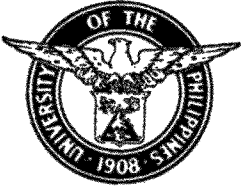
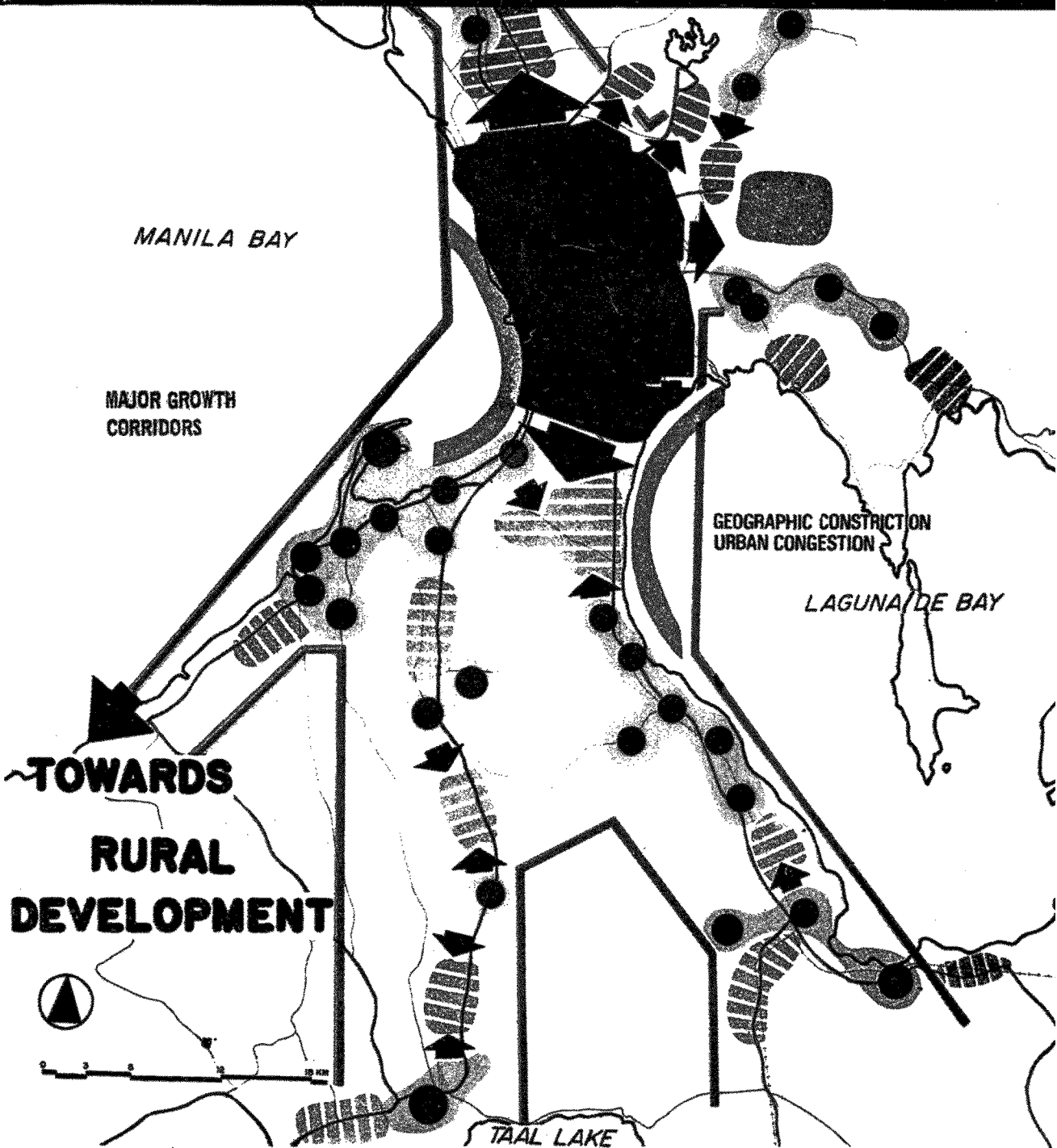


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# INCOME AND EMPLOYMENT IN ASIA: POLICIES UNDER TWO DEVELOPMENT STRATEGIES

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## I. Introduction

Growth with redistribution has become the touchstone for evaluating development among the low-income nations of the world. In Asia, as elsewhere, the policy approach for redistributing growth dividends has focused upon methods to generate greater income-earning opportunities for a rapidly increasing labor force.<sup>1</sup> The problem: labor absorption into remunerative and productive employment.

The conditioning strategy for policy formulation continues to be that of accelerated industrialization. The concern for redistribution is not directed toward a search for a new strategy metaphor; it is engaged in a much narrower task of correcting imperfections in the prevailing one. As such, policy considerations dwell upon identifying acute ailments—market imperfections, idle capacity, patterns of demand—in an otherwise robust body of theory.

This paper briefly reviews the policy options available under the urban-oriented, industrial-led growth strategy. The conclusion is that these policies are incapable, either individually or in concert, of accomplishing the goal of increasing the income of the majority of the labor force. A strategy of accelerated rural development is proposed to meet both growth and redistribution objectives. Policies complementing this strategy are organized under a concept of agropolitan development, a suggestive synthesis of programs for the spatial reorganization of rural settlements in Asia.

## II. Employment and Income: Accelerated Industrialization

### A. *Employment and Income*

A major difficulty in assessing the income aspect of employment is the failure of Asian governments to explicitly tie the two terms together in national social accounts.<sup>2</sup> The adoption of Occidental employment concepts by these societies, which are characterized by high levels of subsistence living and a concentration of income-generating work in non-wage activities, has only served to confuse the relationship between employment and income. The poor are classified as fully employed, the (open) unemployed are likely to be from middle-to-high income families. The result has been a plethora of terms and vague associations between an employment problem and a poverty problem, leading to national policies to ameliorate poverty by reducing unemployment through the expansion of wage employment. The limited capacity to generate such employment under an industrialization strategy, however, leads to the conclusion that although unemployment may be reduced for the relatively well-off residents of one or two large cities, lower income groups are unlikely to benefit at all from current employment programs.<sup>3</sup>

### B. *Labor Absorption Policies*

The impotence of the industrialization strategy as a guide for the future can best be illustrated by briefly reviewing the policies advocated to redress the problems associated with low-income employment. In many ways, the inability of these policies to

generate increasing income for the poor is arithmetically determined which means that the capital-intensive sector cannot expand at a rate fast enough to absorb the working poor. The labor-intensive sector is, in fact, unlikely to be affected by the policy options.

Under the industrialization canopy of policy formulation, the options for generating income through employment are limited to a handful of possibilities. Exploration beyond them would signal the abandonment of the strategy of accelerated industrialization. Seven approaches summarize the oft-advocated policies: (1) change existing price signals, (2) increase the use of idle capacity, (3) increase the GNP growth rate, (4) change the pattern of demand, (5) reduce the population growth rate, (6) ameliorate dualistic labor markets, and (7) embark upon a rural development program.

#### *Price Signals*

The first policy approach aims at matching market prices with the relative scarcity values of labor and capital. Under the push for rapid industrialization, the importation of capital goods has been facilitated by government programs subsidizing their costs. This artificial lowering of the price of capital has been accentuated by high wages paid to employees in the formal sector.

Without discussing the merits of equating market prices to accounting ("shadow") prices, the more important argument can be made that the effect of such a policy on increasing the economic welfare of lower-income groups would be insignificant. Manufacturing currently employs less than 20 percent of the labor force; 75 percent of this fraction is already engaged in small-scale, labor-intensive production ("unorganized" firms with less than 20 employees). Changing price signals to intensify the use of labor would, therefore, only affect the expansion of a sector employing about 5 percent of the labor force. Turnham estimates that with open and disguised unemployment equaling 25 percent of the labor force in low-income nations, industrial production would have to expand at a rate of 18 percent a year for at least a decade to eliminate the employment-income problem.<sup>4</sup> No developing Asian

nation has been able to achieve such a rate of growth.

#### *Idle Capacity*

Investment in capital goods as an inflation hedge, risk-avoiding action, or as an attempt to capture expected scale economies has resulted in the commitment of scarce resources to non-productive, non-labor absorbing uses. Assuming that supply creates demand, the policy objective in this situation is to eliminate the anomaly of the existence of idle capacity in labor surplus economies. As with policies focusing on changing price signals, however, the effect of policies to increase the use of idle capacity would be felt by only a fraction of the economy.

#### *GNP Growth Rate*

The fall from grace of the GNP as the standard for human welfare is in process, but the association between its rate of growth and the distribution of income through employment continues. This association is indirect at best. The rapid GNP growth enjoyed by many Asian nations in the 1960's was not accompanied by equally high employment growth. Unemployment rose during the decade and is expected to rise even higher over the coming decade.<sup>5</sup>

Although the current drop in GNP growth rates may be more reflective of cyclical rather than secular trends, there is no reason to expect them to be higher than those of the past decade. At the same time, there is no reason why lower growth rates could not support a higher growth rate of employment. The important indicator in this regard is not the GNP but rather the relative prices of capital and labor. The discussion, therefore, returns to that of changing price signals. The conclusions are the same.

#### *Demand Pattern*

Skewed income distributions favoring the wealthy have ostensibly resulted in high demand for capital-intensive goods; the poor are unable to buy the wage goods (presumably produced by labor-intensive methods) they would have bought had their incomes been higher.

The argument that the elasticity of demand for labor-intensive goods may be higher for the poor than for the rich has intuitive appeal, but the essential problem is how to raise the income of the poor. Welfare transfer payment policies have proven themselves to be both impractical and ineffectual in low-income nations.<sup>6</sup> If employment is the only alternative to transfer payments, then redistribution of income through employment must be accomplished before patterns of demand can be expected to change. The primary concern remains one of engaging the poor in productive and remunerative employment.

#### *Population Growth Rate*

Reducing the population growth rate may be a long-range public policy goal but cannot be instrumental in meeting the current objective of growth *cum* redistribution. Even after the initial success of a population policy, a lag of 15 years or more must be expected before the growth rate of the labor force is affected. In the interim, policies must deal directly with the need to increase the income of a labor force growing at a rate of between 2 and 3 percent per year.

#### *Dualistic Labor Markets*

A concentration of investment in a small capital-intensive sector and a neglect of traditional or informal production has encouraged the involutory expansion of labor-intensive activities.<sup>7</sup> Two general policy approaches, wage and investment, are available for keeping increases in income at pace with increases in productivity.

Wage-oriented policies appear to be unworkable. Reducing unionized wages in the capital-intensive sector would be a political improbability. Even if feasible, the result would present the paradox of full employment at poverty wages, assuming the marginal of labor to be near subsistence. Minimum wage policies seem equally unsatisfactory. They would work in opposition to policies seeking to intensify the use of labor and would be irrelevant to over half of the labor force now engaged in non-wage family work and self-employment.

Encouraging investment into labor-intensive activities is the most appropriate policy approach to increasing the incomes of

the working poor. Under a strategy of accelerated industrialization however, the kinds of investment policies which are likely to be implemented would be of limited benefit to the majority of the labor force.

One set of investment policies calls for increasing the linkages between the capital-intensive and the labor-intensive sectors. As the capital-intensive (leading) sector expands, so would the labor-intensive sector through increased participation in supplying inputs for production in the dynamic "modern" sector.<sup>8</sup> Assuming such changes to take place at the margin of current production, the weakness of this approach is, once again, found in the small size of the capital-intensive and the limited capacity to create multipliers on a scale capable of absorbing both the working poor and the unemployed into remunerative occupations.

Another set of policies aimed at dualistic structures in developing economies invites an explicit continuation of dualistic development.<sup>9</sup> Unlike the set of policies designed to link informal and formal sectors, this approach seeks to contain activities considered appropriate to large-scale industry in a capital-intensive sector and to prevent this sector from expanding into the production of goods which are being or can be produced by small-scale, labor-intensive production. The major drawback of this dualistic development is the potential loss of opportunities to tie small-scale production to large-scale, capital-intensive industries. Furthermore, this approach begs more questions than it answers. What type of activity is to receive the scarce investment resources? Are investments to be directed to the large cities? If not, what type of decentralization scheme is likely to be successful?

If investments are made in urban-based industry, large or small, the polarization of development into one or a few primate cities is likely to continue. Migration—in perfect accord with the surplus labor models—would be the only means for the rural poor to gain access to higher incomes.<sup>10</sup> Urban-rural income differentials, now favoring urban areas in Asia by ratios of 2 or 3 to 1, could not be expected to narrow in the foreseeable future. In most Asian nations over 70 percent of the population is rural; 80 percent of those who are defined as

being in poverty live in rural areas. In spite of rapid rates of urban growth, more than two-thirds of the increases in population are being absorbed in non-urban areas. With open unemployment and low-productivity employment increasing rapidly at current levels, migration policies to expand urban job opportunities in primate settlement systems are likely to be self-defeating.

Decentralization of industry through the adoption of growth center strategies has been attempted in some form in virtually every Asian nation. In relation to employment and income distribution toward the poor, the attempts have shown little, if any, success.<sup>12</sup> Multipliers tend to be captured by the national metropolis and overseas markets; employees tend to be drawn from urban rather than surrounding rural areas. The goods produced by the types of industries subsidized by public policy are sold in the metropolis or overseas. The lack of significant increases in employment combined with the general low income levels of the hinterlands surrounding the growth centers prevent the development of local markets for manufactured goods. In lieu of the development of rural markets for manufactured goods, agriculture and service activities become involuted; poverty sharing maintains living standards at subsistence levels.

#### *Rural Development*

An obvious response to the identification of low-productivity employment in rural areas as a problem underlying increasing income inequality would be to embark upon a rural development program. Such programs exist in all Asian nations. The efforts, however, have focused upon pilot projects, support of large farms, and the rapid introduction of expensive seed and fertilizer technologies. Furthermore, agricultural development, treated in isolation from urban development, has suffered from the over-extension of highly centralized bureaucracies, and has been aimed primarily toward increasing surpluses to pay for industrial development rather than increasing employment and income opportunities for the majority of rural people.<sup>13</sup>

Much of the failure of rural development programs can be attributed to structural rigidities, such as land distribution and

tenurial relationships, and related rural conditions which have been largely ignored by public policy. Before considering agriculture and rural development policies in isolation, however, a more general issue must be addressed: can a strategy of accelerated rural development be pursued in symmetry with a strategy of accelerated industrialization? Under the current conceptualization of industrialization, balanced urban-rural growth is improbable. The growth of industry is not symbiotically related to the growth of agriculture. Rather, the growth of industry occurs at the expense of people engaged in agriculture, and of people beyond the pale of enclave industrialization producing capital and consumer goods for urban elites.

#### *C. Conclusion*

Available policies for intensifying the use of labor in industry are incapable of keeping pace with the problems they intend to solve. Two of the policy approaches—changing price signals and increasing the use of idle capacity—would only affect the use of labor in an extremely small sector of activity. A third approach, raising the GNP, has no automatic relationship to the redistribution of income through employment. Changing demand patterns cannot be accomplished in isolation from changing the distribution of income. The fifth policy of reducing the growth rate or population can only be viewed as a long-term instrument. Policies to change the dualistic nature of labor markets may be self-contradictory, impractical and ineffectual unless they are directed toward investment away from large cities and in primarily rural, agriculturally-based regions. Efforts to accomplish this redirection of investment to develop rural areas have, however, been of little success in raising rural incomes. In part, the failure of rural development programs results from their contradiction to the overriding pursuit of accelerated industrialization.

