worked like a clearing house for the design of financing strategies for devolved activities with the intention of containing the growth of national agency spending and ensuring that LGUs do their part in promoting sector development. All costs for devolved functions were in principle to be absorbed by LGUs in accordance with the responsibility assignments in a sector.

Despite the policy and the clearing mechanism imposed by the oversight agencies, there proliferated many different rules for NG-LGU cost sharing. For some time in the 1990s, policymakers allowed partial NG subsidies for devolved projects provided they were going to lower-income LGUs and the projects had social and environmental benefits. The same policy was applied to foreign-assisted projects but most rules were allowed variations that were project-based and set through the arrangements set out in loan agreements. It soon became obvious, such financial rules were simply financial rules to move money from the national government to LGUs. Policy makers were unable to discern any significant changes in the sustainable performance of LGUs in certain sectors where the NG-LGU cost-sharing schemes operated.

Driven perhaps by the worsening fiscal crisis, government suddenly decided to take the extreme position of disallowing any further financial transfers to LGUs. Prudent fiscal managers sought to minimize the impact of the cost of devolved activities on the national government budget citing that LGUs get their share of internal revenues through the IRA. A joint memorandum from the DBM and the DOF issued on August 2004 stated that national government would no longer provide grant funding for devolved activities of LGUs. Observers saw this move as government's way to cut costs rather than as a corrective measure to address fiscal imbalances

and capacity constraints that LGUs experienced in some sectors. In particular, this restriction on subsidizing LGUs would directly affect the ability of most LGUs to implement rural infrastructure projects since experience shows that without the intervention of national government programs, LGUs on their own cannot prioritize infrastructure funding over other competing claims.[21]

In its desire to develop a sustainable system for channeling financial resources to LGUs, the Department of Finance (DOF) is spearheading the establishment of the Municipal Development Finance Corporation. It is to operate as a financial conduit for foreign loan proceeds going to LGUs and it was to replace an ad hoc unit that was managing project-based trust funds at the DOF. As a revolving fund, the MDFC has a greater chance of financial sustainability than other LGU subsidy programs and deserves to be supported as a policy-directed financial conduit for developing LGU capacity in certain sectors. However it needs to squarely address systemic issues that have led to very slow and bureaucratic procedures in its predecessor agency.

Impact of Devolution on Delivery of Services for Rural Development

The role of LGUs in the implementation of development programs has expanded considerably as a result of the devolution policy. Most central agency programs would feature a participation framework that calls on LGUs to take a lead role in coordinating efforts with local plans, consulting affected communities, and convergence of related services from different partners. There is wide acceptance of the important role that LGUs have in the operation, maintenance and sustainability of public services that are introduced into a locality.

For functions and programs that are centrally driven such as in environment and natural resource management and in agrarian reform, the financial burden of field implementation rests mostly with the national government. Their participation adds value to the programs because LGUs can be more cost-effective in mobilizing local residents and monitoring the work of local contractors, among others. Local counterpart from LGUs are simply intended to elicit commitment and a strong sense of ownership, hence contribution in kind (rather than in cash) has been liberally accepted under these programs. All Agrarian Reform Communities (ARC) projects of the DAR benefited from the role played by LGUs in project execution and institutional development of farmer-beneficiaries. Protected Area Management Boards[22] in many parts of the country also involved barangay and municipal officials in decision-making, in the enforcement of conservation plans and in the development of alternative livelihoods for communities.

For agricultural extension services, which have been wholly transferred to LGUs, the financial burden of provision was initially softened somewhat by the transfer of field personnel from the DA. Financing such services is not a big problem of LGUs as this has been incorporated in the payroll of LGUs by now. However, the quality of extension services cannot be ascertained and there are anecdotal accounts of agricultural extension workers being re-assigned to do other functions for the LGUs.

[21] Even partial funding for local counterpart of 50 percent would sometimes be difficult for poor municipalities to raise from their own funds. Many foreign-assisted projects cite this as a major problem in the implementation of co-financing arrangements with rural LGUs.

[22] PAMBs are local governance structures for declared protected areas for ecology or biodiversity preservation purposes. NG is represented by DENR in the PAMB and the other members include mayors and community-based organizations.

For rural infrastructure development, LGUs have not been able to make improvements to the performance of this function despite devolution. The reasons for this are summed up in a 2002 report on the budget analysis of the public works sector:[23]

- Ambiguous delineation of roles and responsibilities arising from "a two-track service delivery mechanism" where both LGUs and the DPWH can implement devolved infrastructure projects
- Limited LGU funds because the formula for sharing of national revenues is biased against rural LGUs with smaller populations and LGUs have limited access to credit resources
- Lack of technical and administrative capability in some LGUs (especially the rural municipalities) to implement civil works projects
- Weak coordination between the DPWH and the LGUs for a systematic assessment of performance and a mechanism for national government to intervene if there are major problems

Factors Hindering the Development of LGU Capacity for Rural Infrastructure Provision

A number of issues have to be addressed in order to resolve the seeming deterioration in the quality of public services provided by LGUs for promoting growth of the rural economy.

