

MINDANAO, PHILIPPINES



BEHIND THE VEIL OF CONFLICT

MOVING TOWARDS ECONOMIC INTEGRATION FOR SUSTAINED
DEVELOPMENT AND PEACE IN MINDANAO, PHILIPPINES



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Behind the Veil of Conflict

Moving Toward Economic Integration for Sustained
Development and Peace in Mindanao

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Social and economic development issues are an integral part of the development challenge in the East Asia and Pacific Region. The World Bank's recently completed *World Development Report 2009: Reshaping Economic Geography* has provided the conceptual framework for this study.

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Preface

This study looks closely at how economic transformations along multiple dimensions of economic geography can be promoted to realize Mindanao's full development potential. It seeks to determine factors that promote or hinder the integration of this resource-rich region with the rest of the Philippines and factors that promote or hinder integration of cities and municipalities within Mindanao.

We believe that new insights on factors driving growth disparities will be useful for planners and policymakers at the local level. The period immediately following the 2010 elections will be an opportune time for Mindanao policymakers and planners to consider the integration of Mindanao—its communities, economic sectors, stakeholder groups, cities, and municipalities—as a means for sustainable and equitable development in the next cycle of strategic planning—as well as its goal.

Sustained growth and development for all of Mindanao cannot happen without paying attention to the development needs of conflict-affected areas, comprising a sizeable portion of lagging regions on the island. We hope that the study's findings can provide options for the government and Mindanao stakeholders to develop concrete action plans and institutional arrangements for peace and development in conflict-affected Mindanao.



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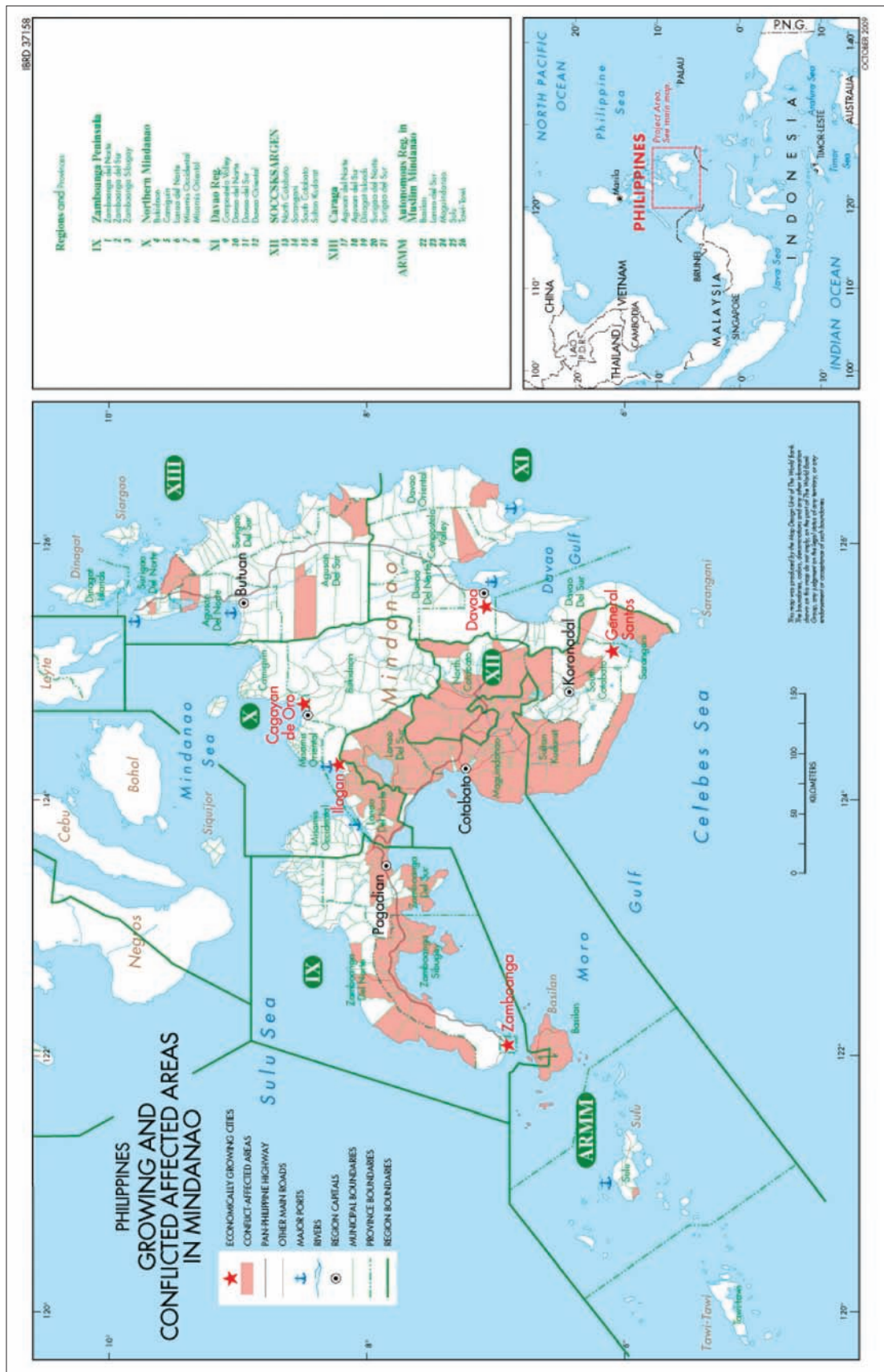
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List of acronyms

ARMM	Autonomous Region in Muslim Mindanao
CADT	Certificate of Ancestral Domain Title
CPP	Communist Party of the Philippines
GRDP	Gross Regional Domestic Product
IPRA	Indigenous People's Rights Act
LGU	Local Government Unit
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
MOA-AD	Memorandum of Agreement on Ancestral Domains
NEDA	National Economic and Development Authority
NPA	New People's Army
NSCB	National Statistical Coordination Board
RORO	Roll-on, roll-off
SOCCSKSARGEN	South Cotabato, Cotabato (North), Sultan Kudarat, Sarangani, General Santos (also known as Region 12)



Executive summary

Among the Philippines' three major islands Mindanao has consistently lagged behind Luzon and Visayas economically, despite rich natural resources and opportunities opened up by recent market reforms. With a third of the country's total land area, good soil and rainfall, and a relatively typhoon-free climate, Mindanao has earned a reputation as the country's food basket, contributing about 38 percent of the country's farms¹ and about 60 percent of the country's total agricultural exports. Yet it contributes only 15 percent each of the industry and service sectors, about a fifth of the real Philippine gross domestic product, and a fourth of total employment.² Why has it failed to become a large growth center catering to local and international markets, despite substantial national and international efforts to provide development assistance?

The most common answer is that Mindanao is trapped in a vicious circle of conflict and underdevelopment. The unresolved conflict in Mindanao—inherited from colonial times—is complex and economically damaging. Most recent development efforts have taken conflict resolution as a prerequisite to development. But an end to conflict is not enough.

This study argues that Mindanao also needs to achieve economic integration—both internal and external—to fulfill its development potential and as a peace-building strategy. Economic integration stimulates growth through greater concentration of economic activities in certain localities. Growth in economic density attracts people to

these places in search of economic opportunities and spurs demand for increasingly specialized goods and services, paving the way toward more growth and convergence of living standards across areas. A strategy for economic integration promotes growth of economic density in key leading areas, such as port cities, with complementary programs to promote the efficient flow of people, goods, and ideas so that leading areas can further specialize and growth opportunities can spill over to neighboring areas. When labor mobility is high, when doing business in different territories is simple and open to the entry of capital and technology, and when efficient infrastructure provides easy physical access to remote areas, standards of living in lagging areas tend to converge with their more prosperous neighbors. Integration also has a social dimension, forged by universal provision of basic social services and equitable opportunities for citizens to realize their human potential.

How well is Mindanao economically integrated? And what are the barriers—and potential opportunities—to achieving integration? Economic integration is not a single development quick fix, but it can motivate a different view of development issues and focus planners' attention on what factors discourage or hinder interaction among municipalities, social groups, and economic sectors. Using an analytical framework provided by the *World Development Report 2009*, this study examines Mindanao's economic geography along three dimensions: density, distance, and division (box 1).

Box 1 Three dimensions of economic geography—an analytical framework

The study uses an analytical framework adapted from the World Bank's *World Development Report 2009: Reshaping Economic Geography*. Spatial disparities—uneven development across areas within a country—are common in growing economies, resulting in an economic geography of interspersed growth centers (leading areas) and lagging areas. Although lagging areas may not immediately benefit from economic activities in leading areas, in the long term living standards can converge through economic integration. Three dimensions of economic geography help explain spatial disparities and convergence: density, distance, and division.

Density is the geographic compactness of economic activity in a place: "the level of output produced—and thus the income generated—per unit of land area" (p. 49). Economic density is usually present in growth centers because they provide

concentrated labor and capital, the right conditions for increased economic activity. Economic density in turn attracts more people moving closer to job opportunities. The result: rapid increase in urban population and even greater economic concentration.

Distance is the "ease or difficulty for goods, services, labor, capital, information, and ideas to traverse space" (p. 75). Economic distance is more than the physical space that separates two areas. It also includes labor mobility, the time and cost to transport goods—dependent on transport infrastructure—and manmade barriers to the movement of goods and labor, such as local policies. The burden that economic distance places on local economies is reflected in the transport and communication costs between two points; lagging areas usually have a high distance to economic density. But distance to growth centers can be shortened by efficient roads,

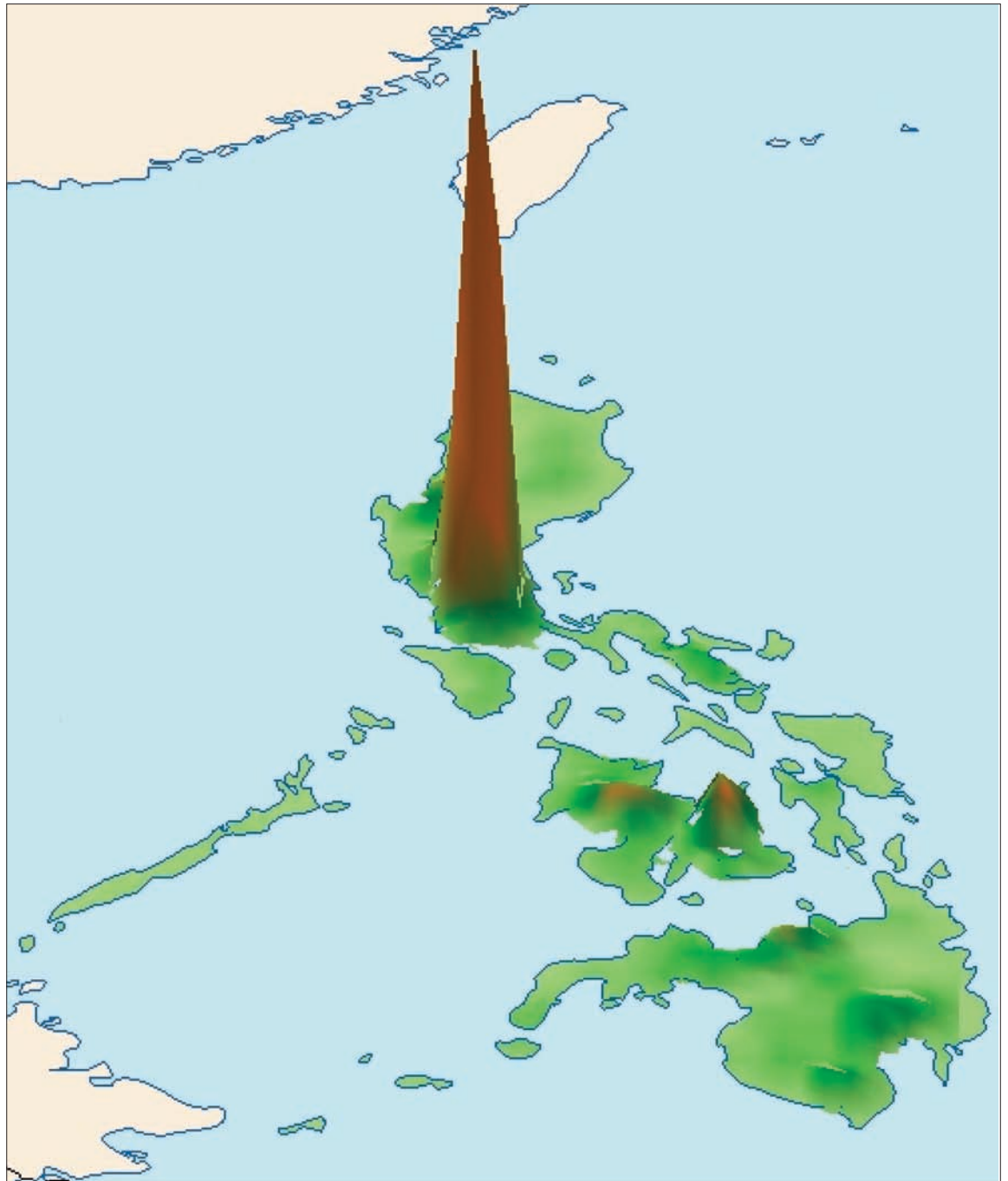
ports, and other transport systems, as well as by information technology.

Division arises from man-made barriers to economic interaction that restrict market access, including poorly managed or restrictive borders, taxation, and religious, ethno-linguistic, and cultural differences. Territorial disputes, civil wars, and other conflicts within and between countries create the most severe economic divisions. Economic division is multifaceted in Mindanao—a result of its complex ethnic, religious, and political history—and most apparent in the various ongoing conflicts throughout the island.

Though conflict is a kind of division, this study examines how it affects all three dimensions of economic geography. Mindanao's internal conflict is a cross-cutting factor that distorts density, lengthens distance, and further widens division.

Source: World Bank 2009b.

Figure 1 Economic density in the Philippines, 2007



Source: World Bank 2009b.

Note: Expressed in terms of gross regional domestic product (GRDP) per square kilometer.

Mindanao in 3-D

Weak economic performance over past decades has left Mindanao with much less economic density than the rest of the Philippines (figure 1). Robust economic activities concentrate in only five cities: General Santos, Cagayan de Oro, Iligan, Davao, and Zamboanga, with 2000–2006 growth rates ranging from 2.4 percent (Zamboanga City) to 5.4 percent (General Santos). Mindanao's other cities and municipalities grew less than 1.5 percent, about three-quarters of them having zero or negative growth. Such low density results in wide income disparities among the various regions in Mindanao, impeding further economic growth. Many families at the bottom rung of the income ladder in lagging areas lack the ability to generate savings and finance any accumulation of human and physical capital, causing a transmission of poverty across generations.

At this stage, the five growth centers are not yet capable of generating enough economic density to pull up growth and human welfare in the rest of Mindanao. True, Mindanao is a global player in a number of agricultural products, exporting agricultural commodities such as banana, coconut oil, desiccated coconut, pineapple products, natural rubber, seaweed, and canned tuna. But Mindanao supplies products that become inputs to further processing elsewhere more often than it supplies products for final consumption. There are few signs that Mindanao's cities are establishing an industrial basis for processing more of the raw products that it exports. Though tuna is already being canned in Mindanao, other raw products are still being processed off-island, such as seaweed for carageenan in Cebu and copra for coconut oil and corn for animal feed in Cebu and Luzon. Mindanao's five key cities must recruit more capital before they can become capable of generating a larger scale of economic activities; businesses in Mindanao are still predominantly micro and small enterprises. And farming is organized around smallholders acting independently—a logistics nightmare for potential investors.

Distance from growth centers also determines the economic prospects of lagging areas—and Mindanao's distances are long, lack of connectivity the wedge that prevents capital from financing viable projects. Distances caused by inadequate infrastructure—transport, telecommunication, and energy—in Mindanao create the high cost of

doing business, a disincentive to investment. Poor labor and capital mobility also increase economic distances in Mindanao, slowing the growth of economic density and impeding spillover benefits.

Beyond physical distance, weak economic linkages within Mindanao arise from divisions, manmade barriers to economic transactions. Territorial and political disputes, as well as language, ethnic, cultural, and religious disparities, lead to social tensions and armed conflict that constrain the island's economic integration. Security issues are so serious in some areas that transactions and market players are kept small and anonymous and unable to take advantage of opportunities to profit from moving beyond production of raw products. Even in places with connectivity, unstable security prevents entrepreneurs from executing their investment and trading plans. But a large part of the island experiences a type of conflict that is relatively confined and manageable, leaving sufficient opportunities for small entrepreneurs to engage in specialization, increased productivity, and market expansion linked to growth areas—when they have adequate connectivity to growth centers.

As Mindanao's economic geography illustrates, economic growth can occur despite conflict in many areas that are economically integrated with growth areas. Mindanao's highly integrated areas grow at a higher rate (3.1 percent) than less integrated areas (1.8 percent). More important, conflict zones in highly integrated areas grow at a higher rate (1.4 percent) than nonconflict zones in less-integrated areas (0.9 percent).

Peace is a necessary prerequisite to growth and development in Mindanao, especially for those parts with high incidence of violent conflict from multiple sources, such as southwestern and central Mindanao. But it is not sufficient. Low density, wide distances, and deep divisions—these are the core issues that will determine whether Mindanao can realize its potential to become an economically integrated island with modern agricultural production and processing systems that cater to wide domestic and global markets. These issues will also determine whether Mindanao will be able to move toward economic integration with other parts of the country. In other words, insufficient economic integration would hold back the island's development even if there were no conflict.

Recommendations

This study argues that economic integration can maximize and speed up growth in a few localities in Mindanao, the benefits of which can then be shared with other localities.³ Using insights from the *World Development Report 2009*, it reframes the policy question for lagging and remote areas in both Mindanao and the Philippines. Frequently, governments overemphasize geographic targeting to help areas that are not doing well. The reality is that the key to economic development is the interaction between leading and lagging areas. So the important policy challenge is to unify all places with well-functioning institutions and infrastructure that connects places to others.

This policy shift is necessary even in Mindanao, where conflict zones face more difficult challenges not only because of the damage to assets but also because they experience delayed growth even during peaceful post-conflict periods.⁴ Yet the opportunities for unifying and connecting these areas with other places exist—and need urgent attention, both as an economic development strategy and as a peace-building strategy.

Ending conflict is a must for Mindanao to truly prosper. But this study finds that deferring development until conflict is fully over is not necessary. Many areas—including some conflict-affected areas—have good prospects for economic integration and can benefit from their existing links with growth centers. Stronger institutions and infrastructure are urgently needed, and building them should be the predominant strategy for all of Mindanao despite the conflict conditions in some areas. As long as the lagging and growth areas are connected, achieving peace can advance hand-in-hand with the shared growth that can be realized through economic integration.

Past strategies for the development of lagging regions led government to intervene directly to address gaps perceived to hinder business growth. Such measures would immediately increase economic activity in the target area, but success would be project-based and localized in a few winners. The local economies would be driven farther apart by rivalry and competition for public investments and locators. Ultimately, inequality was exacerbated—a situation that weighs heavily on the weak local institutions and vulnerability to conflict that loom over both leading and lagging areas in Mindanao.

Likewise, common strategies for developing post-conflict areas have largely ignored the need to benefit from the growing economic density in neighboring areas. Most post-conflict strategies have been special interventions to address the complex political and social issues that have lingered for decades—often necessary as some places in Mindanao have been so deeply affected by division and conflict that any development program would be viewed with skepticism and mistrust. But post-conflict programs could do much more for affected communities by strengthening the basic services, access, and mobility that would enable them to interact economically with other communities.

The *World Development Report 2009* suggests three kinds of policy options to facilitate economic integration and reduce social disparities: spatially blind and socially neutral institutions, spatially connective infrastructure, and targeted interventions.

Spatially blind **institutions** that will facilitate economic density should be the bedrock of integration policies. In cases where it is not yet clear which places will be favored by markets, neutrality between places is important. Spatially blind institutions include the range of programs, policies and expenditure priorities of the public sector that intend to enable all residents to achieve their full potential as individuals—basic education, primary health, safe water and sanitation, access to infrastructure, and security. Institutions also include those that enable markets to function and investments to happen.

Spatially blind institutions—together with securing order—should be the main goal of interventions in areas of high conflict. Providing basic services for conflict-affected localities could shift expectations to give politicians, combatants, and civilians confidence that peace and development are achievable.

This study asserts that building credible and well-functioning institutions in Mindanao will unite the island towards a common goal of economic integration. Policy actions include:

- Ensuring that basic social services are available to all social groups, irrespective of ethnic origin, culture, social status, financial means, and—most importantly—location. These services should include universal access

to basic education and health services, crucial for developing human capital and improving living standards in both lagging and growth areas.

- **Seeking the right model of autonomy for service delivery** that will integrate, rather than further isolate, lagging areas by removing barriers to economic transactions while preserving regional independence. Disparities in the quality and coverage of basic services between Autonomous Region in Muslim Mindanao (ARMM) and non-ARMM areas need to be reduced considerably not only to alleviate poverty where it is most pervasive but also to speed up convergence of living standards among growth and lagging areas in Mindanao.
- **Strengthening land market institutions and administration of property rights.** The national government's Land Administration and Management Project is a step in the right direction. The project includes: the development of a land policy and regulatory framework; a consensus-building program for systematic land titling programs and awareness of community rights, roles, and responsibilities in the adjudication process for tenure rights and land boundaries; and the development of implementing guidelines, standards, and procedures for property valuation.⁵
- **Resolving conflicting legal frameworks for resource management, especially for mining.** A clear and consistent policy framework for resource extraction and management in ancestral domain claims should be complemented by local development plans and policies.
- **Developing credit markets to reduce financial constraints caused by conflict and poverty.** Poor households and smallholders need access to local credit to take advantage of economic opportunities offered by growth and weather losses due to crop failure or conflict.
- **Removing barriers to mobility by sustained public investments in education and reducing the cost of migration.** Workers with higher levels of education take less time to find work in

growth areas. Public support for the care of young children will enable parents to seek better opportunities in growth centers before the entire family migrates.

Economic integration rewards localities that are linked to each other with efficient transport systems that increase mobility of people and goods. Building spatially connective infrastructure for Mindanao means:

- **At the national level, addressing infrastructure bottlenecks and improving competitiveness in the transport sector** to allow Mindanao to participate in the large markets in the National Capital Region and outside the country.
- **At the regional level, linking cities and rural areas with infrastructure improvements.** Provincial road improvements linking growth centers to areas that produce raw material will reduce the disparities in economic opportunity between growth areas and lagging areas.
- **At the local level, connecting remote locations to alleviate poor living conditions and reduce vulnerability to outbreaks of conflict.**

Even within an integration development framework, some areas will need spatially focused, targeted interventions to make institutions and infrastructure work. Targeted **interventions** to accompany improvements in institutions and infrastructure are warranted particularly for areas of low economic integration that are vulnerable to multiple sources of conflict, and for urban slum areas made up of communities that have been displaced by recurrent conflict. Such interventions include:

- **Reducing the violent outbreaks in areas that are vulnerable to multiple sources of conflict and implementing a post-conflict strategy to improve basic services and restore mechanisms for participation and governance.** Any post-conflict development strategy cannot rely solely on the military but should simultaneously start developing institutions and infrastructure through well-planned and well-financed programs. Grievance redress mechanisms to avert relapse into conflict will be critical.