The strategy of accelerated industrialization has, in fact, only served to exacerbate the conditions opposing the dual objective of growth with redistribution. When set in motion, these conditions are displayed as (1) the rapid growth of a few large cities which offer little material improvement for the migrants coming to them,<sup>14</sup> (2)

increasing rural poverty in both absolute and relative terms,<sup>15</sup> (3) increasing income inequality among social classes, (4) increasing open and disguised unemployment, (5) persistent food shortages, and (6) increasing external dependency of Asian nations on the economies of North Atlantic nations.<sup>16</sup>

Making the industrialization process supportive of rural development would take more than just reversing the terms of trade between an urban-industrial sector and a rural-agricultural one. Among the necessary complementary changes would be a decentralization and devolution of public decision-making powers to relatively small development regions to facilitate the development of agro-based industries appropriate to local conditions. Industry itself would be dependent upon growth in agriculture and, ultimately, upon the ability of the growth and development process to raise rural incomes.

The essence of the argument is not, however, how to make industrialization ally with agriculture. It is to show that an emphasis on industrial growth is misplaced if redistribution with growth is the concern. Effective redistribution—in the form of increased income-earning opportunities for the bottom 40 percent of the population—cannot be achieved by policies to either encourage the use of labor at the margin of current industrial production or transform dualistic industrial labor markets.

In sum, policy proposals to intensify the use of labor in manufacturing are not synonymous with those to increase the income of the working poor. At a minimum, a pursuit of these policies neglects opportunities for raising income in rural areas; at worst it perpetuates a process in direct contradiction to the objective of reducing poverty in the course of national growth.

### III. Employment and Income: Accelerated Rural Development

#### A. *Employment and Income*

Because a majority of the poor are rural and are engaged in non-wage employment, policies to redistribute income more equally must initially center on increasing the pro-

ductivity of individuals working on their own and families engaged in agricultural activities.

A number of policy options are available for raising agricultural production, but existing structural relationships—represented by small farm sizes and land tenure conditions—are likely to prevent production increases from benefitting the tillers of the land. With farms too small to raise production above subsistence levels and with land rents equalling half of the output, increases in income are difficult to generate for small farmers. Without growing economic prosperity for farm families, the demand for goods and services from non-agricultural sectors remains low in rural areas. To begin to change this development process into one in which increases in production mean increases in income and increases in demand for off-farm goods and services, a fundamental restructuring of land-use patterns is quintessential. In line with this restructuring, public policy must be re-oriented toward raising the capabilities of small farmers—rather than those of large farms and estates—to increase production in agriculture.

The need to change from a bimodal (dualistic) to a unimodal form of production has been masked not only by the dominance of the industrialization strategy; it has been concealed by events within the agricultural sector commonly termed the "green revolution." The fanfare surrounding the green revolution has disguised the limited application of the new seed and fertilizer technologies. Although a few favored farms experienced phenomenal increases in production, a vast majority of farms were too small and too poor to participate in government aided programs. The consequence has been little, if any, increase in per capita food production in most Asian nations. In the 1960's, per capita production declined in both India and Indonesia and remained stable in the Philippines. Thailand remained the only grain exporting nation in the region, but even here exports may have been to the disadvantage of poorer rural residents in outlying regions who could not effectively demand basic requirements.

Under current conditions, the green revolution appears to have reached a point beyond which further adoption is struc-



turally difficult. Its widespread adoption has been prevented not only by local environments unsuited to the new technologies but also by poverty and public policy. The outcome is a welcome but limited respite of perhaps fifteen years from rapidly increasing domestic food shortages.<sup>17</sup>

A substantial and sustained increase in agricultural output is vitally needed as a base for increasing the incomes and welfare of people in Asia. The growth of agriculture, however, need not depend upon the spread of expensive new technologies. An explicit strategy of developing the potential of small farms, town-centered services and small-scale, labor-intensive manufacturing can be assembled from a variety of policy options which are not dependent upon rapid technological transformations of farming practices.

#### B. Rural Development Policies

The rural development question for policy-makers in the coming decade will be how to engage the majority of farmers in Asia who till for subsistence on small plots of land—averaging from 0.5 hectares in Indonesia to 3.5 hectares in Thailand—in a process which increases production and the productivity of labor. To organize programs to initiate this process, five policy approaches must be distilled into a coherent set of programs, programs defining and leading to the implementation of a strategy of accelerated rural development. The five policy avenues include: (1) land reform, (2) intensification of land use, (3) technical assistance and education, (4) market development, and (5) increasing off-farm employment.

##### *Land Reform*

Land reform is a rubric covering a number of issues, most of which can be marshalled to argue that the redistribution of wealth (land) can lead to both greater income for the working poor and higher levels of production in agriculture.

One essential task of land reform policies is to set minimum and maximum limits on farm sizes. In Asia this calls for a reduction in the size of large farms and, equally important, an increase in the size of most small farms. In its report on rural-based development, the World Bank identified

three low-income groups in rural areas: the landless, the "submarginal" farmer and the small farmer.<sup>18</sup> A submarginal farmer is one who owns or rents land too small in size to provide subsistence production for a farm family. Policies aimed at reducing the number of submarginal farmers through increasing the size of small farms would furnish the fundamental method of tying land reform to the objective of increasing welfare and output by providing all farmers with the means to receive minimum levels of nutrition and by encouraging the commercialization of farm production.

Although the mini-max approach fulfills the need to make farms economically viable for the people who till them, it gives no clear *a priori* indication of its effects upon the productivity of labor or upon the absorption of labor into agriculture. Labor productivity is lower on smaller farms; an increase in minimum sizes could actually reduce the total number of farming households, even if large ones were simultaneously reduced. The expected gains from the mini-max policy would, therefore, depend upon the degree to which the productivity of the small farmer can be increased and off-farm employment can be generated. This can only be accomplished through other policy approaches complementing the redistribution of land.

A second task of land reform concerns terms of tenure. With short-term leases of one or a few years, farmers have little incentive to invest for long-range improvements in farm capital. At the same time, rents which equal 50 percent or more of crop value do not encourage reinvestment in the farm.<sup>19</sup> With tenancy high and rising, farmers find themselves opting for subsistence farming in many cases.

A land reform policy which gives greater security of tenure and greater returns from investment to the farmer would provide necessary conditions for increasing the productivity of labor and land. Whether the policy takes the form of outright transfer of ownership or involves landlord-tenant cost sharing, fixed cash rents rather than crop sharing, or long term leases will depend upon the exigencies of each situation.<sup>20</sup> The overriding motive, however, is the same in each case: to change a system from one which transfers investment resources away

from small farms through tenurial relationships with landlords and urban interests to one which allows for higher savings and investment in these farms.

#### *Intensification of Land Use*

In practice, people in Asian governments have generally favored intensification of land production over land reform. Rather than depend upon the capabilities of the small farmer, they have chosen to explicitly and implicitly make public allocations available to large farms and agricultural estates. This has only served to accentuate the dualistic nature of development; while agricultural output may have increased in the short run, the production gains have not led to income gains for the majority of rural people.

If intensification policies are to be based on raising output on small farms, they must be tailored to the budgets and expenditure patterns of small farmers. Much of the new seed and fertilizer technology is too costly to be readily made available to most farmers. At the same time, the expansion of production using more traditional techniques is often hindered by the unavailability of water. By increasing access to irrigation, a multiple-cropping rather than a green revolution approach can be taken advantage of to increase output on small farms.

Oshima asserts that a multiple cropping approach is the primary, perhaps only, means to successfully pursue a labor-intensification objective.<sup>21</sup> His case is based on the argument that low-income, low-productivity employment is seasonal in rural areas; multiple cropping throughout the year would reduce the disguised unemployment during the customary slack seasons. The multiplier effects of the increased farm income—the basis for an accelerated rural development strategy—would take the form of increased demand for wage goods and inputs into agriculture which could be met by local, labor-intensive production.

#### *Technical Assistance and Education*

Land reform may signal immediate increases in income for the small farmer, but its effects on labor productivity are unclear. A multiple-cropping policy would lead to increased productivity of labor and land by engaging the farm labor force in year-round production. The implementation of the

multiple-cropping policy, while less dependent upon expensive technologies, calls for extensive investment to increase the capabilities of farmers themselves. Technical assistance through agricultural extension services and education programs would provide the major source for leading land reform and land productivity toward increasing labor productivity and thus increasing farm income.

Because of the intense interplay between general technologies and local environments, technical assistance and related programs must be highly dispersed throughout the countryside to facilitate what Hayami and Ruttan have termed "induced" development: a devolved process stressing the development of local resources through education, the provision of services, increased management skills, and infrastructural improvements.<sup>22</sup>

#### *Market Development*

The dualistic character of developing economies is nowhere more easily perceived than in markets for credit, production inputs, products and consumer goods and services. In order to put development in the hands of small farmers and other rural people with meager resources, access to these markets through a reduction in market costs is greatly needed. Under dualistic market conditions, credit is both relatively and absolutely more expensive for the poor than for the wealthy; production inputs are subsidized for only large factories and farms; product markets are monopsonistically controlled, and markets for goods and services are poorly developed. Besides programs to provide credit and inputs for production to small-scale producers, two other types of programs—transportation and organizational development—can aid the development of rural markets.

Under the industrialization strategy, transportation policies have concentrated on extracting surpluses from agriculture by linking rural areas to the national core area, ignoring local needs and exacerbating the exploitation of farmers by traders who have easy access to national markets and can maintain monopsonistic control over local producers.<sup>23</sup>

Under a strategy of accelerated rural development, the emphasis changes from

the development of an industrial core to the development of local agriculturally-based regions. Transportation policies, in reflecting this change, would emphasize the provision and maintenance of local transportation facilities and roadways, especially small roads linking farms and villages to market towns.

Without exception, public policy in Asian nations has expressed the need to assist rural people in strengthening communal organizations. The efforts to organize dispersed households into effective supra-village marketing groups have not, however, achieved notable success. Allocations to these groups have been meager. Substantial decision-making power is retained by the national government and its representatives. Along with the emphasis on local infrastructure and transportation development, local cooperatives must be more meaningfully engaged in the decision-making process. This includes heightened responsibility for the allocation of fiscal resources.

Without an explicit policy to develop local markets, the expected gains of land reform, the provision of agricultural inputs, and technical assistance would be minimized. Much production may remain uncommercialized; investment resources would continue to be transferred to middlemen and capital city interests.

#### *Off-Farm Employment*

The setting of minimum farm sizes would undoubtedly leave some portion of the rural population without land, especially in countries such as India and Indonesia (Java). The landless may continue to be seasonally employed as farm laborers, but the transformation from large farm and plantation production to small-holder production may result in a reduction in such hiring practices as family owner-operators attempt to use their own labor resources throughout the year. If farm employment cannot be obtained by the landless, either urban migration or local, off-farm employment would become the primary source of income-earning opportunities.

Generating off-farm employment in town-based service and manufacturing activities can be expected to be difficult in the initial stages of an accelerated rural

development strategy. The expansion of such employment opportunities is dependent upon both rising income and demand in agriculture and the redirection of savings and investment toward small farms.

Meanwhile, construction programs to develop farm and town infrastructure, to build public service facilities, and to develop necessary marketing centers—all essential for rural development—can engage the landless and part-time or seasonally inactive farmer in socially desirable, remunerative work.

Agro-based industrial employment, as with other off-farm employment, can only proceed in pace with the rising incomes of small farmers. Initially, the low income and saving capacity of farm households will inhibit industrial development in rural towns. MacPherson and Jackson offer a suggestive progression of industrial development through four phases: manual power, village technology, intermediate technology, and mechanized technology.<sup>24</sup> The authors present the case that even intermediate technologies may require capital investments and skills beyond those readily available in rural areas; mechanization carries with it labor displacement, costly repair and maintenance expenditures, and extremely sophisticated labor requirements. In the short term, existing village level skills such as blacksmithing and toolmaking can be expanded with little capital investment. In the long run, as labor is absorbed into higher income employment in all sectors, large-scale mechanization of farms may become more desirable, but public policy favoring mechanization would now be premature and highly deleterious to raising incomes among the rural poor in Asia.

#### *C. The Agropolitan Concept: Policies Re-stated*

As the policy recommendations are assembled, the imperative for a strategy based on the simultaneous development of agriculture and small towns emerges. The structural transformation of rural areas through land reform, credit systems, extension services and other agriculturally-related service "packages" would be insufficient in raising incomes without an urban-like focus which carries the potential for reducing market costs, increasing flows, encouraging

diversification of economic activity, and engaging the landed and landless in the development process.

The need to develop small towns to act as service centers for farm households has been well articulated by regional planners, but the dominance of the industrialization strategy gave pre-eminence to large and intermediate-size cities which were to act as counter poles of the primate city.<sup>25</sup> The arguments favoring an emphasis on small towns were further weakened by the predominant "growth center" model which, in part, stressed the role of top-down hierarchical diffusion processes: small urban places and their hinterlands would have to wait until equilibrating forces begin to spread the benefits of development from large city to small, from core to periphery.<sup>26</sup>

The importance given to urban development, especially to higher order urban centers, left events in rural areas to proceed under the guidance of narrowly focused sectoral policies aimed at raising agricultural output. The "trickling down" of development benefits is yet to be observed. Instead, the polarization of development has been given tacit approval by public policy.

Although small towns have received public service packages, these equity allocations have not resulted in greater income-earning opportunities for rural people. At best they have been mere palliatives, giving better health and minor educational improvements in exchange for continued poverty which could only be ameliorated by joining the march to the big city. Without integrating urban with rural development and in ignoring the employment income effects of public policy, investments in small towns were nevertheless expected to lead increasing economic welfare for the town's hinterland population. Such an assumption ignores both structural rigidities and external economic relationships of developing nations. Effective economic and political power is concentrated in the hands of an urban elite; with a high dependence of the domestic economy on international markets centered in North America and Western Europe, the polarization of development toward national and international financial capitals has no foreseeable turning point. Only direct policy intervention in both urban and rural areas

could hope to effect the changes necessary to preface the process of redistribution with growth.

The unifying concept bringing urban and rural development policies together has been neologized as "agropolitan development."<sup>27</sup> It has been conceived to match Asian conditions with development opportunities to form a spatial development strategy under which policies and programs for action may be organized. The conditions accounted for by the strategy include existing low levels of urbanization, more than two-thirds of the population engaged in small-scale agriculture, a concentration of low-income, low-productivity employment in rural areas, settlement patterns of clustered villages and widely dispersed small towns and high rural population densities.

The development opportunities emerge from a translation of the conditions from liabilities into potentialities. In particular, the agropolitan concept depends upon high rural population densities to allow for off-farm employment:

These densities make it possible for farm workers to commute cheaply using bicycles or by bus to nearby factories, shops, stores, and offices during slack periods of farm work... High off-farm incomes of the average farm households are probably not possible in the less densely settled, rural areas of Latin America and Africa.<sup>28</sup>

The population agglomerations also include the potential for market development necessary for reducing local farm and non-farm production costs and for providing critical thresholds for local goods and services. The threshold and range of specific goods and services are key indicators of the types of employment growth likely to be self-sustaining in each agropolitan unit. Both threshold and range will be expected to vary from region to region, depending upon production and transportation costs and the income levels and expenditure patterns of the regional population. By implementing policies which reduce transportation and production costs and raise the incomes of rural people, it is possible to take advantage of existing population densities—averaging over 200 people per square kilometer—to build diversified local economies based on the participation and capabilities of people

now engaged in low-income, subsistence-level activities.<sup>29</sup>

Agropolitan districts, in physical terms, would be developed as town-centered areas in the densely-populated agricultural regions of Asian nations:

A town of between 10 and 25 thousand inhabitants would normally be found within the district, and district boundaries would be defined by the 'commuting' radius of between 5 and 10 kilometers. . . . Such dimensions would yield an overall size of population ranging from 50 to 150 thousand, of whom a majority would be initially engaged in farming.<sup>30</sup>

The importance of the concept is not, however, the emphasis on rural towns but rather the treatment of the town and farm areas as one unit. Town development and farm development are symbiotic; neither can proceed far in advance of the other; increases in productivity and income are dependent upon both.