Local planning is weak in most rural municipalities. Annual investment plans, landuse plans, etc are generally of poor quality and unable to positively influence the quality of LGU policy and resource allocation decisions. There is no clear policy guidance coming from central government agencies on how the public sector should play its role in achieving a private sector-led and market-based growth. Other than for special projects and foreign-assisted projects, there is hardly any effort to define more clearly appropriate responsibility assignments and system of coordination between NG and LGU efforts.

Problems of fiscal imbalance affecting most rural LGUs have been cited by previous studies and is widely recognized as the cause of declining quality of LGU services. No remedial policy measures have been put forward and various arrangements for extending financial assistance to LGUs have sprouted in the meantime. As mentioned previously, the new policy issuance from the DBM and the DOF ruling out the granting of any further subsidies for devolved LGU functions will most likely result in the falling out of most rural LGUs from participating in national programs for rural development. This leaves a vacuum in the financial rules for NG-LGU collaboration in the development of local road networks, water supply and sanitation and small irrigation schemes while new financing policies and arrangements are still being developed by the newly created MFC.

The weak capacity of LGUs for local revenue generation have to be addressed in order to increase LGU financial resources with which to finance strategic investments at the local level. Higher efficiency in the collection of real property taxes has the added advantage of discouraging the holding of land by private individuals for speculative purposes and free them for other entrepreneurial uses. One reason for low revenue performance in most LGUs is that land values for assessment of real property taxes need updating but there is constant political pressure to keep them unchanged indefinitely.

[23] Rosario G. Manasan and Ruben G. Mercado, "Assessment of the Absorptive Capacity of Agencies Involved in the Public Works Sector," *Analysis of the President's Budget for 2002*, Philippine Institute for Development Studies, 2002.

Transparency and Accountability in Public Service Delivery

Reform Context: Minimizing Corruption in Government Services

As cited in the Policy Chapter of this study, rural growth calls for a hospitable environment for doing business, particularly for agro-based enterprises. Rules and procedures in dealing with government should be simple and straightforward so that the cost of doing business is competitive and an efficient market system governs the allocation of resources to the most efficient use for agriculture and natural resources-based enterprises. Unclear and incoherent rules create opportunities for discretionary powers for government officials that cause uncertainty and increases business risk that inhibit private investments.

Business thrives in areas where the rule of law governs the orderly existence of citizens and institutions. It requires a well functioning system of rights and duties and efficient mechanisms for enforcing them and impartial settlement of disputes.[24] The relevant functions in the AARNR sector have to do with land administration, trade regulations for agricultural commodities (exports/import permits, plant and animal disease prevention and food safety), settlement/adjudication of agrarian disputes and administration of user rights for mining and forest-based activities, among others. Legal frameworks should ensure that liabilities of enterprises can be predicted and assessed rationally and transactions costs are minimized in order to have an environment that is conducive to risk-taking, development of efficient markets and growth of private investments in rural agribusiness enterprises.

The image of the Philippines as an investment destination is marred by widespread perception that graft and corruption abounds in many areas of government operations. The Growth Competitive Index survey of the World Economic Forum for 2004 ranked the Philippines 100 out of total of 104 in terms of corruption. It is perhaps a major factor that had been pulling down the country's overall ranking in growth competitiveness over the past five years. From rank 36 in 2000, the Philippines slipped 40 ranks to 76 by 2004.[25]. The country is severely disadvantaged by the poor performance of its public institutions.[26] The country ranked 102nd out of 104 countries with highest incidence of irregular payments in exports and imports. In the predictability of policies and regulation, favoritism in the decisions of government officials is commonly experienced giving the country a rank of 90 out of 104 countries.

This global view is consistent with the view from within by its own citizens. About 49% of Filipinos surveyed in 2002 by the Social Weather Stations[27] thought that there was a "great deal" of corruption in the public sector. Corruption is perceived to be greatest in revenue raising agencies but is also substantial in government spending. Bad regulations and bad implementation were shown to be the most important factors that contribute to the growing problem.

