RURAL DEVELOPMENT & NATURAL RESOURCE MANAGEMENT:
TRENDS, STRATEGY IMPLEMENTATION AND FRAMEWORK
PERFORMANCE INDICATOR SYSTEM
May 2, 2000

EXECUTIVE SUMMARY

INTRODUCTION

1. President Estrada’s Government has declared war on poverty and accorded top priority to the strategies and programs in support of sustainable rural development (RD). It targets a reduction in the poverty incidence from 32% to 25% of total households (HHs) and expects to achieve average agricultural growth rates of 3.7%-4.6% per annum by the end of 2004. Achieving these ambitious targets will require major improvements in prioritizing and operationalizing RD and natural resource management (NRM) strategies and policies, some mid-course corrections in the implementation of the Medium-Term Philippine Development Plan (MTPDP), and especially more vigorous and effective implementation by the relevant agencies.

2. The Government of the Philippines (GOP) has generally sound strategies for addressing the challenges of rural development and poverty alleviation, and these are embodied in the MTPDP. These are also generally reflected in the World Bank’s (WB) Country Assistance Strategy (CAS) for the Philippines (1999). The greater challenge, however, now lies in operationalizing and effectively implementing prioritized strategies and supporting programs, based on available resources. Therefore, it is relevant to address together the priority strategies and corresponding measures of performance in order to focus efforts on better implementation and results. Presently, the GOP needs an explicit and credible mechanism to monitor, on a sustained and regular basis, the implementation of such strategies and performance, within the framework of the MTPDP. Thus, the National Economic and Development Authority (NEDA) requested the WB’s assistance in assessing the RD/NRM trends, determining the need for any mid-course adjustments, and developing a strategic framework for monitoring the implementation of the RD/NRM strategies. This study was conducted in response to this request.

3. Objectives of Study: In the light of the above mentioned context, the main objectives of this consultative and strategic-oriented “surveillance” study are:

➢ to assess the trends in RD/NRM strategies as reflected by selected indicators;

➢ to recommend relevant adjustments and improvements which would enhance the prospects for better achieving the stated RD/NRM objectives and impacts;

➢ to formulate a strategic and prioritized RD/NRM performance indicator system that can be a cost-effective, timely, and reliable management tool to catalyze strategic and
timely actions toward achieving the priority MTPDP/CAS objectives. The study team also recommends a framework and action plan for institutionalizing this RD/NRM performance indicator system by the relevant GOP agencies, with participation by other key stakeholders.

4. Participatory Approach. The study used innovative participatory approaches to enhancing both its process and the content of its findings and recommendations. First, the study team was comprised of well-respected Filipino specialists who are policy and implementation analysts and advisors on RD/NRM. They are professionally committed and well-qualified to assess trends and update priority strategies, as well as formulate an appropriate operational performance indicator system for the Philippines. Second, the study approach involved the participation of strategically selected stakeholders in the initial design of the study (Phase 1) and in forging a consensus on the priority strategies and performance indicator system based on the draft report (Phase 2). Additional funding from the Bank’s Participation Grant Fund enabled this participation. For each phase, a series of three regional consultation workshops with representatives of concerned government agencies at the national and regional levels, non-governmental organizations (NGOs), farmer organizations, and the private sector, was conducted to validate and gather feedback on the design and results of the study. Annex 1 includes a summary of the main conclusions and contributions from the Phase 2 stakeholder workshop. The study team also consulted key policy-makers and implementors. These participatory approaches in effect made the stakeholders “co-authors” of the report’s substantive recommendations, thereby enhancing the ownership by key decision-makers and implementers. Accordingly, the study process and report is being used as a vehicle for facilitating consensus building and improved implementation and results by the relevant GOP agencies and rural stakeholders.

5. Report Structure. Chapter 2 summarizes the background, the main features and a preliminary assessment of the MTPDP for the rural sector. The core of this report is presented in Chapters 3 and 4. Chapter 3 summarizes the results of in-depth analysis of RD/NRM trends and updated prioritized strategies according to seven performance indicator areas. Chapter 4 pulls together the strategic and operational implications of these trends in terms of 5 major conclusions, with special emphasis on developing a framework for a RD/NRM Performance Indicator System to support an improved implementation of the MTPDP. It also outlines a proposed action plan for institutionalizing in a phased manner the RD/NRM performance indicator monitoring system by the relevant agencies.