The agropolitan district is proposed as the basic unit for organizing development on a territorial basis. Substantial decision-making authority would be devolved to these units to effectively coordinate sectoral policies for implementation at the local level, to give flexibility and adaptability to the planning process, and to set in motion a participatory mode of designing and effecting development projects.

Agropolitan development is offered as a practical alternative to development policies encouraging the drift of rural populations to the large cities. By investing in rural districts to introduce and adapt elements of urbanism to rural settings, diverse, productive and remunerative employment opportunities can develop within the commuting range of rural people. The social dislocation aligned with current development policies can be minimized through the stabilization of regional economies and the reduction in urban migration.

Finally, agropolitan development petitions policy makers to reorganize public policy under a strategy of accelerated rural development. Necessary policy approaches giving substance to the strategy include land reform, intensification of land use, technical assistance and education, market development, and increase in local, off-farm employ-

ment. Land reform is essential to the tasks of eliminating the dualistic structure of agricultural production, bringing farms to at least a size capable of producing subsistence for farm families, and giving greater stability and security to farming households. A multiple-cropping approach to intensifying the use of land on a small farm basis is suggested as the primary means for raising the productivity and income of farmers. Besides policies to deliver essential inputs, such as water, for a successful multiple-cropping program, increases in labor productivity require extensive technical assistance and education services.<sup>31</sup> Developing markets within and among agropolitan districts not only reduces local production costs, it facilitates efforts to organize effective cooperatives of small-scale producers by providing a focus which transcends single villages on a scale of participation which can more adequately confront adverse terms of trade exacerbated under monopsonistic village-level markets. Market development programs would include transportation and communications expansion, rural credit for small-scale producers, the development of inexpensive production inputs, and storage facilities provided for agropolitan cooperatives. Off-farm employment can be expected to expand only as rural incomes rise. In the short run, employment for the landless and subsistence farmers can be provided through public works programs implementing the agropolitan development strategy.

#### D. *Problems of Implementation: Theory and Practice*

The strategy of accelerated industrialization, as advocated by its early proponents, was never implemented.<sup>32</sup> Capital-intensive biases and high formal sector wages mitigated the absorption of labor into the industrial sector. Scarcity values did not "speak" in the market. Rural labor could not be shown to be in great surplus. Demand patterns did not favor the purchase of goods made by labor-intensive methods. The rural landlords and the rich did not necessarily invest their savings to promote the growth of domestic industry. The expansion of industry was financed less by increases in agricultural output than by foreign invest-

ment, loans, and artificially high exchange rates.

A similar analysis can be made of policies advanced for a strategy of rural development. All of the policies gathered under the agropolitan concept have been adopted in some form by Asian nations, but few have received sustained commitment. Land reform, for example, is currently given serious consideration only in the Philippines. India's land reform programs are so weakened by bureaucratic and legal procedures that farm size and tenancy problems are increasing faster than solutions can be reached. No other Asian nation is now attempting to carry out adopted land reform policies.

The failure to implement policies as they were designed in abstract invites censure of both planning theory and practice. At the same time, sorting the frailties of theory from the vagaries of political expediency has become an unpromising exercise. The only clear evaluation of knowledge and action which can be made of development policies concerns those organized under the strategy of accelerated industrialization: even a strong, continuing political commitment to them would not at this point in time lead to a more equal distribution of income among the people in the developing nations of Asia. The analysis of the soundness of theory, the practicality of policies and programs, and the probabilities of political acceptance should therefore move toward the formulation of a new strategy which can accomplish redistribution with growth. The strategy of accelerated rural development organized with the agropolitan concept for spatial development has been suggested to begin the exploration for appropriate policies.

Theoretical support for agropolitan development has a number of roots. In part it represents a re-emergence of resource development as a focus for regional planning. Added to this is a hybrid of the concept of functional economic areas applied to small-town, rural settings. The synthesis of resource development with policies stressing interdependent growth of economic activity indicates a redefinition of regional planning in terms of area development and mutually-enhancing urban and rural development within relatively small agriculturally-based regions.

By putting rural development in the hands of rural people, the agropolitan development strategy necessarily adopts the argument that under specific conditions—namely, increased access to landed wealth, markets, public services and education, credit, and political power—people with meager resources will be motivated and capable of saving and investing to increase production and productivity in agriculturally-related activities.<sup>34</sup> The practicality of the approach is derived from this central proposition. Raising the proposition to an aggregate statement of the potential of agriculture to provide redistributive growth, Power asserts that with a small-farm based strategy, agricultural output can grow at a rate of at least 5 percent per year.<sup>35</sup> This compares with growth rates of 2.8 percent in the 1960's and is above a suggested minimum of 4 percent required to allow for increases in income to advance over population growth rates.<sup>36</sup> Compared to the expansion of the industrial sector discussed earlier, a growth rate of 5 percent in agriculture would allow for the absorption of labor at twice the rate of industry growing at 18 percent per year.

Under a multiple-cropping approach, the potential for increasing production in Asia is great. Oshima maintains that multiple-cropping can be expanded to at least 40 or 50 percent of cultivated land from its current negligible level.

Although the capacity for accelerated rural development in Asia appears to be adequate in relation to the objective of raising the income of the poor along with national economic growth, a consideration of development strategies would be incomplete without an assessment of the likelihood of policy-makers to adopt and begin to implement the policies and programs underlying the strategies. In a vacuum of experience with the ensemble of agropolitan policies, only speculation informed by events in Asia and in a world economy can be introduced to move the discussion from a description of Asian development needs to a projection of evolving conditions under which the possibility of adopting the agropolitan strategy becomes less recondit.

In Malaysia, riots led to the abrogation of the national development plan at the beginning of this decade. The new plan changes previous priorities to include the



reduction of poverty through land settlement programs, a dispersion of industrial activity and the increased participation of the Malay people in growing industry, services, and agriculture. In Thailand, the portent of increasing anti-government activity in rural hinterlands, particularly the northeast, has led to development policies to reduce regional imbalances and income inequalities through concentrated investments for rural development. Similar events and responses are evident in other Asian nations. Nation-building faces unparalleled confrontations in Asia. Political change in Indochina, world-wide inflation, depressed demand for the exports of low-income nations, and increased vocal and violent response by both disadvantaged majorities and minorities to the failure of governments to increase their welfare posits but two or three major choices for the people in and out of government in Asia.

The first choice would be to continue current policies, policies which are either ineffectual or only serve to aggravate problems of inequality. How far the dependence on past policies can persist is not exactly clear, but their continuance will be costly: increased repression of citizens opposing government, increased dependence on foreign sources for basic commodities such as food, increased poverty-level employment and unemployment.

The syndrome intrinsic to the first choice—successive attempts to control the behavior of people—invites a second choice which may be thrust upon those in power. Cambodia, Laos, Vietnam have recently taken this second course of action.

The third choice entails the inclusion of the citizenry in the decision-making process. The inclusion can only be made possible by devolving effective decision-making power to local levels and by increasing access to wealth and remunerative employment. The agropolitan strategy is constructed from these considerations. It is not offered as a panacea but rather as a plausible alternative to the policies organized under the strategy of accelerated industrialization.

## NOTES

<sup>1</sup>Asia refers to India, Pakistan, Thailand, Malaysia, Indonesia, the Philippines, and South Korea.

<sup>2</sup>Besides the income relationship, at least two other factors—production and recognition—are commonly associated with employment. See A. Sen, "Employment, Institutions and Technology: Some Policy Issues," *International Labour Review*, 112, 1 (1975), 45-73, and E. Thorbecke, "The Employment Problem: A Critical Evaluation of Four ILO Comprehensive Country Reports," *International Labour Review*, 107, 5 (1973), 393-423.

<sup>3</sup>A conclusion supported by D. Morawetz, "Employment Implications of Industrialization in Developing Countries: A Survey," *The Economic Journal*, Sept., 1974; IBRD, *Redistribution with Growth* (London, 1974); United Nations, "Manpower Growth and Labour Absorption in Developing Asia," *Economic Bulletin for Asia and the Far East*, XXIV, 1 (1973), 10-33.

<sup>4</sup>D. Turnham, *The Employment Problem in Less Developed Countries: A Review of the Evidence* (Parts: OECD, 1971).

<sup>5</sup>H. Oshima, "Labor-force 'Explosion' and the Labor-intensive Sector in Asian Growth," *Economic Development and Cultural Change*, 19, 2 (1971), 161-183, and United Nations, "Manpower Growth."

<sup>6</sup>R. Bird and L.H. de Wulf, "Taxation and Income Distribution in Latin America: A Critical Review of Empirical Studies," *IMF Staff Papers*, Nov. (1973), 639-682, and L. H. de Wulf, "Fiscal Incidence Studies in Developing Countries: Survey and Critique," *IMF Staff Papers*, Mar. (1975), 61-131.

<sup>7</sup>T.G. McGee, "Catalyst or Cancers? The Role of Cities in Asian Society," in L. Jakobson and V. Prakash, eds., *Urbanization and National Development* (Beverly Hills, 1971).

<sup>8</sup>See, for example, the heuristic model of J. Weeks, "Policies for Expanding Employment in the Informal Urban Sector of Developing Economies," *International Labour Review*, 111, 1 (1975), 1-13.

<sup>9</sup>J. Friedmann and F. Sullivan, "The Absorption of Labor in the Urban Economy: The Case of Developing Countries," *Economic Development and Cultural Change*, 22, 3 (1974), 385-413.

<sup>10</sup>The early surplus labor models of R. Nurske, *Problems of Capital Formation in Underdeveloped Countries* (Oxford, 1953); and W.A. Lewis, "Economic Development with Unlimited Supplies of Labour," *The Manchester School*, 22 (1954), 139-191, became implicit migration models when adopted into the industrialization strategies typified by J. Fei and G. Ranis, *Development of the Labor Surplus Economy: Survey and Critique* (Homewood, Ill., 1964). If the rate of expansion of formal and informal manufacturing is less than the rate of migration—as expected by the migration models of J. Harris and M. Todaro, "Migration, Unemployment and Development," *American Economic Review*, 60, 1 (1970), 126-142, and G.S. Fields, "Rural-urban Migration, Urban Unemployment and Under-employment, and Job-search Activities in LDC's," *Journal of Development Economics*, 2, 2 (1975), 165-188 both marginal and average productivity of labor will continue to be near subsistence levels.

11 J. Friedmann and M. Douglass, "Agropolitan Development: Towards a New Strategy for Regional Planning in Asia," in UNCRD, *Growth Pole Strategy and Regional Development Planning in Asia* (Nagoya, Japan, 1975), 333-387.

12 M. Moseley, *Growth Centres in Spatial Planning* (New York, 1974), and N. Hansen, *Growth Strategies and Human Settlement Systems in Developing Countries*, research memorandum, IIASA (Vienna, 1976).

13 V. Ruttan, "Rural Development Programs: A Skeptical Perspective," paper delivered at the Colloquium on New Concepts and Technologies in Third World Urbanization (Los Angeles: UCLA, 1974).

14 G. Papanek, "The Poor of Jakarta," *Economic Development and Cultural Change*, 24, 1 (1975), 1-27, for example, shows migration to result in slight income increases, but migration does not bring class mobility. The poorest villagers become the poorest urbanites.

15 I. Adelman and V. Morris, *Economic Growth and Social Equity in Developing Countries* (Palo Alto: Stanford, 1973), J. Friedmann and M. Douglass, "Agropolitan Development."

16 J. Friedmann and M. Douglass, "Agropolitan Development."

17 United Nations, "Population and Food Supply in Asia," *Economic Bulletin for Asia and the Far East*, XXIV, 1 (1973), 34-50.

18 IBRD, *Redistribution with Growth*.

19 For statistics from various nations see G. Marzouk, *Economic Development Policies: Case Study of Thailand* (Rotterdam, 1972), J. Power, "The Alternative to Starvation, Despair, Dogma and Hope in the Third World," *Encounter* Nov. (1975), 11-35, and United Nations, "Population and Food."

20 For tenure reform discussion see IBRD, *Land Reform* (London, 1974).

21 H. Oshima, "A Labour-Intensive Strategy for Southeast Asia: A Multiple-cropping Model for the 1970's," *Kajian Ekonomi Malaysia* (1974).

22 Y. Hayami and V. Ruttan, *Agricultural Development: An International Perspective* (John Hopkins, 1971).

23 See E.A.J. Johnson, *The Organization of Space in Developing Countries* (Cambridge, Mass., 1970).

24 G. MacPherson and D. Jackson, "Village Technology for Rural Development," *International Labour Review*, III, 2 (1975), 97-118.

25 N. Hansen, *Intermediate-size Cities as Growth Centers* (New York, 1971).

26 Thus increasing disparities are viewed as an interlude along a development path blazed by

industrialized nations (S. Kuznets, "Economic Growth and Income Inequality," *American Economic Review*, 45, 1 (1955), 1-28; J.G. Williamson, "Regional inequality and the Process of National Development: A Description of Patterns," *Economic Development and Cultural Change*, 13, 4 (1965), pt. 2; S. El Shaks, "Development, Primacy, and Systems of Cities," *The Journal of Developing Areas*, Oct. (1972), 11-36. The expectation of parallel experience for low-income nations cannot, however, be given great currency. As W. Cline, "Distribution and Development: A Survey of the Literature," *Journal of Development Economics*, 1 (1975), 359-400, and I. Adelman, "Growth, Income Distribution and Equity-Oriented Development Strategies," *World Development*, 3, 2 (1975), 67-77, demonstrate, no theory of increasing income inequality in the course of development is ultimately convincing; nor do the findings of Williamson and El Shaks demonstrate that decreases will be automatic.

27 J. Friedmann and M. Douglass, "Agropolitan Development."

28 H. Oshima, "A Labour-intensive Strategy," 78.

29 Certain activities which cannot be supported by local markets but which are fundamental to rural development, such as credit and banking, would have to be supported through public policy measures.

30 J. Friedmann and M. Douglass, "Agropolitan Development," 376.

31 Land reform, technical assistance and labor-intensive development advocated here parallel the findings of I. Adelman, "Development Economics—A Reassessment of Goals," *American Economic Review*, 65, 2 (1975), 302-309, which posit that redistribution of land, human resource development, and labor-intensive production are three necessary stages for a goal of redistribution with growth.

32 J. Fei and G. Ranis, *Development of the Labor Surplus Economy*.

33 K.A. Fox, "Metamorphosis in America: A New Synthesis of Rural and Urban Society," in W. Gore and S. Hodapp, eds., *Change in the Small Community* (New York, 1967), and B. Berry, "Spatial Organization and Levels of Welfare," paper presented to the First Economic Development Administration Research Program Conference, Washington, D.C., 1967.

34 An argument most recently articulated by B. Johnston and P. Kilby, *Agriculture and Structural Transformation: Economic Strategies in Late Developing Countries* (London, 1975).

35 J. Power, "The Alternative."

36 D. Thornton, *Agriculture in Economic Development* (Madison, Wis.: Land Tenure Center, 1975).



# RURAL DEVELOPMENT PROGRAMS IN THE PHILIPPINES

Luis Ma. R. Calingo

## ABSTRACT

Rural development is essential to the development of the nation inasmuch as the vast majority of the population live in the rural areas and the national economy is largely based on agriculture, accounting for "one-third of the nation's gross domestic product, two-thirds of export earnings, and one-half of total employment" (NEDA, Four-Year Development Plan, FY 1974-77). Successful industrialization and the establishment of a modern industrial society is also largely dependent on the increased output of the agricultural sector.

The rural development programs in the Philippines were thus formulated to accelerate overall growth by: (1) providing increased food supplies; (2) contributing to capital formation through the accumulation of agricultural surplus and the enlargement of agricultural exports; (3) furnishing manpower for the industrial sector of the economy; (4) stimulating industrialization by increasing rural net cash income; and (5) increasing net social benefits such as health services, employment and educational facilities for the majority of the population.