- **Encouraging private investment through financial risk insurance schemes or guarantees.** Private investors are wary of high-risk, conflict-affected areas, but the capital needs of these areas are too great for public spending alone. Risk insurance and other guarantees to encourage private investment in agricultural facilities, machinery, and transport can improve agricultural productivity, enable the processing of agricultural commodities, facilitate trade, and enhance market linkages between isolated, conflict-affected areas and growth centers.

Finally, the study recommends a coordinated national and local response to address the complex needs of people displaced by violent conflict. Response measures include:

- Enhancing the capacity of host communities to respond immediately to the needs of internally displaced people by providing basic services such as water and sanitation, primary health services, and food and education subsidies.
- Establishing appropriate governance structures through community infrastructure projects.

- Helping city governments coordinate with neighboring municipalities to create efficient links between urban and nearby rural economies where internally displaced people can find opportunities for livelihoods.

The basic development challenge that Mindanao, particularly Muslim Mindanao, faces is how to catch up with the level of development that leading regions in Luzon and Visayas have achieved. Major tasks include: connecting the five growth centers of Mindanao to high-density areas within and even outside of the Philippines; and allowing the economic benefits of Mindanao's growing cities to spill over to communities in the peripheries.

Achieving an economic turnaround for Mindanao will require Mindanao's urban growth centers—such as Cagayan de Oro, Davao, Iligan, General Santos, and Zamboanga cities—to become economically integrated with economically dense areas outside Mindanao. Sharing the benefits of development from the capital and growth centers with the lagging areas depends on mobility of all kinds, from labor to capital. The end-in-view for Mindanao is securing law and order, strengthening institutions, promoting social infrastructure, and allowing market forces to foster economic integration.



Woman from an indigenous tribe



Destruction of a school building.
Maguindanao.



Transportation on water



Indigenous Peoples have preserved traditional music and dance which often tell stories about life and values such as courtship, harvest, war, bravery, and love.

1 Mindanao's conflict geography

Though conflict is a kind of division, this study examines how it affects all three dimensions of economic geography. Mindanao's internal conflict is a cross-cutting factor that distorts density, lengthens distance, and further widens division.

The age-old conflict in Mindanao, rooted in the inferior socioeconomic status of Indigenous People and Moros and in long-standing clan feuds, has long posed an obstacle to growth, especially in the central and southwestern part of Mindanao. At the most fundamental level, markets require peace and order to be able to do their primary task of allocating resources efficiently. In conflict-affected areas, many people use resources to protect existing wealth against hostile groups rather than create new wealth. They purchase weapons, install more locks and iron grills than they need, and hire security guards—all to protect people and property. Investments in any form of growth-producing capital are discouraged, undercutting present and future productivity.

Conflict also drives people away, creating a large pool of displaced persons in the process. Forcing people to abandon farms, jobs, and self-employment, violence-induced migration results in high unemployment rates. The receiving areas, meanwhile, also see their carrying capacities stretched to the limit responding to new resettlement communities that they cannot equip with basic services such as shelter, water and electricity.

Ongoing conflicts of various types indicate how deep the divisions are in Mindanao. The roots of conflict are multifaceted and require a look at Mindanao's history.

Tracing the history of tensions

The unique history of Mindanao sets it apart from the rest of the country. Perhaps its most

unfortunate legacy is the deep division among its major stakeholders—Indigenous Peoples, Moros, and settler or migrant families. The Indigenous Peoples, or Lumad, are the original inhabitants of Mindanao, now grouped into 35 tribes or subtribes. The Moro population, made up mostly of Muslim communities, comprises 13 ethnic groups with distinctive cultures and traditional social practices. The most recent settlers are the migrants, mostly Christians from Luzon and Visayas. According to the 2000 census, Mindanao has a population of 18.1 million spread over 25 provinces. At present, Indigenous People constitute about 9 percent of the Mindanao population, the Moros 18.5 percent. The settlers and their descendants are the largest group at 72.5 percent, dominating economics and politics today.

Many sources of political and social tensions divide these local stakeholders in Mindanao. Two that have made deep and lasting impacts on the evolution of the island's social landscape are the struggle for Moro self-determination and the assertion of Indigenous People's right to preserve and protect their cultural identity and ancestral domain lands.

Following the Spanish-American War, the 1898 Treaty of Paris declared null and void all land grants made by traditional leaders in Mindanao and changed the Philippine system of public land laws. Under the U.S. occupation, these changes became the legal basis for resettlement programs starting in 1913. These actions effectively alienated the Indigenous Peoples and Moros.

Indigenous Peoples

By 1970, less than 60 years from the start of resettlement in 1913, the indigenous groups had been reduced to about 6 percent of the combined Mindanao and Sulu populations. To address Indigenous Peoples issues nationwide, Congress

enacted the Indigenous Peoples Rights Act of 1997 (IPRA) to provide a legal framework for preserving their cultural identity and territorial claims. The National Commission on Indigenous Peoples was created as the main implementing agency. Although the IPRA recognizes the right to land, self-determination, and cultural integrity of Indigenous Peoples, many observers lament its ineffective implementation. Serious concerns remain among Indigenous People groups, mainly about the unfinished and slow pace of surveying, demarcating, and titling of ancestral domain claims by the government.

Moros

Moro leaders advocating Moro self-determination today invoke claims to their ancestral lands dating to more than a hundred years before the Spaniards came to Mindanao. They deem that the cessation of lands and states by Spain to the United States in the Treaty of Paris was illegal because Spain never owned or acquired these lands.

In particular, the Moro Islamic Liberation Front (MILF) views its territorial claim in Mindanao as a claim to political territory rather than a tenurial one as provided by the Indigenous People's Rights Act. Asserting a right to self-determination that is founded on history and acknowledged in international documents as a fundamental right of Indigenous People, MILF believes that only a political settlement with the Philippines government will bring closure to the Moro issue.

Settler families migrating to Mindanao since 1913 acquired lands declared by the Philippines government to be alienable public lands. Settler families affected by the Moro claim to those lands as ancestral domains rejected inclusion of their provinces in the Autonomous Region in Muslim Mindanao (ARMM) in the 1989, 1996, and 2001 plebiscites.

Issues about land, marginalization, and deterioration of living conditions among the Muslims led to the growth of armed resistance and calls for Mindanao's secession. The tension escalated in the 1970s, with armed confrontations between government troops and the Moro National Liberation Front (MNLF) spreading to several provinces in southwestern and central

Mindanao and displacing hundreds of thousands of civilians.

Attempts to negotiate a peace treaty

There has been no dearth of efforts to make peace happen in Mindanao. The first milestone in a three-decade long peace process was the Marcos administration's signing of a peace treaty with the MNLF in 1976. Called the Tripoli Agreement because it was made possible through the intercession of Libya, it would pave the way for the creation of an autonomous region for the Muslims in Mindanao, an option that was far less threatening to Christian inhabitants than secession. But instead of providing a complete solution, the Tripoli Agreement was followed by years of low-intensity conflict until the end of Marcos rule in 1986.

The second milestone, during the term of President Corazon Aquino, was the adoption of a new Philippine constitution (1987) that provided for the creation of an autonomous region in Mindanao in compliance with the Tripoli Agreement. The ARMM was established in 1989 by the Philippine Congress, and the regional government was inaugurated in November 1990. Only four of the 13 provinces that were included in the Tripoli Agreement voted to be included in ARMM, a controversial and unfortunate development, but to be expected because Christians had become the majority in most of these provinces.

The third milestone was the signing of the 1996 Peace Agreement between President Fidel Ramos and MNLF leader Nur Misuari. After a three-year transition period, another plebiscite was held to define the "expanded ARMM," which added one city and one province to the original four. Observers noted that this settlement appeared vulnerable: consultations were generally limited to the negotiating parties and "both parties found it difficult to persuade a wider public of the wisdom of the deal when its terms were finally announced." Both the MNLF and the government raised expectations of spectacular economic development for Mindanao with promises of donor assistance and a massive peace and development program over 14 provinces. But "subsequently it was the MNLF—without adequate financial or

legal resources—who had to carry the burden of meeting these expectations.”⁶

Meanwhile, the MILF—established in 1984 as a breakaway group from the MNLF—was gaining popularity as Moros became increasingly disappointed with the meager results of the peace agreement and the poor performance of the autonomous regional government. In the 1990s the MILF was the main Moro revolutionary force in Mindanao, with bases in many locations and sufficient military strength to sustain relatively large armed confrontations with government troops. In response, in April 2000 President Joseph Estrada declared an “all-out-war” policy with simultaneous attacks on various MILF camps, including its headquarters.

After Estrada was ousted, the administration of President Gloria Macapagal-Arroyo reversed the “all-out-war” policy and resumed peace-building efforts with the MILF. Another important milestone in the decades-long peace process was the signing of a ceasefire agreement between the government and Moro forces in July 2003. This paved the way for exploratory talks and a peace process between MILF and government peace panels. But negotiations for a peace agreement reached an impasse in 2006 and were later stalled by a court order in 2008 on the Memorandum of Agreement on Ancestral Domains (MOA-AD).

The MOA-AD was a draft document that acknowledged the Muslims of Mindanao (the “Bangsamoro”) and laid the groundwork for establishing a Bangsamoro Juridical Entity as their homeland. In 2008 opposition groups petitioned the Supreme Court to stop the signing of the draft MOA-AD. After the Supreme Court ruled that the agreement was unconstitutional, the government peace panel was abolished, peace talks were suspended, and military build-up in Mindanao resumed. The peace process between the government and the MILF leading up to the MOA-AD had failed to rally two important social groups behind it: the Indigenous People and the Christian settlers. So perhaps it was inevitable that the peace talks would be opposed on many fronts and would be challenged in the courts.

After July 2009, preparations for peace discussions appeared to be starting again after the President of the Philippines suspended military operations against the MILF. Despite recent setbacks,

government statements indicate an intention to resume the peace process. Until then, prospects for a positive settlement to address the concerns of the Moro people are uncertain, and the issues will take more than a few years to resolve.

Deep divisions, unresolved issues

Set backs in the peace process between the government and the MILF point to the depth, complexity, and seriousness of divisions in Mindanao. One source of tension is majority–minority conflict, with settlers taking the lead in economic and political matters but facing resistance from other groups. There is also tension in the never-ending tug of war between property rights governing the majority and the new and inevitably controversial ancestral domain rights of minority groups.

Moros and Indigenous People—both feeling displaced and dispossessed—continue to assert their rights to self-determination and to survive as distinct communities. Because the leaders of the Moro struggle have often failed to acknowledge Indigenous People’s own self-determination struggles, the regrettable result is mutual distrust and animosity between Indigenous Peoples and Moros.

Any strategic plans to improve economic conditions for Moro and Indigenous People groups must address their territorial claims and strengthen the mechanisms to protect them from further dispossession and marginalization. Indigenous People have yet to feel the benefits of security from the IPRA. Until the boundaries of their ancestral domain lands are protected with formal titles, any effort to improve economic activities or living conditions in their areas would be viewed with mistrust.

Descendants of settlers, who comprise the majority, are usually unable to appreciate the concerns of minority groups and do not see a role for themselves in the search for solutions. Christian-dominated provinces opted to be excluded from the ARMM government through plebiscites in 1989, 1996 and 2001. Moreover, petitions by city councils, municipal councils, and provincial councils have unequivocally expressed strong opposition to expanding the coverage and powers of the autonomous regional government.

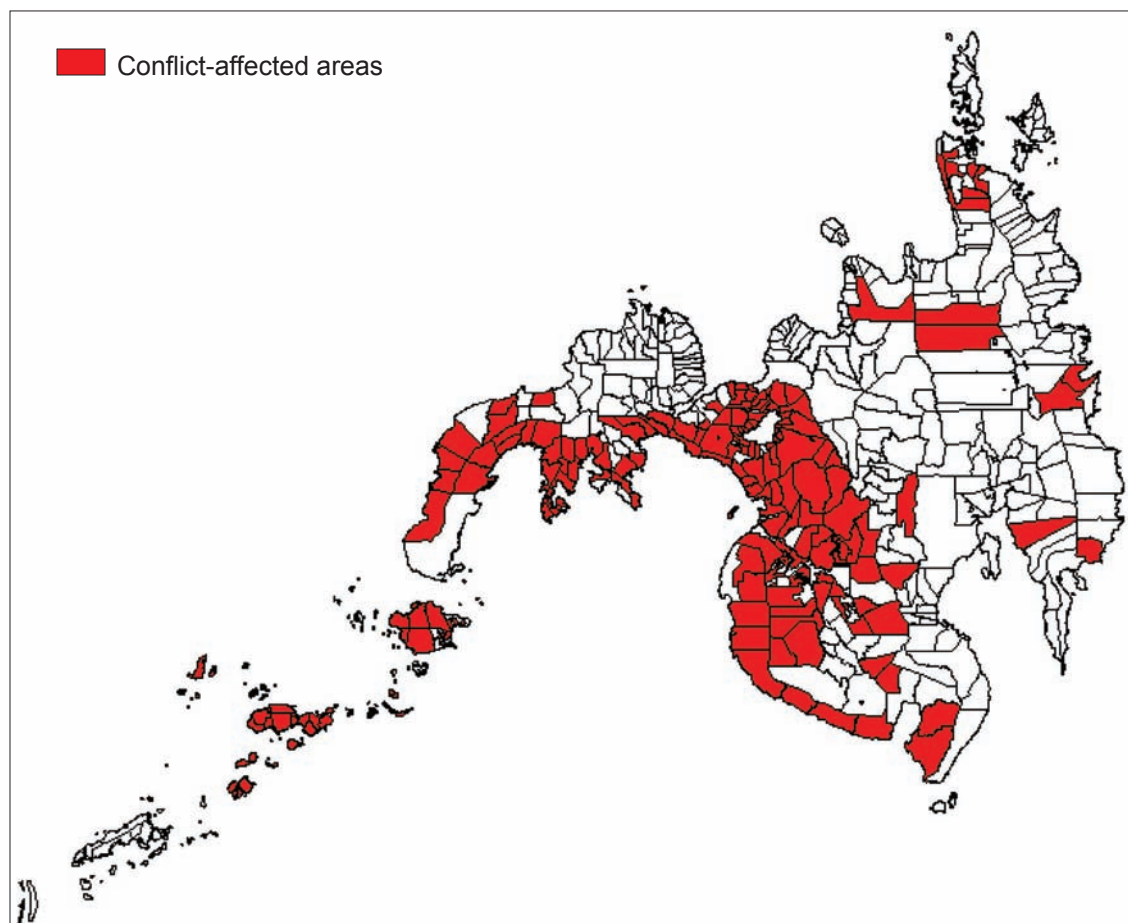
Mapping the areas affected by conflict

With the peace process still inconclusive, divisions, displacements, and missed opportunities continue to envelop Mindanao. Conflict has been so pervasive that it is possible to officially map the areas affected by the all-out war declared by Estrada in 2000 and the

including some areas in Palawan. Residual tensions are now localized in MNLF strongholds in the island of Sulu.

Aside from the Moro conflict, certain highlands of Caraga region and the Davao region are the site of communist insurgency and military conflict between the Armed Forces of the Philippines and the New People's Army. Indigenous communities are most vulnerable to this conflict. Peace talks between the

Figure 1.1 Conflict-affected areas in Mindanao



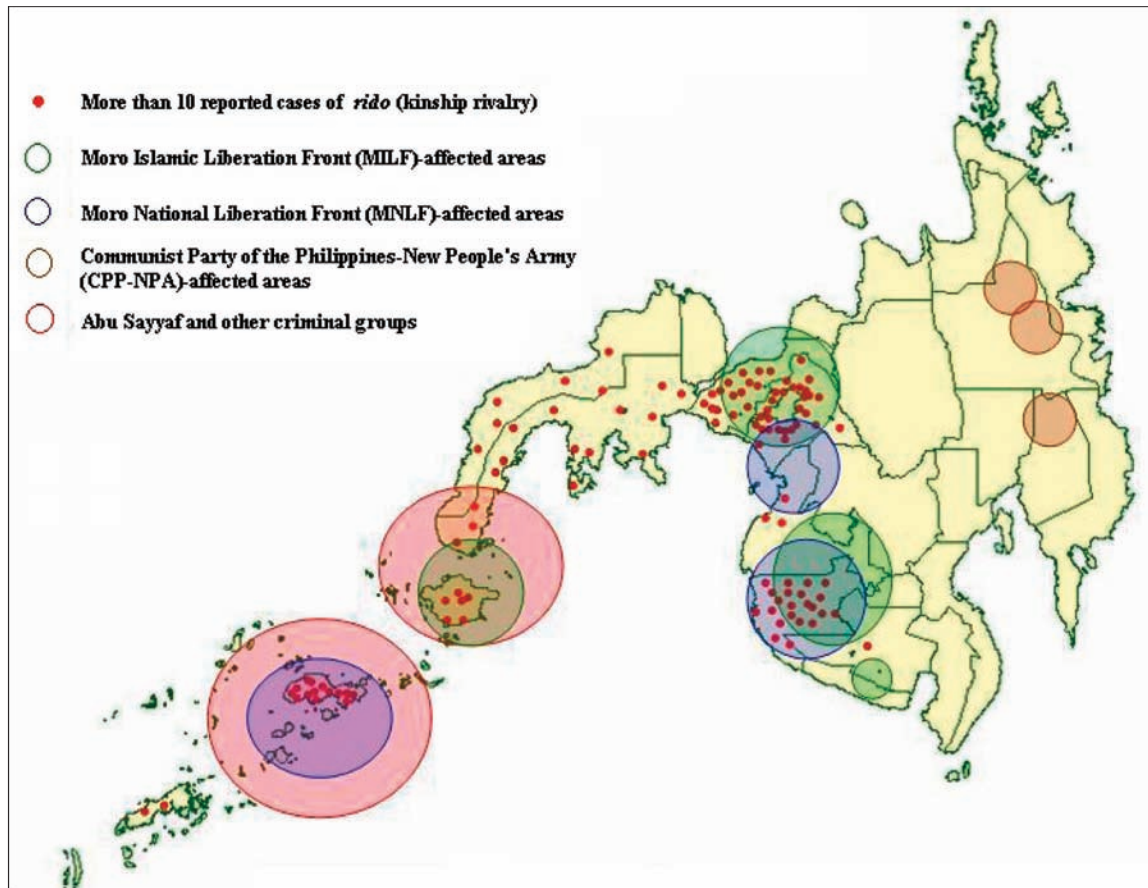
Source: Department of Social Welfare and Development 2003.

military build-up under President Macapagal-Arroyo in succeeding years. According to a list of conflict-affected municipalities drawn up by a government–MILF peace panel in 2004 to help plan rehabilitation and reconstruction, there are officially 150 conflict-affected municipalities spread over 15 of Mindanao's 25 provinces (figure 1.1).

The areas affected by the earlier government–MNLF peace process used to be extensive,

Government of the Philippines and the Communist Party of the Philippines/National Democratic Front have been cancelled, and further negotiations are hindered by the wide incompatibility in the demands of the two parties. In the meantime, the conflict is being fueled by the poor living conditions, weak governance, and physical isolation of affected communities, as well as by the growing exploitation of natural resources in areas such as Placer and Claver along the northern coastline of the Caraga region in Surigao del Norte.⁷

Figure 1.2 Stylized conflict map of Mindanao



Source: Human Development Network 2005.

Aside from larger political conflicts involving rebel groups and government troops, two internal types of conflict afflict Moro communities: *rido* or clan wars, and piracy and banditry (such as the Abu Sayyaf®). *Rido* has wider implications for conflict in Mindanao primarily because of its intersection with separatist conflict and other forms of armed violence. Many armed confrontations involving insurgent groups and military forces have been initially triggered by a local *rido*. According to an Asia Foundation survey, while the Muslim–Christian conflict dominates the attention of international and local media, clan conflicts are more pertinent to the daily lives of the people—and cause them more concern.⁹

In Mindanao's conflict-affected areas banditry is more common in coastal communities, perhaps because of accessibility and mobility. Conflict brought by *rido*, on the other hand, dots both coastal and landlocked areas in the region.

Security risks from *rido*-related violence are highly localized, but risk can rise when large clans are involved, and residual hostilities can fester from generation to generation.

Figure 1.2 presents the spatial distribution of the conflict-affected areas in a stylized way, using reliable data from government agencies meant to present illustrative information rather than a precise representation of reality on the ground. Most municipalities are vulnerable to more than one type of conflict, with some areas afflicted by two or three types of conflict. Municipalities in the ARMM—particularly in the provinces of Basilan, Lanao del Sur, and Maguindanao—are affected by multiple conflicts.

Internally displaced people

Driving people to leave their communities without prior planning, conflict has given rise

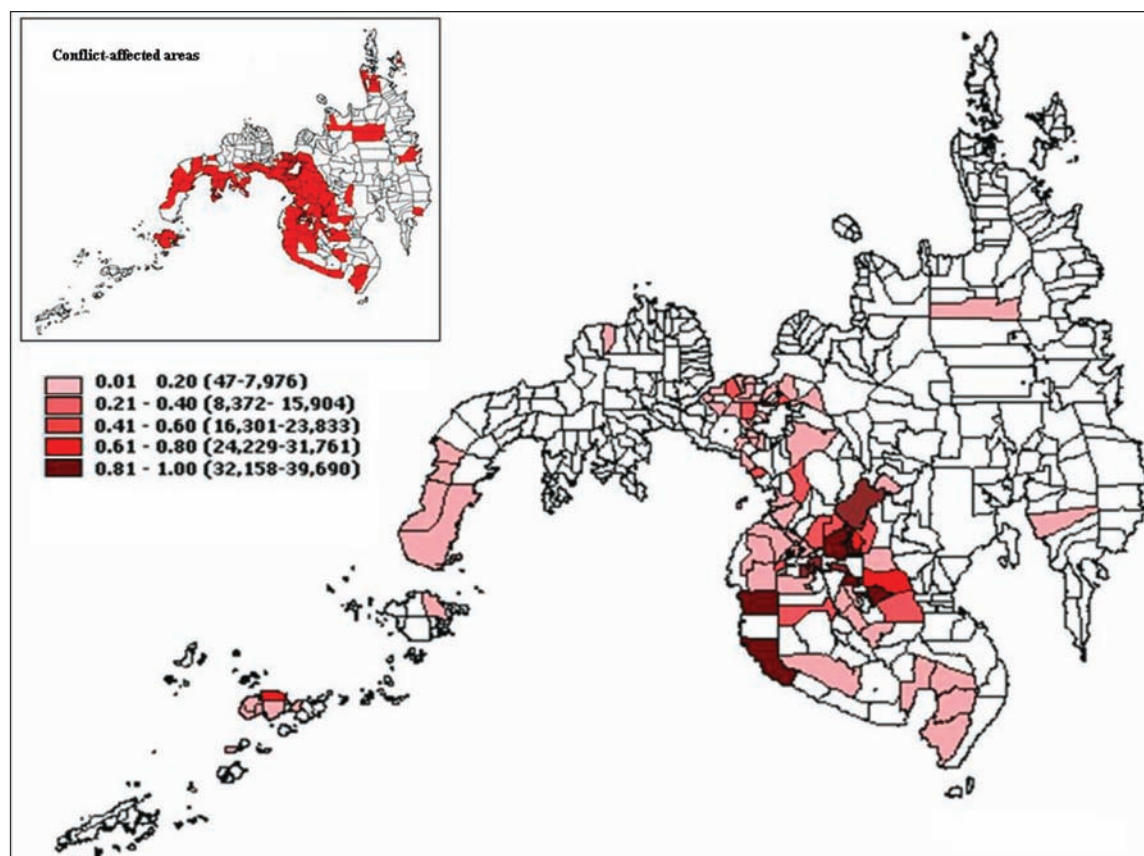
to another social group in Mindanao: internally displaced people. The movement of internally displaced people is hard to track, and their survival strategies and aspirations even more difficult to study. It is also hard to identify their current role in Mindanao's social divisions in Mindanao and their potential role in regional economic integration.