The issue is on top of the list of priority strategies of the present administration. In the MTPDP, the President devoted an entire chapter to a discussion of anti-corruption strategies and efforts. Among the basic strategies for anti-corruption are preventive measures to minimize opportunities for misconduct by government employees in the performance of their duty to provide services to the public. The following measures are to be instituted to improve transparency and accountability of such agencies:

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[24] Asian Development Bank, *Governance: Sound Development Management*, August 1999, Manila.
[25] As mentioned by Rolando Dy in the chapter of this study dealing with private sector investments and rural growth citing data from *The Global Competitiveness Report 2004-2005* of the World Economic Forum
[26] World Economic Forum. *The Global Competitiveness Report 2004-2005*.
[27] Cited in World Bank, Combating Corruption in the Philippines: An Update, September 30, 2001

- "Improving frontline service delivery, specifically audit of systems and procedures to simplify and speed up agency processes;
- Strengthening procurement reforms; and
- Involving all sectors at all levels to scrutinize projects that are willfully made transparent so that people, especially the poor, can actually see the benefits accruing to them from the government."[28]

Some Areas for Regulatory Reform

The discussion in this section will mainly focus on the performance of regulatory functions in the AARNR sector and their implications on the cost of doing business and flow of private investments. It will site specific areas for reform that have been identified by previous studies and some of them have been targeted by policy makers for implementation. The following discussion does not attempt to be exhaustive but rather illustrative of problems that should be addressed with regulatory reforms. Highest priority should go to measures that address petty corruption by enforcing mechanisms to extract better performance and accountability from agencies providing frontline services. Considerable gains can be immediately realized from focused and streamlined regulatory procedures without even having to institute new policies and structures in the agencies. Reorganizing government agencies to address conflict of interest in development and regulatory functions is within the power of the President to do but is potentially more controversial and should have prior studies and adequate social preparation with internal and external stakeholders. The most complex of reforms in regulatory functions involve enactment of laws pertaining to access to land which need to replace antiquated and conflicting arrangements that have been accumulated over many decades. While no one argues against the need to promote efficient land markets such reforms the resistance comes from interest groups that are benefiting from existing arrangements.

Permitting Procedures for Agricultural Exports and Imports. Studies of the DA under the Diversified Farm Income and Market Development Project (DFIMDP) and Improving Governance of the Agricultural Bureaucracy (IGAB) the regulatory processes in the DA have considerable room for improvement. Due to the inadequate and deteriorating facilities for inspection and testing of commodities, the permitting procedures of the Department of Agriculture are neither efficient nor reliable. The Department has yet to develop protocols for testing of commodities in accordance with international standards of product quality and food safety. Not many private laboratories are accredited to perform product testing and certification, except for fishery and aquatic commodities. Plans for online permitting have been adopted but actual implementation has to be programmed within existing budgetary resources.

Administration of Tenurial Instruments. There are 8-9 tenurial instruments for administration of rights to timberlands which cover about half of all public lands. The tremendous potential in public lands for timber and tree crops in the country is not full harnessed because of the complex regulatory procedures for domestic trade of such commodities. [29] DENR has to clarify its developmental and regulatory functions to be able to communicate and enforce an appropriate policy on the development of public land.

Conflict of Interest in the Performance of Regulatory Functions. The National Food Authority has often been cited as one of the agencies that operate under conflict of interest--It regulates the price and supply of rice in the domestic market yet it does actual trading of the same commodity. The same situation in public port development and operation has driven many

[28] Medium-Term Philippine Development Plan 2004-2010
[29] Rolando Dy in another chapter of this study on Private Sector Investments and Rural Growth

sectors to criticize the Philippine Ports Authority (PPA) for raising port charges with no discernible improvement in the quality of services.

Access to land. "The slow implementation of the Comprehensive Agrarian Reform Program (CARP), by increasing the uncertainty of of ownership and use rights and imposing limitations on the individual's ability to put his land to its optimum use, has resulted in low and declining farm investments, and correspondingly decreased agricultural productivity."[30] Studies done under the Land Administration and Management Project in 2002 cited the parallel systems being operated by a number of government agencies concerned with land management and administration. This gives rise to a complex structure of overlapping responsibilities, conflicting rules in resolving boundary disputes and complex procedures for registration. The need for a total overhaul of the system has been advocated by some sectors based on findings and recommendations of LAMP consultants in the DENR.

Confronting the Inhibiting Factors

Efforts to reform the public sector institutions to be more accountable and effective have been initiated in a number of policy areas but do not appear to be generating an overall impact on the quality of the business environment in the Philippines. These inhibiting factors need to be addressed by concerted efforts by accountable operating units and with the necessary push from policy makers. They are briefly discussed below and presented in order of suggested priority.