This paper describes a conceptual framework for rural development and presents an overview of the various development programs implemented by the government to improve the quality of human life in the rural areas.

## RATIONALE

To define and delineate the process of rural development, it is imperative to start with an overview of the entire economic system of the less developed countries (LDCs). Sir W. Arthur Lewis has offered a

perceptive analysis of the economics of developing countries.<sup>1</sup> Lewis views LDCs as dual economies, each composed of a capitalist sector and a subsistence sector. Each sector in the dual economy exhibits a radically different behavior inasmuch as the marginal efficiency of identical factors such as labor and capital are different in both sectors of the economy.

The subsistence or the traditional sector is composed of household-scale enterprises that follow pre-industrial commercial and production techniques. The traditional sector consists largely of peasant farmers, petty traders and artisans. A common characteristic is their non-use of reproducible capital. Enterprises in this sector generally have surplus labor, except at a few critical seasons of the year, and, for all practical purposes, the marginal revenue product of labor is zero.

The capitalist sector, also called the modern sector, consists of corporate enterprises and government agencies organized as in developed nations with modern financing and technology. Its distinguishing feature is the hiring of labor and the sale of its output for profit. This sector is generally concentrated in highly urbanized settlements, like an island in a sea of subsistence enterprises.

Attention in development planning has been focused on increasing productivity and income in the traditional sector. It is in the barrios where food is grown, where the widest poverty exists and where the bulk of the people live. Interest in improving the living conditions of this traditional sector in

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<sup>1</sup>W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labor," *The Manchester School of Economics and Social Studies*, XXII, No. 2 (1954), 130-191.

the Philippines started as early as the postwar period. Its intensification as a national government program began with the establishment of the Presidential Arm on Community Development (PACD) in 1956. Subsequently, various development programs have been conceived and various institutions have been set up.

These development-oriented activities focused on the barrios have been geared towards solving the problems and providing the needs of the rural communities. The barrio people were enjoined to become active partners of the government for progress. The economic potentials of the rural areas have been identified in the context of national economic growth and the socio-political stability of the country. Consequently, the bases for the attainment of national development goals were premised on the condition of providing solutions to the following restraining forces:<sup>2</sup>

1. For the attainment of agricultural development:
  - a. Low productivity and low farm income.
  - b. Uneven and inefficient distribution of land.
  - c. Limited application of modern farm technology and practices.
  - d. Lack of farm entrepreneurial and managerial ability.
  - e. Inefficient and under-utilization of land and farm labor.
  - f. Lack of effective extension services.
  - g. Unavailability of agricultural credit and its supervision.
  - h. Unavailability and misuse of supply of productive inputs and equipment.
  - i. Limited processing technology and practices.
  - j. Lack of industrialization of the agricultural sector; i.e., the development of agri-business and agri-processing.
  - k. Lack of basic rural infrastructure support such as roads and bridges,

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<sup>2</sup>The work of the more than twenty agencies involved in rural development are addressed towards the solution of these problems. This listing of problems is based on the writer's notes on the nature of extension activities being undertaken by 25 agencies in the countryside.

transport and storage facilities, water supply and control systems.

- l. Inadequacy of innovation packages and the effective utilization and adoption.
  - m. Ineffective marketing outlets and facilities.
  - n. Low levels of capital investment.
2. For the attainment of social, political and economic stability:
    - a. Dearth of necessary public services like health and medical services, social recreation and electricity.
    - b. Lack of dynamic leadership for group actions.
    - c. Low levels of education and capital investment in human resources development.
    - d. Lack of proper nutrition.
    - e. Lack of effective communication facilities.
    - f. Problems of peace and order and insurgency.

Various rural development programs have been initiated and undertaken by different government and private agencies in an attempt to solve these varied problems. Yet there seems to be a great need for an integrated approach to solve these complex yet interrelated problems. There is a need for a development plan with an appropriate unifying philosophy to ensure, not patchwork solutions, but a total and sustained development program that is accurately aimed at bringing about a better nation.

## CONCEPTUAL FRAMEWORK OF RURAL DEVELOPMENT

### *Guiding Philosophy of Development*

The focus of all development efforts should be man and should be guided by the philosophy that development is the development of man according to his needs. Maslow's hierarchy of needs suggests difficulty of considering higher order of needs until the basic survival needs are met. Satisfying man is, therefore, providing him first with his physiological needs and transcending to a retirement of these needs and the creation and satisfaction of new ones.

This man-focused development philosophy must be the guiding strand that should permeate the perception and analysis of development problems, as well as the consequent formulation of solutions to problems of development.

#### *Conceptual Definition of Rural Development*

In the context of rural society, rural development may, therefore, be defined as the process whereby human opportunities for a better quality of life in the countryside are maximized through increased productivity. The development of man depends upon liberating forces that open opportunities to him for a better quality of life. In view of their present scarcity, these opportunities need to be maximized by increasing and perfecting the products man creates out of non-human resources. These opportunities arise from physiological to psychological, political, cultural and social variables.

Rural development may be specifically defined as a process, a method, a program and/or a movement undertaken by government and private agencies to improve the social, economic, political, psychological, cultural, moral, physical and other conditions in the rural areas with the active participation and the efforts of the rural people themselves.<sup>3</sup>

#### *Goals and Objectives of Rural Development*

Rural development seeks to improve the quality of human life in the rural areas. Specifically, it aims to:

1. Achieve an equitable distribution of land, income and wealth.
2. Promote the establishment and development of social, political and cultural structures in the rural areas that are responsive to the needs of the rural people.
3. Improve the nutritional and health status of the rural people.
4. Promote the maximum and efficient utilization of economic resources, such as land, labor, capital and management.
5. Instill and develop positive attitudes/values and encourage an innovative spirit among the rural people.

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<sup>3</sup>Cesar M. Mercado, "Towards a Conceptual and Operational Definition of Rural Development," Quezon City, 1975, 4 (mimeographed).

6. Promote a healthy and beneficial environment.<sup>4</sup>

#### OPERATIONAL FRAMEWORK OF RURAL DEVELOPMENT

Rural development may be operationally defined as a process, a method, a program and a movement designed to increase food production, minimize malnutrition, increase meal income, provide employment, promote family planning, stir people into participation, increase literacy and knowledge through education, provide housing and medical care in the rural areas. It is also designed to develop social values and other desirable attitudes and behavior among seventy (70) percent of the population who depend on farming and fishing for their livelihood, all of which to be undertaken through government and private agencies with the participation of the rural people themselves.

#### *Elements of the Rural Development System*

An examination of the structure of the rural development process necessitates a discussion of the two main systems which make up its environment: farm systems and rural institutional systems. The following concepts are borrowed liberally from Arthur Mosher's *Getting Agriculture Moving*.<sup>5</sup>

*Farm Systems and Farm Enterprises.* In agricultural economics, a farm is conceived as a system of several enterprises. Each crop or livestock variety raised on the farm constitutes one enterprise, so called because each of these product lines can be conceived as a separate business. A farm system is considered underdeveloped when the system can further accommodate other enterprises or when the enterprises, in the interplay of land and other inputs, do not complement each other and, do not optimize the use of the resources.

*Innovations.* It has been axiomatic in economics since Joseph A. Schumpeter

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<sup>4</sup>The rural development objectives have been derived from the national and regional development objectives in NEDA's *Four-Year Development Plan, 1974-77*.

<sup>5</sup>Arthur T. Mosher, *Getting Agriculture Moving* (New York: Frederick A. Praeger, 1966), 51.

(1912) claimed that innovations are the basic motive forces, the basic elements of increment of economic development.<sup>6</sup> Schumpeter defined innovations as new products, new techniques, new resources or new markets. No economist has ever challenged Schumpeter's proposition that innovations make development.

Rural development essentially consists of introducing innovations into existing farm systems. However, certain motive factors are necessary before a farmer can adopt innovations. These are (1) essentials, (2) accelerators and (3) complementary factors.

*Essentials.* Agricultural development cannot be brought about by farmers alone. Certain facilities and services must be available to the farmers if agriculture is to develop. These factors are called essentials for agricultural development because these facilities and services must be present for even one farmer to adopt an innovation.

1. *Market for farm products.* There must be a demand for the products, a system for distribution and the farmers' confidence in the demand and in the system.
2. *Constantly changing technology.* There must be a ready supply of innovations to be offered to the farmers, proven as to their technical feasibility on farms of the planning region and their compatibility with the existing system.
3. *Local availability of supplies and equipment.* The necessary supplies and equipment must be available where and when needed, technically effective, dependable in quality and fairly priced.
4. *Production incentives for farmers.* The price offered to farmers must make innovations sufficiently profitable to offset the uncertainties and risks inherent in all agricultural undertakings.
5. *Transportation.* Transportation planning generally comes under another sector but is nevertheless essential

to agriculture. This infrastructure is necessary for the farmers to deliver their products, to acquire supplies and to keep abreast of the latest in developmental innovations.

*Accelerators.* Unlike the essentials, accelerators although important are not indispensable. The accelerators of agricultural development are the factors which may be necessary to get an innovation adopted by all the farmers of a region to which it is suited.<sup>7</sup> These accelerators are those decision variables that hasten rural development.

1. *Education for development.* This underscores the need to provide enough extension work or specific innovations which are immediately and profitably applicable.
2. *Production credit.* Credit must be carefully adapted to the needs of the particular crop and coordinated with proper education and technical supervision.
3. *Group action by farmers.* In LDCs, the individual farmer is too small a unit to make the necessary services of the public and private sector economical. A degree of education is needed so that a service agent can deal with 20 or 40 farmers in a single visit.
4. *Improving and expanding agricultural land.* Land resources can be expanded either by clearing uncultivated land or by irrigating/improving land already cultivated to permit more production.
5. *National planning for agricultural development.* Mosher stresses a process of deciding what the government is going to do with respect to policies and actions affecting agricultural development. This entails the formulation of an integrated development plan and its implementation on regional basis.

*Complementary Factors.* Agriculture is the heart, but not the whole of rural develop-

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<sup>6</sup>For general supplementary reading, J.A. Schumpeter, *The Theory of Economic Development* (Cambridge, Mass.: Harvard University Press, 1954), is a classic.

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<sup>7</sup>Mosher's accelerators of agricultural development should not be confused with the accelerators used in Keynesian macroeconomics.

ment. The welfare and progress of the rural areas are largely but not entirely dependent on agricultural development. Other sectors like health, civic education and family planning can further enhance the development of the rural areas. The development of the rural areas using the systems approach entails the introduction of all these elements into the farm system. But this must be preceded by a definition and analysis of the conditions existing in the farm system. The next section looks at rural development as an evolutionary process.

### *Evolution of Agricultural Development*

The core of the rural development system is the agricultural development process, an incremental process divided into four (4) distinct and main stages which reflect the different levels of relationship between man and his environment,<sup>8</sup> namely:

1. Traditional subsistence agriculture,
2. Institution-building,
3. Institution-based development, and
4. Capital-intensive development.

Traditional subsistence agriculture is one characterized by small household farming systems where management decisions are made. The farm production function is determined by two (2) prime inputs—land and labor. As such, the level of production is limited by the quantity of land and labor since farm production inputs are furnished wholly by land and labor. The level of production remains fairly constant over a period of time since productive activity is geared towards home consumption. Virtually, no surplus is produced.

In the institution-building development stage, government and private institutions begin promoting innovations which result in more intensive labor application. The introduction of innovation packages in terms of new products, productive inputs, techniques, enterprises and markets make possible a transformation of subsistence agriculture. A variety of institutional development inputs effects a rising productivity of the resources in the locality. At least one

innovation package reaches all the barrios at the end of this stage, though not necessarily all of the farmers.

Institution-based development is the stage at which the process of rural development "takes off" and acquires a self-sustaining momentum. It may or may not coincide with the Rostovian "take off" point for the national economy, depending on what is happening in the other sectors. At this stage, rural institutional development is completed and farmers push labor intensification to the maximum. Rural income rises fairly steadily, institutions now develop at their own momentum and demand new innovations each year in order to meet the needs of ever growing market enterprises and, thus, survive. Central planning decreases in importance as a motive force of development as private supply and marketing firms find the rural economy lucrative and aggressively promote new farm supplies and seek production of new crops.

Finally, the stage is reached wherein the sufficient surplus generated by earlier stages will provide the necessary capital for the use of capital-intensive processes. At this stage, investments and innovations turn to substituting capital for labor. Rural labor shortages appear, the price of farm labor goes up and farmers apply capital to reduce the labor requirement per hectare. The onset of this stage depends primarily on the urban sector. Throughout the development process, the cities are drawing labor from the countryside but this draw-off is generally not enough to reduce the labor available, per hectare. Like the rural sector, the urban sector develops at a gradually accelerating rate and, at some point, its draw-off of farm labor begins to have an impact on the individual farm system. Farmers meet this labor shortage not only with labor-saving equipment, but with the specialized high volume enterprises. The distinctiveness of the rural development process fades away.

### **GOVERNMENT PROGRAMS FOR RURAL DEVELOPMENT**

Attempts to unify the government programs for rural development both conceptually and organizationally have been undertaken by only three administrations—that of President Ramon Magsaysay (1953-57), President Diosdado P. Macapagal (1962-

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<sup>8</sup>Alberto R. Morales, "Farm Systems as an Approach to Rural Development" (Paper presented at the FSDC Management Training on Innovation Packages, Quezon City, Feb. 3, 1976), 10-12 (mimeographed).

65) and President Ferdinand E. Marcos (1966-present). Although President Elpidio Quirino (1948) and Carlos P. Garcia (1957-60) implemented some rural development programs, their respective administrations failed to formulate any conceptual framework for unifying various existing programs in the rural areas.

This part of the paper shall attempt to identify specific post-war rural development programs undertaken by the government. Emphasis shall be placed on those major programs initiated and being implemented under the New Society. Much of the material has been taken from the report on Philippine rural development strategies submitted by the Institute of Philippine Culture to the Asian Centre for Development Administration on May 26, 1975.

#### *Agrarian Reform*

Although agrarian reform encompasses such topics as agricultural credit and other support services to the rural sector, the Land Reform Program herein described refers to the traditional concept of tenurial change, specifically land redistribution. In his official pronouncements, President Marcos stated that land reform would be one of the two "cornerstones of the New Society."<sup>9</sup> It should be noted, however, that the first post-war legislation related with rural development dealt with agrarian reform.

That first major land reform legislation was the Agricultural Tenancy Act of 1954 (R.A. 1199) enacted during the Magsaysay administration. It provided for leasehold or fixed-rent tenancy, expressing in detail the rights and obligations of both landlords and tenants. Basic land reform, the redistribution of large landed estates, was not presented for legislative action until mid-1955 with the enactment of the Land Reform Act of 1955 (R.A. 1400). The revised law provided for the acquisition of landed estates for redistribution by negotiated purchase or expropriation of estates in excess of 300 hectares of contiguous area if owned by individuals or 600 hectares if owned by corporations. The abolition of share tenancy which was declared "contrary to public policy" was first

legally advocated by the Agricultural Land Reform Code of 1963 (R.A. 3844). Under the 1963 code, land reform was limited only to tenanted rice and corn lands; i.e., lands devoted to crops covered by marketing quota allotments were excluded so as "not to jeopardize international trade characteristics".<sup>10</sup> On September 10, 1971, the Code of Agrarian Reform of the Philippines (R.A. 6389), amending the 1963 code and creating the Department of Agrarian Reform (DAR), was enacted. It introduced vital changes such as the automatic conversion of share tenancy to leaseholding all over the country. The integration of all land reform agencies into one department reflected the government's increasing attention to agrarian reform.