One reason for the difficulty in tracking internally displaced people is that migration from rural to urban areas is a typical pattern in growing economies, commonly known as economic migration. Those who relocate to the peripheries of cities and other growth areas can take advantage of access to basic services and employment—characteristically absent in their remote rural communities. For Mindanao's urbanizing areas, analysts need to distinguish the patterns of migration arising from the flight of families from areas of conflict or tension because they have a different character from economic migration—posing additional challenges to local planning.

Migrants coming from situations of cyclical conflict also come from backgrounds of extreme poverty and isolation. Internally displaced households are more likely to be unprepared—in skills and savings—to assume beneficial new roles in the urban economy. Their social isolation can therefore be perpetuated even as their physical isolation from growth centers ceases to be a constraint on economic opportunity.

A map of internally displaced people in Mindanao shows that their locations strongly overlap conflict-affected areas (figure 1.3), indicating that displaced families flee to nearby locations and are likely to find ways to return to their communities when peace is restored. The transient nature of these settlers creates challenges for city planners (for example, see box 1.1). Because the actual count of residents in neighborhoods of displaced people may change frequently, city governments face an information gap that leaves them clueless or unresponsive to the needs of such groups.

Figure 1.3 Internally displaced people and conflict-affected areas in Mindanao, 2003



Source: Department of Social Welfare and Development 2003.

Urban communities that host displaced families find themselves receiving waves of conflict victims. Internally displaced people returning to their places of origin are replaced by new displacements, perpetuating overcrowding in displaced communities. As a result, it is common for two or three families to be sharing one roof in urban areas. While living under these conditions, displaced families are unable

to receive even basic forms of assistance, as relief goods are often channeled to evacuation centers or areas with large clusters of internally displaced people nearer the source of conflict. For some time after the height of a violent outbreak, urban internally displaced people, as well as the host families themselves, are often left on their own to find jobs, schooling, housing, and other basic services.

Box 1.1 Internally displaced people in Cotabato City

Located midway down the ARMM coast but not officially within its political jurisdiction, Cotabato City is the hub of commerce, educational institutions, financial services, and infrastructure for the region. With the highest population density in Mindanao (1,108 persons per square kilometer in 2000), it has well-developed services, including housing, tourism, retail trade, communications, and water and sanitation.

The city is surrounded by municipalities that have been sites of armed conflict between Moro forces and government troops since the martial law years of the 1970s. The predominantly Muslim communities are also prone to conflict arising from clan rivalries and feuds. These intermittent conflicts have driven hundreds of internally displaced families to evacuate to the city, and the recurrent nature of the conflicts has led families to settle there for long periods.

As in most other cities in Mindanao, city planners have scanty information on internally displaced persons, their

prospects of returning to their area of origin, and their special needs for post-conflict rehabilitation. Local planners in Cotabato City are aware of the in-migration of internally displaced people but have not undertaken a thorough study of the situation. An uncompleted assessment by the city government in 2006 found that roughly 7,000 households had settled in the city. Despite their numbers, they have not figured prominently in local plans and assessments—except for a recent study on housing backlogs in the city's Comprehensive Shelter Plans.

In the meantime, displaced families are left to eke out a living among the urban poor communities around Cotabato City. The blighted conditions in which they live—including waterlogging that causes serious health and sanitation threats—are in stark contrast to the modern amenities and high concentration of public service providers in the city center. Their presence explains the persistence of high poverty indicators in this modern and economically vibrant city.

In 2003 Cotabato City had a poverty incidence of 41.4 percent, higher than the national average (37.5 percent). The city also had more poor people—estimated at 72,100 in 2003—than any other city or municipality in SOCCSKSARGEN region, or even in the nearby ARMM province of Maguindanao. Perhaps this is the most telling evidence that Cotabato City is carrying a huge part of the burden of poverty in its area. And observers note that poverty has likely gotten worse in the past few years because uncertainties created by the 2006 impasse in the peace talks increased the rate of migration by conflict-affected communities.^a

Source: Local Government Unit of Cotabato City 2003, 2006; Mindanao study team.

^a The peace negotiations between the government and the MILF were officially suspended in 2006 and were not able to resume until after government abolished the peace panel in 2008. As of July 2009, preparations to resume peace discussions are starting again.



Jeepneys carry goods and people in rural routes. Tulumun, North Cotabato.



Harvesting rice in Midsayap, North Cotabato.

Copra is delivered to market centers by truckloads. Cotabato City.



Motorcycles carry goods and people in rural routes.

2 Unifying Mindanao

Mindanao has been able to reach global markets because it has taken advantage of opportunities presented by market reforms in recent decades, building on its natural endowments to generate agriculture-centered economic activity. Yet the pace of development has remained slow.

Mindanao is growing but not realizing its full economic potential relative to the rest of the country. From 1995 to 2005 Mindanao had an average annual growth rate of 3.8 percent—a reasonable accomplishment compared with growth rates of about 2 percent in the preceding two decades.¹⁰ But this rate lagged behind growth rates for Luzon (4.4 percent) and for the whole country (4.3 percent). Mindanao accounts for only 18 percent of national output in 1995–2005, far behind Luzon’s share (65.7 percent). And lagging growth in some regions perpetuates a pattern of uneven economic development across the entire country.

Growth centers have arisen, but the benefits have not reached the rest of Mindanao. Spatial disparities within Mindanao—and also between Mindanao and Manila—are inevitable in a growing economy such as the Philippines. Some areas are not as immediately able to benefit from concentration of economic activities as others. But in the long term the benefits of concentration can be shared with other areas through economic integration, resulting in improved living standards for all.

What are the barriers to Mindanao’s economic integration and growth? Three dimensions of economic geography—density, distance, and division—can help explain the interrelationships of Mindanao’s growing and lagging areas (see box 1 in the Executive Summary).

Economic density is uneven, growth confined to a few coastal cities

Mindanao’s economic density is relatively flat compared with Luzon, which is home to Metro Manila, and the Visayas, home to Cebu City. But there is increasing density in five cities that have opened to trade with growing markets abroad and where growth in the industry and services sectors surpasses agriculture. This recent urban growth has generated a network of secondary growth areas benefitting from the economic spillover of leading areas and linking the rural economy to opportunities for trade and specialization in the port cities. At the regional level this growth has been uneven,¹¹ concentrated in Northern Mindanao, SOCCSKSARGEN region, and the Davao region.¹²

The least economically dense areas invariably have location disadvantages, such as the remote islands of the Autonomous Region in Muslim Mindanao (ARMM) and the hinterlands of the Caraga region. Even the existence of rich mineral resources has not been able to generate economic activity in some of these remote lagging areas. The ARMM and the Caraga region had the least growth in Mindanao—and in the whole country, as measured by regional gross domestic product in 2004–06. These were also the only two regions to register a negative growth rate during 1988–2005.¹³ The historical pattern of long-term deviation from the national growth benchmark by regions such as the ARMM indicates widening spatial disparity among regions that may not easily converge in the near future.¹⁴

Growing cities

Urbanization is usually a sign of increasing economic density because cities provide two key conditions: concentrated labor and capital. Mindanao's top-ranked cities and municipalities (table 2.1) include a number of secondary cities and municipalities that are emerging as new growth centers: Cotabato City, Valencia, Polomolok,

centers of Cagayan de Oro, Davao City, and General Santos City. The location of these medium-growth areas indicates economic convergence among the three leading cities and neighboring communities. For example, the neighboring municipalities and cities of General Santos City have benefited tremendously from its accessibility to markets both domestic and global (see box 2.1 on the city's integrated economy).

Table 2.1 Top 10 Mindanao cities and municipalities in indicative output growth, 2000–2006

Rank	City or municipality	Province	Indicative output growth (%), 2000–06	Population growth (%), 2000–06
1	General Santos City	South Cotabato	5.4	4.1
2	Cagayan de Oro City	Misamis Oriental	4.4	2.3
3	Iligan City	Lanao del Norte	3.5	1.0
4	Davao City	--	2.9	2.6
5	Zamboanga City	--	2.4	3.6
6	Cotabato City	--	1.7	5.2
7	Valencia	Bukidnon	0.7	2.0
8	Polomolok	South Cotabato	0.7	1.6
9	Koronadal	South Cotabato	0.7	1.8
10	Alabel	Sarangani	0.7	2.1

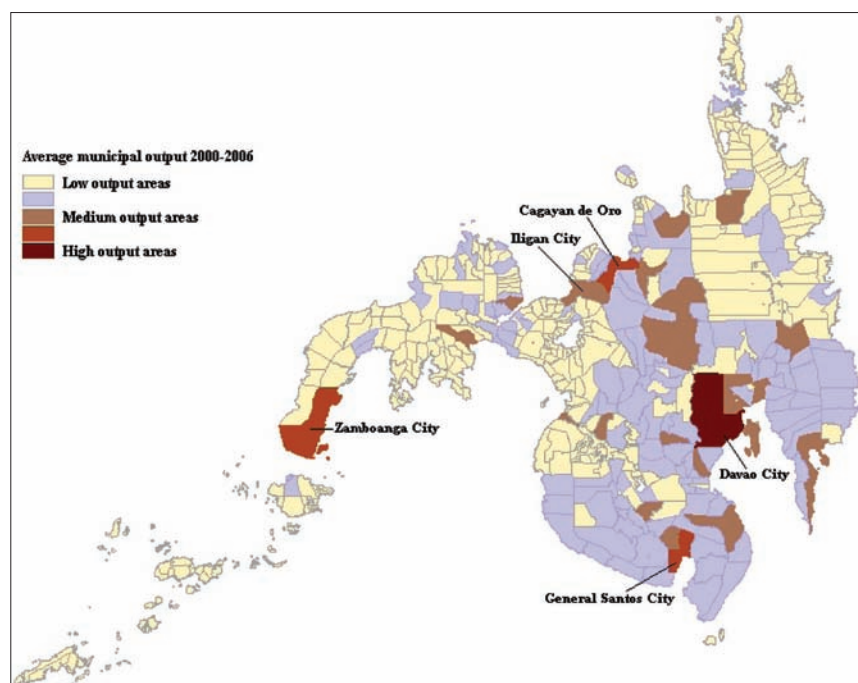
Source: Mindanao study team estimates. Figures for city and municipality outputs are indicative (see appendix on the methodology).

Koronadal, and Alabel. Of the top 10, the leading six cities have much higher average growth rates than the next four, indicating wide economic disparity across even top cities and municipalities.

Important for the economic development of the island, these 10 top-ranked cities and municipalities share the typical characteristics of growth centers worldwide, such as coastal access and globally integrated markets. With strong service sectors, they tend to rely on external markets (including Manila and foreign trading partners) rather than on inner areas of Mindanao. Their wide dispersal throughout the island is a positive feature, creating greater potential for their economic success to spill over to a wider geographical area (figure 2.1).

The geographic distribution of municipal output (see figure 2.2) indicates the existence of several medium-growth areas, especially near the growth

Figure 2.1 Average municipal economic output in relation to the top five cities, 2000–2006



Source: Study team estimates.

Lagging areas

Economic density is not spread evenly across Mindanao. At the other extreme are the lagging areas that have posted minimal growth in the recent past and are seemingly unable to benefit from the growth in other parts of the island.

A closer look at Mindanao's bottom 10 cities and municipalities (table 2.2) reveals that the areas most excluded from growth are physically remote from growth centers: parts of Caraga region and the ARMM, including municipalities in the southernmost island provinces of Sulu, Tawi-tawi, and Basilan.

Table 2.2 Bottom 10 Mindanao cities and municipalities in indicative output growth, 2000–2006

Rank	City or municipality	Province	Region
430	Turtle Islands	Tawi-tawi	ARMM
429	Hadji Panglima Tahil	Sulu	ARMM
428	San Benito	Surigao del Norte	Caraga
427	San Isidro	Surigao del Norte	Caraga
426	Lantawan	Basilan	ARMM
425	La Libertad	Zamboanga del Norte	Region 9
424	Bumbaran	Lanao del Norte	Region 10
423	Tubahon	Surigao del Norte	Caraga
422	Maluso	Basilan	ARMM
421	Bayabas	Surigao del Sur	Caraga

Source: Data from the National Statistical Coordination Board, 2000–2006.

Box 2.1 Growth and poverty in General Santos City

General Santos City in South Cotabato Province, popularly known as “GenSan,” is the third most highly urbanized port city in Mindanao. It has world-class infrastructure, including a good road network, an airport with 3.2 kilometers of runway, a three-berth fishport, and an expanded seaport, allowing access to all points in the country by land, sea, or air transport. Taking off in the 1980s, the city's growth comes mainly from exports of processed agricultural commodities such as tuna, bananas, pineapples, and coconut.^a Its largest export destination is the United States, followed by the Netherlands, Japan, Singapore, and Germany. The city's high level of economic specialization is evidenced in its tuna industry—known to produce sashimi-grade meat for the Japanese market—and canneries, which comprise the bulk of the country's canned fish output.

The city's 5.1 percent annual population growth is due in large part to in-migration from nearby rural areas. Although the city's economic take-off was based on its agriculture and marine resources, its recent growth (2004–06) has come from services and industry. Growing consumer demand has spurred a boom in the services sector, including a

financial sector comprising 42 commercial and savings banks, 46 microfinance institutions and 94 nonbank financial intermediaries.

The prosperity enjoyed by General Santos City is not spread evenly across social groups. In 2000 about 32 percent of the population was considered poor and about one in every five workers could not find jobs. About 10 percent of households live in informal settlements, often located in danger zones such as river banks, seashores, and road right-of-ways. Intracity disparities among ethnic groups are also evident: three interior barangays have a high concentration of Indigenous People and Muslim households—and some of the poorest living conditions in the city.

Poorer families choose to stay in General Santos City despite blighted conditions in informal settlements because of the city's economic opportunities. Most of them come from parts of Mindanao with low-growth municipalities.

Source: Mindanao study team.

^aBased on 2005 data reported by the Bureau of Customs.

Apart from physical remoteness, other problems have discouraged economic density in the island provinces of ARMM, including ethnic tensions, unequal distribution of land and resources, political corruption, and chronic conflict. (See box 2.2 for a case study of Maluso municipality on Basilan island.)

The lagging areas of Caraga region did not develop economic density for different reasons than those in the ARMM. For decades the provinces of Surigao and Agusan relied on the production of mineral ores and logs shipped to other domestic and foreign markets in unprocessed form. Internal road networks consisted of old logging roads and trails that allowed extraction at low cost. This insufficient transport network kept most of the Indigenous Peoples communities—the bulk of the poor in Caraga region—isolated from growth centers. The dispersed rural populations and poor transport network partly explain why economic density did not grow as quickly as in other areas of Mindanao.

Building density through mining: the answer for Mindanao's lagging areas?

Any plan to develop Mindanao cannot ignore the island's rich endowment of mineral resources yet to be exploited commercially. Expanding investment and production to jump-start local economies could offer a development alternative for isolated and remote lagging areas that can harness their natural advantage and proceed regardless of economic integration with other places. The sustainability and costs of this kind of development are still under debate.

Mining's share of wealth and employment has been dropping significantly in recent years. Conflicts are common between mining companies and local communities, as the sector has no effective system of restraining irresponsible behavior of small- or large-scale mining operators. Mining companies are accused of disregarding community consultations and of not fulfilling commitments to host communities. Many prominent legal cases and pending complaints accuse mining firms of environmental violations, militarization,

Box 2.2 Conflict and division impede economic density in an island province of the ARMM

The municipality of Maluso (ranked 422 of 430 municipalities in output growth) is located in the island-province of Basilan, host to vast plantations of rubber, coconut, and palm oil that successfully traded with foreign markets in the 1950s and the 1960s. Investors from the U.S. and Europe as well as wealthy families from Zamboanga, Negros, and Luzon flocked to the island in the early 1900s, bringing capital, technology, plantation managers, and workers for modernizing agriculture. While production and trading prospered in the island, there were no effective institutions to enable Muslims and Indigenous People to collaborate with settlers and become part of these economic changes in an equitable way. Peaceful coexistence prevailed for many years, but lack of interaction among groups led to significant changes in the social geography of Basilan. Muslim tribes of Tausugs and Samals converged in coastal towns, living in houses on stilts at the water's edge of population centers. An Indigenous Peoples tribe of Yakans was driven far inland to live

in dispersed locations amid jungle and coconut groves. The Christians, composed of plantation workers recruited from all over Mindanao and Visayas, settled in the plains where the plantations and cities were located.

The most obvious evidence of spatial disparity is land ownership: migrant Christian groups own most of the arable land and nearly all of the businesses. Indigenous People have claims to ancestral domain claims not yet formally demarcated and titled, and Muslim fishing communities of Tausugs are totally deprived of land. The economic decline of Basilan started with a Muslim uprising in 1971, and chances of recovery are slim given the intermittent outbreaks still occurring in the area.

Apart from security risks, serious investors and traders must be driven away from transacting businesses in Basilan by the complete absence of formal and informal institutions to provide order and reduce uncertainties. Development workers in Basilan explain that local political

structures lack credibility because of tainted elections and assassinations, and because locally influential clans control representation and use of public funds. Perhaps the island's lack of institutions enabled lawless armed elements to thrive and two warring clans to frequently resort to violence in competing for political and economic control.

The tragic effects of these events weigh heavily on the municipality of Maluso, composed mostly of Tausug fishing communities. Some of its barangays are known as no-man's-lands, with entry and exit controlled by informal armed groups. The possibility that Maluso will find its way out of this conflict trap has become more remote with the scuttling of the peace process with the MILF in 2008 and with recent government threats to launch a massive attack on the island to wipe out armed criminal groups.

Source: Mindanao Trust Fund-Reconstruction and Development project reports 2009; Mindanao study team.

encroachment in protected areas, and destruction of forests and fishing grounds.

Governance of the mining sector is severely challenged—and subject to well-publicized and polarized debate. The national government regulates the mining industry through the Department of Environment and Natural Resources. National mining policies and rules are unclear, conflict with each other, and overlap other laws such as the Environmental Impact Assessment system and the Indigenous Peoples Rights Act. Many illegal small-scale mining activities are tolerated, official data on production is unreliable, and there is no systematic monitoring of environmental damage by state institutions.

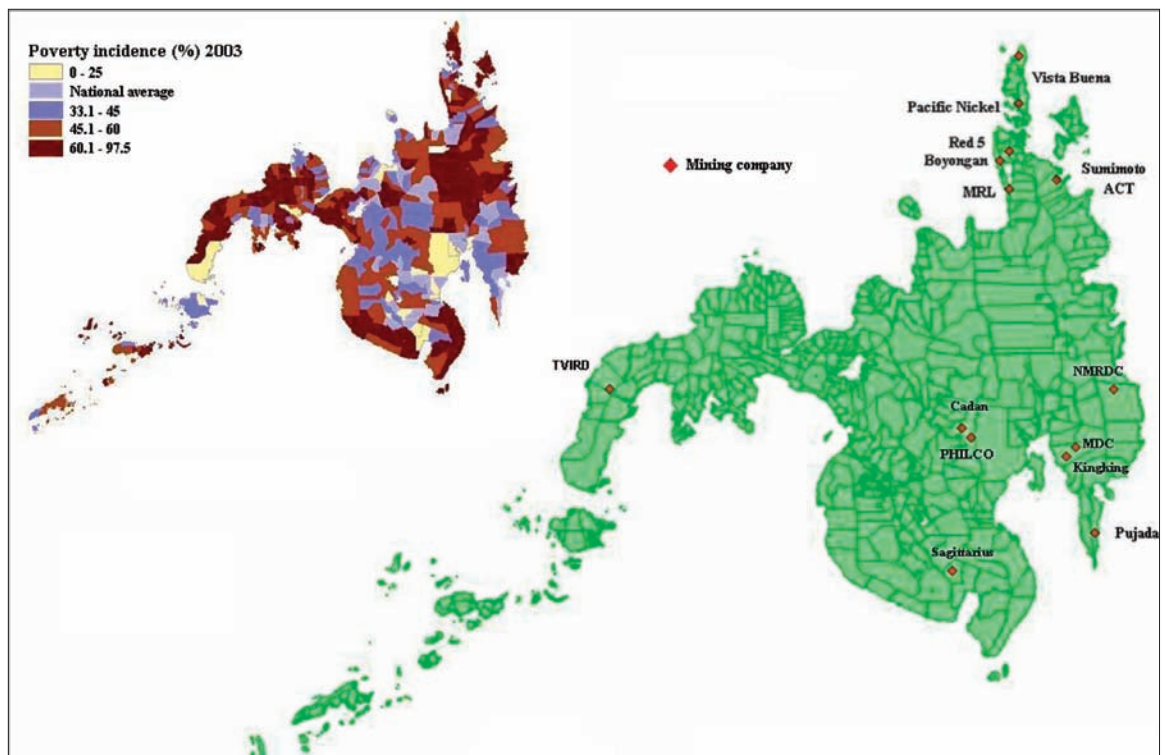
There are many cases of overlapping mining claims. Some of the areas under dispute are within ancestral domain lands belonging to Indigenous Peoples communities whose rights are protected by a separate legal and administrative framework. Local governance and democratic structures exist to protect the interests of affected communities, but political power is held by a few families whose governance had not been challenged by

serious opponents outside their family networks for many generations.