Access to Critical Financial Information. Each of the agencies have to have a public information policy to provide the public with expenditure reports and other financial information about their operations. The information that is presently available on budgets and expenditures are quite difficult to interpret and analyze, especially for non-technical people representing external stakeholders in AARNR. This should be given high priority because it does not require any significant changes in the delivery of public services and financial transparency is expected from accountable service providers. Financial reports should be able to inform rather than confuse the public of how funds are released and how they can be traced through the different layers and webs of multifarious agencies in AARNR. For instance, GOCCs which have internally generated funds and report to different governing boards are not always made to report on the use of public funds. The National Food Authority as a case in point spent P4.7 billion on its current operating expenses in 2002 but expended P36.4 billion on "Other Expenses".

Priority for Anti-Corruption Measures in BIR and BOC. Public attention is drawn to major cases of graft and corruption in the revenue agencies (such as the Bureau of Internal Revenue and the Bureau of Customs) and the large capital-spending agencies. They are the focus of attention not only of the anti-corruption agencies but also by civil society organizations working to fight graft and corruption in government. The same attention should be paid to less apparent but systemic corruption which also cause serious deficiencies in public services and therefore constitute waste of government resources. Focusing anti-corruption measures on the AARNR agencies not only draws attention to deficiencies in these agencies but also to their need for technical assistance to streamline operations.

Emergence of Informal Markets. In the rural sector, there is a strong tendency for informal markets to emerge and govern the pricing and access of stakeholders to production inputs, outputs and services. Extensive studies in rural credit, land markets, forest products etc. cite the distortions in the prices and inequitable resource allocation because of the inability of the market to develop and operate efficiently to channel resources to productivity enhancing ventures. As government rules and procedures increasingly become complex and time-

[30] Rolando Dy citing the World Bank in its publication, *Promoting Equitable Growth 1998* in another chapter of this study on Private Sector Investments and Rural Growth.

consuming, more stakeholders are driven to the informal markets therefore undermining the development of formal systems and institutions that are responsible for providing these services and inputs. This aspect should always be thoroughly studied as a critical first step in the design of implementation strategies to institute reforms in the sector.

Low Level of Education of Rural Communities. Stakeholders are generally less educated than their urban counterparts and more isolated from the economic mainstream due to physical, cultural and communication barriers. Because of widespread poverty, they tend to exert pressure on government policy makers to concentrate public expenditures on private goods for provision to resource-poor stakeholders. There prevails a certain degree of discomfort and resistance to public sector reform towards market-based provision of public goods and services. There is a need for a long-term and sustained effort to educate stakeholders in AARNR on the benefits that can be derived from market-based services and delimited intervention of government in economic activities.

The above cited factors are not exactly barriers to anti-corruption measures but rather emerging conditions in the reform environment that have to be considered by implementation strategies. Individual agencies will have their own view of how these factors impact on their own strategies and suffice it to say that a comprehensive analysis of these factors is necessary for introducing reforms in regulatory functions and other organizational changes to minimize opportunities for corruption.

Proposed Actions

In view of the comprehensive scope of reforms that have to be done to transform the AARNR group of agencies into competent and efficient growth-oriented institutions, the proposed actions are numerous and require central coordination and support from the highest level of government policy makers. In all the three agencies, there have been expressed intentions to move forward and faster with the needed changes in policies, institutional arrangements and allocation of resources to strengthen their ability to perform their mandated functions. But because the necessary conditions for introducing and sustaining the reforms are not always present in these agencies and in their policy environment, the resistance and other hindering factors overwhelm the initiative and reason for change that have only started to gain footing.

The strategy for reform management is basically opportunistic and while conditions are not favorable, the reform programs are allowed to drift until something triggers the renewal of the reform efforts. There is a strong need to replace this opportunistic reform strategy with a more concerted approach that is driven by policymakers who have the power to provide the right policy environment for reform measures succeed. It has to have consistent pressure from an informed community of stakeholders who stand to benefit from improved delivery of public services for the AARNR agencies.

The unfinished governance reform task should not be allowed to waver because of policy debates about market-oriented activities and risks of excluding the poor from such growth. Evidence indicates that allowing efficient market mechanisms can spur equitable growth in a more sustainable way than government-driven and rights-based distribution of assets and entitlements. Concern about the welfare of marginalized sectors who happen to be long-standing clients of the AARNR agencies should not be reason to defer market-based reforms but should in fact be a major source of motivation to rationalize the role of government and allow entrepreneurial opportunities to flourish and drive rural growth.

Strategic Thrusts for Governance Reform in AARNR

The broad task of undertaking the necessary reforms to address governance issues described in the preceding sections can be punctuated with four basic strategic thrusts as follows:

- Streamlining and restructuring of related and overlapping functions among DA, DENR and DLR to achieve sector growth in accordance with the Plan Performance Monitoring Indicator System (PPMIS) for AARNR
- Regularize the practice of OPIF instruments, e.g. Sectoral Effectiveness and Efficiency Review in basic operating units in each agency to increase the allocation of NG resources into catalytic and strategic growth-enhancing investments and expenditures in AARNR
- Improve the policy and operating conditions for NG-LGU collaboration to develop LGUs into effective providers of differentiated services for rural growth
- Simplify, focus and rationalize regulatory policies and procedures in the AARNR to promote the growth of investments and economic activities in rural enterprises.