While legislation and the administrative machinery for land reform have improved over the years, the accomplishments accruing from the efforts have been meager. Furthermore, it has been observed that land reform agencies have been unable to implement fully the laws since "the legislation themselves are weak, their goals compromised and the administrative machinery which they created cumbersome."<sup>11</sup>

The proclamation of martial law on September 21, 1972, bolstered the program with P.D. No. 2 proclaiming the entire country as a land reform area and P.D. No. 27 mandating "the emancipation of tenants from their bondage and transferring to them the ownership of the land they till." Although P.D. No. 27 changed a number of specific elements in the program, it retained basic features and the underlying philosophy of the 1963 code, such as the confinement of the program to rice and corn areas. P.D. No. 27 lowered the land retention limit from twenty-four to seven hectares which the landlord could keep and cultivate himself. It also required the membership of participating farmers in duly recognized farmers' cooperatives. These cooperatives and the lower-level barrio associations called *Samahang Nayan*, would then guarantee the farmer-members'

<sup>10</sup>Section 4, Republic Act 3844.

<sup>11</sup>J. Eliseo Rocamora and Corazon Conti Panganiban, *Rural Development Strategies: The Philippine Case*, Final Report Submitted to the Asian Centre for Development Administration by the Institute of Philippine Culture on May 26, 1975 (Quezon City: Ateneo de Manila University Press, 1975). 46.

<sup>9</sup>Philippines, Department of Public Information, National Media Production Center, *The Philippine Progress in a Changed Society* (Manila, 1973), 6.

amortization payments and, in case of default, have the power to choose another tenant. Although, prior legislation had already mentioned this in principle, P.D. No. 27 and subsequent guidelines simply clarified provisions, tightened procedures and provided implementing agencies.

The main thrust of the New Society land reform program is the transfer of land ownership to tenant-tillers in order to equalize the distribution of wealth. Thus, the Operation Land Transfer (OLT) was launched in Nueva Ecija on November 13, 1972. The National Economic and Development Authority (NEDA), in its Four-Year Development Plan for FY 1974-77, estimated a government funding requirement of ₱880 million for a program targeted for about a million tenant-farmers.<sup>12</sup> The DAR estimates that 956,200 tenants and 431,100 landlords in 1.5 million hectares of land are expected to benefit from the program.<sup>13</sup>

#### *Agricultural Settlements*

A related program embarked by the government is resettlement with the key goals of diffusing population from congested provinces and reducing the high tenancy rates. The first resettlement program in the Philippines was started in 1939 with the enactment of Commonwealth Act No. 441 creating the National Land Settlement Administration (NLSA). The resettlement program had the following objectives:

1. Solving the uneven population distribution in the country.
2. Solving unemployment and under-employment.
3. Accelerating agricultural growth and rural community development.
4. Reducing high tenancy rates and other malpractices prevailing in densely populated communities.
5. Carrying out an equitable and systematic distribution and develop-

<sup>12</sup>Philippines, National Economic and Development Authority, *Four-Year Development Plan, FY 1974-77* (Manila, 1973), 190.

<sup>13</sup>International Bank for Reconstruction and Development, *The Philippines: Priorities and Prospects for Development*, Report presented at the Annual Meeting of the Board of Governors of the World Bank, Manila, Oct. 4-8, 1976 (Phil. ed.; Manila: National Economic and Development Authority, 1977), 478.

ment of public agricultural lands under a program of "land for the landless tillers".

These goals paved the way for the opening of agricultural settlements in the fertile plains of Cotabato, Isabela and Cagayan. Before the outbreak of World War II, NLSA was able to resettle some 8,300 families. The Land Settlement and Development Corporation (LASEDECO) replaced NLSA in October 1950. Two months later, the Philippine Army launched a successful counter-insurgency measure by organizing the Economic Development Corps (EDCOR) for the resettlement of former Huk rebels. From 1950 to 1954, LASEDECO and EDCOR were able to resettle 1,503 families.



The accomplishments of the National Resettlement and Rehabilitation (NARRA) were better compared to its predecessors. From the time of its creation in 1955 until its replacement in 1963 by the Land Authority (now the Bureau of Resettlement under DAR), NARRA resettled 30,646 families or 70 percent of total resettlement activity from 1939 to 1973. These achievements were partly derived from the vigor of its administrators such as Jaime Ferrer and the attention given to rural development problems by the Magsaysay administration. President Magsaysay himself considered resettlement as an integral part of the land reform program and the government's declared policy in this regard has been to create and maintain a peaceful, prosperous and stable agrarian system through the



opening of public agricultural lands for resettlement.

A different policy, however, prevailed from the Macapagal administration until the present time. Instead of reserving public lands for tenants and other landless small farmers, public land was allotted primarily for large-scale plantations of commercial crops for both domestic industry and export. Corollary to this present policy has been the encouragement of foreign investments in large-scale farming in public land to maximize foreign-exchange earnings from commercial-crop production. With this policy and the difficulties encountered by resettlement agencies in acquiring public land for new resettlement projects, the low achievement of the Land Authority in this area could be explained.

Although the government's resettlement program has undoubtedly helped in the opening of new frontiers, it has not contributed much to the solution of rural development problems. With the recurrence of various forms of tenancy in the agricultural settlements, the program has not succeeded in creating productive and independent farmers out of the 43,826 families resettled from 1939 to 1973. The present government's encouragement of large-scale agri-business has generated pressures on settlers to lease their lands and become workers in these enterprises, thereby causing the large majority of settlers to remain as poor subsistence farmers.

The failure of the resettlement program has been ascribed to government paternalism which stifles peasant initiative and the failure of government to provide infrastructure support that will enable settlers to succeed on their own.<sup>14</sup> Rocamora and Panganiban (1975) have cited, as an example, the NARRA Central Palawan Resettlement Project which has been going on for more than twenty years. Only 10 to 15 percent of the planned road network in Philippine settlements have been built and much is impassable during the wet season. Only two (2) percent of the more than 500,000 hectares of settlement reservations are irrigated and only four (4) percent of settler holdings are titled.<sup>15</sup>

<sup>14</sup>Rocamora and Panganiban *op. cit.*, p. 72.

<sup>15</sup>The DAR administers 40 settlement projects covering 709,529 hectares occupied by

### *Credit and Cooperative Development*

Among the major factors leading to land alienation and increasing tenancy in the Philippines have been the inadequacy and high cost of credit for small farmers. For many small landowners and tenants, the only sources of credit available have been unregistered money lenders and landlords who charge usurious interest rates. To assist these farmers, the government instituted in 1952 two credit systems for small farmers — the rural bank and the Agricultural Credit and Cooperative Financing Administration (ACCFA).

The rural banking system was established in June 1952 with the enactment of the Rural Banks Act (R.A. 720). In 1971, ninety (90) percent of all rural bank loans went to agriculture, of which some 97 percent were short-term production loans. During the 1966-1971 period, the average agricultural loan granted was ₱1,085 per borrower, 42 percent of which went to rice producers. In contrast to government lending programs, the repayment rate of rural banks has been excellent, only 2 percent of outstanding loans being subject to litigation. This has been due to the fact that rural bank loans were covered by real estate collaterals. In order to encourage rural banks to break away from the conventional collateral-oriented policies, the Agricultural Guarantee and Loan Fund (AGLF) was set up in 1966 providing 100 percent of loan funds and guaranteeing 70 percent of the losses due to agricultural loans without collaterals. The program, however achieved only minimal success inasmuch as less than 3 percent of agricultural loans granted during 1966-1971 were derived from this fund.

While rural banks provide a much-needed service available to small farmers, they have not contributed toward strengthening the position of the poorer peasantry as a class since their owners and officers come from the land-owning elite. To reorder the power relations in rural communities, government credit was linked with the development of cooperatives in the operations of the ACCFA which was established in 1952 by R.A. 821.

47,619 families. It has proposed the opening of 23 other projects with a total area of 406,565 hectares. Upon proclamation of these additional areas as settlement reservations, the program shall cover a total area of more than a million hectares.



The objectives of ACCFA are well expressed under Section 11 of this Act, which are quoted as follows:

1. Stimulating the development and operation of farmers' cooperatives.
2. Minimizing the lack of credit as a limiting factor in the expansion of Philippine agriculture.
3. Freeing farmers from the economic and social domination caused by moneylenders for the use of capital.

By the end of 1953, a total of 104 Farmers' Cooperative Marketing Associations (FACOMAs) has been organized and, during the Magsaysay Administration, ACCFA lending operations went full-scale. As of June 30, 1957, some ₱81,168,300 were loaned to 445 FACOMAs. However, only ₱49.4-M or two-thirds of matured loans had been repaid. This repayment problem which plagued ACCFA and the FACOMAs had been attributed to politics and the "dole-out" attitude of farmers. The FACOMAs became quickly dominated by local politicians that, as a result, debtors who believed that their loans were political favors responded with political obligations, not repayment. As a result of these problems, only 37 percent of the 422 FACOMAs in 1959 reported savings and that 47 percent reported losses at an average of ₱6,000 per FACOMA.<sup>16</sup>

In an effort to strengthen the program, ACCFA was replaced by the Agricultural Credit Administration (ACA) in 1963. Tied up with the agrarian reform program, ACA's credit program had the objectives of: 1) extending liberal credit without collateral to small farmers to enable them to continue production, improve their productivity and free them from dependence on their landowners and private moneylenders; and 2) encouraging and stimulating the organization of farmers' cooperatives to emancipate the farmers from middleman domination both in the procurement of farm inputs and marketing of farm products. In line with the objective of developing self-reliant and self-governing rural institutions, the credit program had the following features:

1. *Supervised credit* in order to ensure collection of unsecured loans and increase

<sup>16</sup>Gerrit J. Huizer, "Historical Background of Peasant Organizations in the Philippines" (Quezon City: National Land Reform Council, 1971), 24.

productivity of assisted farmers. Farm plans and budgets prepared with the assistance of farm management technicians (FMTs) form basis of loan application and evaluation. FMTs then assist the farmers in the farming operations, see to it that the proceeds of loans are properly used, guide the farmers in proper farm management, check on progress of crops and advise on crop protection measures.

2. *Integration of loans* designed to provide financing to farmers from land preparation to marketing.

3. *Modernization of farms and marketing of farm products.* The integrated system of loaning induces, through liberal credit and technical assistance, the introduction of improved techniques and methods of farming. The service extends to the establishment and development of marketing systems owned and operated by the assisted farmers.

Under the New Society, government credit and cooperative development programs were intensified primarily with the Masagana 99 credit program and the establishment of the Department of Local Government and Community Development (DLGCD). A whole set of new programs has been devised, the most important of which is Masagana 99, to pump more credit into rice production. Said to be the "largest and most ambitious" credit program ever launched by the government, the program has provided some ₱556.8-M of non-collateral loans through PNB, ACA and the rural banks during the period May-August 1974 alone (as reported in the October 9, 1974 issue of *Bulletin Today*).<sup>17</sup> Lately, the program was reported to be beset by repayment problems.

The cooperatives development program has been restructured to fit more closely into other government programs in rural development, as well as to correct past mistakes. Hence, instead of organizing FACOMAs with diverse membership covering large areas, the emphasis now would be the establishment of small barrio associations or *Samahang Nayons*. The associations become full-pledged cooperatives after establishing themselves financially and developing firm ties of solidarity within their respective barrios. To assist

<sup>17</sup>*Ibid*, 11.

this process, tenants participating in OLT are required by P.D. No. 27 to become members of barrio associations. Aside from paying dues, members are obliged to contribute to a Barrio Guarantee Fund which the association can use to cover defaults in land amortization payments. As of June 30, 1974, some 8,317 Barrio Associations with 342,446 members and ₱5.6 million in membership fees and annual dues have been registered with the DLGCD.

One of the successful cooperative projects undertaken under the New Society is a multi-purpose agricultural cooperative covering the entire barrio of Gen. Ricarte in Llanera, Nueva Ecija. It has three main features: the cooperative organization which handles the business activities of the members; the community settlement where each member farm-family was allocated a 2,500-square meter lot; and the farm consolidation where a 2.7-hectare farm lot was, likewise allocated. In this project, the farmers are now reportedly earning ₱1,000 every 45-60 days from broiler production alone. Moreover, the cooperative has installed its own service center, a concrete palay warehouse, a health clinic and a children's playground. So successful was the Gen. Ricarte settlement that it has been the desire of the President to have the project duplicated in other parts of the country.

#### *Compact Farming and Land Consolidation*

The redistribution of tenanted land estates is not sufficient to establish "owner-cultivatorship" and the "economic family-size farm" as the basis of Philippine agriculture. P.D. No. 27, for instance, sets the "economic family-size farm" at five (5) hectares of unirrigated and three (3) hectares of irrigated rice and corn land. Without considering landlord retention, a simple division of 1.5 million hectares by the 956,200 tenants in the DAR estimate of program scope would show that the achievement of P.D. No. 27 goals is a mathematical impossibility. One solution advanced has been what the Code of Agrarian Reform of the Philippines (R.A. 6389) refers to as "cooperative-cultivatorship."

Since the small farmers comprise the majority of agricultural producers, they need and must be extended agricultural credit if they are to produce a crop. However, small

farmers who had been long-time tenants were regarded as high credit risks since they had neither collaterals nor an encouraging paying capacity. To reduce this credit risk, the "joint liability concept" was devised wherein a group of 5 to 10 farmers bind themselves to guarantee each other's loan jointly. The compact farm was, therefore, born out of the need to enable the small farmers to band themselves together for the purpose of securing agricultural credit.

The compact farm consists of a group of contiguous farms of approximately the same productive capacity whose owners and farmers are cooperatively willing to bind themselves together to till their lands under one management as if they were a single farm. The compact farm performs the following functions:

1. To serve as the channel for technical and material assistance from government and private institutions.
2. To serve as the core of the farmers' savings and capital formation program.
3. To provide a forum for discussion and group decision-making, as well as a medium through which educational programs could be undertaken.
4. To act as a link between farmers and other rural institutions.
5. To lay the groundwork for the implementation of land consolidation on a nationwide basis.

The demand for high food production and lower production costs, together with the draw-off of labor to the urban areas, make farm mechanization imperative. However, the fragmentation of land by the operation of land reform and inheritance laws present a limit to what mechanization can achieve. Modern farming concepts demand that farm lots which are comparatively irregular, small, scattered and fragmented be concentrated and restructured for better management and efficiency of farm operations. Land consolidation has been undertaken by the government, through DAR's Bureau of Land Acquisition, Distribution and Development (BLADD), as an answer to solve this problem. Moreover, it can increase the usable agricultural land by five percent owing to the elimination of borders and paths.

In consolidating agricultural lands, exchanges, mergers and subdivisions of farm

lots are effected among the farmer-beneficiaries in accordance with approved plans and designs to attain the concentration, regularity and uniformity of the farmlot for each beneficiary. In consolidated areas, farm-to-market roads are being constructed, thereby reducing marketing cost of farm produce, as well as opening avenues for electrification and communications. As a result of enlarged, uniform and regularly-shaped farmlots, farm mechanization becomes possible. With the construction of irrigation and drainage facilities, water is tapped and conserved allowing more areas to be irrigated for more intensive land utilization.

As part of the government's assistance to small farmers, ACA has initiated in 1973 the Compact Farming Project after piloting it in the Bicol River Basin. As of September 30, 1976, ACA has organized 329 Compact Farm Associations covering 11,460 hectares tilled by 7,288 farmers. Moreover, BLADD has launched four land consolidation projects covering 5,441 hectares of land acquired separately under provisions of various land acquisition laws.<sup>18</sup> Compact farming and land consolidation constitute the next stage in the implementation of agrarian reform after the distribution of land and the extension of support services. These measures are meant to involve farmers in the economies of scale. Hence, with adequate support and proper technological guidance, compact farming and land consolidation could very well bring about the strengthening of cooperative formation and the development of the agricultural sector.