The sad state of the mining industry limits Mindanao's options for changing its fortune. Observers do not report much activity to improve the conditions in mining areas, but the government continues to process mining permits (called mineral production sharing agreements).

Currently, mining operations are geographically concentrated in the Caraga region in the northeast (figure 2.2). Perhaps the largest contiguous area that has not experienced substantial growth over the past 10 years, the Caraga region has one of the biggest nickel deposits in the world and significant chromite, gold, and iron resources. Nickel ores are more than 90 percent of the Caraga region's total export value, going mainly to China.¹⁵ Small-scale gold mining operations provide incomes for local miners and related business establishments in many parts of the region. As of first quarter 2009, there were 40 approved mineral production sharing agreements in the five provinces of Caraga region covering 92,937 hectares, with 71 applications in the pipeline for almost 250,000 hectares.

Figure 2.2 Location of mining operations and poverty incidence, 2003



Source: DENR; National Statistical Coordination Board 2003.

What will happen to Mindanao if government liberally opens up these areas for production? From a purely cost-benefit standpoint, many observers believe that the social and economic costs associated with mining outweigh the likely benefits to the local economy (see box 2.3 for the costs to one municipality in SOCCSKSARGEN region). Abundant resources can be a curse for underdeveloped economies because the large resource rents are strong incentives for vested interests to control economic power and hinder the development of accountable local governance institutions.¹⁶ The experience of other economies suggests that, even when policies are reasonable, emphasis on extractive, high-value primary

commodities effectively closes off opportunities to diversify into manufacturing and services where growth in density can be more sustainable.

Despite the problems associated with mining, the government realizes that the people in resource-rich hinterlands, mostly indigenous tribes, will continue to rely on mining as a vital source of livelihood in the absence of viable alternatives. Stakeholders remain divided over whether the development of the mining industry can and will transform lagging regions into high-growth areas and provide much-desired prosperity for residents and claimants.

Box 2.3 The costs of mining in T'boli municipality

The people of T'boli municipality—both Indigenous People and settlers—are proud of the riches of their land. Aside from being located in the hinterlands of the SOCCSKSARGEN region where the weather is cooler than in the neighboring capital, Koronadal City, the rugged terrain and sloped surfaces of the municipality have been ideal for traditional farming by the indigenous population for many years. The isolated, steep T'boli mountains abound with timber and other forest resources. But more than anything, the local people, of which the T'boli tribe is a majority, are mindful of the untapped gold deposits there. In 2006 the regional chief of the Mines and Geosciences Bureau, Jaime Flores, reaffirmed this by noting that T'boli may have more than four metric million tons of gold—despite almost two decades of extraction through small-scale mining during the gold rush in the early 1990s.

With the promise of good fortune, small-scale miners started pouring in from nearby villages and provinces, mainly from the Davao region. As early as the 1980s, Barangay Kematu, the capital of T'boli, became an attractive destination for these fortune-seekers. Before the gold rush, Barangay Kematu had only 5,000 inhabitants; this number

swelled to 40,000 in only six months with the influx of people wanting to work in the mining industry. The high demand for services and other business establishments such as eateries, lodging houses, beauty parlors, disco houses, funeral parlors, and ball mills for the extraction left an enduring mark on the town. The local economy was full of job opportunities and the local government benefited by raising its revenues to PHP1.8 million from the mining permits and licenses secured by mining operators and other investors in the early 1990s.

Today it seems that all the promises made by gold were only a fool's fortune. Illegal mining and logging have made Kematu a victim of its own success. The once vast forested hills are now eroded and the rivers have dried up. The remaining water resources, including underground sources, are poisoned by mercury and cyanide, used in separating gold from mined ores. School attendance has dropped as children, mostly elementary and high school students, prefer to work in the mines. The most recent (2003) municipal poverty statistics give T'boli a poverty incidence of 66.5 percent, the highest among all municipalities in the SOCCSKSARGEN region.

Corruption has become blatant, with government officials reportedly

extorting not only the bigger operators but also independent landowners and tunnel operators in exchange for permits and security. Mechanisms to regulate operations are notoriously absent or weak because of conflicting legal frameworks that govern the assignment of access rights and responsibilities. These unfortunate developments have revived old sentiments about the struggle of Indigenous Peoples to assert their cultural identity and ancestral domain claims.

The failure—or absence—of state institutions and the infirmities of existing legal provisions elicit feelings of insecurity over any economic activity among the T'boli people and perpetuate their isolation from the rest of the economy. This isolation bars them from opportunities to harness their natural resources and prospective sources of capital, technology, and markets for mineral products. And—most importantly—it keeps them from prospective partners for sustainable and environmentally sound mining practices and benefit sharing.

Source: Mindanao study team based on interviews with NEDA staff in SOCCSKSARGEN Region and municipal government officials, April 2009.

Poverty

The relationship between economic density and the geographic distribution of poverty in Mindanao is complex. The Brunei Darussalam-Indonesia-Malaysia-the Philippines East ASEAN Growth Area (BIMP-EAGA), an outward-looking 1994 development strategy to increase international trade by establishing a “growth quadrangle” in the region, shaped the economic landscape of Mindanao, especially its coastal leading areas. But this strategy has not yet sufficiently leveraged the whole of Mindanao, outside its leading areas, to improve the welfare of its residents. Poverty incidence—the percentage of the population who fall below the poverty threshold—in all regions of Mindanao was higher than the national average (32.9 percent) in 2006 and increased from 2003 to 2006 in all regions except the Northern Mindanao and Davao regions. This pattern is consistent with the development path of successful cities in other parts of the world, where disparities in productivity and welfare between leading and lagging areas can occur at the initial stage of economic development.

Poverty incidence is unevenly distributed across Mindanao in a pattern that roughly reflects the map of economic density. At the regional level poverty incidence ranges from 36.6 percent in the Davao region, home to the high-growth area around Davao City, to as high as 52.6 percent in the Caraga region and 61.8 percent in the ARMM, both lagging areas (table 2.3). This pattern is even more pronounced at the provincial and municipal levels (see the left-hand map in figure 2.3). The municipalities around the high-density growth centers of Zamboanga

City, Cagayan de Oro City, General Santos City, and Davao City have a lower poverty incidence than the national average. In contrast, in many of the municipalities in the low-density Caraga region and the ARMM, more than 45 percent of the people are poor. The relative scarcity of high-density areas in Mindanao may partly explain the island’s widespread poverty.

But this does not mean that Mindanao’s poor live mainly in lagging areas. A different pattern is revealed by mapping another government indicator, poverty density—the estimated number of people who are poor in each municipality. Poverty density indicates where the poor are actually located, while poverty incidence indicates what percentage of people in a place are poor. Many Mindanao growth areas have high poverty density despite low poverty incidence (see the right-hand map in figure 2.3). Although there are dense clusters of poor people in economically lagging areas of the ARMM and Caraga region, much larger numbers of poor reside in the economically dense parts of Mindanao, including the growth areas of Cagayan de Oro, Davao, General Santos, and Zamboanga cities. They also line the coastal areas of Northern Mindanao, the island’s fastest growing region.

Mindanao’s poverty density data illustrate the slow and uneven process of economic convergence in developing economies. Growing areas of high economic density attract poor migrants from low density areas, drawn by better job opportunities. This labor migration increases the number of poor living in high-density areas. Local resources and infrastructure will determine how quickly living

Table 2.3 Average regional poverty indicators, 2006

	Region	Poverty incidence (%)	Rank in poverty incidence among regions	Poverty magnitude (millions of people)
Region 11	Davao Region	36.6	10	1.5
Region 12	SOCCKSARGEN Region	40.8	8	1.5
Region 10	Northern Mindanao	43.1	7	1.7
Region 9	Zamboanga Peninsula	45.3	6	1.4
Region 13	Caraga Region	52.6	3	1.2
ARMM	Autonomous Region in Muslim Mindanao	61.8	1	1.2
	Philippines	32.9		27.7

Source: National Statistical Coordination Board, Family Income and Expenditures Survey 2003.

Note: Rank refers to the region’s position in poverty incidence with respect all 15 regions in the Philippines.

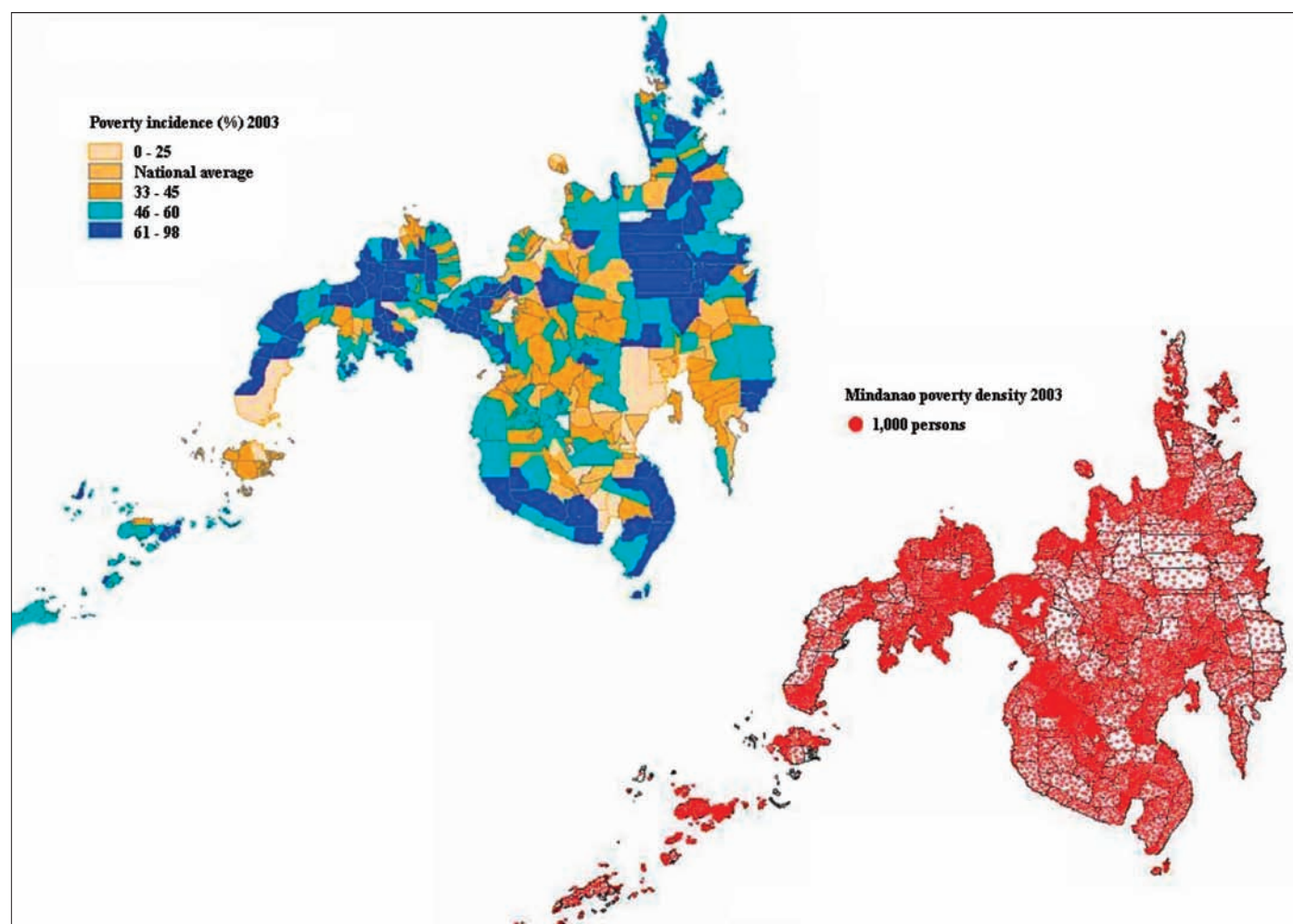
standards improve for the new urban poor, as well as how quickly and widely the benefits of economic density spill over into lagging areas.

What do the poverty density data suggest about current development policy? Targeting the lagging areas to stimulate economic activity can uplift the conditions of the poor residing there, but such a strategy could be ignoring the fact that a greater majority are flocking to urban areas. Public investments to sustain the growth of economic density in urban areas are hardly seen as pro-poor, but the migration of the poor into urban areas makes these investments important for poverty reduction in Mindanao as a whole. This does not mean, however, that lagging areas should be given less priority. Rather, policymakers should be aware of possible weaknesses in targeting rural poverty alone and of the important need for spatially

neutral basic services. Only through investments in human capital can government enable its citizens to realize their full potential, whether they reside in a low-growth or high-growth area, and to benefit from increasing economic density through migration and mobility.

Sparsely scattered areas of economic density help to explain why three-quarters of municipalities in Mindanao—mostly rural—had negative or no growth during 2000–06. But planners also need to pay attention to how poverty mass is building up on the urban fringes of Cagayan de Oro, Cotabato, and Davao cities—areas of high economic density. And planners need to examine the reasons for misplaced poverty density in Central Mindanao, which has some of the lowest growth indicators on the island—particularly imagined or real barriers to migration to the better-off areas.

Figure 2.3 Municipal poverty indicators in Mindanao: poverty incidence and poverty density, 2003



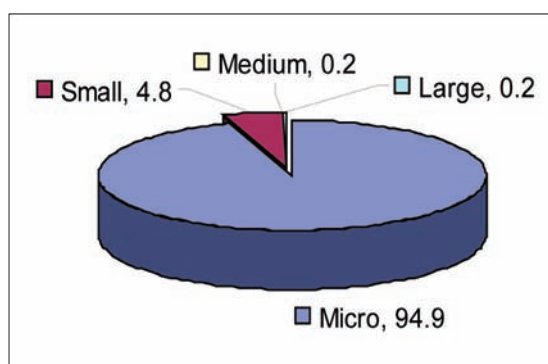
Conflict and economic density: output growth in conflict areas

Conflict has shaped the pattern of economic density in Mindanao by inhibiting growth and development in some conflict zones. Since 2000 the population-weighted growth rate of nonconflict zones has been higher than that of conflict-affected areas, except in 2002 (figure 2.4). Mindanao's growth peaked in 2002, fueled by resources, investments, and Official Development Assistance that poured into isolated, conflict-ridden areas in Western and Central Mindanao after the new Macapagal-Arroyo administration promised to restore peace negotiations. Such high growth in conflict areas—and Mindanao as a whole—proved to be short-lived; 2002 was the only year that growth in conflict zones outpaced growth in nonconflict zones.

The largely agricultural nature of Mindanao's conflict-affected areas also affects their economic density. Much of the trade in agricultural outputs in the developing world consists of small and anonymous transactions typical of a “flea market economy.”¹⁷ The most approximate indicator of flea market economy transactions is the prevalence of microenterprises in an area. Microenterprises constituted 94.9 percent of the 119,945 business establishments in Mindanao in 2002 (the most recent data available; figure 2.5). Small-scale enterprises constituted 4.8 percent, and medium-scale and large-scale enterprises, 0.2 percent.

About 60.9 percent of Mindanao microenterprises are found in conflict zones (table 2.4). Keeping businesses anonymous and small appears to be a risk-management strategy in conflict areas because it gives owners more mobility if tensions and militarization escalate. But anonymous and small transactions also limit the potential of businesses to benefit from agglomeration economies. For example, export-oriented firms are wary of including small and anonymous establishments in their network of suppliers because of the difficulty enforcing trade contracts and the high cost of using

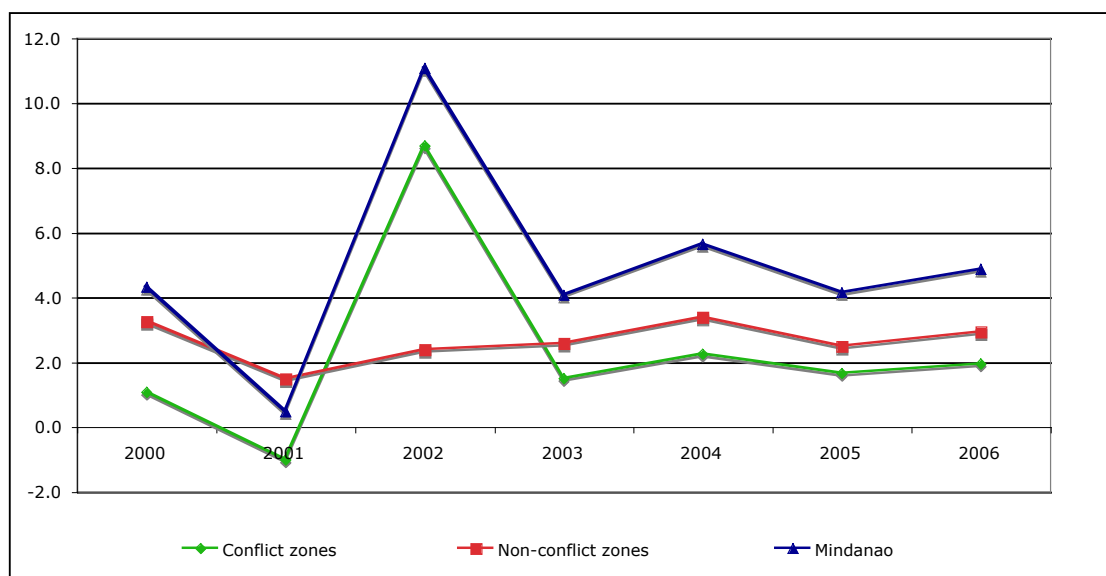
Figure 2.5 Percentage distribution of establishments in Mindanao, by size, 2002



Source: National Statistical Coordination Board; Mindanao study team estimates.

Note: Available data permit disaggregation only at the provincial level.

Figure 2.4 Annual population-weighted growth (%) in Mindanao's conflict and non-conflict zones, 2000–2006



Source: Data from the National Statistical and Coordination Board and National Statistics Office; Mindanao study team estimates.

Table 2.4 Percentage distribution of microenterprises in Mindanao, by conflict and integration status, 2002

	Less integrated areas	Highly integrated areas	All areas
Conflict zones	35.6	25.3	60.9
Non-conflict zones	17.6	21.5	39.1
Mindanao total	53.2	46.8	100

Source: National Statistical Coordination Board; Mindanao study team estimates.

many small, personal transactions to assemble sufficient volume to export. And conflict areas often lack the institutional infrastructure to support larger enterprises. Weak local governance, including the judicial system and police force, can make it difficult to enforce contracts. If contracts and agreements are difficult to enforce and commitments to deliver are not credible, trade will thin out. Unsurprisingly, Mindanao's highly integrated areas—those well-connected to markets and growth centers—have fewer microenterprises.

Distances to markets are lengthened by conflict

Whether the prosperity in a growth center can spill over to its neighbors and other areas in Mindanao depends on the economic distance between them—how easy it is to exchange goods, services, labor, capital, information, and ideas.

One reason a region's economic density grows is because natural or manmade environmental conditions reduces economic distance to markets.¹⁸ Usually referred to as the “first advantage,” these conditions include proximity to coasts and river systems, access to inputs and raw materials for production, and transportation, infrastructure, markets, and institutions that support growth. A region can also experience rapid growth because of its “second advantage”: proximity to growth centers. Densely packed areas have more room for technological spillover and learning, as well as thick markets of skilled laborers and suppliers. These economies of scale are external to any individual business but can also lead to economies of scale inside each business, such as greater specialization or expanding operations. Expanding businesses, in turn, strengthen the density of economic linkages; they attract, develop, and expand networks of

suppliers. Areas with the first and second advantages can attract in-migration, rapid growth, higher productivity, integrated markets and locations, and a higher standard of living.¹⁹

Despite its many coastal municipalities, Mindanao has not optimally exploited its first advantage (geographic location) because it has not sufficiently paid attention to how infrastructure and institutions can reduce distances between its isolated areas and its ports. By December 2006 Mindanao had 7,929 kilometers of national road, 56.1 percent in fair to good condition and 43.9 percent in bad to poor condition. Because about 94.3 percent of Mindanao's 68,409 kilometers of bridges are of permanent construction, waterways are not a major constraint to land transportation along the arterial and secondary road network. Mindanao also has 24 airports—three international (located in Davao, General Santos, and Zamboanga cities)—and seaports in all major coastal cities.

The coastal municipalities in western Mindanao are accessible to economic centers in Malaysia, but these municipalities are ravaged by conflict—a manifestation of weak institutions. And regardless of their conflict status, many municipalities in Mindanao fail to benefit from global markets because they are weakly integrated with—distant from—the five growth centers of Cagayan de Oro, Davao, General Santos, Iligan, and Zamboanga cities. Because they are weakly integrated, markets are thin, economic activities limited, transactions and firm size small, and room for growth dismal.

To illustrate the interplay between the output of a city or municipality and its distance to growth centers, this study uses a spatial proximity indicator²⁰ that captures the relative economic importance of a city or municipality in terms of its physical distance to the five growth centers: Cagayan de Oro, Davao, General Santos, Iligan, and Zamboanga cities (see the appendix on calculating the indicator).

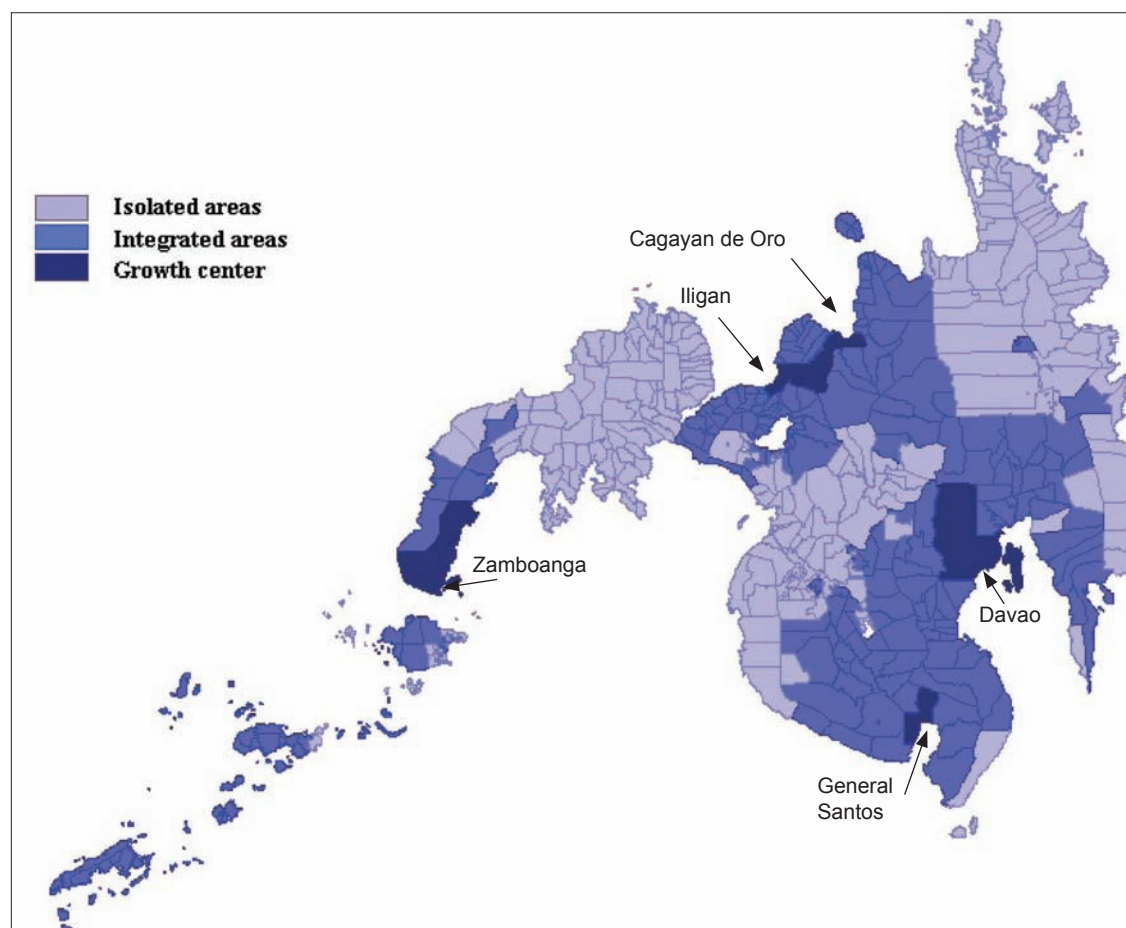
For this study, an integrated city or municipality is defined as a locality with a proximity indicator value greater than or equal to the median score. Integrated cities and municipalities capture the advantages of agglomeration economies. An isolated city or municipality is a locality with a proximity indicator value less than the median score. (See figure 2.6 for Mindanao's isolated areas, integrated areas, and growth centers as identified by the proximity indicator.)