For streamlining and restructuring, future work should focus on how the AARNR agencies can institute organizational reforms based on clarified statements of deliverables and sector results. The immediate goal is to address complex institutional arrangements through the rationalization plans that they are preparing in accordance with EO 366. In the long-term, it should be possible to approach better integration of related services in order to bring down operating costs while enhancing their overall impact. As one of the key levers, the preparation and review of agency rationalization plans should effectively draw the DBM and NEDA to join forces in providing oversight to ensure that the plans are results-oriented and strategic enough to address the institutional barriers to rural growth.

In public expenditure management, assistance to the three AARNR agencies should be focused on the actual application of financial management tools to achieve the desired reallocation of resources to catalytic and strategic interventions for rural growth. The sector made an exceptional move to use the SEER approach in evaluating the whole range of programs and projects of the three agencies as their initial activity in the formulation of the MTPDP. They are also among the first eleven agencies that have been able to structure their budgets by aligning their PAPs with their MFOs in the budget preparation work that took place in 2004. However, these changes have yet to be internalized in the decision-making processes in these organizations and at times the innovations are found to be simply cosmetic. Further work has to focus on assisting the various operating units in these agencies to institute the OPIF innovations in their financial control mechanisms. A concrete output of this effort would be a financial plan for the three agencies which is now required by the DBM from all agencies requiring approval to allocate budgets for new programs. The financial plans can be a starting point for identifying the most critical financial challenges that threaten the sustainability of the agencies' priority programs and projects and lead them to the formulation of strategic approaches for restructuring past patterns of expenditure allocation and diversifying fund sources to address these issues.

Delineation of NG-LGU responsibilities in the delivery of public services for enhancing rural growth has to be facilitated by policy framework coming from the central government agencies. The AARNR sector has to come up with a consolidated devolution policy framework to define the appropriate role of LGUs and the central agencies in implementation and provide for capacity building of weak LGUs where there are critical gaps. This should also address the possible consequences of an overly restrictive LGU subsidy policy by resolving the issue of how the financial requirements of LGUs can be provided for in the national budget. Such transfers have

to be over and above the regular NG transfers (such as the IRA, which is virtually programmed for existing activities and priority programs of LGUs). The burden naturally falls on the national agencies and among the options that may be considered is the development of a mechanism for sector grants to LGUs. The aim of such a mechanism may be to leverage funds from such a sector reform program to influence the allocation of LGU resources on the right investments that can unlock the growth potential of their rural economies.

Regulatory reform has to focus on making the rules and procedures more transparent and truly focused on issues that are relevant to achieving competitiveness in the global market for investments. Its anti-corruption feature derives from the effect of regulatory reform on prevention of misconduct and minimizing opportunities for rent-seeking by service providers and regulatory agencies. The available tool for diagnosis and planning for a good anti-corruption program is the Integrity Development Review that was developed by the Development Academy of the Philippines and can be undertaken for the three AARNR agencies.

Key Levers for Governance Reform

Since governance reforms are addressed at effectiveness and accountability of service providers in the public sector, the key levers can only have an indirect impact on actual growth of private investments and economic activity in the rural sector. Nonetheless, they invariably have the potential of serving as a pivotal step in ushering these three agencies through a beneficial and irreversible organizational change process that can certainly improve the general environment for private entrepreneurs in the sector.

The following elaboration on the key levers draws heavily from a preliminary draft of the DBM's Strategy Planning Matrix to spell out operational plans for the achievement of MTPDP goals under Chapter 21: Bureaucratic Reforms.

Agency Rationalization Plans

A recent order from the President for each agency to prepare rationalization plans can very well be the opportunity to get the three agencies in the AARNR to formally establish and adopt internal strategies to move forward with their desired transformation. Executive Order 366 directs agencies to undertake a strategic review of their operations and organizations. It provides sufficient basis for the DBM to allocate the needed budget support for the approved measures that agencies wish to pursue, including the separation benefits of positions and units that may be affected.

The OPIB of the DBM coordinates the preparation of the rationalization plans and is prepared to provide assistance to agencies who need help. Under the Office of the DBM Undersecretary for Planning and Policy a number of foreign-assisted technical advisory projects are being mobilized to access the needed resources for these organizational development efforts.