### *Irrigation*

Although the origin of irrigation in the Philippines is not known, it is believed to be of considerable antiquity. It was noted in the Spanish chronicles in the 16th century, among which is the account of the First Expedition of Don Luis to the Cagayan Valley in 1592:

"The land is very fertile...two crops of rice are gathered yearly, one being irrigated and the other allowed to grow by itself."<sup>19</sup>

<sup>18</sup>Source of data: Public Information Division, Department of Agrarian Reform, Quezon City.

<sup>19</sup>Kenneth G. Orr, "Social Analysis: Small-Scale Irrigation Project II of the USAID/Philippines," Washington, D.C., March 1977, 4, quoting Felix M. Keessing, *The Ethnohistory of Northern Luzon* (Stanford, Calif.: Stanford University Press, 1962), 274. (typewritten).

Spanish accounts also describe how the Catholic friars taught the construction of irrigated fields in Pangasinan. In the early 1900's, the relatively high development of irrigation societies among the Ilocanos was noted. Western geographers have described the irrigated rice terraces in Ifugao as the most extensive system of rice terraces found anywhere in the world surpassing the efforts exerted in the construction of the Suez and Panama Canals.<sup>20</sup>

The country's irrigation development program is being undertaken jointly by the National Irrigation Administration (NIA) and the Farm Systems Development Corporation (FSDC). With irrigation, these agencies hope to increase palay yield by 98 percent or from 38 cavans to 75 cavans per hectare per crop, thereby contributing to grains self-sufficiency.

*National Irrigation Administration.* The NIA was formally created and organized in 1964 under R.A. 3601, amended by P.D. No. 552. The nucleus that finally flew into this agency was the Irrigation Division of the Bureau of Public Works (BPW), the division being created on June 13, 1908 under Act No. 1854. With the approval of the Integrated Reorganization Plan under P.D. No. 1 on September 24, 1972, the Irrigation Service Unit (formally the Irrigation Council under the Department of Public Works and Communications) was transferred to NIA.

In 1976, the NIA surveyed a total of 105,709 hectares of potential irrigable areas with an expenditure of P2.8 million. Fifteen major irrigation projects were started in 1976: one in Central Luzon; two each in the Ilocos Region, Cagayan Valley, Southern Luzon and Visayas; and four in Mindanao. These projects had a total funding of P47 million in 1976, with the Central Luzon and Cagayan Valley getting the biggest with P5 million each.

Under its Ten-Year Irrigation Development Program covering 1977 to 1986, NIA envisions to increase the country's irrigable area from 816,000 to around 1,807,000

pinas," Washington, D.C., March 1977, 4, quoting Felix M. Keessing, *The Ethnohistory of Northern Luzon* (Stanford, Calif.: Stanford University Press, 1962), 274. (typewritten).

<sup>20</sup>*Ibid.*, 5, citing Fay-Cooper Cole, *The Peoples of Malaysia* (New York: Van Nostrand Co., 1945), 177-178.

hectares. Under this program, NIA intends to expand irrigation not only to rice farms, but also to other crop lands planted to such crops as vegetables, sorghum, soybeans, mungo, corn, sugarcane and banana. The projected palay yield with irrigation in 1986, is estimated at 210 million cavans which is enough to feed the projected 57 million population, including surplus for the export market.

Studies have shown that, with adequate irrigation, increment in rice yield provides 27.5 percent higher income to the farmer and 107.36 percent if irrigation and improved cultural practices are adopted.<sup>21</sup> However, the increased agricultural production brought about by irrigation poses additional problems to the farmers. To start with, the farmer has to find ways and means in order to decrease some 10 to 37 percent of grains during post-harvest losses. Likewise, he has to search for markets where he will sell his products. Complementary efforts must, therefore, be undertaken to provide farmers with the essentials of agricultural development, such as marketing and processing systems and adaptive farm technology. The need for institutional development along these lines prompted President Marcos to sign P.D. No. 681 on April 4, 1975 creating FSDC.

*Farm Systems Development Corporation.* The FSDC was created with the task of promoting the organization and support of irrigation-based cooperatives under its Barangay Irrigator's Service Association (BISA) Program. Its purpose is to increase agricultural productivity and hasten rural development by enlisting the farmers' commitment in the efforts to improve farming, processing and marketing methods.<sup>22</sup>

The BISA Program was conceived in September 1973 during a government-sponsored workshop held at the Development Academy of the Philippines (DAP). The program is premised on the realization

<sup>21</sup>Teodoro C. Rey, Jr., "The Farm Systems Approach to Rural Development" (position paper of FSDC for the Symposium on Programs for Rural Development, UP at Los Baños, Laguna, June 23-24, 1977), 7.

<sup>22</sup>Philippines, Department of Public Works, Transportation and Communications, *Farm Systems Development Corporation, First Annual Report, 1975-76* (Manila, 1977), 4.

that an effective irrigation system is the result of the integration of resources, support, assistance and cooperation of both the government and the farmers. After project development and testing, the program was established and implemented under the joint auspices of NIA, DAP, National Electrification Administration (NEA), National Power Corporation (NPC) and the Provincial Development Assistance Project (PDAP). In November 1974, it became a part of the DAP Rural Development Program Department where it remained until the formal creation of FSDC.

Since the time of its creation, FSDC stepped up the completion of technical activities which included the immediate construction, installation and operation of new pump projects and the expansion/rehabilitation of existing pump projects started by NIA. As of August 31, 1977, the BISA Program's irrigation development work in 29 provinces achieved the following:<sup>23</sup>

456	pump sets installed
25,132	hectares irrigated
227	Irrigators' Service Associations (ISAs) benefited
10,700	farmers benefited
₱34.3	million commodity loans released
67,000	MT estimated increase in rice yield

Corollary to irrigation development, FSDC has pursued its policy of maintaining a well-informed, educated and involved group of farmers organized into ISAs. During this period, the BISA Program has been regularly conducting on-farm training programs designed to equip farmers with entrepreneurial and managerial skills necessary for the development of rural leadership. As of August 31, 1977, the BISA Program conducted 2,996 training courses for 19,751 farmer-members of 391 organized ISAs covering 49,070 hectares.

In line with the desire to strengthen the ISA organization and to further sustain agricultural productivity, adaptive farm technology development activities have been implemented at the ISA level to maxi-

<sup>23</sup>Philippines, Department of Public Works, Transportation and Communications, *Farm Systems Development Corporation, "FSDC Progress Report (77-09),"* Manila, September 27, 1977. 1-5 (typewritten).

mize labor, capital and land utilization. The adoption of a seed production project, for instance, is estimated to reduce the cost of seeds by ₱44 per cavan. The level of farm production will be enhanced with the introduction of an organized rice production project which is expected to increase yield by 15 percent. Organized buying and selling is estimated to reduce the cost of farm inputs by 10 percent and increase the price of rice by ₱5 per cavan. The introduction of an institutional credit program is expected to reduce the cost incurred in obtaining credit by 90 percent.<sup>24</sup>

To help augment production capacities and assist in the post-harvest activities of ISA farmers, FSDC granted in 1976 ₱431,000 worth of commodity loans in the form of farm tools and equipment. The introduction of farm tools and equipment pool expects to decrease labor cost and grain losses by 15 and 2 percent, respectively.

#### *Rural Electrification*

The rural electrification program is being implemented through the establishment of an electric cooperative in each province. Electrification intends to improve the living conditions of the rural folk and give them the opportunity to pursue activities which are not possible without electricity. Under the electrification program, all provinces should be covered by the electric cooperatives by 1980. Finally, electric services should reach all the barrios of the country by 1984. Hence, the country expects to have attained total electrification by 1990.<sup>25</sup>

The National Electrification Administration was created by P.D. No. 269, abolishing the Electrification Administration, to implement the government's rural electrification program. NEA is mainly concerned with distribution power systems serving the end-users through electric cooperatives. Power is usually obtained from NPC, MERALCO and other power sources in Luzon and Mindanao. But for isolated areas, self-generation usually from diesel-operated plants is provided for the distribution system.

<sup>24</sup>*Op. cit.*, p. 13.

<sup>25</sup>Philippines, Department of Public Works, Transportation and Communications, Planning and Project Development Office, *Physical Perspective Plan for the Philippines* (Manila, 1976), 260.

To realize the objective of total nationwide electrification, NEA through the electric cooperative system has intensified barrio electrification. As of December 31, 1976, it has registered a total of 79 electric cooperatives. It has energized a total of 414 towns and 3,893 barrios covering 467,879 houses in the rural areas. NEA has provided electricity to some 169,081 houses in 1,652 barrios of 113 towns.<sup>26</sup>

Last year, NEA in coordination with FSDC and NIA, installed a total of 202 electrically-driven pump irrigation systems covering 17,969 hectares of farm lands. Likewise, NEA has given assistance to small-scale industries in areas covered by ten cooperatives to give employment opportunities to local residents. These industrial cooperatives are funded by NEA with loans totalling ₱3.3 million. The NEA was also involved in the Fishermen's Assistance Program by extending a ₱4.7-M loan to pilot the Fishermen's Service Association for the construction and operation of an ice and cold storage plant thereby encouraging fishermen to increase their catch.

In line with the government's school electrification program, NEA's Illumination for Learning and Work (ILAW) project was launched and has provided electric services to some 2,077 school rooms in 348 rural public schools. This school house lighting project is designed to provide electricity for night classes in rural schools and make possible the conduct of vocational/technical classes for the rural adult population.

#### *"Paglilingkod: Bagong Lipunan"*

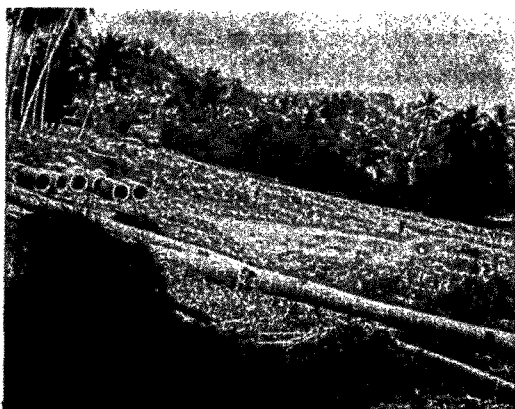
The "Balik-Barangay" Program, or "Paglilingkod: Bagong Lipunan" as it is officially called, is the government's latest strategy in a series of development thrusts directed towards the rural areas. Embodied in Letter of Instruction No. 559, the program accentuates President Marcos' belief that "the government workers who are direct participants in the implementation of government programs are in the best position to bring the government closer to the people."<sup>27</sup>

<sup>26</sup>"Rural Electrification Mullied," in *News Review, DPWTC Bulletin*, XVI, No. 1 (1977), 17.

<sup>27</sup>Dionisio O. Revita, "FM Spearheads Return-to-Barangay Movement," *The Times Journal*, September 11, 1977, 20.

The program is designed to bring the government closer to the people in terms of greater information dissemination, extension of vital and necessary services, transfer of technology and a comprehensive literacy campaign.<sup>28</sup> Specifically, it aims to:

1. Bring to the "grassroots" level the message of change of the New Society and the development programs being undertaken to institute such change.
2. Enable the rural people, especially the farmers, to gain greater access to technological improvements and to directly assist them in the application of such technology.



3. Establish a direct link between the government and the people so that the popular needs and demands may be directly transmitted to the government agencies concerned.
4. Obtain feedback about the sentiments and reactions of the people towards government policies and programs and to assess the effectiveness of such programs and services.
5. Bring to the barangays the health and other social services that the rural people most urgently need.

Under this program, government employees render a 15-day rural service every calendar year. Since the rural stint does not entitle workers to the usual transportation, per diem and other allowances, the program entails a degree of sacrifice on the part of the government employees. The program officially started on September 16, 1977.

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<sup>28</sup>*Ibid.*

## CONCLUSION

The existence of several programs designed to uplift the socio-economic conditions of the rural sector is recognized. Almost all the programs of the government and the civic groups are geared towards achieving this goal. Strategies for countryside development have long been taking front-seat billing in the New Society, as well as in the walls of the defunct Congress. The launching of the "Balik-Barangay" Program embodied in LOI No. 559 attests to this emphasis on rural development.

A superficial evaluation will show that there seems to be no noticeable change taking place inspite of all these efforts. It is true that productivity, employment and income in the rural areas have been increased to some degree. Likewise education, health and other infrastructure-based services have improved. However, the distribution of benefits accruing from these development efforts are marked by gross imbalances.<sup>29</sup> In the first place, the rural areas are still way behind urban areas in almost all aspects of development. A recognized fact is the widened gap between advanced regions such as Central Luzon and the poorer regions such as Eastern Visayas. This could be partially attributed to the meager achievements of rural development programs.

Perhaps, government planners have planned out their rural development program in their own context as planners, rather than in the context of who or what should be transformed. Much of the literature on rural development programs focuses on administrative problems to the exclusion of conceptual problems. Where conceptual problems are raised, the analysis is so limited inasmuch as the terms of reference themselves are vague. Take for example the connection between the equity and efficiency goals of rural development. Although equity might appear to be the dominant goal judging from rural development legislation, more resources are being spent in pursuance of economic efficiency goals.

Moreover, there seems to be a lack of

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<sup>29</sup>Philippines, National Economic and Development Authority, *Regional Development Projects: Supplement to the Four-Year Development Plan, FY.1974-77* (Manila, 1973), 1.

coordination in the planning and implementation of rural development programs. The goals of government programs for rural development often contradict each other. Government programs, for instance, which reserve public lands for large plantations and the expansion of areas devoted for sugar and other export crops diminish the amount of land available for the rural population. There should be a common development framework from which rural development programs are to be evolved.

The approach to rural development must be integrative and multidimensional. It should not be limited to economic considerations alone, but must include social, political and psychological considerations. The central objective, therefore, must be the improvement of the quality of rural people as productive agents. Operationally, the program must be multidisciplinary in approach and should entail the integration of the planning efforts of various government and private agencies involved in rural development. Systems analysis, based on model building, must be used to integrate these approaches to determine the complex interrelationships of the different components and factors for rural development. Hence, models can be developed to correspond to the nature and dynamics of Philippine realities.

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# COMPARATIVE CASE STUDIES OF TWO HOUSING COOPERATIVES IN THE PHILIPPINES\*

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## Introduction

The idea of cooperative organization was first introduced in the country in 1907 when a bill on Rural Credit Cooperatives was presented in the first Philippine Assembly by the late Senator Sandiko of Bulacan. The bill was approved by the Assembly but was disapproved by the Philippine Commission which at that time constituted the upper chamber of the legislative body. However, eight years later, on February 5, 1915, Republic Act No. 2508, otherwise known as the Rural Credit Law, was passed thus paving the way for the organization of Rural Credit Associations which operated on cooperative principles. Subsequent enactments legitimized the establishment of agricultural cooperatives as well as those of allied businesses.<sup>1</sup>

On June 22, 1957, Republic Act No. 2023, known as the Non-Agricultural Cooperatives Act, provided the general basic law on non-agricultural cooperatives.<sup>2</sup> Under this category are the service cooperatives which included among others, the housing cooperative. For the purpose of supervising all non-agricultural cooperatives, the Cooperative Administration Office (CAO) was established. However, the Integrated Reorganization Plan of 1973 abolished the CAO and its functions were delegated to the Bureau of Cooperative Development (BCOD) which is under the Department of Local Gov-

ernment and Community Development (DLGCD).<sup>3</sup>

On April, 1973, Presidential Decree 175 required all cooperatives organized under previous laws to apply for re-registration not later than October 15 of the same year provided that a set of prerequisites stipulated by the BCOD has been complied with. Four of the nine prerequisites dealt with membership education, number of members of a cooperative, paid-up capital of members and a feasibility study for carrying out the intended business.<sup>4</sup>

Since then, the cooperative movement has steadily gained adherents and has been accepted by the government as a strategy by which "the citizenry could achieve self-development, social growth and economic independence under a truly just and democratic society."<sup>5</sup>

It is the possibility of using the housing cooperative as a strategy for alleviating the housing problem that this particular study is conducted. Whatever knowledge and information gathered from this work may be used to improve existing policy for the future development of housing cooperatives in the country.