There is a direct relationship between proximity and municipal output growth. Areas surrounding growth centers—such as the Island Garden City of Samal near Davao, Polomolok in South Cotabato province near General Santos City, and Alabel in Sarangani near General Santos City—have well-integrated markets and growing municipal output. Of the top 10 well-integrated cities and municipalities, seven are found in central Mindanao near Cagayan de Oro: El Salvador, Opol, and Tagoloan in Misamis Oriental; Tagoloan and Bacolod in Lanao del Norte;

and Libona and Malitbog in Bukidnon. The most isolated municipality in Mindanao is Mapun, an island in Tawi-Tawi province off the Zamboanga peninsula, followed by municipalities in the Caraga region.

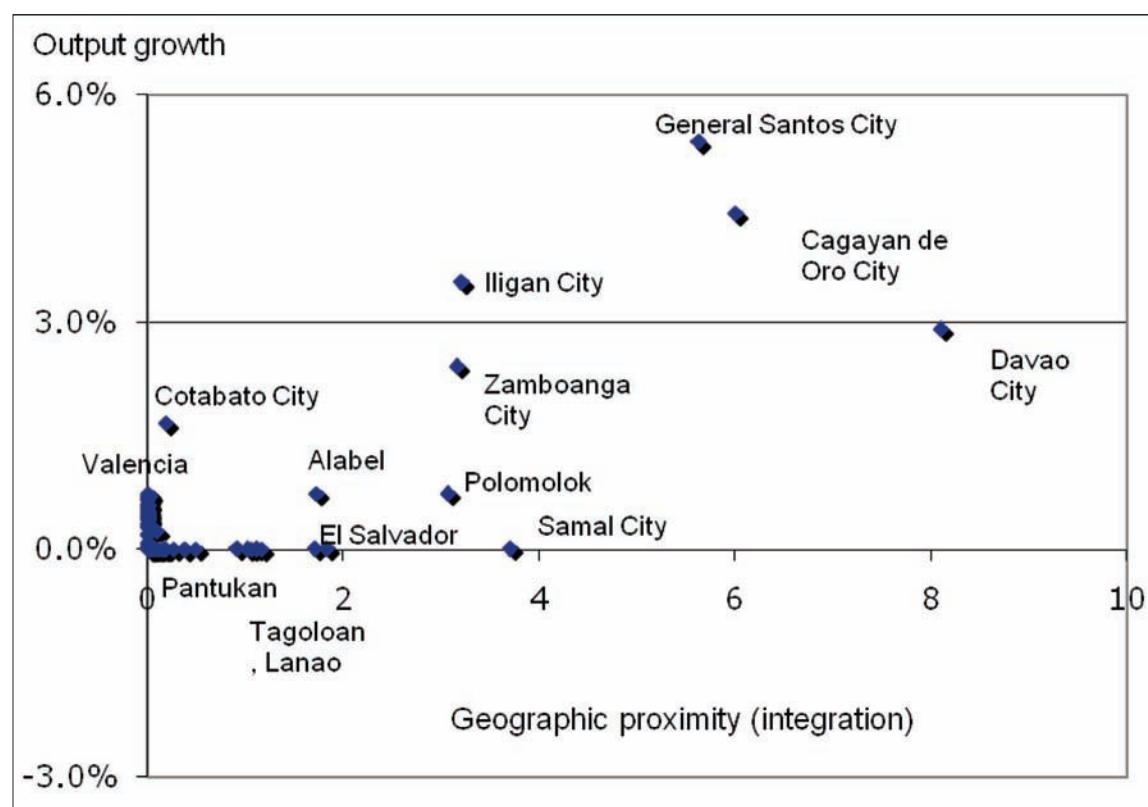
The correlates between output growth and proximity support the view that geography matters (figure 2.7). The top 10 highly integrated areas experience high growth rates, as does Cotabato City, a relatively integrated city. Isolated cities and municipalities experience low growth. An emerging network of secondary urban centers are able to take advantage of their efficient links to the main growth centers and in themselves have demonstrated capacity for increasing economic density. More importantly, they complement the needs of the main growth centers with a growing services sector (educational institutions, banking networks, trading companies) while providing economic opportunities for producers and integrators in the interior municipalities (box 2.4).

Figure 2.6 Economic distance to Mindanao's growth centers, by municipality



Source: Mindanao study team estimates (see appendix).

Note: Economic distance is based on proximity indicator value (see appendix). An integrated city or municipality is defined as a locality with a proximity indicator value greater than or equal to the median score. An isolated city or municipality is a locality with a proximity indicator value less than the median score.

Figure 2.7 Output growth and proximity of cities and municipalities in Mindanao, 2000–2006

Source: Mindanao study team estimates.

Note: Geographic proximity/integration is based on proximity indicator values (see appendix).

Box 2.4 The benefits of proximity: Koronadal

The benefits of proximity to growth centers are illustrated by the case of Koronadal. The capital of South Cotabato, Koronadal officially became a city less than eight years ago. It is about 56 kilometers from General Santos City, accessible by a well-designed and well-maintained national road. Ranked among the top 10 integrated areas in Mindanao, its increasing density is evidenced by a population growth of 7.4 percent in 2006 and the location of many commercial establishments. The rural-urban composition of its population is roughly 50-50; the majority (70 percent) composed of Christian settlers, with Muslims and an Indigenous Peoples group, the B'laan, comprising the rest.

Koronadal City is part of a sprawling network of secondary urban centers in Mindanao whose

emergence manifests the prospect for economic integration.

The growth potential of Koronadal City lies in its physical advantage— accessible to General Santos City—and its ability to provide many urban services similar to those of growth centers. Yet Koronadal does not appear to be competing with General Santos City as an alternate business location. Instead, it is developing its services sector to complement the export industries of the region. Koronadal is now gearing up to become a model regional government center by nurturing the convergence of knowledge (through its educational institutions), information and communications technology, and industry and trade associations.

Koronadal's parent region, SOCCSKSARGEN, is also planning to channel major investments to

develop growth corridors for the increasing volume of people and goods moving between its growth center, General Santos City, and its northern municipalities. Substantial investments are already improving roads and bridges; further efforts simply have to focus on maintenance and traffic management. To extend the benefits of connective infrastructure, planners should pay greater attention to the provincial and municipal links secondary growth centers such as Koronadal provide to the region—ensuring that investment translates to broad-based growth and greater convergence of economic opportunities and living conditions in the area.

Source: Mindanao study team based on interviews and economic data from NEDA SOCCSKSARGEN Office, April 2009.

Economic integration and growth in conflict areas

Conflict causes uncertainties, forced outward migration and declining economic activity. The frequency, scale, and magnitude of conflict risk affect local investors' decisions and choice of investment activity and rural households' choice of agricultural production activity. A typical investor or farmer will adjust his or her portfolio of productive activities in response to a particular type of conflict and its consequences. So an area's outputs and production modes do not reflect only its natural endowments or comparative advantages. People decide what to produce and what to invest in depending on the kind and extent of conflict that they have learned to anticipate in their own area. The result: some conflict-ridden areas can achieve greater economic integration with growth centers than others (figure 2.8).

In Mindanao's western coast, conflict induced by armed bandits such as the Abu Sayyaf is mobile, frequent, sporadic, scattered, and small-scale, creating highly unpredictable risks for farmers. The most likely portfolio of agricultural products chosen by a local farmer in areas affected by Abu Sayyaf-related conflict

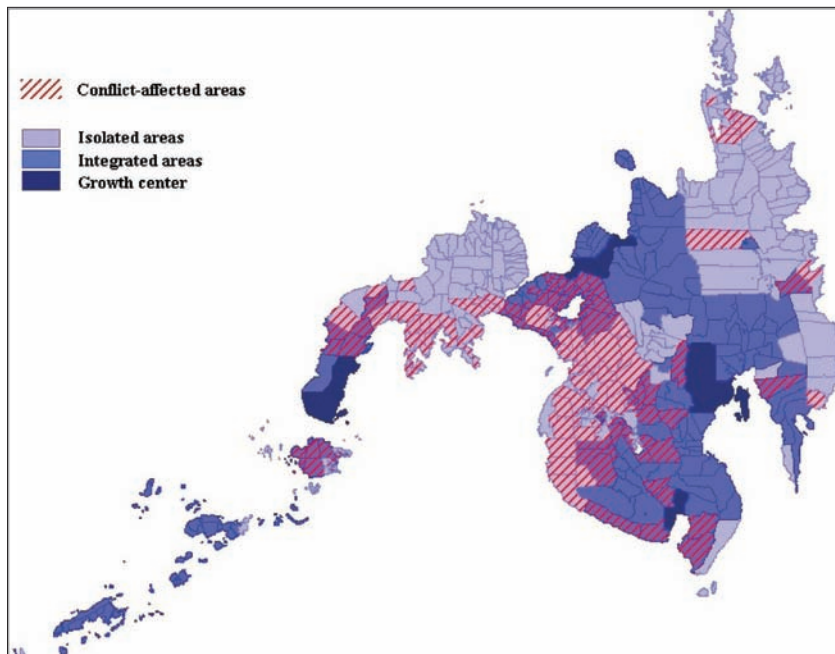
consists of crops with short-term or short rotation and with smaller volumes of output involving little value-adding technology (such as small-scale fishing and seaweed). In a conflict area a rural household is likely to experience large windfall losses if it invests its resources and household members' time in cultivating investment-intensive agricultural products that can be disrupted by conflict. Except for mango, agricultural products produced in these conflict areas are less correlated with the season, including calamansi, camote (sweet potato), cassava, coconut, rubber, and seaweed. And the volume of production of high value-added and agricultural commodities that require lumpy investments (such as banana, pineapple, sugar cane, and tobacco) is least in areas affected by Abu Sayyaf-related conflict.

Farmers choose different agricultural products in areas where risk of conflict is less frequent, less sporadic, less mobile, and relatively confined, such as the hostilities between the Philippines government and the Moro Islamic Liberation Front (MILF) in central Mindanao. Despite intermittent skirmishes between government and MILF forces, conflict has been contained by a ceasefire agreement, giving rural households and small investors in most of central Mindanao relatively more opportunity to make long-gestating investments. Major agricultural products produced in cities and municipalities affected by government–MILF conflict can include banana, coconut, corn, mango, palay, rubber, and tobacco.

Rido's economic effects are more varied than other types of conflict (figure 2.9). Because *rido* can be intergenerational, it may impose tighter constraints on production and investment decisions. The risk caused by *rido* is highly localized in areas of central Mindanao, but the magnitude of risk can be very high where large clans are involved, such as in Basilan, Lanao del Sur, and Maguindanao. So agricultural commodities produced in *rido*-infested areas vary in lumpiness, added value, crop rotation, and correlation with the seasons. These commodities include banana, cabbage, calamansi, camote, cassava, coconut, coffee, corn, eggplant, mango, mung beans, onion, peanut, pineapple, rice, and rubber.

Insurgency and counter-insurgency activities in areas where communist New People's Army (NPA) rebels operate affect business decisions in varying ways. In the Caraga region, Indigenous Peoples areas in the highlands are most vulnerable to displacements during military operations.²¹ Given the physical isolation from markets, frequent displacements during outbreaks of violence, and the usual resistance to new farming practices, the Caraga highlands are unlikely to build their economic density with cash crops. In the

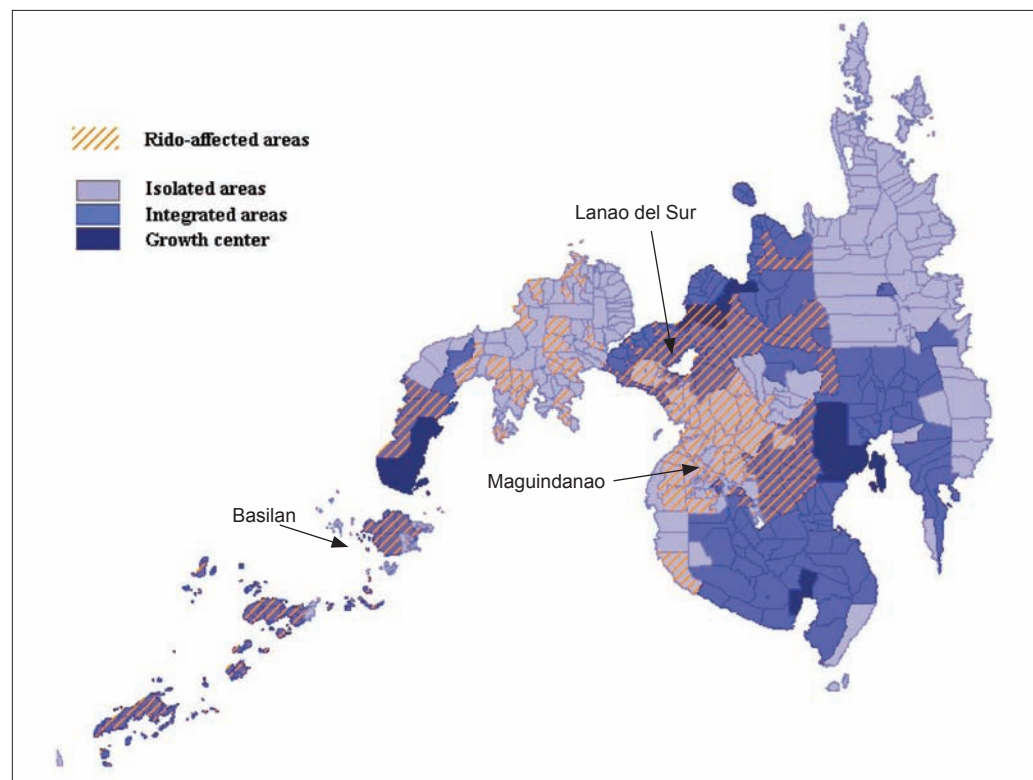
Figure 2.8 Areas affected by conflict with the Moro Islamic Liberation Front (MILF) or the Communist Party of Philippines/ New People's Army (CPP-NPA), by municipality and level of economic integration (proximity indicator)



Source: Data from Philippine Government–MILF Panel 2001, Office of the Presidential Adviser on Peace Process.

Note: Level of economic integration with five growth centers is based on proximity indicator values calculated for each city and municipality (see appendix).

Figure 2.9 *Rido*-affected areas, by municipality and level of economic integration (proximity indicator)



Source: Torres 2007.

Note: Level of economic integration with five growth centers is based on proximity indicator values calculated for each city and municipality (see appendix).

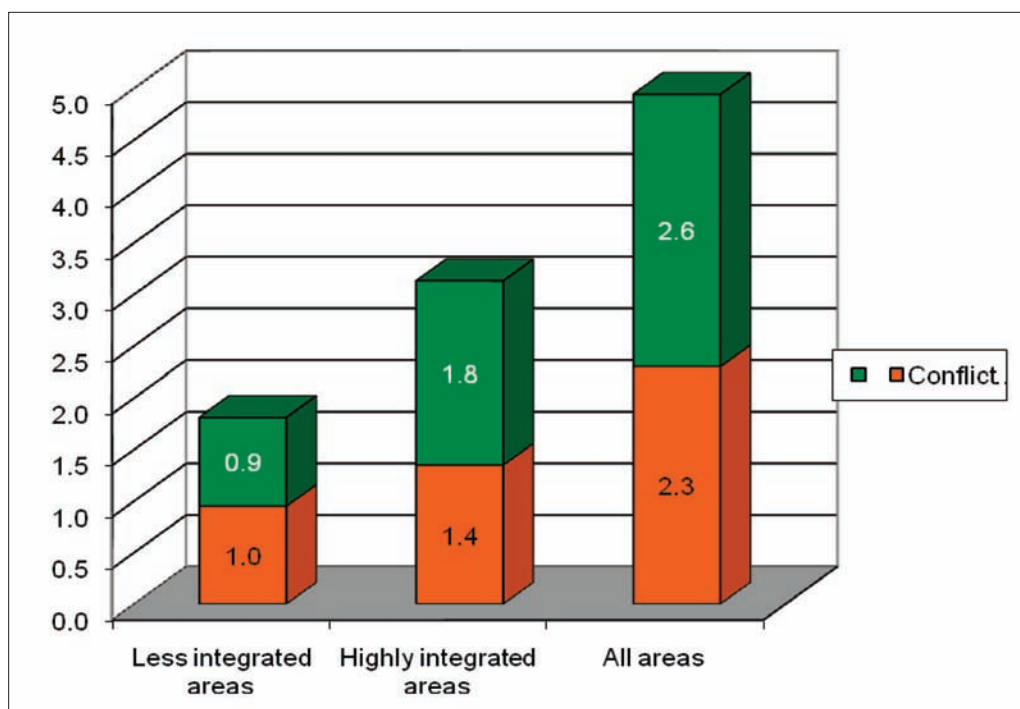
Davao region, conflict risks caused by guerilla groups are unpredictable, but the highly organized guerilla groups regularly extract “revolutionary taxation” from rural households, farmers, and entrepreneurs. Sporadic violence from armed raids by NPA forces can also affect businesses, telecommunications facilities, and some mining operations (such as in Tampakan, South Cotabato).²² These highly dispersed risks encourage residents to make conservative production and employment choices, typically with low added value and cropping cycles that are not correlated with the seasons. Regular extortion by guerillas also encourages agricultural organization (from production to marketing) that requires little or no managers in the field. Anonymity amounts to a risk-coping strategy from future extortions. So municipalities where NPA forces operate produce sizeable amounts of crops requiring either small investment or little management in the field: abaca, banana, calamansi, camote, coconut, coffee, vegetables and rice.

Economic growth can occur despite conflict when conflict-affected areas are economically integrated with growth areas. Mindanao’s highly integrated areas grow at a higher rate (3.1 percent) than less integrated areas (1.8 percent). More important,

conflict zones in highly integrated areas grow at a higher rate (1.4 percent) than non-conflict zones in less-integrated areas (0.96 percent; figure 2.10).

Agricultural commodities produced in conflict zones that are relatively integrated with the five growth centers include banana, calamansi, cassava, mango, onion, and peanut. Banana is Mindanao’s largest export commodity (followed by coconut oil, pineapple, tuna, and rubber, among others), suggesting that some conflict-ridden areas can benefit from growth if their local economies are well integrated with existing growth centers where facilities for adding value are located, permitting production and export of high value-added products. There may be ample opportunities—such as the production and processing of high value-added crops such as banana, coffee, mango, and pineapple) in these conflict zones to take advantage of the scale economies enabled by integration, including linking with processing plants in high-growth areas. In other words, even provinces and municipalities beset by conflict risks can exploit their “second advantage” proximity to growth areas.

Figure 2.10 Average annual population-weighted output growth (%), by conflict status and level of integration, 2000–2006



Source: National Statistical Coordination Board and National Statistics Office; Mindanao study team estimates.

Note: Conflict zones include the 12 cities and municipalities where communist guerrillas operate. Less integrated areas have proximity index, ζ_i , < median of ζ_i .

Proximity and growth prospects in conflict and non-conflict areas

Many areas have been and continue to be left behind Mindanao's economic growth because they are affected by conflict, whether CPP-NPA, MILF, or *rido* (figure 2.11). A further disadvantage is their physical distance or disconnection from areas of growing economic density. Many of these lagging areas are in the ARMM. In these areas, opportunities are expected to be small (such as subsistence farming) because producers cater only to local consumers and markets. And local producers remain small to cope with conflict risks. Without big markets or large-scale local producers, economies of scale will not emerge, restricting growth prospects. Government cannot respond to this challenge because of the pervading failure or inability of institutions to guarantee universal access to basic services such as health, education, mobility, and security. Markets cannot function properly and are unable to provide the right information on consumer demand, prices, and industrial trends. Because trade transactions are small and anonymous, business decisions are inefficient, detached from growing urban

centers, and inhibited by risks. But for these areas better fortune could be close, in the large areas of integrated local economies nearby that are beginning to thrive through their networks with Mindanao's growth centers.