THE MTPDP AND RD/NRM

6. The main RD objectives of the GOP are reducing rural poverty, enhancing food security, and fostering agricultural modernization. Central to achieving these objectives of the MTPDP are the agriculture, agrarian reform and natural resources sectors whose growth have lagged over the last twenty years, despite the implementation of broad policy reforms and the implementation of many rural development programs and projects
during the 1980s and 1990s. To pursue the objectives, the MTPDP has identified the following five (5) key result areas (KRAs):

- productivity and competitiveness enhancement;
- diversification of production and resource use;
- access to land and other productive resources;
- promoting environmental sustainability; and
- rationalizing institutional structures and empowerment of stakeholders.

A. 7. This plan is generally sound, but needs to be significantly prioritized and operationalized, with explicit strategic linkages to public sector policies and expenditures.

B. 3. **UPDATING PRIORITY RD/NRM STRATEGIES AND IMPROVED RESULTS: EMERGING TRENDS, FRAMEWORK FOR A PERFORMANCE INDICATOR SYSTEM, AND RECOMMENDED ACTION PLAN**

C. 8. The study team developed strategic performance indicators for the Philippines RD/NRM sector and grouped them according to seven strategic performance indicator areas. These indicator areas generally correspond to the thrusts of the MTPDP’s KRAs and the synthesized RD strategy framework outlined in the report. These are: (a) Agricultural Growth and Performance (KRAs 1 and 2); (b) Rural Poverty (all KRAs); (c) Food Security (KRAs 1 and 5); (d) Agrarian Reform (KRA 3); (e) Rural Sector Investments (all KRAs, including public and private sector investments, and rural finance; (f) Natural Resource Management (KRA 4); and (g) Institutional Arrangements, Roles and Performance (KRA 5). The groupings and their component indicators have been chosen to help assess the progress of the implementation and attainment of the Philippines' RD goals and strategies. The trend analysis provided a foundation for the selection of appropriate yardsticks, taken in the context of a mid-course finetuning of rural development strategy reforms. Accordingly, the assessment helped focus on showing outcomes rather than processes, and the direction of change over time rather than statistical comparisons per se.

D. 9. **Conclusions and Recommendations:** The study team has generated five major conclusions and supporting recommendations:

(a) **Mixed/Poor Performance:** Based on trends and the implementation of priority RD/NRM strategies, progress toward achieving the MTPDP targets and outcomes lags significantly behind (paras. 3.7 – 3.122; Annexes 5-15). Moreover, a recently developed “rural scorecard” for developing countries shows that a composite index (both level and trend) of "rural well-being" for the Philippines is significantly below the composite index for other East Asian and Pacific developing countries;
(b) **Need for Sharper Priorities and Sequencing, and Mid-Course Adjustments:** There is an urgent need for GOP RD/NRM agencies, especially the DA, DENR, DAR, to prioritize, operationalize, properly sequence, and monitor strategies and actions, supported by a more efficient and strategic allocation and utilization of public sector expenditures. Even prior to the mid-term review of the MTPDP, it is recommended that the GOP update some of the RD/NRM strategies and targets to more realistic levels and effective operational approaches. It then needs to prioritize and operationalize strategic interventions and medium-term and annual public investment plans to support the timely and effective implementation of such interventions. The study team has recommended priority and updated RD/NRM strategies, and in some cases, suggested some mid-course adjustments to the MTPDP. In some cases, there is a need to improve the strategic directions of certain policies (e.g., food security, CARP modalities, and budgetary reforms). The following eight mid-course policy and strategy adjustments are recommended for consideration by the GOP’s Inter-Agency Rural Sector Planning Committee for the MTPDP (Planning Committee) (para. 4.4; Annexes 5-15):