Furthermore, this study has addressed itself to illustrating a factual situation, reflecting real problems and showing how, in practice, two cooperatives have reacted to such problems.

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<sup>1</sup>Cooperative Administration Office, *Handbook on Non-Agricultural Cooperatives* (Central Cooperative Education Board, 1960), 2-3.

<sup>2</sup>*Ibid.*

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<sup>3</sup>*Loc. cit.*

<sup>4</sup>Bureau of Cooperative Development (BCOD), *Service Cooperatives*, a field worker's manual (undated), 56-58.

<sup>5</sup>Presidential Decree No. 175, *Preamble*, April 14, 1973.



## **The Study**

In general, this study sought to explore some factors that may be related to the success or failure of housing cooperatives in the Philippines. More specifically, the study attempted to investigate such factors in two housing cooperatives: the Davao City Homesite and Housing Cooperative Incorporated (DCCHCI) and the Pleasant Hills Housing and Service Cooperative, Incorporated (PHHSCI).

The identified factors are:

### **1. Membership**

#### **a. Socio-economic characteristics of the members**

- i) educational attainment
- ii) nature and type of employment
- iii) income levels

#### **b. Membership number and its increases from the time that each cooperative was first registered until the time of study.**

### **2. Organizational structure and management of the cooperatives**

- a. The administrative structure
- b. Socio-economic characteristics of leaders
- c. Decision-making process
- d. Relationship between officers and members and among members themselves.

### **3. Training and education of members on cooperative principles**

### **4. Sources of Fund**

- a. Internal revenue (from within the societies)
- b. External revenue (e.g., loans, donations, etc.)

This research has utilized a combination of the case study approach and a survey of selected members of each of the two cooperatives studied. The sample size of the survey was drawn by stratified random

sampling procedures. The main tools for data-gathering were records, documents, and the interview which was conducted among selected respondents of the cooperatives. Among the records were: a) completed personal data sheets provided by the Bureau of Cooperative Development (BCOD) and/or the cooperative membership forms; b) annual general assembly minutes; c) regular and special Board of Directors minutes and d) other documents which were relevant in securing the data.

For the purpose of choosing the housing cooperatives to be used as case studies, a master list of the housing cooperatives in the country was secured from the BCOD. Personal interviews conducted among senior officials of the department yielded a basis for the ranking of housing cooperatives by level of success. "Success" was indicated by membership size and paid-up capital. Scores were given in a decreasing order of magnitude for each of the two indices. Ranking was based on total scores. Although the Davao City Homesite and Housing Cooperative and the Kasangyanga Service Cooperative, Jolo, Sulu, tied for first place in the exercise, the result of the interview helped the researcher to choose the former as the most successful. The Pleasant Hills Housing and Service Cooperative, which had the lowest total score, was chosen as the least successful.

Two different sets of questionnaires were administered to different sample groups: one to the officers and founders and the other, to the members. There were both close and open-ended questions in the two interview schedules. Pretesting of the questionnaire was made on two other housing cooperatives located in Metro-Manila.

## **Limitations**

As a case study, no generalization may be made from the results obtained. However, results and/or findings of the study may be used to provide insights and possible hypotheses for future studies on housing cooperatives.

Likewise, there exists the possibility of misinterpretation of questions and answers in the translation from Pilipino to English and vice versa.

**Findings**

The two case studies suggest some insights into the factors that brought about the success of one and the failure of the other. The significant findings are as follows:

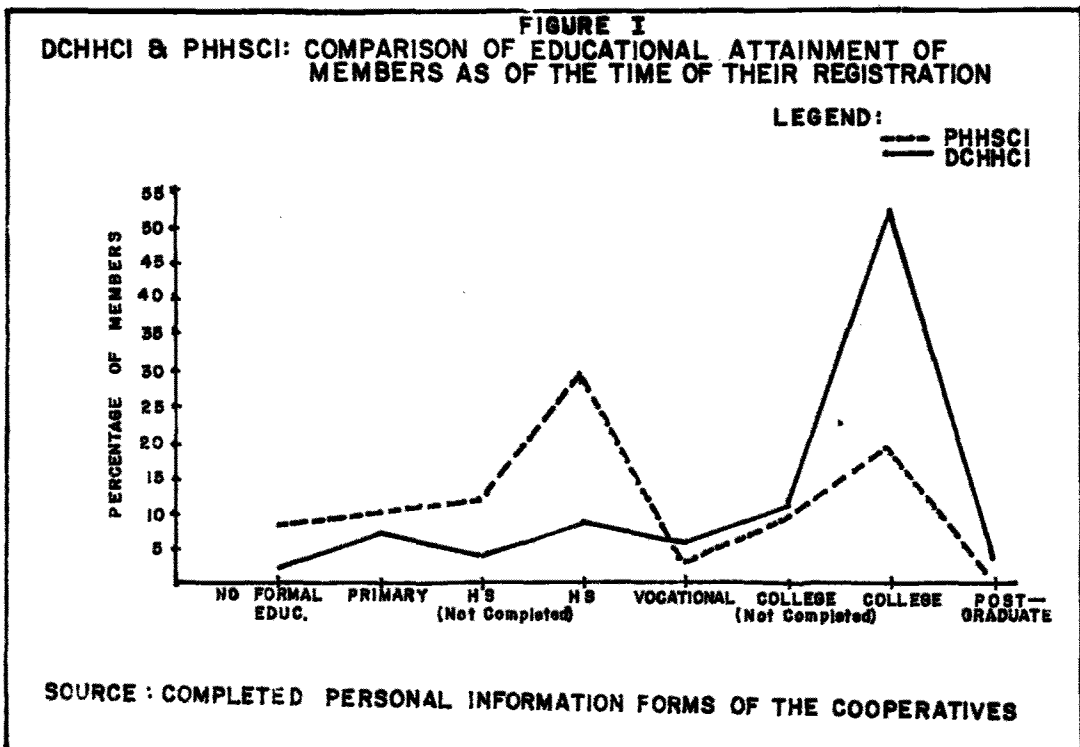
1. *The socio-economic standing of the members has a significant bearing with the success or failure of the housing cooperative.*

Results of the study indicate that there was no significant difference in terms of range of levels of education achieved by members of both cooperatives. In both cases, there were members who had no formal education and those who had post-graduate qualifications in the other extreme. However, the median class for DCHHCI was the college graduate group (54%) while it was the high-school group (28%) for the PHHSCI. See Figure 1.

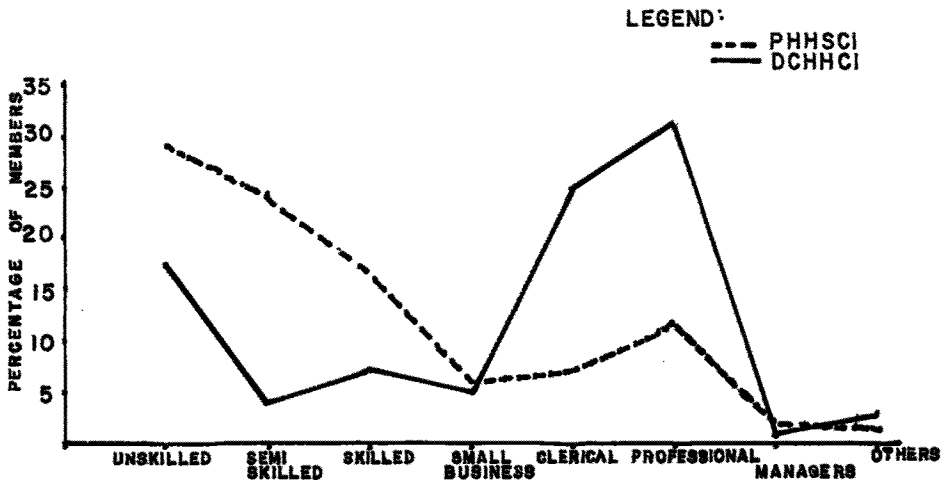
Occupation of members in both co-operatives appeared to reflect their educational backgrounds. Majority of DCHHCI members (57.52%) were professionals (engineers, doctors, lawyers, and clerical officers) while in PHHSCI, the greater percentage of members (47.34%) were engaged in unskilled and semi-skilled employments. There were more members (6.10%) who have their own businesses in PHHSCI than in DCHHCI (4.4%) but the capitalization handled by members in the latter were greater.<sup>6</sup>

In terms of income, the modal annual income bracket of members in both cooperatives was ₱6,000 and less. However, for the DCHHCI, the median income was ₱6,751.00 for DCHHCI and ₱4,491.00 for PHHSCI. However, there was a better spread of members in the higher income groups

<sup>6</sup>DCHHCI, Completed Personal Profile Forms, as of the time of members' registration.



**FIGURE 2**  
**DCHHCI & PHHSCI: COMPARISON OF TYPES OCCUPATION OF MEMBERS**  
**AS OF THE TIME OF THEIR REGISTRATION**



**SOURCE: COMPLETED PERSONAL INFORMATION FORMS OF THE COOPERATIVES**

within DCHHCI than in PHHSCI.

Most of the members of both cooperatives were married (81.94% for DCHHCI and 82.97% for the PHHSCI). It was also found that most of the members were of the middle age group between 40-44 years.

2. *The character and ability of management determine to a large extent the success or failure of a cooperative.*

The administrative structure of both the DCHHCI and the PHHSCI are basically similar as shown in both their provisions and by-laws. Both cooperatives had the following entities:

- a) The *general assembly* had the final and supreme authority made manifest in three ways: in the election of the members of the board of directors and members of committees, in the amendment to by-laws and in the exercise of authority in all matters vitally affecting the cooperative. All the members of the cooperative constitute the general assembly.
- b) The *board of directors* had the same duties and responsibilities and were

elected from the qualified members of the cooperatives during annual general assemblies.

- c) The *audit and inventory committee* is composed of three members elected by the general assembly.
- d) The *education committee* which was charged with the responsibility of promoting cooperative principles through seminars.
- e) The *committee on elections* conducted all processes related to elective positions and issues.
- f) The *manager* is charged with the execution of all policies adapted by the Board of Directors, the conduct of other businesses and the rendering of a semi-annual financial report and such other statements required by the Bureau of Cooperative Development (BCOD).

The difference in the administrative structure of the two cooperatives lies in the number of members comprising each. In the DCHHCI, the board was composed of 9 elected members while in the PHHSCI, there were 7 elected members.

The Board of Directors in both cooperatives set up four committees with similar functions. Among such committees are the Screening Committee for the DCHHCI and the Committee on Lot Allocation for the PHHSCI.

In terms of leadership, the DCHHCI has as its officers, members who occupied responsible positions in their different professions and who earned not less than ₱1,200 gross monthly income.<sup>7</sup> The PCHHSCI officers, on the other hand, were mostly high school graduates whose gross monthly incomes did not exceed ₱500.00. In both cases, the officers and committee members were middle-aged, between 40-45 years old.

Document analysis of the minutes of the meetings showed that there were differences in the way the two cooperatives carried out their businesses. In the DCHHCI, the procedure of conducting meetings followed a fairly uniform and orderly pattern consistent with the provision of the by-laws of the cooperative. The presentation of financial statements was a particularly regular feature in all the meetings. On the other hand, the PHHSCI assemblies did not show any definite order. Although reports of other committees were given occasionally, the financial statements were conspicuously omitted.

In the DCHHCI meetings, there was usually good interaction and involvement among members and officers in the decision-making process. The best alternative was usually arrived at through the principle of majority rule. Members gave suggestions, criticized when necessary, and questioned for clarification. All motions carried were approved and passed as resolutions.<sup>8</sup>

In the PCHHSCI meetings, there were "monopolistic practices" of the president.<sup>9</sup> Half of those who were interviewed responded as having contributed to the assembly's discussions while the rest

remained silent. This might be due to "too much superior-inferior relationship" which prevailed between the leaders and the rest of the members.<sup>10</sup>

Within the DCHHCI, there was a clearly established effort of maintaining the best possible human relations between the management and the members. Majority of the members (95%) interviewed concurred on this fact. In the PCHHSCI, sixty-six percent (66%) of the respondents confirmed that the relationship between officers and members was not cordial while seventy percent (70%) responded that the relationship among members themselves were unfriendly.

As may be expected, there was general satisfaction of the way in which officers carried out their responsibilities to the cooperative as indicated by eighty-eight percent (88%) of the respondents. Only a few of the respondents in the PHHSCI reported satisfaction with their officers.

One other feature of the PHHSCI which was lacking in the other cooperative was the direct or indirect participation of five agencies in the operation of the cooperative. These included the Samahang Bagong Buhay Foundation (SBBF), the Philippine Business for Social Progress (PBSP), the Social Action Group Management Cooperative (SAGMANS-COOP), the National Social Action (NASAC) and the Bureau of Cooperative Development (BCOD). Four of these groups had a direct hand in the management of the cooperative. In particular, the SBBF and the PBSP contributed substantially to the founding of the cooperative but the loyalty of the members manifested by supporting the policies of one or the other agency divided the members into factions.

### 3. *Education and training on cooperative principles did not appear to have a significant relationship with success or failure in the case of the two housing cooperatives.*

In the DCHHCI, the management invited resource persons to give lectures to the general assembly on cooperative principles

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<sup>7</sup>DCHHCI, Minutes of Annual General Assemblies, Meetings held from 1969 to 1975.

<sup>8</sup>DCHHCI, Minutes of General Annual Assemblies, *op. cit.*

<sup>9</sup>Samahang Bagong Buhay, Report to Philippine Business for Social Progress, 4-5.

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<sup>10</sup>*ibid.*

In general and housing cooperatives in particular. Two years after the registration of the cooperative, the first two seminars were held. However, out of 548 members, only a minimal percentage (8%) started and

completed the seminars. This pattern of attendance had been consistent from 1971 until 1974. By 1975, 638 (58%) out of 1,082 members completed the formal training. See Table 1.

Table 1  
DCHHCI: EDUCATION AND TRAINING OF MEMBERS  
(FROM 1969-1975)

Members in Attendance					
Year	Number of Seminars	Started but didn't finish	Completed	Expected Members	Percentage who completed
1969	—	—	—	526	—
1970	—	—	—	516	—
1971	2	50	45	548	8.2
1972	—	—	—	534	—
1973	5	115	73	712	10.0
1974	16	420	390	1,336	29.2
1975	6	132	130	1,082	12.0
TOTAL	29	717	638		

Source: Records of DCHHCI.

The PHHSCI, on the other hand, prior to the relocation of its members in 1971, provided training to members through informal meetings and a one-week seminar initiated by the SBBF in cooperation with the Cooperative Administration Office (CAO). Majority of the respondents (83%) had attended these seminars although seventy-five percent (75%) of the eighty-three

percent (83%) were present for less than five times.

It may be noted that while the PHHSCI introduced training in the first year and while the DCHHCI did so two years after the cooperative was founded, there was continuity of training in the latter than in the former. During the period of active education, majority of the members in both

cooperatives found the lectures useful inasmuch as they were introduced to the fundamental cooperative principles, rights, privileges and obligations. However, findings are insufficient to indicate a significant positive relationship between cooperative education and the success or failure of housing cooperatives. The intervening variables may have been the low level of attendance and the discrepancies observed between the principles taught and the observed practices of members attending the seminars.

4. *The presence of direct and/or indirect access to established financing institutions for external financing of major undertakings and the high socio-economic characteristics of members contributed to the success of DCHHCI while the absence of these factors contributed to the failure of the other (PHHSCI).*

The source of financing in both cooperatives were taken from the following:

- a. membership entrance fees
- b. transfer fees
- c. shares of capital (valued at P10.00/ share)
- d. subsidies and donations, and
- e. funds from other sources.