Emphasis is placed not only on the formulation of the rationalization plans but also on what agencies need to effectively manage the internal change process as they go through the transition to better arrangements. In DBM's proposed operational strategies, activities will focus on (a) strategic review of agency operations, (b) implement impact mitigation measures for those who may be affected and (c) develop holistic capability-building programs for agency personnel performing critical functions.

The agency rationalization plans offer an opportunity for agencies to mount agency-level measures to address long-standing issues affecting the operations of the individual agencies, as follows:

- Building up institutional capacity in the DA for full implementation of the Agriculture and Fisheries Modernization Act (AFMA) to improve productivity and competitiveness of the sector.
- Reform of rules and procedures for land survey, titling, registration, valuation and information management to institute a more efficient and transparent system in the Lands Management Bureau of the DENR, the Land Registration Authority of the Department of Justice, among others
- Shift the institutional structure and operational protocols of DA from commodity-specific to functional lines of authority.

The initial action may be to urge the agencies to constitute an internal task group that shall be responsible for the formulation of the strategic plan. This should ideally be comprised of key officers involved in planning, policy, performance monitoring and financial management. The DBM and the NEDA will combine forces to give the right guidance to the agencies as they get into the formulation of their rationalization plans.

Institutionalization of OPIF Tools for Public Expenditure Management

The three AARNR agencies have the distinct advantage of extensive exposure to OPIF tools as they were being developed over the last three to four years. They are therefore given priority by the DBM in undertaking further work to introduce the needed adjustments in the planning, budgeting, organizational development and performance monitoring and evaluation in each of these agencies. DBM anticipates the need to get the agencies to work down to each operating unit so that the use of OPIF improves the quality and adequate allocation of agency resources into the right PAPs.

DBM intends to focus their efforts on the further refinement of agency budget proposals and expenditure reports to more clearly present the actual resources that are being spent on each MFO. They are also in the process of rationalizing PAPs that are somehow not quite linked to the agency's MFOs and reaching an agreement with the agencies to phase them down and reallocate resources to more critical functions.

The DBM and the Investment Coordination Committee now require agencies to submit their financial plans to support any request for budgetary resources to cover proposed programs and projects. This can be an ideal entry point for introducing measures not only for improving expenditure management in the AARNR agencies, but also for the development of appropriate strategies for diversifying and augmenting financial resources for future PAPs. Assistance to agencies can look at possible measures to create or improve sourcing funds to give their agencies more flexibility and predictability in providing the needed funds for their most critical activities.

More extensive application of OPIF tools should also lead to the dissemination of financial reports that can transparently communicate financial outcomes of the ongoing reform initiatives. They should be designed for public accountability purposes, i.e. to keep external stakeholders fully informed and involved in the sector's reform.

AARNR Policy Framework and Unified Implementing Arrangements for NG-LGU Collaboration

The desired direction for institutional strengthening is motivated by the policy statements under the Local Government Code clarifying responsibility assignments and building LGU capacity for effective delivery at the local level. Among the priorities for bureaucratic reforms of government under the MTPDP is the development of suitable arrangements for LGUs to be effective in public service delivery while the central government agencies focus on providing technical assistance and augmentation of financial resources.

Working productively with LGUs under a focused and strategic partnership has to make a better contribution in the achievement of rural growth. It is not enough that central agencies encourage participation of LGUs in their programs, but they should be guided in their operations with a devolution program that clarifies responsibility assignments and provides the needed capacity building assistance. Even under a devolved system of public service provision, central agencies retain overall responsibilities for monitoring the performance of local governments in order to anticipate and respond to adverse developments that may pose threats to the achievement of sector development goals. That framework should serve as basis for the design of sector grants to effectively leverage NG funds to draw more of the LGU attention towards the critical factors hindering growth. Central agencies need also to be more effective in carrying out their responsibility for guiding local plans and ordinances so that LGUs do their part in eliminating barriers to the growth of private investments and diversification of rural enterprises.

Based on the desired sector development for AARNR under the Plan Performance Monitoring Indicator System, the central agencies can draw out a devolution policy framework that clarifies and demonstrates to LGUs their strategic role in addressing major barriers to rural growth. There are several existing arrangements for NG-LGU collaboration in rural development but they are tailored for particular projects and not for sector-wide application. Through NEDA's policy coordination role in AARNR, a unified set of guidelines and manual of procedures for implementation of such projects can help to standardize and promote the use of good practices and facilitate the development of LGU skills for service delivery in accordance with the framework.

The sector study to formulate such a devolution policy framework should be able to guide policy makers on the appropriate NG-LGU counterparting formula. Granting of subsidies to LGUs have to be highly selective and well targeted—taking care to compensate for and not to aggravate the fiscal imbalance caused by the inequitable distribution of the IRA. It can be used to motivate a better financial performance among LGUs by requiring that such funds be matched with locally generated revenues.