- **Growth Targets:** The GOP may consider to decrease the agricultural growth targets to more realistic levels, while intensifying efforts to formulate and implement strategic action plans to achieve sustainable growth rates which exceed significantly the historical growth rates of about 2% p.a.;

- **Competitive and Diversified Rural Economy:** The Department of Agriculture (DA) should translate general policies and strategies into specific policy decisions and operational action plans, and remove the relevant policy and institutional rigidities and constraints to achieving a more competitive and diversified rural economy;

- **Food Security:** The DA, with NEDA support, needs to adopt more sustainable policy and operational approaches to achieving national and household food security. Rather than focus on the GOP’s “de-facto” policy of rice self-sufficiency, there is a need to broaden operational strategies which promote the enhanced purchasing power of households and more competitive trading system of inputs and outputs. Approving and implementing National Food Authority (NFA) reforms are overdue, and there is a need for the GOP to proceed in a phased manner with a recently-formulated integrated package of reforms involving the NFA and productivity enhancing programs for a broad range of food and cash crops;

- **CARP:** The Department of Agrarian Reform (DAR), in consultation with the relevant stakeholders, urgently needs to formulate improvements in the CARP modalities and approaches to expedite the completion of the program, while also promoting more efficient and equitable land markets which would benefit large numbers of the landless;

- **Budgetary Reforms:** The DA, Department of Environment and Natural Resources (DENR), and DAR, in close collaboration with the NEDA and Department of Budget Management (DBM), need to formulate operational action plans to reform the budgetary allocation system, initially focusing on improving the utilization of existing
allocations, and linking these action plans to the FY01 and FY02 budgets and the three-year medium term expenditure program currently under preparation;

- **Sustainable Rural Finance**: The Agricultural Credit Policy Council (ACPC), with the support of the National Credit Council (NCC) and enhanced commitment by the DA, should vigorously promote and monitor the vigorous implementation of the Agro-Industry Modernization Credit and Financing Program; there is also a need to strengthen savings mobilization and financial intermediation to support a more diversified rural economy;

- **Sustainable NRM**: The DENR needs to sharpen its NRM strategies and operational programs to: (i) promote more effective and sustainable forest management, including the use of community-based resource management strategies and tenurial instruments, and approaches to forest delineation; (ii) rationalize and implement sustainable timber harvesting policies; (iii) formulate and implement sound NRM pricing/cost recovery policies to promote sustainable resource use, such as the imposition of irrigation service charges and user fees; and (iv) adopt sound operational policies for improved watershed management;

- **Institutional Performance: Devolution and Convergence**: The DA, DAR, DENR should fastrack priority institutional reforms to deepen the devolution to local government units (LGUs)/rural communities of priority RD/NRM programs, and to operationalize the convergence strategy and interface between NGAs and LGUs. Greater support is needed to trigger expanded private sector roles in all aspects of RD/NRM, including enhanced capacity building and empowerment of LGUs and farmer groups.

(c) **Potential for Improved Performance, Need for ”Mindset” Changes, and Role of Two Management Tools**: The Philippines has the potential to significantly progress toward fulfilling many of the MTPDP targets and KRAs. The GOP will, however, need to mobilize more vigorous, systematic, and coordinated efforts to establish, operationalize, and implement sharper and more “do-able” strategic priorities and programs. A major “mindset” change within Government is needed to get and sustain improved results. To facilitate this complex process, two management tools are recommended and generally endorsed by the MTPDP Planning Committee and Phase 2 rural stakeholders: a performance indicator (PI) system and a performance-based budgetary allocation system. There are a variety of performance indicator systems ---- for budget, sector, and project monitoring. The DA’s on-going initiative to integrate all three types of systems provides a good reference point to build upon. The DBM has issued the budget call for FY01, and is requesting that agencies prepare and submit their annual budgets according to strategic directions and performance indicators, although the modalities for responding fully are in the initial stages of being developed;

(d) **Benefits of Improved Performance Indicator Monitoring System**: There are major potential benefits in investing in the formulation and implementation of an operational strategy and action plan to monitor strategic rural sector performance indicators on a
regular basis, and to use them as the basis for implementing a performance-based public expenditure allocation system;