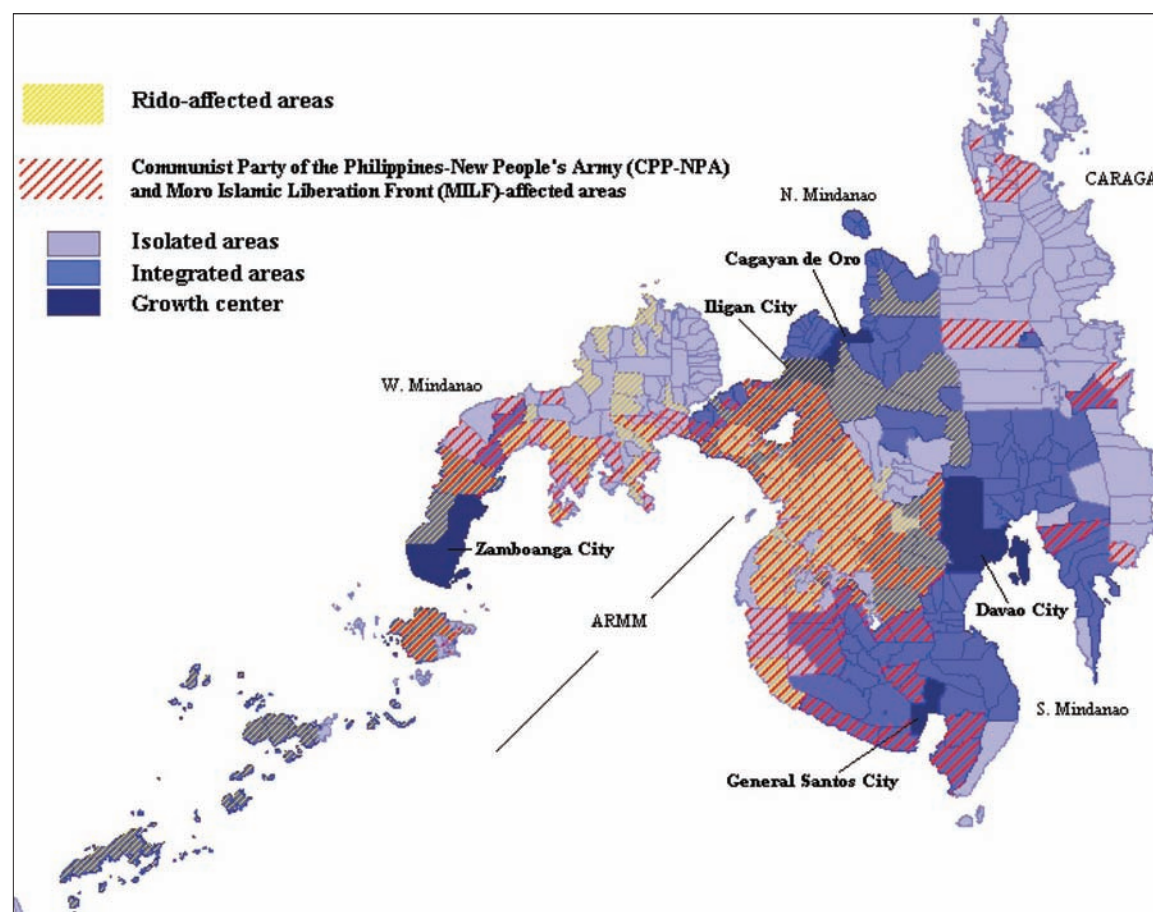
Large contiguous areas surrounding the cities of Davao, General Santos, and Cagayan de Oro have moderate to good proximity indicators, indicating economic integration. These areas enjoy the advantages of integration with growth centers: converging living conditions, expanding support services for specialization, and market-linked growth in economic density. Their advantage needs to be reinforced with good institutions (such as local governments and local providers of education and health services) and with well-planned connective infrastructure. It is easy for regional planners to ignore the needs of integrated areas, given the dire situation in the severely lagging areas. But the spatial interdependence of integrated and lagging areas requires support for the infrastructure needs of all areas, including the five growth centers. Only then can all be integrated with other economically dense areas in the Philippines and the world.

Despite being free of conflict, some areas in the Caraga region and central and western Mindanao have long been economically stagnant, indicating the failure of these local economies to anchor their strategies in the most economically dense areas in Mindanao and the rest of the Philippines. Their low proximity indicators contrast with their geographical locations, accessible to more than one of the growth centers (see figure 2.11). Other factors have prevented the opportunities of nearby growth centers from spilling over and motivating the growth of related goods and services in the isolated areas. The good news is that the social divisions that are possibly driving this isolation have not led to polarized positions and major violent outbreaks among local stakeholders—as they have done in conflict zones in the ARMM and eastern Mindanao. Policymakers must approach development in Caraga and central and western

Mindanao in a counterintuitive manner, focusing on strengthening local institutions (basic services delivery) and access infrastructure in these isolated, non-conflict, low-density areas.

Some conflict-affected areas are integrated. They grow, but modestly. They grow because they are linked to areas with big markets and wider economic opportunities. Despite conflict, local policies support economic links with growth areas and the mobility of workers, local entrepreneurs, and resources to economically dense areas. Though affected by government-MILF conflict, the areas east of Cagayan de Oro and around General Santos City in the southeast can take advantage of opportunities for scale economies offered by their proximity to marketing and processing facilities in growth areas, even if local producers are operating prudently in response to risks (see figure 2.11).

Figure 2.11 Conflict and economic integration, 2000–2006 (average)



Source: Data from Philippine Government-MILF Panel 2001, Office of the Presidential Adviser on Peace Process; Torres 2007.

Note: Level of economic integration with five growth centers is based on proximity indicator values calculated for each city and municipality (see appendix).

Division: creating territories within territories

The preceding discussion on distance offers hope that outlying areas can share the benefits of growth from areas with increasing economic density. Policymakers see closing distances as a logical step to connect markets and achieve economies of scale in production and other business processes. But even when infrastructure and transport services are available, intangible divisions can deter or delay the interaction of markets and communities.

For example, the municipality of T'boli in Saranggani Province has substantial gold deposits, but mining operations use crude, manual processes, and hundreds of illegal small-scale operators are active in the area. T'boli is not physically remote—just next door to the port city of Koronadal, itself only 56 km from General Santos City. The fastest growing area in Saranggani, Korondal City features specialized processing systems for tuna and the capacity to export tons of it to many parts of the world. What bars T'boli from assimilating the capital and technology that appear to be accessible to its industrializing neighbors? More importantly, how can the T'boli mining industry capture a better share of the rising domestic and international market for gold?

Barriers that restrict the flow of goods, capital, people, and ideas into an area also restrict agglomeration and scale economies from thriving there. International border controls meant to protect a country's social, political, or economic interests may inadvertently restrict these beneficial flows. But laws, rules, and customs can also reduce the permeability of places inside a country—creating internal barriers within the national borders. Mindanao has a higher concentration of these internal barriers, or economic divisions, than other parts of the country, with significant effects on development outcomes. These barriers are partly the result of overlapping political and cultural jurisdictions. Large segments of indigenous and Muslim ethnic groups are partly or wholly under customary laws and practices. About 20 percent of the population in Mindanao is Muslim, only 4.7 percent for the Philippines as a whole. And the National Commission on Indigenous Peoples estimated that about 36 percent of the Philippines' Indigenous Peoples resided in Mindanao in 2000.²³

Overlapping jurisdictions of traditional and modern governance structures

Some internal barriers form at the intersection of traditional and modern local government structures. The Local Government Code of 1991 created a formal system of local government structures, guaranteeing residents and their local elected leaders a certain degree of local autonomy through their local government units (LGUs). Providing public services is the responsibility of LGUs, while sector planning and policies are functions of national agencies. Nonetheless, some local transition issues and capacity gaps require national agencies to continue to deliver services at the local level.

In the years since the Local Government Code was enacted cities and municipalities have progressively gained management autonomy and financial independence, especially in the revenue-rich cities. But traditional patronage politics remains deeply entrenched at the local level, especially in many frontier areas. For communities in remote areas, traditional leaders and informal governance structures provide the support system. Formal institutions are typically underfunded, lack credibility or legitimacy, and are easily overwhelmed by traditional centers of authority.

Although the Local Government Code applies uniformly to the whole country, it takes on a special dimension in Mindanao because of how political structures have evolved in some areas. The political geography of Mindanao features two overlapping traditional and modern leadership structures that have coexisted for decades.²⁴ While the modern structures and their geographic jurisdictions are set by law, the traditional structures use community-received rules and norms and settle disputes in ways that may not be consistent with modern practices. Nominal political jurisdictions overlap with the customary jurisdictions of ancestral domain lands and vast areas owned by locally influential sultans and their extended families.²⁵ The local elite who perform traditional roles do get elected to political positions, but their styles of governance typically amplify and extend preexisting leadership roles over the community.

Some local authorities, particularly in the ARMM, are allied with national authorities who have an interest in keeping them in place. One study argues that the national government allows native Mindanao politicians—even former rebel commanders, who have come to control an increasing number of local governments—to

run their own fiefdoms in whatever manner they wish as long as they do their part to maintain the legitimacy and authority of the national government. These kinds of political transactions constitute the rules of the game.²⁶ Another study has made similar assertions about the relationships that bind the central Philippine state with Muslim Mindanao, whereby the underground economy and a corrupt electoral system are permitted to exist in exchange for delivering votes during national elections.²⁷

Many “political dynasties” have dominated politics and governance in the Philippines.²⁸ Almost two-thirds of the members of Congress are known to belong to clans of local elites. Many municipalities and even provinces are controlled by successive generations of mayors and councilors from the same family, accumulating economic power and increasingly drawn to the perverse incentive of preserving influence by staying in a key government position. Having obtained their post through the strong influence of their clan, such incumbents would naturally feel compelled to reciprocate the clan while in office rather than strive for excellence in service to the people. While these local governance conditions prevail in all parts of the country, their effects on future prospects for development have become less binding in progressive areas of Luzon and Visayas because of the emergence of a large middle class and the growing influence of a more educated political elite.²⁹

Development workers in LGU capacity-building in Mindanao note persistent patterns of poor performance or mediocrity where the local chief executives belong to any of the influential clans in the area. Elections are frequently marked by incidents of fraud, widespread confusion, and inefficiency that damage the credibility of election results and the electoral process itself.

With elective posts held by clans essentially uncontestable, incumbents can get reelected without having to deliver good governance. And with violent conflict always looming, communities are discouraged from such risk-taking behavior as replacing a local leader who is incapable of governing properly with a new and untested alternative.

The cost to communities is clearly the delayed mobilization and transformation of LGUs and an extended excuse for poor governance and delivery of public services. But unfortunately there are no reliable quantitative indicators of governance

with which to correlate the quality of governance and corruption with links to the political clans, economic isolation, and conflict risks of some areas.

Some observers note a positive change in the quality of young leaders emerging from some of these clans. Refreshing changes in leadership and management styles give hope that enlightened and well-educated younger members of political families can break away from historical patterns of bad governance and demonstrate the needed capacity to govern responsibly.³⁰ These dynamic local politicians could create favorable conditions for effective collaboration among LGUs to achieve the benefits from regional integration and offer sustained opportunities for lagging areas to take off economically.

In what ways do these governance structures hinder transactions across Mindanao’s local economies? First, rules and programs for doing business vary from LGU to LGU, hampering the integration of markets and processes across municipal borders. Traders, bulk buyers, investors, and small entrepreneurs all have to deal with incoherent and sometimes conflicting policies—which could drive them to work in other, less-divided areas. For example, local ordinances to protect fish sanctuaries and watershed areas of Lake Mainit in Agusan del Norte depend on the support of local politicians.³¹ Through the advocacy of local nongovernmental organizations, the area’s municipalities adopted regulations on siting settlements, businesses, and economic activities that could affect the area’s environment. But these measures can be successful only as long as incumbent mayors support environmental programs, risking whimsical shifts in the policy preferences of mayors and governors that could undermine the more serious reforms already ongoing in an area.

Second, the dominant role of powerful political clans in elections weakens the accountability of LGU leaders to local constituents. These clans decide on the future of local political careers, often choosing candidates based on kinship but also favoring other individuals with protection and preferential treatment because of their close links to the core family group. Clan-supported incumbents are hardly ever challenged, even by individuals with enough resources to mount an opposition. The result is stable—if undemocratic—local governance as long as the clan is able to retain influence and power.³²

Good governance could reduce the barriers of isolation

Most of the critical measures to address the isolation of lagging and conflict-affected areas in Mindanao will require fundamental changes in the incentives for city and municipal governments to lift performance standards for delivery of basic services to communities.

In rural areas the sad state of farm-to-market roads and critical gaps in the regional road systems keep some lagging areas further isolated from growth centers. Primary health, irrigation, water and sanitation services, and infrastructure tend to be neglected in areas that are hard to reach and unstable. While such disparities—and the relative underdevelopment of rural areas—are found in most parts of the country, the problem is more acute for Mindanao because of widespread land disputes, discrimination, and armed conflict. Urban LGUs also have to cope with rapid population increases when conflict erupts, especially during prolonged periods of tension and cyclical outbreaks of violence.

Data on average municipal expenditures indicate that LGUs in Mindanao are not suffering from a serious shortage of funds relative to LGUs in other parts of the country. Their funding is computed with the same Internal Revenue Allotment formula as the rest of the country. And they are the only LGUs to receive additional funds as their share of internal revenue collections of the ARMM regional government. This could partially explain the indifference of the national policymakers to the difficulties faced by LGUs in delivering and funding basic services.

Take the case of internally displaced people indicate who find safe haven in isolated rural areas not far from their area of origin. These already depressed LGUs are being overwhelmed by the influx of more people to subsist on their limited financial and natural resources. Yet there is no working framework to extend packaged assistance to LGUs where extreme isolation and conflict situations prevail.

Perhaps the challenge to most LGUs in Mindanao is better managing their own expenditures, balancing the competing demands of various barangays, and prioritizing the ones with the greatest needs. National government needs to translate its concern about equitable delivery of basic services into a policy framework and packaged assistance for affected LGUs. A national government initiative could get more LGUs to take an active part in uplifting the conditions in severely disadvantaged barangays,

paving the way to beneficial links with growth centers, traders, and industry groups to invigorate their local economies.

Nor are urban LGUs spared, heavily burdened with absorbing migrants from lagging areas. Growth areas like Zamboanga City and Davao City house a substantial share of Mindanao's poor (see figure 2.3). In some growing informal urban settlements basic needs are inadequate and living conditions are blighted. Unemployment is high, with most families lacking a means of livelihood and heavily reliant on government support.

City governments have a financial advantage over municipal LGUs because they are entitled to substantial shares of national revenue allotments and have higher local revenue potential from property and business taxes. But policy challenges remain in closing the wide gaps in social services and outcomes between rich and poor population groups.

Regional autonomy for Muslim communities

Another type of territorial boundary that creates economic divisions in Mindanao is the Autonomous Region in Muslim Mindanao. A unique sub-national unit of governance established by the Philippines in 1989, the ARMM was expanded in 2001 to provide political autonomy for predominantly Muslim areas and end conflict with Muslim insurgents led by the Moro National Liberation Front (MNLF). The ARMM's enabling legislation recognizes the right of Muslim areas to the self-governance and self-determination guaranteed by the Constitution of 1987.

The ARMM territory, made up of five provinces and one city, has a regional government, headed by an elected regional governor, with its own structure of executive and legislative branches. It enacts laws, formulates its own policies, and formulates and approves its own budget. This version of local autonomy is believed to offer good prospects for participatory and accountable governance because the decisionmakers are close to the people they serve and represent. With a regional government looking after their welfare, ARMM residents should have the trust and confidence to deal with the national government and local interest groups as members of the broader Mindanao community. However, in a clan-based society where family relations are important and often lead to social debt, commitments, and gratitude, an impartial local government is even less likely than in other regions.³³

Notwithstanding the meritorious objectives in establishing the ARMM, Moro people have yet to feel the benefits of local autonomy. Socioeconomic conditions have considerably worsened in recent years; seven out of every ten people living in the ARMM in 2006 were poor.³⁴

A key question is what prevents the ARMM regional government from acting on the strategic concerns of Muslim Mindanao, such as building linkages with other provinces in Mindanao and other parts of the country. A 2003 World Bank report, *Human Development for Peace and Prosperity in the ARMM*, notes that “key organs of political governance in the ARMM have not been consistently vigorous and assertive champions of autonomy. The Regional Legislative Assembly of ARMM has passed laws mostly about local rather than region-wide concerns.”³⁵

The ARMM regional government also lacks financial autonomy to pursue its own programs and policies, relying heavily on the national

government for its funding needs. The ARMM received about PHP 76 billion total for 2001–2005 (annually averaging PHP 15 billion), almost all from the national government (table 2.5).³⁶ So instead of evolving into an autonomous governing unit, it has inadvertently become an extension of the national government. These fiscal issues in the ARMM translate to problems with funding human development expenditures at the local government level (box 2.5).

The World Bank’s 2005 “Joint Needs Assessment for Reconstruction and Development of Conflict Affected Areas in Mindanao,” a multi-donor study, strongly recommended that “for (Moro) people to thrive in an increasingly global society and provide a tolerant environment for a multicultural population, the local leadership should develop systems that are in keeping with local culture and custom, relatively tolerant, compliant with internationally accepted conventions of human rights and amenable to modernization and rapid development.”³⁷

Box 2.5 Human development expenditures are lower in the ARMM

Under the ARMM Local Government Code, the regional government is responsible for budgeting and delivering basic services, but provincial, city, and municipal governments may deliver parallel health and social welfare—but not education—services. Local Government Units (LGUs) in the ARMM have a funding advantage: they receive a share of national revenues under the internal revenue allocation formula of the Local Government Code and a share of revenues from the ARMM regional government, but they are not responsible for delivering basic services. This funding advantage has actually turned into a disadvantage for residents of the ARMM because the policy to keep most basic services under the regional government has discouraged LGUs from allocating much of their funds for human development (primary health, education, and social protection). For example, the 2001 average per capita human development expenditure in the ARMM was only about 68 percent of areas outside ARMM, the variance being that LGUs in ARMM spent an average of PHP 20.5 per capita while those outside ARMM spent nearly PHP 592 per capita (see table).

The limited participation of ARMM LGUs in human development is disturbingly linked to the poor quality of social services and the worsening situation in remote municipalities.

Human development expenditures in ARMM and non-ARMM areas, 2001

	Human development expenditure (PHP millions)	Percentage share of financing sources	Per capita expenditure (PHP)
ARMM areas			
National government	88.1	2.6	36.5
ARMM regional government	3,223.1	95.9	1,336.2
LGUs	49.5	1.5	20.5
Total	3,360.7	100.0	1,393.2
Per capita expenditure	1,393.2		
Non-ARMM areas			
National government	107,858.0	71.1	1,455.8
LGUs	43,844.0	28.9	591.8
Total	151,702.0	100.0	2,047.6
Per capita expenditure	2,047.6		

Source: World Bank 2003.

Table 2.5 Total funds received by ARMM, 2001–05, PHP millions and percentage share

Source of funds	PHP (millions)	%share
National government appropriations to ARMM regional government	26,891	35.3
National government appropriations to ARMM public works	1,321	1.7
Congressional allocation	2,572	3.4
Share of internal revenue collection in ARMM	1,776	2.3
Internal revenue allotment of LGUs in ARMM	30,724	40.3
National government spending in ARMM	12,953	17.0
Regional revenues raised by ARMM regional government	32	0.04
Total	76,269	100.0

Source: InciteGov 2007.

Ancestral domain lands

Social and economic activities in ancestral domain lands follow distinctive traditions and deliberately keep their residents separate and different from mainstream societies. They present additional barriers to integration, as anyone doing business there has to make adjustments in management style and work out different ways to acquire access to factors of production. Such traditions may also hinder the development of land markets because lands within ancestral domain claims have a different set of rules for ownership, transfer, and registration.

The Philippines has a comprehensive system to protect Indigenous Peoples' rights to their territorial domains and their customary practices for self-determination and decision making about community social and economic issues. These rights were guaranteed by the Constitution of 1996 and given substantial elaboration and administrative means by the Indigenous People's Rights Act of 1997, which established the National Commission

on Indigenous Peoples to implement and coordinate related activities. In essence, the territories held by Indigenous Peoples operate under different sets of rules than the rest of the Philippines, including a distinct process for regulating project clearances and conditional access to resources. In some circumstances, these differences can become barriers to economic integration because they add to the cost of transacting business. When their business interests affect areas covered by the Indigenous People's Rights Act, potential investors have to undergo a comprehensive and lengthy consultation process involving the tribal council, local communities, and local government.

According to the National Commission on Indigenous Peoples, from two to 12 ethnic groups reside in each of Mindanao's regions, with the Zamboanga Peninsula (Region 9) home to more different Indigenous Peoples groups (five) than any other region in the country (table 2.6). Out of 34 accredited Indigenous Peoples organizations in the country, 50 percent are Mindanao-based.

Table 2.6 Number of Indigenous Peoples groups per Mindanao region

Region	Number of Indigenous Peoples groups
ARMM	4
Zamboanga Peninsula (Region 9)	5
Northern Mindanao (Region 10)	2
Davao Region (Region 11)	7 to 12 (including subgroups)
SOCCSKSARGEN (Region 12)	4
Caraga (Region 13)	2

Source: National Commission on Indigenous Peoples 2008.

The Indigenous People's Rights Act ushered in a national program for the titling of ancestral domain claims and led to the allocation of public resources for survey and documentation. The National Commission on Indigenous Peoples was created to administer processing and approval of Certificates of Ancestral Domain Titles (CADTs), legal documents to ensure absolute ownership of the land by Indigenous Peoples and protection of their resources from encroachment. Areas under CADT are under special restrictions because they are held by communal titles. Moreover, development activities in CADT areas have to

be consistent with approved Ancestral Domain Sustainable Development and Protection Plans. Both CADT and planning processes are quite complex, requiring substantial resources from both Indigenous Peoples communities and the government. For this reason less than half of ancestral domain claims had been titled to Indigenous Peoples by 2008—10 years after passage of the Indigenous People's Rights Act. In 2002–04 about 51 percent of approved CADTs were in Mindanao.

To protect the interests of Indigenous Peoples in any activity that may affect them, the government requires that outsiders wishing to work in ancestral domains obtain a Free and Prior Informed Consent, a proof of consensus by all members of an Indigenous Peoples group, obtained in accordance with their customary laws and practices, free from any external manipulation, interference, and coercion, and obtained after fully disclosing the intent and scope of an activity in the area. Information disclosure guidelines provide Indigenous Peoples with full access to records and reports about the project, including the project's Environmental Impact Statement. Though the guidelines are well-formulated, their enforcement is quite weak. Free and Prior Informed Consent has been identified as a core issue affecting economic activities on Indigenous Peoples lands, a barrier because it adds to transaction costs—the cost of doing business—such as the consultation process, division of rents, local power politics, and other issues.

Even as the Indigenous People's Rights Act's policy intent is hailed by progressive sectors of society, it faces a number of implementation challenges due partly to its ambiguity in resolving inconsistencies with other laws.³⁸ The nature of land ownership in ancestral domain lands is communal under customary laws, with restrictions on parceling, selling, and development. But the

Act respects property rights that existed before its 1997 passage, including private lands and mining concessions governed by different types of agreements. Moreover, ancestral domains continue to be subject to the Public Land Act, which gives the national government power to administer the transfer of ownership, resulting in competing claims.

Dangers in equating spatial disparity with ethno-linguistic affiliation

It is important to distinguish between spatial disparity and ethno-linguistic affiliation. Kanbur and Venables have argued that spatial disparity should “be a concern in and of itself, especially when the geographical regions align with political, ethnic, language or religion divisions.”³⁹ Almost every lagging province in Mindanao can be identified by the dominant ethno-linguistic affiliation of its residents. Some municipalities are also identified by the dominant religious or political affiliations of residents. The danger is in equating spatial disparities with disparities based on ethnic-linguistic, religious, and political affiliations. Over time, this illusion of the existence of single identity can fuel polarization of identities and affiliations.⁴⁰ Spatial disparities hidden under the veil of nonspatial disparities will require a more sensitive set of public policies to reduce.