The three agencies have adequate field experience to know at the outset how a unified set of guidelines and implementation manuals can be efficiently undertaken. However the NEDA has to be able to coordinate the effort and see to it that the proposed mechanisms are in accordance with the Local Government Code and other policy issuances for LGU development at the Department of the Interior and Local Governments. Help from external experts on devolution along with inputs from DILG and the organizations of LGU officers can help the process along.

Regulatory Reforms in AARNR

The three agencies, DA, DLR and DENR shall be guided in the formulation of agency plans and strategies for regulatory reform. It will focus on critical regulatory functions in each of these agencies and identify aspects of the job that has greatest impact on enhancing growth in the industry.

A number of possible criteria that DBM had initially identified for mapping out specific strategies for regulatory reform in AARNR are as follows:

- Minimize the number of steps and persons involved in the regulatory process
- Reduce regulatory procedures to the absolute minimum through the establishment of clear and rule-based procedures and policies; and
- Reduce barriers to entry and promote competition among private service contractors in the delivery of public services where appropriate.

Modern and IT-based means of dealing with the private industry offers fresh opportunities to perform regulatory functions more efficiently and with minimal direct contact between the regulator and the private sector. Agency plans to install web-based application and approval processes for permits should be supported. Processes that can do this not only minimize opportunities for face-to-face contact with regulatory officers but also enable the agency to process a greater number of permits within the same period of time.

Under the detailed strategy planning matrix of the DA, the Fertilizer and Pesticide Authority, Bureau of Plant Industry, National Meat Inspection Commission, Bureau of Agriculture and Fishery Product Standards and commodity-based agencies such as the Fiber Industry Development Authority and the Philippine Coconut Authority are eyed for such a review of regulatory processes.

As a long-term strategy, the effectiveness of regulatory agencies should be enhanced by separating such functions from industry development functions. For example, the Mining and Geo-Sciences Bureau of the DENR which governs the permitting process for mining claims but also is mandated to take an active part in the promotion of the industry, which may include making direct investments in the exploitation and development of mineral resources. Likewise, the National Food Authority regulates importation of rice and makes decisions affecting the level of rice stocks while at the same time is a major player in rice trading and competing with other private players in the domestic market. Philippine Ports Authority is another such agency which is not among the AARNR agencies but whose exercise of regulatory authority while maintaining a virtual monopoly over the country's port infrastructure services has resulted in unchecked increases in port charges without any felt improvements in the quality of port services.

Central Coordination and Management of the Reform Process

The process of internalizing a new results orientation and a culture of performance in each agency requires that the policy, planning and monitoring units be substantially strengthened in DA, DAR and DENR. They have to be ones to support management functions for organizational development and reforms and ensure that operational plans, strategies, budgets and administrative structure of responsibilities are responsive to the reform goals. They have to be able to drive a sustained public information and education campaign for external stakeholders as well as the rank and file employees whose support for reform is found to be critical.

The PPMIS study commissioned by NEDA in 2001 recommended placing the task of reform management under a high-level coordinating body. It can play a critical role in giving continued direction for the reform program even as the institutional strengthening of policy and planning functions in each of the agencies is in progress.

This reform coordination body should involve or give a lead role to the Department of Budget and Management through its Project Management Office (PMO) under the Undersecretary for Planning and Policy with co-management arrangements involving the technical staff of the NEDA Agriculture Staff. The DBM role would be effective since it is through the effective use of budgeting tools that reform measures are given serious attention by the implementing agencies. The NEDA role on the other hand takes the sector perspective and helps budget people to discern potential impacts of budgeting and institutional changes on the effectiveness of the public sector in promoting growth. The following objectives and functions are envisioned for this body:

Ensure high-level support for the reform of the AARNR agencies involving as necessary advocating for legislative action in Congress

Effective use of the budget-planning link to force-fit resource allocation decisions with strategic plans for the integrated development of the three agencies towards growth-oriented services

Provide policy oversight for the review and analysis of devolution strategies in the three AARNR agencies and for the DPWH rural roads programs as they impact on rural growth; Ensure that financial subsidy policies and co-financing arrangements of national government for devolved activities are consistent with the devolution approach adopted for the sector.

Sustain pressure from the top so that the agencies internalize public accountability systems and be proactive in mobilizing a community-involved performance evaluation system.