(e) **Constraints to and Enhanced Mechanisms for Operationalizing the Performance Indicator System**: Currently, there are limited explicit mechanisms in place to systematically monitor the implementation of the MTPDP, either at the global or sectoral levels. This is due to various underlying reasons, including weak data systems, institutional/management “resistance,” and weak institutional capacities. These, together with a number of recommendations, are outlined in the report, and need to be addressed systematically. There also is a need to promote appropriate mechanisms and participation of other groups that would enhance the implementation of a credible PI system through carrying out parallel and complementary PI systems. These systems include those provided by suitably qualified NGO(s) that would represent broad rural stakeholder interests and possibly issue “Citizen Report Cards” on the RD/NRM sector, the Congressional Planning and Budgeting Office (CPBO) PI system as part of strengthening Congress’ oversight functions; and the Office of the President’s (OP) Presidential Management Staff’s (PMS) annual performance reviews of GOP departments. All of these systems would benefit from focusing on a common set of performance indicators, although there would be some differences in focus.

10. Table 1 outlines a summary of the study’s updated RD/NRM priority strategies, the recent trends, MTPDP targets, and recommended outcome-oriented primary performance indicators. Table 4.1 provides a summary of the outcome and the corresponding “result” performance indicators; the latter ones aim to attribute results to the actions taken by the relevant agencies, and show the frequency of monitoring and institutional roles in data collection and analysis. While these results emerged from a consensus-building exercise with rural stakeholders during Phases 1 and 2, these indicators would be further validated, reduced to a more manageable number, and refined prior to and during the initial phase of implementing the proposed performance indicator system.

11. The recently completed consultation meetings (in March, 2000) with the MTPDP Planning Committee and with the RD/NRM stakeholders (Phase 2) discussed the draft report and generated strong support for institutionalizing a well designed RD/NRM performance indicator monitoring system. These consultations emphasized that the framework for this system needs to be underpinned by prioritized RD/NRM strategies, and a strong and explicit link with a performance-based budgetary allocation system for RD/NRM. This scheme will encourage better performance by the relevant GOP agencies in achieving strategic objectives and KRAs, as measured by the agreed performance indicators. Moreover, the participating agencies should be encouraged to “own” the performance indicator system, based on a “bottom-up” approach. The framework should likewise focus on priority RD/NRM strategies which will have a “multiplier” effect; and formulating a manageable number of simple and measurable performance indicators, with explicit linkages between the KRAs/strategic areas and priority strategic programs (e.g., irrigation, research and extension, and forest management, and agrarian reform).
12. **Recommended Framework of PI System:** Based on the results of the study and the consultations with stakeholders and Planning Committee members, it is recommended that the PI system be based on a framework comprised of the following six elements:

(a) **Priority Performance Indicators:** There is a need to further develop an appropriate set of RD/NRM performance indicators which should include both outcome and result/management-performance-related indicators. Tables 1 and 4.1 provide an initial set of priority performance indicators that can be refined further along the lines discussed in para. 4.7.

(b) **In-Depth Strategic Studies:** There is a need to identify and conduct in-depth studies on strategic aspects of the priority PIs, to be carried out by suitably qualified groups with a proven track record (e.g., PIDS and other research institutions). These studies could address relevant issues involving the priority strategic public sector investment programs. Some of these in-depth studies are already on-going (e.g., Impact Assessment Study for Agrarian Reform/CARP). Other priority topics would require special study and appropriate arrangements (e.g., operational plans for reforming the RD/NRM budgetary system; irrigation subsector; agricultural research and extension; and forest management policies and experiences and approaches to building on successful community-based approaches).

(c) **Data Systems: Weaknesses and Action Plan:** There is an urgent need to address underlying data system weaknesses in order to ensure that reliable data underpin the performance indicator system. Annex 2, Tables 2 and 3 highlight some of the more important data constraints and outline short- and medium-term actions to address them. The design and implementation of the initial PI system should aim at focusing on those PIs whose data constraints are not severe, and where necessary, use “proxy” indicators.