A less controversial approach might be to regard spatial disparities as a manifestation of efficiency gains and the rapid growth of clustered economic activities in some areas. Spatial clustering of economic activities can bring the benefits of agglomeration and economic proximity, enhancing a lagging area's chances to tap into new opportunities for specialization and market linkages.



Downtown Cotabato City.



Muslim woman selling batik and other fabric.



Coconut harvest readied for copra production. Maitum, Sarangani



An elderly woman in her temporary shelter. An IDP community in Poblacion Pikit, North Cotabato.

3 Connecting Mindanao to the rest of the Philippines

The spatial disparities within Mindanao echo spatial disparities in the Philippines, where Mindanao is a lagging area. Reducing disparities hinges on closing distances and streamlining connections between the high-growth areas of Luzon and Visayas and the progressive areas of Mindanao. These challenges are nothing new to public sector managers; programs of past decades have pushed to build the necessary connections.

This section examines the development issues affecting Mindanao's economic integration with the rest of the country, analyzing patterns of spatial clustering of economic activities to locate areas of high economic density to situate Mindanao in the hierarchy of areas that are growing or lagging in the Philippines. Integrating Mindanao with growing areas of the country requires analysis of infrastructure available for efficient movement of goods, services, labor, and capital. It also requires analysis of the patterns of population movement between Mindanao and other places as people respond to opportunities to generate income and alleviate poverty in growing areas.

Policymakers often want to promote the development of lagging areas by infusing these areas with public investments to raise productivity and export potential. Such programs benefit target areas with increased economic activity—a pattern that is similar to agglomeration but is drawn toward public investments rather than market-led growth in assets and demand for services. Without the necessary attention to efficient linkages with the huge markets in the leading areas, such growth will be endlessly reliant on government support, resulting in inequitable development where benefits are confined to target areas and not shared with other lagging areas.

A key question is how Mindanao can facilitate growth in regional economic density by taking advantage of large markets in the country's growth

areas in Luzon and Visayas. There are encouraging signs that economic density is building up in Mindanao's growth centers. Infrastructure and basic services must play a key role: providing efficient transportation and communication at low cost and high mobility for workers and entrepreneurs.

Patterns of spatial clustering of economic activities

Economic growth and development in the Philippines, as in many parts of the world, is spatially uneven. Economic activity is concentrated in few places (figure 3.1). Metro Manila is by far the most economically dense area in the country, producing almost a third of the national gross regional domestic product (GRDP)⁴¹ since 2000. Its economic density, measured by GRDP per square kilometer, is 1,550 times that of the Autonomous Region in Muslim Mindanao, 855 times Caraga region (Region 13), and 785 times Cagayan Valley (Region 2)—three of the most lagging regions in the country. Central Visayas—home to Metro Cebu—ranks second to Metro Manila, but with 115 times less economic density. The six regions of Mindanao have a share of GRDP to the national figure ranging from 0.9 percent to 4.8 percent; the three regions of Visayas, 2.2 percent to 7.2 percent. This pattern of spatial disparity is inevitable. Economies of scale push firms to locate in economically dense areas where it is cheaper to produce in large amounts. Agglomeration also encourages positive feedback and learning among firms.

These huge gaps in regional economic density reflect a common pattern worldwide: growth favors areas with large markets, low transportation and communication costs, and high mobility of workers and entrepreneurs.⁴² Metro Manila—and to some extent Metro Cebu—is able to exploit

these advantages. The capital city caters to both domestic and international markets, thanks to its relatively well-developed connective infrastructure, such as ports, airports, road networks, and telecommunications facilities. For example, Metro Manila's road density per square kilometer is 10 times the national average, compared with that of the Caraga region in Mindanao, the lowest in the country at 0.4.⁴³

The services and industry sectors drive growth in Luzon and Visayas, while agriculture remains the primary driver of growth in Mindanao. The services sector in high-density areas is usually large, as trading, banking, transportation, and telecommunications support production, factor mobility, and exchange. Services constitute half of GRDP in Luzon and Visayas, 65 percent of GRDP in Metro Manila and 59 percent in Metro Cebu. In contrast, the services sector in Mindanao ranges from a low in the Davao region of about a quarter of its GRDP to a high in Northern Mindanao of 41 percent.

Industry constitutes more than a quarter of GRDP in Visayas and a third in Luzon, growing annually 4.6 percent and 5.8 percent, respectively. The Cordillera Autonomous Region, Southern Tagalog, Central Luzon, and Metro Manila have large concentrations of industry (64 percent, 41 percent, and 37 percent of GRDP, respectively). Mining drives the industrial sector in Cordillera Autonomous Region; manufacturing drives output in Southern Tagalog and Central Luzon. But in all regions of Mindanao the industry sector's share of GRDP is below the national average (a third of national GRDP).

While agriculture has the lowest share and the lowest growth in Luzon and Visayas, it has the highest average growth relative to industry and services in Mindanao. The national average share of agriculture is slightly less than a fifth of the national GRDP. But agriculture accounts for more than a third of Mindanao GRDP, with the Autonomous Region in Muslim Mindanao (ARMM) and Zamboanga Peninsula topping the list at 57 percent and 50 percent respectively.

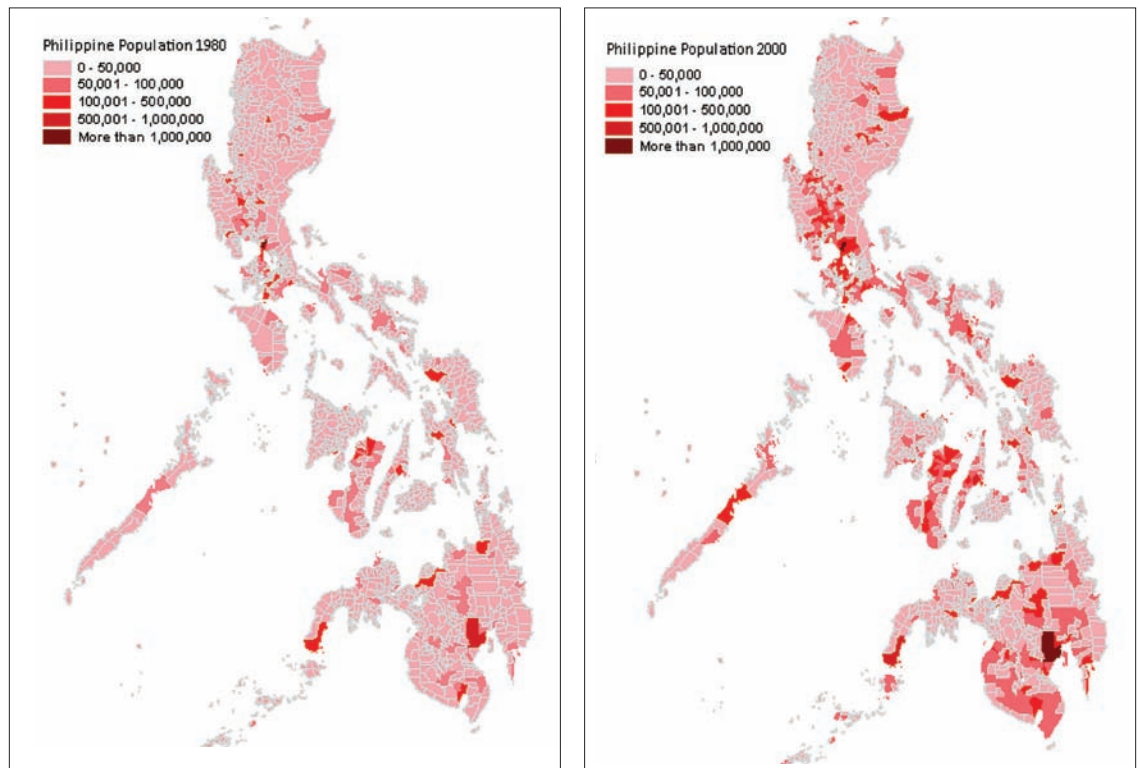
Some regions in Mindanao have experienced a structural transformation from agriculture to industry, but at a slower pace than the high-density areas in the northern part of the country—notably Metro Manila and Metro Cebu. The SOCCSKSARGEN region (Region 12) is an example of a region transforming itself from a purely agricultural to an agri-industrial economy.

The main drivers of the region's growth are industry and agriculture, though they still account for less than a third and almost half of its GRDP respectively. The establishment of tuna canning and other processing plants in General Santos City (the regional capital) starting in the 1980s has helped propel economic growth. The region's economic concentration on tuna products has given it a necessary advantage for "breaking in" to the global market. Specializing in a limited range of products and harnessing scale of production is considered an efficient strategy as the economy finds its way to enter the global market. Once the region's economy turned around and its tuna products captured a substantial global market share, the economy gradually started to diversify, using existing processing and packaging facilities already on par with international standards. Rather than being forced, specialization and gradual diversification in the SOCCSKSARGEN region are driven by the market and anchored on the region's development strategy—harnessing its geographic advantage as a coastal area and taking advantage of economies of scale.

Patterns of settlement, mobility, and capital

Clustering of settlements accompanies concentration of economic activity, as agglomeration economies encourage workers and entrepreneurs to move to places where economic activities are dense and where employment and entrepreneurial activities abound. Metro Manila is home to 13 percent of the population (11 million people in 2007), and small pockets of urban centers are emerging in the capital's neighboring regions, Southern Tagalog and Central Luzon, as well as in Western Visayas, Central Visayas, Davao, Northern Mindanao and SOCCSKSARGEN regions (figure 3.1). High in-migration,⁴⁴ a high crude birth rate, and a low crude death rate explain high population density in these regions.⁴⁵ Metro Manila has a population density of 18,725 persons per square kilometer, more than 200 times the least dense region in the country, Cordillera Administrative Region, more than 100 times Mindanao, and about 50 times the Visayas islands.

Migration patterns in the Philippines have changed over the past three decades. Until the 1970s there were two long-term migration flows in the Philippines: inflows to Metro Manila,

Figure 3.1 Philippine municipal population, 1980 and 2000

Source: National Statistics Office. Mindanao study team estimate.

mainly from other parts of the Luzon and from Western and Eastern Visayas; and inflows to Mindanao from the Visayas and Luzon. Migration to Mindanao was motivated by public policy that characterized its islands as the “last frontier.”⁴⁶

Rural-to-urban migration accompanies shifts of local economies from agriculture to industry.⁴⁷ In 2000 only the dynamic regions of Southern Tagalog, Central Luzon, and Central Visayas registered net in-migration.⁴⁸ Benefiting from their proximity to Metro Manila, Southern Tagalog and Central Luzon hosted successful industrialization efforts in the 1990s, building connective infrastructure and establishing industrial zones that have helped the regions attract firms to locate and expand their production facilities. Congestion and high property prices in Manila have also encouraged firms and residents to relocate to these nearby regions.⁴⁹ In contrast, Metro Manila experienced substantial out-migration, to be expected for a region that is integrated with the rest of the world. Having international airports and job facilitation services, the capital became the springboard for Philippines workers—mostly educated and young—to migrate to the outside world.⁵⁰

These migration trends result when agglomeration attracts masses of people at both national and international scales: people from rural areas migrating to the leading areas in a country, and workers from leading areas moving to the rest of the world. To fully maximize the benefits brought by agglomeration economies, migration must be supported by basic social services, including education, health, and security. An educated and healthy migrant has higher chances of finding a lucrative work than a poorly educated and sickly one. Many educated migrants leave poor and rural areas for cities to find work opportunities in the services and industry sectors, and a substantial proportion of overseas migrant workers come from better-off regions and are more educated, employed in professional, technical, and related occupations.⁵¹

The relatively high population densities in Mindanao’s lagging areas (see section 2) suggest either that some factors hinder migration to better-off regions or that there may be benefits to staying put. Those who are able to migrate face difficulties finding employment. Migrants from Mindanao end up with low-paying jobs in cities such as Metro Manila, possibly because of poor education in Mindanao’s lagging areas—

but this hypothesis needs to be tested with reliable data on the skills, education, income, and employment of migrants from Mindanao to the national capital region. The predominantly agricultural background of Mindanao workers may delay their assimilation of skills needed for employment in urban services and manufacturing sectors. With few savings to tide them over and longer waits until they find jobs, migrants from poor communities take a relatively bigger risk than do migrants from growing areas.⁵²

Capital has not penetrated many rural areas, where the poor are constrained from participating productively in the formal market because they have difficulty applying for loans from banks to finance their entrepreneurial activities. This situation reflects market failures in agrarian and isolated areas, such as insufficient assets to serve as collateral, seasonal shocks of production, and information gaps. Microfinance is one strategy to combine bank resources with the local informational and cost advantages of small-time traders, neighbors, and money lenders. Through microfinance the poor who have been left out by formal lending institutions have greater access to financial resources—at relatively lower prices—that they can use to augment their working capital or to finance unmet household needs resulting

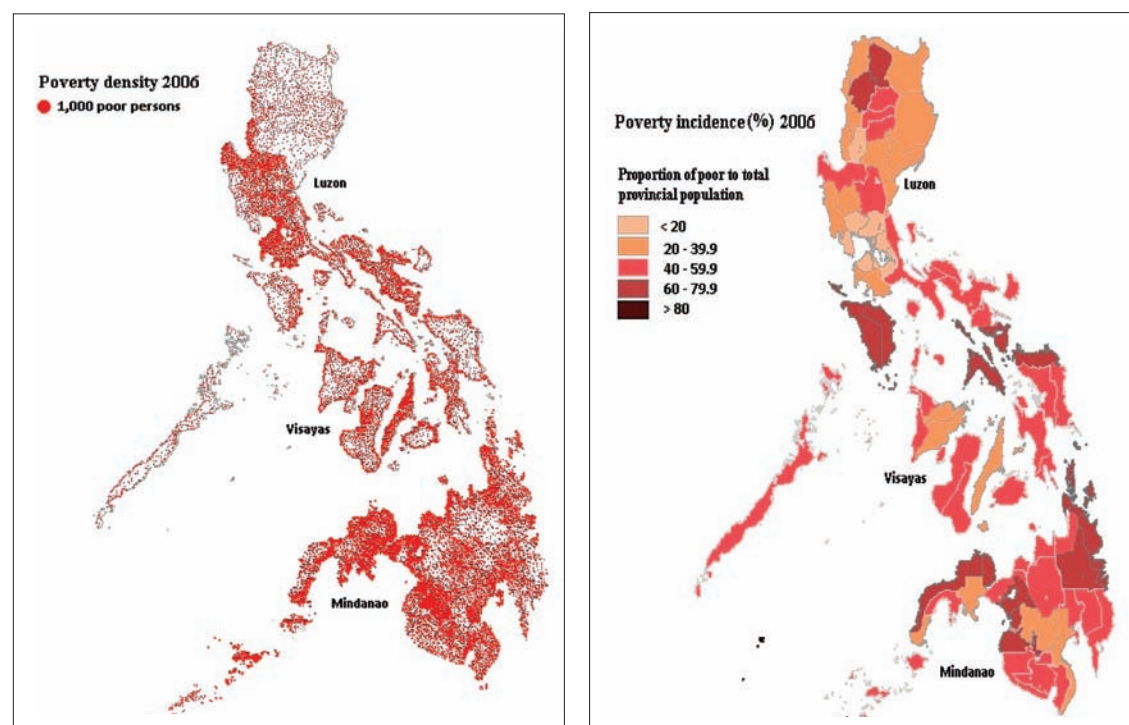
from seasonal shocks. But in some Mindanao provinces, access to microfinance remains low. For example, as of 2004 only 19 percent and 4 percent of potential poor clients were served by microfinance in the provinces of Zamboanga del Norte and Lanao del Sur respectively, partly because of strong mistrust among socially diverse borrowers under joint liability or group lending programs.⁵³

Patterns of social disparities

Mapping poverty in the Philippines illustrates how poor people, like those better off, move to areas where opportunities abound (figure 3.2). Poor people are concentrated in leading and urban areas such as the National Capital Region, Central Luzon, and Cebu. One reason for this pattern is that these areas attract new residents because households tend to have access to higher incomes and better basic social services—except in urban slums.

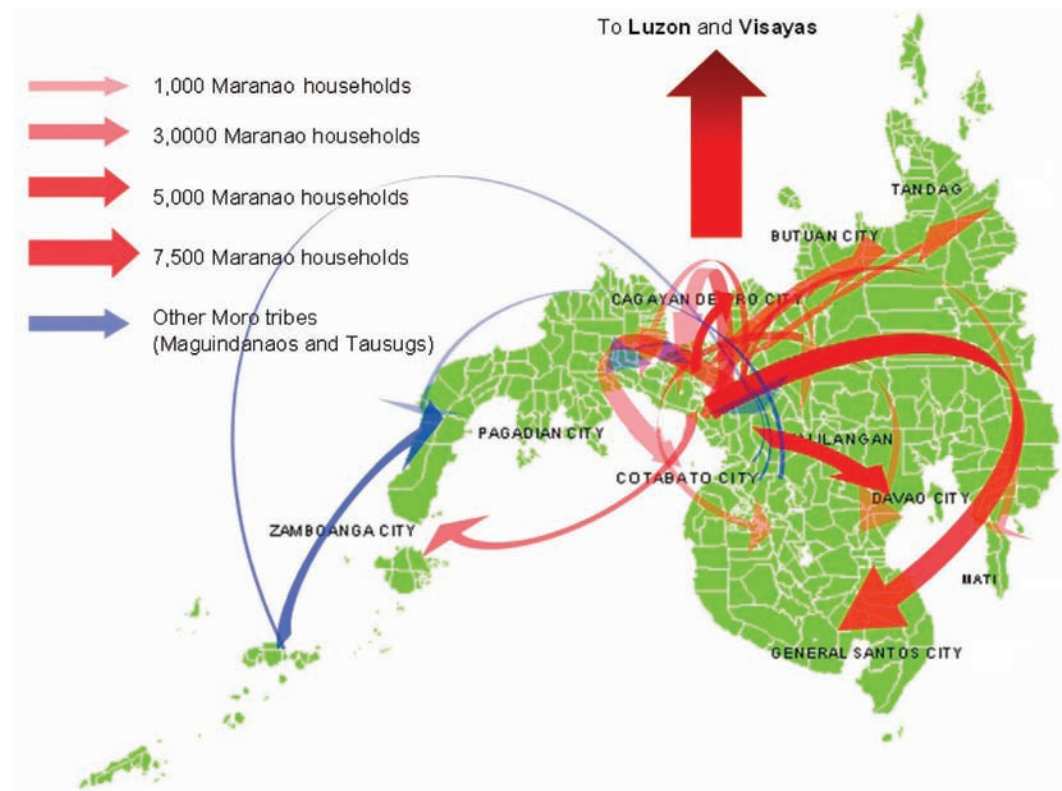
In some low-growth areas—Bicol, the ARMM, Misamis Occidental province in Western Mindanao, and Surigao del Norte province in the Caraga region—poverty incidence and poverty density are both high, raising the question of

Figure 3.2 Poverty density and incidence in the Philippines, by province, 2006



Source: National Statistical Coordination Board and Mindanao study team estimates.

Box 3.1 Labor mobility: the Maranao
Maranao labor mobility from Mindanao, by households, 2000-2005



Source: National Statistics Office 2000 data; Human Development Network 2005.

The Maranao (or “people of the lake”), one of the dominant ethno-linguistic groups among Mindanao Moros, are known for their high mobility, a diaspora from their original homeland in Lanao del Norte and Lanao del Sur transcending conflict-generated mobility. Among the Moros, the Maranaos are known as traders and entrepreneurs, with a business tradition that has endured over many generations despite their association with secessionists and violent outbursts between feuding Muslim clans. Labor mobility among the Maranaos highlights how agglomeration economies work. Before the 1960s in-migration in Lanao del Sur was relatively high when the capital, Marawi City, was a center of trade and commerce, drawing Muslims and Christians from Luzon and Visayas.^a Maranao out-migration surged in recent years as other parts of the Philippines boomed, such as General Santos, Davao, Cagayan de Oro, Davao, Butuan, Cebu, and Manila. Now the Maranao are scattered in various parts of the country (see figure).

Their relatively high level of education and wide networks give the Maranaos an advantage when joining labor markets in new environments. Education indicators, such as elementary and high school participation rates, were highest in Lanao del Sur and Marawi City, where the Maranaos are the predominant social group. The 2003–09 annual average net enrollment rate for elementary school in these two areas was more than 100 percent, compared with 91.4 percent in the ARMM and 86.3 percent nationwide. And more than 50 percent high-school-age population in these two areas were enrolled in high school, surpassing the ARMM average of 31.7 percent and 59.6 percent nationwide.^b Anecdotal evidence suggests that individual or business relocations among the Maranao tend to be within and between agglomerations with the potential for profitable trading opportunities (as opposed to the promise of high wages).

^aHuman Development Network 2005.

^bHuman Development Network 2005; data from the Department of Education for school years 2002–03 to 2008–09.

Source: Mindanao study team.

why the poor in these areas have not migrated to high-growth areas. A possible explanation for this “misplaced population”⁵⁴ is that poor people in lagging areas may not be sufficiently educated and prepared for the challenges of urban living and employment. With limited or no access to basic social services and with poor living conditions exacerbated by governance failure in some localities, poor families in these areas end up with low education, poor health, and low savings—reducing their capacity to relocate and look for good job prospects. For such groups, the adjustment costs related to migrating to and resettling in urban areas and cities are too high.

Localities with low growth yet high poverty density proliferate in Mindanao. Given the lack of growth in recent decades and the extensive devastation caused by all-out war against Moro Islamic Liberation Front camps in 2000 and 2002, Central Mindanao in the ARMM should be a ghost town by now. Despite opportunities for its residents to move to places where economic opportunities abound, the province shows a pattern of high population density and high poverty incidence.

Development workers in the area find that people (mostly from the Maguindanao group of Muslims) simply relocate to nearby municipal centers or *poblacions*, seeking refuge with relatives in nearby urbanizing areas within the same province. Their transient status comes with the expectation and desire to return to their place of origin and return to farming once conditions are stabilized. The migrants cannot benefit much from this kind of migration, since from the start they lack the motivation to integrate into the urban economy.

Another factor that is likely to be holding back poor families from migration out of low-growth areas is their lack of skills and education. Migration can only produce favorable outcomes if workers are well-prepared with the skills or education that qualify them for jobs available in the cities. So providing basic social services—such as education—for residents of all regions will help build the country’s human capital, a more efficient way to support labor mobility. Without sufficient levels of human capital, premature migration of workers can lead to congestion and high unemployment and underemployment rates in the cities—as migrants will at best find low-paying jobs with poor working conditions.