This DBM-NEDA coordinating mechanism can also be a strategic point for managing the allocation and use of ODA resources for governance efforts. There are already a number of foreign-funded projects operating under the DBM PMO that administer substantial external resources that can be tapped to push forward the many initiatives in governance reforms in AARNR. This includes assistance from the Australian government, the UNDP, Asian Development Bank, World Bank Institutional Development Fund and the ASEM Trust Fund being administered by the World Bank. With the drive for reform energizing the local institutions to take advanced steps for governance reforms, there will be considerable capacity to absorb external resources in with the most institutional impact.

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Table 10 Action Matrix of Proposed Measures to Address Governance Issues in Agriculture, Agrarian Reform and Natural Resources Sector

Key Lever	Responsible Agency	Initial Action	Output Indicators	Time Frame
Approval and Implementation of Agency Rationalization Plans for DA, DENR and DLR in accordance with EO 366	DA, DENR and DLR for formulation DBM and NEDA for review and refinement	Planning workshops and organizational assessments to define the scope and desired focus for institutional review and development of the three agencies	Completed Rationalization Plan addresses current issues in the duplication and overlapping of functions across agencies	Before the start of the next budget preparation cycle for 2006
			Impact mitigation plan for employees or units that may be affected by the implementation of the Agency Rationalization Plans	Within one year
			Comprehensive but results-focused capacity building programs for the desired transformation of the agency	Continuing program for the next five years
Institutionalization of OPIF Expenditure Management approaches in the three agencies	DBM as coordinator	Mid-year review of expenditure performance with respect to the PAPs and their link and impact on the accomplishment of agency MFOs	Public expenditure review report for each of the three AARNR agencies based on their MFOs	One year
			Financial Plan for 2005-2010 for each agency addressing issues in expenditure management and sourcing of funds for priority PAPs	One year
Devolution Policy Framework and Implementing Guidelines for AARNR	NEDA as coordinator in close coordination with the MDFC	Stock-taking of existing arrangements for NG-LGU collaboration in AARNR	Unified set of policy guidelines, and implementation manuals for LGU-based AARNR projects to address rural growth barriers and other issues	One – two years

Key Lever	Responsible Agency	Initial Action	Output Indicators	Time Frame
for AARNR			Sector study and policy recommendations for NG-LGU sector grants mechanism that helps address the fiscal imbalance in the distribution of the IRA and draws the allocation of LGU resources to growth-enhancing projects at the local level	One year
Regulatory Reform in AARNR	DBM, Development Academy of the Philippines, Civil Service Commission and/or other academic institutions	Integrity Development Review of the DA, DENR and DLR	Detailed action plan for instituting corruption prevention measures in carrying out public functions in AARNR	One year
	DA, DLR and DENR for formulation, financing and implementation	Planning Workshops and preparation of project inception studies for implementing online regulatory processes	E-government plan adopted and implemented for all regulatory functions	Two years
	NEDA as coordinator	Review of completed studies and policy recommendations seeking to streamline and focus the functions of regulatory agencies	Reform of regulatory agencies to separate the management of government monopolies and the exercise of regulatory functions over the industry	Three-four years

Annex A
Department of Agriculture

List of Line Bureaus and Attached Agencies by Functional Area

Functional Area	Bureaus and Attached Agencies
Production Support	Bureau of Agriculture and Fisheries Product Standards, Bureau of Plant Industry, Bureau of Animal Industry, Bureau of Fisheries and Aquatic Resources, Philippine Coconut Authority, Fiber Industry Development Authority, National Tobacco Administration
Market Development Services	Agribusiness and Marketing Assistance Service, National Agriculture and Fisheries Council
Credit Facilitation	Quedancor, Agricultural Credit Policy Council
Irrigation Development	National Irrigation Administration
Infrastructure and Post-Harvest Development	Bureau of Soils and Water Management, Bureau of Post-Harvest Research and Extension, Philippine Fisheries Development Authority
Extension Support, Education and Training	Agricultural Training Institute, Bureau of Fisheries and Aquatic Resources, Philippine Carabao Center, PhilRice
Research and Development	Bureau of Agricultural Research, PhilRice, Philippine Carabao Center, Bureau of Soils and Water Management, Bureau of Fisheries and Aquatic Resources
Regulatory Services	Bureau of Agriculture and Fisheries Product Standards, Bureau of Plant Industry, Bureau of Animal Industry, Bureau of Fisheries and Aquatic Resources, National Meat Inspection Commission, Bureau of Post-Harvest Research and Extension, Philippine Coconut Authority, Fiber Industry Development Authority, National Tobacco Administration, Fertilizer and Pesticide Authority, National Food Authority, Cotton Development Authority, Sugar Regulatory Administration
Information Support	Bureau of Agricultural Statistics, Information Technology Center for Agriculture and Fisheries, Agriculture and Fisheries Information Service
Policy Formulation, Planning and Advocacy	Planning Service, Policy Research Service, Project Development Service,

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