In the DCHHCI, shares of capital and funds from other sources contributed mostly to the society's yearly income. The membership entrance fees contributed least among all the sources. Table 2 shows the total gross income of the cooperative and the percentage contribution of entrance fees.<sup>11</sup>

<sup>11</sup>DCHHCI, Statement of Cash Reports, submitted and read by the Audit and Inventory Committee at the Annual General Assembly (1969-1975).

Table 2

DCHHCI INCOME ACCOUNTS FROM (1969-1975)

Year	Total Gross Income (P)	Membership (P)	Percentage
1969	25,412.77	412	1.6
1970	34,358.88	166	0.5
1971	36,430.82	64	0.2
1972	20,348.47	140	0.7
1973	46,828.45	1,424	3.0
1974	80,697.27	356	0.4
1975	136,032.86	256	0.2
<b>TOTAL</b>	<b>308,109.52</b>	<b>2,818</b>	<b>6.6</b>

Source: DCHHCI Statement of Cash Reports 1969-1975.

It is shown in Table 2 that the DCHHCI continually incurred a net income in every year of its 7 years of operation except in 1972 when it incurred a deficit of ₱1,312.19 due to loans given to some members for house construction purposes.

The PHHSCI raised revenues from the following sources:

- a. subscription fees,
- b. membership fees, and
- c. deposits of applicants.

Table 3

PHHSCI: STATEMENT OF CASH RECEIPTS  
FROM MAY 1, 1971 to DECEMBER 31, 1972

Cash Receipt	1971 (₱)	1972 (₱)	Total (₱)
Cash Balance Beginning		48,784.58	48,784.58
Loans—PBSP	125,000.00	12,351.00	137,351.00
Subscription	6,500.00	8,529.00	15,029.40
Membership Fee	272.00	162.00	434.00
Deposit of Applicants	4,385.00	20.00	4,405.00
Cash Donations	1,103.00	318.00	1,421.00
Income from sales	6,490.60	7,000.00	13,490.60
Advance from SSB		3,364.00	3,364.00
<b>TOTAL</b>	<b>143,751.00</b>	<b>80,528.48</b>	<b>224,779.58</b>

Source: Report of Examination on Pleasant Hills Housing and Service Cooperative, Financial Statement by Buenaventura, Victa and Associates, December 31, 1973.

See Table 3 for a breakdown of the cash receipts received within one and a half years. Of the total, the loans contributed most while the donations and advances contributed least.

Both cooperatives had tapped external and internal sources available to them to obtain capital for their operations. In both cases, external financing was heavily relied upon for major undertakings. In the case of DCHHCI, members had direct access to

lending institutions (GSIS, DBP and SSS) because majority of the members were policy-holders of these lending agencies. The PHHSCI availed of external aid through subsidies, donations and loans from civil organizations which acted on humanitarian basis. Still, the borrowed money was insufficient for the projects. In addition, the members were not able to contribute their share to service the debt.

## Summary and Implications

This research is a comparative study of two housing cooperatives in terms of the following variables: membership characteristics, management structure, education and training and system of financing. Two housing cooperatives, the Davao City Homesite and Housing Cooperative, Inc. (DCHHCI) and the Pleasant Hills Housing and Service Cooperative, Inc. (PHHSCI), respectively representing success and failure were chosen for the purpose.

**Membership.** In general, the DCHHCI members had higher socio-economic status than the PHHSCI. The former achieved relatively higher levels of education and occupied higher-paying jobs than the latter. This finding has to be qualified, since it was not established whether the higher socio-economic status of the members in itself, directly spelled the difference between success and failure. It cannot be denied, however, that the stable jobs and the comparatively higher income of the DCHHCI members helped in two ways: a) in facilitating the payment of dues to the cooperative, and b) in opening opportunities for loans for housing purposes.

**Management.** In the DCHHCI, the Board of Directors and the committees enjoyed the members' confidence for honesty and integrity. In addition, proper record keeping, accounting system, frequent financial reports and auditing promoted confidence and respect in the honesty of management. The officers and the members maintained good relationship among themselves.

The management of the PHHSCI was not stable for a variety of reasons. The key officers who were in control of the society's activities were inexperienced. Likewise, there existed unfavorable relationships among officers and members. In addition, four civic organizations that were directly or indirectly involved in the management of the cooperative resulted in strained relationships among the groups themselves and divided the loyalty of the members to the cooperative.

**Education and Training.** In both cooperatives, there were both formal and informal training of the members. Techniques of housing cooperatives were also

disseminated but these were not emphasized. Neither of the two societies had a continuous systematic program. But there seemed to be a better application of the training received by members of the DCHHCI than by the members of the PHHSCI.

**Systems of Financing.** The two cooperatives had the same resources for raising revenue for their operations. The DCHHCI members, however, used their membership certificates with financing institutions to secure individual loans for the construction or purchase of their houses. On the other hand, the PHHSCI members did not have the privilege of financial assistance from the lending houses. The principal sources of funding of the cooperatives were loans and donations from philanthropic societies. These financial aids were inadequate and not well-disbursed by the officers of the cooperative.

### Implications for Housing Cooperative Development

This comparative case study has focused on some significant findings which may have far-reaching implications on the development of housing cooperatives in the country.

Both cooperatives have operated under two different conditions that show imbalance in their opportunities for growth. They have different qualities of membership, different types of management and unequal access to financing. These dissimilarities have, to some extent, affected success and failure in the two situations studied. Implications from this study may hold true for other housing cooperatives in the country.

In order to correct this inequality, the study recommended the stratification of housing cooperatives according to the socio-economic characteristics of members who compose the society. The rationale of this recommendation is that although the program for housing cooperatives in general may be basically the same, emphasis on the development program for each group will be according to its own peculiarities.

Results of the study also showed that a housing cooperative may become vulnerable to external intervention if its leaders are inexperienced or are lacking in



managerial skills. One indirect action suggested is to take adequate measures to restrict the involvement of many agencies in the affairs of the cooperative. Another measure is to provide technical assistance to the cooperatives especially those with low socio-economic profile and unstable management. The study recommended that the National Housing Authority (NHA) should assume the major responsibility while maintaining liaison with the Bureau of Cooperative Development (BCOD), so that it can evolve an integrated program which recognizes the distinctive characteristics of this type of society and make provision for technical (architectural, engineering, legal, etc.) and financial aid.

It is also recommended that the Cooperative Development Loan Fund (CDLF) created by a presidential decree which provides the extension of financial assistance to cooperatives be tapped to finance the projects of housing cooperatives. As of yet, only agricultural and allied cooperatives can avail of such fund.

Several strategies for raising funds for housing cooperatives have been suggested in the study. Among these are the following:

1. solicitation of donations from manufacturers and distributors of housing goods,
2. guarantee of mortgage loans for families of moderate means, and
3. extension of government subsidies to individuals through housing agencies.

One other finding shows that continuous training was not implemented by the management of both cooperatives. It is suggested that a systematic and continuous education of the officers of the cooperative should be handled and intensified by an appropriate government agency and that attendance in such seminars be made compulsory. It is further suggested that housing cooperatives should start off as credit unions in order that members can have adequate exposure to cooperative principles and at the same time accumulate savings.

### 1. NEW IEP FACULTY APPOINTMENTS

Dr. Primitivo C. Cal recently joined the faculty of the Institute of Environmental Planning (IEP) as an assistant professor. He graduated with a BS degree in Civil Engineering from the Cebu Institute of Technology in 1965 and received his M. Eng'g. degree in Transportation Engineering from the Asian Institute of Technology (AIT) in Bangkok, Thailand four years later. Last year, he obtained his Ph.D. from the University of Dundee in Scotland.

The Institute also had new part-time lecturers starting the first semester of academic year 1977-78. Mr. Alberto R. Salanga graduated with a BS degree in Business Administration from the University of the Philippines in 1958 and finished his post-graduate studies in Columbia University in 1959. Early this year, he received his MURP degree from the Institute. Mr. Salanga presently works as General Manager of the Better Business Management Group, Inc.

Another newly-appointed lecturer in the Institute is Engr. Vitaliano T. Sabalo, Jr. A civil engineer since 1970, he recently received his M. Eng'g. degree from AIT. He is presently connected with CCDC as its Materials Control Engineer.

### 2. IEP GRADUATE SCHOOL

A hundred students, including thirty-one new ones, were enrolled at the Institute of Environmental Planning (IEP) for the first semester of the academic year 1977-78. The new students have varied educational backgrounds distributed as follows: architecture, 10; engineering, 9; business and related fields, 5; liberal arts (majors in community development, literature, etc.), 4; and mathematics and natural sciences, 3.

Of the enrollees, twenty have been awarded study grants by different government agencies. Included in these are twelve scholars from the Department of Public Works, Transportation and Communications (DPWTC) who comprise the

first batch of students under the DPWTC-IEP MURP Program. The extension program affords DPWTC officials and employees directly involved in development planning projects a chance to broaden their perspective by grounding themselves in planning theories and concepts.

### 3. PRES. MARCOS APPROVES NATIONAL ENVIRONMENTAL CODE

President Marcos recently signed a decree enacting the National Environmental Code to consolidate various policy approaches used in the national program for environmental protection and planning. The code sets standards and guidelines on land-use management, water quality management, air quality management, natural resources management and conservation, surface and ground water conservation and utilization, waste management, and the maintenance of a population-environment balance.

To combat pollution, motor vehicle owners have been required to put up anti-pollution devices the standards of which are to be determined by the National Environmental Protection Council. Likewise, all factories were ordered to install anti-pollution devices to avoid closure. In addition, tax incentives have been drawn up for local firms intending to import or manufacture these anti-pollution devices.

### 4. NHA TO SET UP COMMERCIAL AND INDUSTRIAL ESTATES

General Manager Gaudencio V. Tobias of the National Housing Authority (NHA) announced recently that four major resettlement areas in the Manila Bay Metropolitan Region (MBMR) will become sites of commercial and industrial estates to be set up by the NHA. Tobias said that ten manufacturing firms have already signed linkage contracts with NHA to establish non-polluting and labor-intensive industries in Dasmarinas and Carmona in Cavite, Sapang Palay in Bulacan, and Dagat-Dagatan in Tondo. About twenty percent of the population in these

areas are expected to be provided with jobs in these industrial firms.

To stimulate the inflow of industries into these areas, NHA has been offering various incentives for industrial firms, among which are the exemption from the ban on location of industries within a 50-kilometer radius of Manila and the provision of housing facilities for supervisors and managers.

#### **5. LOCAL GOVERNMENTS SHARE IN URBAN RENEWAL**

The National Housing Authority (NHA) has signed agreements with thirteen of the seventeen local governments in Metro Manila to improve their slum areas.

Under these agreements, the local governments shall identify their slum areas, prepare their plans for improvement and implement their plans; while NHA shall provide funding, expertise and supervision of plan implementation. The agreements further stipulate that local governments shall set up resettlement areas near the present slums to prevent economic dislocation of the residents. The project calls for the extension of loans ranging from ₱8,000 to ₱10,000 each to enable families to improve their dwellings.

Some ₱146 million have been allotted for this project and an additional 1,000 hectares of land shall be provided by the local governments for resettlement.

#### **6. GOVERNMENT ADOPTS SOCIAL AND ECONOMIC DEVELOPMENT PLAN**

President Marcos signed Presidential Decree No. 1200 adopting the Five-Year Philippine Development Plan from 1978 to 1982. The decree which was signed on September 21, 1977 during the fifth anniversary celebration of the New Society also promulgated a Ten-Year Development Plan for 1978-87 and a Long-Term Development Plan up to the year 2000.

In accordance with the guidelines laid down by the Batasang Bayan, the National Economic and Development Authority (NEDA) finalized the plans devoting particular attention to rural development, self-

reliance, natural resource management, environmental sanitation and social justice. All heads of government agencies have been directed to ensure that the developmental activities of their respective offices are in accordance with the Plans. Likewise, the private sector has been enjoined to align and coordinate their activities with the Plans.

As Director-General of the NEDA, the Secretary of Economic Planning, Gerardo Sicat has been empowered to recommend changes in the Plans to the President. The Plans have been imbued with flexibility so that they can adequately respond and cope with sudden changes in the domestic and world economy.

#### **7. ENERGY DEPARTMENT CREATED**

The Department of Energy was recently created by President Marcos to cope with the demands of a growing economy, thus bringing to twenty-seven the number of officials with cabinet rank. Likewise, the President announced during his Independence Day speech that he intends to create a Department of Transportation and Communication.

The Department of Energy will enforce and oversee the national energy program. The President noted that while a majority of the people has joined the energy conservation campaign, a part of the population still ignores the crisis. He cited, for instance, that the demand for premium gasoline rose by 7.9 percent at the end of 1976 while as of April 1977, it had increased by 18.2 percent.

The 10-year program for the development of alternative energy sources is expected to cut the use of oil to only 69 percent by 1987. The remaining 31 percent will be filled by the use of hydropower, coal, geothermal, nuclear and non-conventional sources. During this period, 226 wells will be drilled in all prospective petroleum areas in the country.

#### **8. METRO MANILA COMMISSION STRENGTHENS BARANGAY**

The Metro Manila Commission has reorganized the barangay's operational structure in the four cities and thirteen municipalities of Metro Manila. The reorgani-

zation was undertaken to develop an effective partnership between the government and the people, as well as strengthen the barangay as a socio-economic and political unit.

The Commission had earlier organized barangay work brigades, barangay disaster brigades, barangay ladies auxiliary brigades, barangay traffic auxiliary brigades and the barangay *tanod*. In a developing country like the Philippines, the Commission said, the government is not fully equipped to meet the needs and solve the problems of each barangay. Hence, barangay brigades are called upon to serve specific functions.

The First Lady and Metro Manila Governor Imelda R. Marcos ordered the organization of the *Lupon ng mga Mamamayan* (Citizen's Committee) to serve as the primary participating structure that shall maximize the involvement of the barangay residents in discussing plans and programs that shall directly concern the citizenry.

#### 9. HUMAN SETTLEMENTS PLANNERS TO GO TO YEMEN

As of the time of publication of this issue, the country's human settlements planners will have left for the Yemen Arab Republic as part of a government-to-government planning assistance program. Deputy Minister of Public Works and Municipalities Ahmed Abdul Azziz of the Yemen Arab Republic and Dr. Jose Conrado Benitez, executive director of the Human Settlements Commission (HSC), hammered out an agreement on this subject in Manila.

The technical commission was composed of qualified Filipino planners who would take charge of handling four program areas initially identified: action planning, long-range planning organizational development and training.

About 40 planners recommended by the different HSC programs for the Yemen Planning Assistance Project have been classified according to their expertise and qualifications in the fields of transportation planning, infrastructure planning, management, housing, hydrology, town planning and environmental planning.

#### 10. CLEARING HOUSE CREATED FOR METRO-MANILA PROJECTS

The Metropolitan Manila Commission announced the creation of a Plan Enforcement and Regulation Center (PERC) which shall serve as a clearing house of all major projects being undertaken in the four cities and thirteen municipalities of Metro Manila.

The PERC which is awaiting formal approval of the First Lady and Metro-Manila Governor Imelda R. Marcos shall be responsible for issuing subdivision, land development and building structure clearances before any project identified as "Metro Significant" can be given permits or licenses.

"Metro Significant" projects are those that fall under any of the following categories:

1. All projects situated within the 1,000 meter strip of any existing and proposed public highways within Metro-Manila whether for human settlements, land reform, relocation of squatters from congested areas, tourism development, agro-industrial estates, environmental protection and improvement, and infrastructure projects.
2. Educational institutions, theaters and coliseums; cockpits and other major amusement centers, and sports complexes; marketing and shopping centers; hotels, motels and multi-story residences; and residential condominiums.

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**The cover photo was taken from a document of the National Media Production Center (NMPC).**

**The photographs used in the article "Rural Development Programs in the Philippines" by Luis Ma. R. Calingo were taken by Mr. Shankar Raj Joshi, a UNDP fellow.**

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