(d) **Implementation Arrangements and Roles:** There is a need to work out appropriate implementation roles and arrangements within the PI system, including the parallel, collaborative and complementary roles of the Planning Committee’s subcommittee for the PI indicator system, Congress’ CPBO, NGOs, and local-level bodies. The Planning Committee has endorsed the proposal to establish a subcommittee that will take the main responsibility to formulate and recommend to the Planning Committee relevant mid-course corrections to the MTPDP, and to formulate and implement a RD/NRM performance indicator system. This initiative should build on relevant initiatives being taken by other departments, especially the DA.

(e) **Institutional Capacities:** There is a need to identify the institutional weaknesses of the above mentioned participants and to develop a supporting action plan for strengthening their capacity to steer and implement the proposed PI system. It is envisioned that the focus of the capacity-building activities should be in-service training, with some limited support for degree training in sectoral and programmatic M&E systems.
(f) **Phased Implementation:** There is a need to work out an operational plan to implement the proposed PI system in a phased manner, under the day-to-day guidance of the PI subcommittee. It is recommended that the phasing be closely synchronized with the GOP’s budgetary cycle, with an initial focus on linking with finalizing the on-going FY01 budget, and applying the system fully to the FY02 cycle. This link with the budgetary cycle will provide a strong incentive and “glue” for the agencies to participate. The PI system also needs to be “sectoralized” by department to focus monitoring and assessment on each agency’s performance.

13. **Recommended Action Plan:** Based on the strong consensus to proceed with the suggested RD/NRM performance indicator monitoring system, the following six (6) point action plan is recommended in order to operationalize the PI system framework:

- **Establish Sub-Committee/Working Group:** The MTPDP Planning Committee needs to formally establish and activate soonest a subcommittee which would take responsibility for recommending mid-course adjustments to the MTPDP targets and strategies and for operationalizing and implementing the proposed performance indicator system for RD/NRM. This subcommittee should be comprised of representatives from the DA, DENR, DAR, NEDA, DBM, and CPBO, and should be encouraged to involve and consult with other key stakeholders in formulating and implementing the system. It is understood that some of these agencies may also wish to carry out their own performance indicator system to respond to their institutional mandates, and efforts should be made to cross-fertilize with the PC's subcommittee;

- **Prepare a Detailed Operational Plan for Phase 1:** The PI subcommittee, with the support of the relevant departmental technical staff and possible short-term consultancy assistance, would work out a detailed operational plan for the initial Phase of the proposed performance monitoring system. This operational plan could also address three key aspects: formulation of a phased capacity building action plan; identification of the precise role and modality of rural stakeholders in supporting the performance indicator system (including possible independent "audits" to encourage improved accountability by the agencies); identification of the priority areas where independent in-depth assessments on strategic topics (e.g., irrigation subsector, forest management, research and extension systems) should be carried out to complement the performance indicator assessments;

- **Initiate First Phase:** It is suggested that this detailed operational planning phase focus on reaching consensus on a manageable number of “primary” performance indicators (say, up to 15-20) to test and work out the implementation modalities. The initial phase could be completed by end-2000. Special attention should be given to developing indicators as part of finalizing the FY2001 budget for the rural sector agencies, and preparing the FY02 budget;

- **Implement Phase 2:** Based on the initial results of Phase 1, the application of the performance indicators system could be applied during the full phase of the FY02 budget cycle beginning in late 2000. As the system shows positive results, it could be
used by the relevant agencies to support their requests to Congress for increasing funding, and would provide a more objective basis for budget allocations and decisions. Phase 2 would need to be supported by a more comprehensive capacity-building program of the participating agencies:

Mobilize Funding: The NEDA, in collaboration with interested donor agencies, could now mobilize funding support in order to operationalize the above proposed action plan and RD/NRM performance monitoring system, and its detailed design and initial phase. There are several options, including the following choices which are not mutually exclusive:

- Tap support from an on-going Institutional Development Fund (IDF) being managed by the DBM (ref. “Expenditure Management Improvement Project”);
- Mobilize grant funding from interested donors; and
- Utilize existing NEDA funds and staff, although these funds are not likely to meet the full requirements.