Unfortunately, education indicators in many regions are below the national average, including Mimaropa

region (Mindoro, Marinduque, Romblon, and Palawan), Bicol, and many parts of the Visayas and Mindanao (with the ARMM consistently at the bottom of the list). A quarter of the adult population in Mindanao and 20 percent in the Visayas were considered functionally illiterate in 2003. And 2007 data reveal that 35 percent of Mindanao’s elementary enrollee cohort do not reach the final year compared with 25 percent nationally, and a quarter of the secondary enrollee cohort do not finish the final year compared with 20 percent nationally.⁵⁵

The high poverty density in the Philippines’ high-growth urban areas (see figure 3.2) indicates that migration to urban areas is not necessarily the right pathway out of poverty.

The tendency of ARMM residents to resist migration outside the region is a contrast to the migration of Maranao from Lanao del Sur toward high-density areas, resulting in the emergence of migrant Maranao communities in Manila and as far north as Baguio City in the Cordillera mountains. Maranaos are mostly traders and small entrepreneurs who are drawn to urban areas with many consumers (box 3.1). Relative to the other Muslim groups that rely on land and resources in their present locations, Maranaos are likely to enjoy better living standards because agglomeration and migration are compatible with geographic convergence in living standards.

Spillovers and economic integration

Sustained economic growth can support convergence of living standards if the right mix of progressive policies is instituted. Agglomeration tends to induce unbalanced growth—spatial disparities. Lagging areas will have difficulty catching up if conditions for economic integration are not in place. The spatial development strategies of the past that attempted to artificially catapult a lagging area into a growth area to achieve more balanced growth are costly and unlikely to be effective and sustainable. The challenge to development policy in the Philippines is to help regions optimize their growth strategies and promote inclusive development while production is concentrating in a few areas. Fortunately, economic spillovers can help close the gap in living standards created by unbalanced growth. Promoting economic integration helps regions maximize the benefits of spillovers.

Because Mindanao has access to export markets, planners might overemphasize strategies that build economic integration with the rest of the world rather than with other areas in the Philippines (box 3.2). The error of such a strategy becomes clear when looking at the share of foreign trade in the region's growth. Trade openness can be crudely measured by the proportion of total foreign trade (merchandise exports plus merchandise imports) to GRDP. Trade openness in Mindanao was 16 percent of its GRDP, compared with the national average of 93 percent during 2000–07.⁵⁶ In 2006, domestic trade in Mindanao was 9 percent of its GRDP, the national average 6 percent. These proportions indicate that Mindanao's economic integration with the rest of the Philippines is equally as important as integration with the rest of the world.

Mindanao must not see itself in isolation from the rest of the country if it wants to achieve a successful and sustainable economic turnaround. The dynamic regions of Central Luzon and Southern Tagalog, for example, have achieved high growth by anchoring their strategies in Metro Manila and taking advantage of their proximity to the capital.⁵⁷

Infrastructure for economic integration

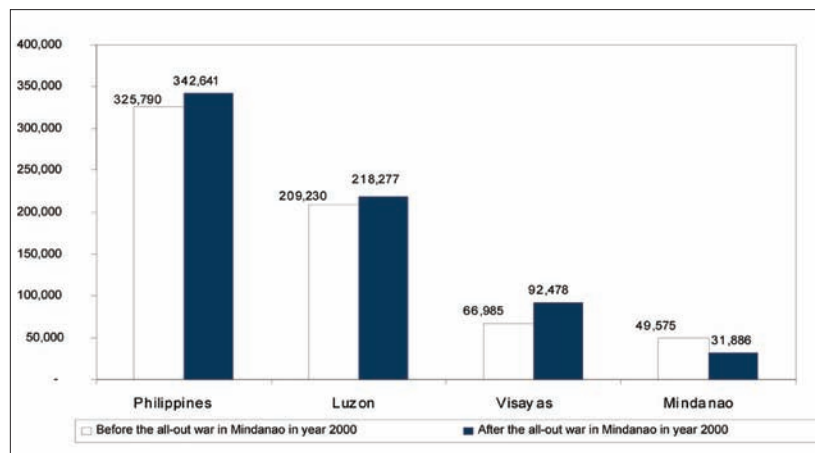
Access to infrastructure in the Philippines is considered favorable compared with developing

economies in East Asia.⁵⁸ Overall access to electricity is 80 percent, improved water supply 86 percent, sanitation 83 percent, and landline and cellular telephones 31 percent. The road network is estimated at 2.6 kilometers per 1,000 people. Mindanao is not considered infrastructure-deficient relative to the rest of the Philippines.⁵⁹

But access to connective infrastructure by region remains highly uneven. For example, in telecommunications the actual subscribed teledensity in Metro Manila is 43 times more than in the ARMM and 37 times more than in Eastern Visayas. In aviation, the volume of civil aircraft movements in Mindanao since 1996 remains a dismal 12 percent of the national total despite its having 24 airports (including 3 international airports). Visayas, which has 22 airports (including 2 international airports) hosts 23 percent of civil aircraft movements, while Luzon, with 38 airports (including 4 international airports), hosts 65 percent. The “all-out-war” in Mindanao in 2000 led to a 36 percent decline in civil aircraft movements between 2000 and 2006, while Luzon and Visayas increased 4 percent and 38 percent respectively (figure 3.3).

The state of infrastructure in the country has not been able to keep pace with rapid population growth and urbanization. Bottlenecks in delivering quality service are created by corruption, insufficient competition, inadequate cost recovery, and low credibility of institutions.⁶⁰ These problems are exacerbated by high tariff rates. For example, intercity freight rates in the Philippines are 50 percent higher than in Thailand. Industrial electricity tariff rates are the fourth highest in the Association of Southeast Asian Nations. Commercial and industrial electricity prices were higher than residential tariffs in 2005,⁶¹ contrary to the normal expectations of industrial users to pay much less than residential users because they have better load factors and use little of the distribution system. Long distance telecommunications service rates in the Philippines for domestic traffic are comparable to other Association of Southeast Asian Nation countries, but the international rates are high. The inefficient structure of the shipping industry, despite deregulation efforts, has not allowed interisland roll-on roll-off shipping to achieve its full potential to reduce distance between major cities in Mindanao and markets in Metro Manila and in the Visayas. To date, five shipping lines control 90 percent of passenger and cargo markets and almost all of the primary and secondary shipping routes in the Philippines.⁶²

Figure 3.3 Volume of aircraft movements in the Philippines before and after the 2000 “all-out war” in Mindanao, 1994–2006, in total number of flights



Source: Civil Aviation Authority of the Philippines and Mindanao Economic Development Council.

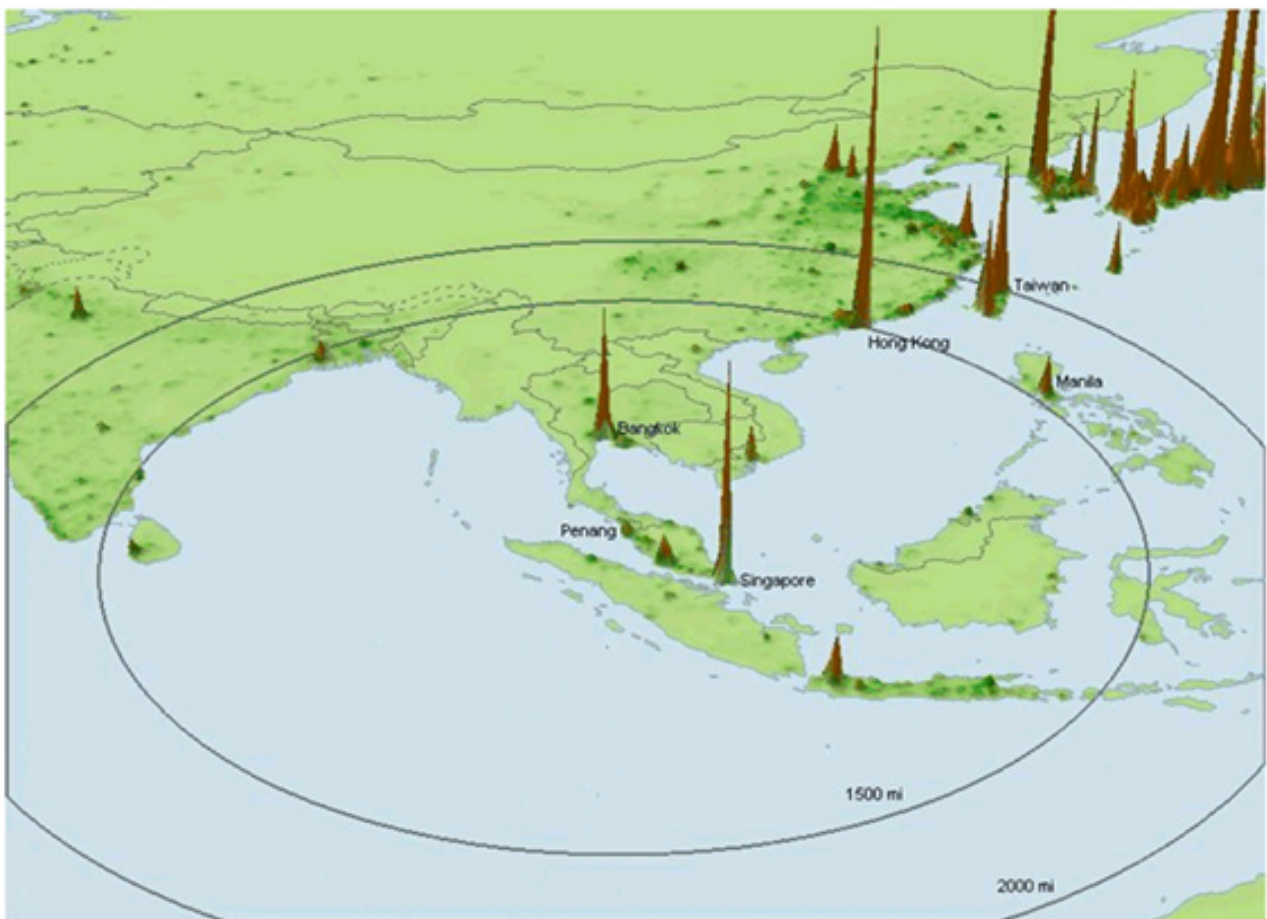
Note: Volume is the average of six years pre- and post-2000, excluding military aviation.

Box 3.2 Would Mindanao be better off integrating with growth centers in neighboring countries to the south?

The search for alternative development strategies for Mindanao draws planners toward growth areas in neighboring countries to the south, such as Malaysia and Indonesia. Attempts were made in the 1990s to provide a liberalized environment for free trade with these countries in the hope of providing economies of scale for investment.

Unfortunately, Mindanao's location is proximate to low-density areas of Malaysia and Indonesia (see figure). The region's high-density areas are to the north: the highly industrialized cities of Hong Kong, Taipei, Seoul, and several in Japan. Countries to the south share the Philippines' agriculture-based economies. With much less economic density than countries in the north, they do not offer better economic prospects than linkages with Manila.

Economic density in Southeast and East Asia, 2000



Source: World Bank 2009b.

Note: Economic density is expressed in gross regional domestic product per square kilometer.

Mindanao's nearest growth center is Manila, economic integration with it the logical goal Mindanao's development strategy. Manila can also provide strategically valuable links to other growth centers with which it is well-integrated in financial markets, labor migration, and trade in commodities or services.

Source: Mindanao study team.

Spatial disparities between Manila and Mindanao are inevitable in a growing economy such as the Philippines. Some areas are not as immediately able to benefit from concentration of economic activities as others. But in the long term the benefits of concentration can be shared with other areas through economic integration. The Philippines

needs to improve its connective infrastructure and promote greater competition in the transport sector if it is to reduce business costs and distances across all regions. When this national concern is addressed, Mindanao will be able to substantially increase its contribution to the country's growth.

Box 3.3 Mindanao–Philippines integration: a sector approach

Integrating Mindanao's local economies with the agglomeration in Metro Manila may require a sector-specific approach. Mindanao's local or regional economies can use Metro Manila as a hub for processing and exporting semiprocessed products. Metro Manila can also be a final consumer of agricultural goods from Mindanao and an entry point for bringing intermediate goods to the rest of Luzon.

The corn industry could become a good example of economic integration with the rest of Luzon. Corn constitutes about 60 percent of the feed mix required by the hog and poultry industries. Mindanao's provinces, which produce about 43 percent of yellow corn in the country, could better integrate with the feed milling industry in Luzon that supplies the poultry, hog, and fisheries industries there. Integration would replace foreign corn imports by increasing the competitiveness of yellow corn production, storage, and transport from Mindanao.

Corn imports have been dropping, but expanded poultry and hog production has been increasing the domestic demand for corn since 2000. Mindanao has been trying to meet that demand by devoting more land to yellow corn. The challenge for Mindanao is getting its corn to Luzon markets efficiently, with minimal waste and at lower cost than imports.

Road quality and irrigation need to be improved in the Mindanao areas where sufficient scale economies in corn could be achieved. It is not enough to aim for average irrigation levels or road densities in Mindanao that are no worse than elsewhere in the country. To encourage a specific sector, corn, irrigation must be provided up to a level that would allow scale economies in specific Mindanao production centers. Likewise, road densities and quality must reach a level to reduce crop loss in transit.

Many areas in Mindanao well-suited for corn are not accessible to markets because of inadequate road infrastructure, so corn farming there is not as profitable as in the lowlands. Underused areas suitable for corn production include Lebak, Ninoy Aquino in Sultan Kudarat (30,000 suitable hectares), and North and South Upi in Maguindanao (25,000 suitable hectares). Most parts of Maguindanao province also have good potential for corn, but conflict exacerbates their accessibility problems.

Connectivity is not the only problem. The lack of irrigation facilities limits the production cycle to once a year. Planting is dependent on weather conditions, creating greater uncertainty in production. Highly perishable, yellow corn kept for more than one week at high moisture may not be viable for feed production, as germination might already have taken place. Huge postharvest losses have resulted from farmers' use of inadequate solar dryers during the rainy months, allowing grain to deteriorate. Bad roads—impassable to cargo trucks when it rains—make it difficult to move the grains from the farms to grain market centers.

Small landholdings (averaging 1.5 hectares) also limit the capability of farmers to invest on better drying facilities. A minimum of 300 hectares planted to yellow corn is needed to make it profitable to construct drying and milling facilities. Entrepreneurs who coordinate different suppliers, negotiate with buyers on their behalf, and provide for common facilities such as irrigation, drying facilities, and bulk transport are important in getting the corn to market (for example, see box 4.6 on Dasuraicor in chapter 4).

Handling, shipping, and storing corn grains in sacks is a common practice—and one of the main reasons why the country's transport, marketing, and distribution cost for corn is one of the highest in the region. Argentina improved its competitiveness against U.S. corn and rice by investing in bulk-handling systems for moving these grains from the farms to market centers. For example, corn is harvested by combine harvesters, transported to the drying center, and stored in corn silos. From the corn silos, bulk-handling trucks move the grains into barges anchored at shipping ports. These ports are equipped with conveyors and other bulk handling equipment that facilitate and speed up loading and unloading.

The Philippines has yet to embark on a coordinated effort to improve competitiveness along the entire value chain of the corn industry. Authorities such as the ARMM regional government, Mindanao city mayors, provincial governors, and the national government's infrastructure planning agencies need to work together to identify complementary public actions and investments that will reduce interisland transport costs. They also need to jointly implement logistical improvements that will reduce delays at the ports and bring the corn to millers before it starts to germinate.

Source: Costales 2006.



Women participants in an education sub-project. Matalam, North Cotabato.



Small-scale manufacturing of fruit juices. Lanao del Norte.

Small farmers often make use of the most available modes of transportation, taking goats to the market on a motorized tricycle. Makilala, North Cotabato.



A bountiful harvest is reflected on the big smile of this farmer. Lala, Lanao del Norte.

4 Toward economic integration: conclusions and recommendations

Economic integration elicits varying sentiments and guarded expectations from different stakeholder groups in Mindanao. The balance of economic and political power is regarded as inequitable, with institutions unable to protect the interests of marginalized social groups. In this view, integration would only increase the disparities across areas and social groups.

Even well-intentioned measures meant to take advantage of economies of scale and scope, for example, could make the lives of those in the lagging areas more difficult. When firms or entrepreneurs decide to move to the cities, rural local governments are left with a reduced tax base, making it even more difficult to finance services for the poor and disadvantaged. Small farmers also lose the access to markets that used to be provided by entrepreneurs and traders who chose to move to bigger cities. But these inevitable costs are also likely to grow if some areas remain isolated and remote.

A critical first step for Mindanao is to consolidate consensus around the importance of economic integration. What does economic integration mean? What will an economically integrated Mindanao look like when it happens? How can economic integration be achieved?

As the preceding chapters have argued, unifying Mindanao through economic integration is an important precondition to its broader development. The uneven development that characterizes its present spatial patterns of clustering is inevitable, but government should not be complacent. With the right policies, economic integration can prevent further polarization of social groups and allow growth to benefit more communities through efficient routes that cross and connect leading and lagging areas, including many areas that are vulnerable to conflict. This chapter identifies policy instruments to promote integration in three categories: institutions, infrastructure, and interventions (box 4.1).

Box 4.1 Policy instruments for economic integration: institutions, infrastructure, and interventions

The *World Development Report 2009* argues that three key categories of policy instruments can help address the challenges of density, distance, and division to achieve economic integration: **institutions, infrastructure, and interventions**.

Spatially blind **institutions** not only ensure provision of a basic level of services and welfare but also enable economic transactions through clear rules and operational mechanisms of enforcement. They promote integration because they benefit residents with common services that do not discriminate across localities or social groups, providing equal opportunities for people to develop their full potentials.

Spatially connective **infrastructure** consists of policies and investments that connect markets and allow labor migration, facilitating specialization of industries, firms, and trading activities in growth centers. For Mindanao, infrastructure could integrate the island's cities to the National Capital Region and surrounding areas in Luzon. Infrastructure could link Mindanao's growth centers with secondary urban centers and even with rural areas. Secondary urban centers near these growth centers would enjoy a natural advantage of proximity and greater ease in moving goods and people to the growing industries and services sectors in the primary cities. Eventually, connective infrastructure can facilitate the spillover of growth opportunities to the interior, lagging parts of the island.

Spatially targeted **interventions** can create incentives to help integrate lagging areas that face severe isolation. Mitigating the effects of poor infrastructure, social discrimination, and long-term and recurrent conflict will require focused assistance and properly sequenced efforts to restore order and security, restart basic service delivery, and rebuild or reform local institutions.

Source: World Bank 2009b.

Making integration happen must be a major goal of Mindanao's economic and social development efforts if peace and equitable development are to be sustained for its divided stakeholders. The island needs more than just a well-functioning state that can provide services; it needs a state that can support economic activities to enable all groups in

this community of distinctly unique cultures and backgrounds to realize their full potential.

By focusing on economic integration, development planners can bypass the crippling issue of whether development should be put on hold until peace is fully achieved. Institutions and infrastructure are a large concern of conflict areas when tension builds, and even during and after periods of violence. Holding back such services in any area is not an option, especially for Mindanao with its history of division and mistrust.

Special and focused interventions will be necessary, but only for severely affected areas and communities. Advocacy for Mindanao development needs to make a distinction between the broad concern of addressing gaps in services and infrastructure as a strategy to bring isolated areas into the mainstream and the special needs of these conflict-affected areas and communities where more intensive and focused help are needed.

Strong institutions: a precondition for integration

“Historically, the government’s role in the protection of property rights and the provision of other public goods has been closely linked to its role in ensuring peace or law and order. Conflicts over property between private agents, and between the state and private agents, are some of the most important issues that governments have had to deal with, because they often lead to a breakdown of law and order.”

*World Development Report 2002: Building
Institutions for Markets*⁶³

A formidable challenge to economic integration is how human influences collectively determine local economies’ response to growth opportunities and the distribution of income among individuals and groups in society.

The *World Development Report 2009* emphasizes that “the bedrock of integration policies should be spatially blind institutions.”⁶⁴ In Mindanao’s case, the role of institutions will be far-reaching and far more complex than in many other places.

Imperfectly functioning institutions in Mindanao have evolved from colonization strategies that caused some areas to prosper and others to become poorer after colonization.⁶⁵ As in other places

where colonizers did not settle, their predominant strategy was to establish extractive institutions that cared little about the welfare of the population and enabled the powerful elite (typically Europeans with allies among the local elite) to tap into the colony’s rich natural resources. In other colonies where Europeans settled in large numbers (such as the United States and Australia), they protected themselves by developing laws and institutions for political and economic order that in turn supported investment and economic growth.

In highly extractive local economies in Mindanao, government policies are similar to colonization strategies, with weak institutions allowing companies to tap into rich natural resources without restraint by formal or informal rules. The result is frequent complaints against mining companies about toxic wastes, land erosion, damage to lakes and rivers, and violation of agreed processes for informing and consulting communities about these geological hazards. Perhaps a bigger tragedy is the inability of local institutions to mobilize resources from these economic activities to provide education and other basic services to their communities. Poverty and ignorance perpetuate tolerance of this perverse relationship with investors, as mining companies may provide the only access to education and health services in some areas.

Economic integration without the development of spatially blind institutions cannot bring about sustainable growth for Mindanao, as its conflict history and pervasive underdevelopment suggest. Research on successful economies indicates that an area’s institutional quality rather than natural endowments influences economic outcomes.⁶⁶ Of course, institutions have strong implications on governance.

Institutions should be able to secure basic services and welfare, equalize opportunities to participate in markets, and remove barriers to integration. Providing basic services such as health and education, as well as basic amenities such as water and electricity, will better enable and prepare people to take advantage of economic opportunities and improve their living standards, regardless of where they live.

Other important basic institutions include those that enable transactions. As Mindanao is largely agricultural, it needs better access roads and more effectively facilitated land markets to unleash the potential of land as an asset that can be converted

into usable wealth. Land ownership and land use issues are particularly challenging, needing decisive policies that do not exacerbate local divisions arising from land disputes. Failures in financial markets because of conflict and extreme poverty likewise need to be addressed, so that those who wish to make investments will have access to credit and finance and lenders will have legal recourse in case of borrowers' default. Skilled workers from rural areas should have information and certification institutions to help them land jobs. And the seemingly unsolvable situation in the conflict zones emphasizes that institutions should be able to guarantee the security of residents, constraining the use of violent aggression by groups seeking to protect or expand their own control over resources.

Building such institutions to lay the foundation of an integrated Mindanao should be foremost in the minds of policymakers, planners, and development agencies.

Ensuring basic services and welfare

A deliberate effort to make basic social services available to all social groups, irrespective of ethnic origin, culture, social status, financial means, and—most important—location, can significantly reduce isolation. Such an effort needs to muster the resources of all available institutions that deliver public

services—including health and education as well as basic amenities such as water and electricity—at the local level (box 4.2). Lessons from successful economies as well as the unfortunate history of Mindanao's lagging areas make this an important goal of deliberate and unrelenting efforts to change the growth path of the entire area.

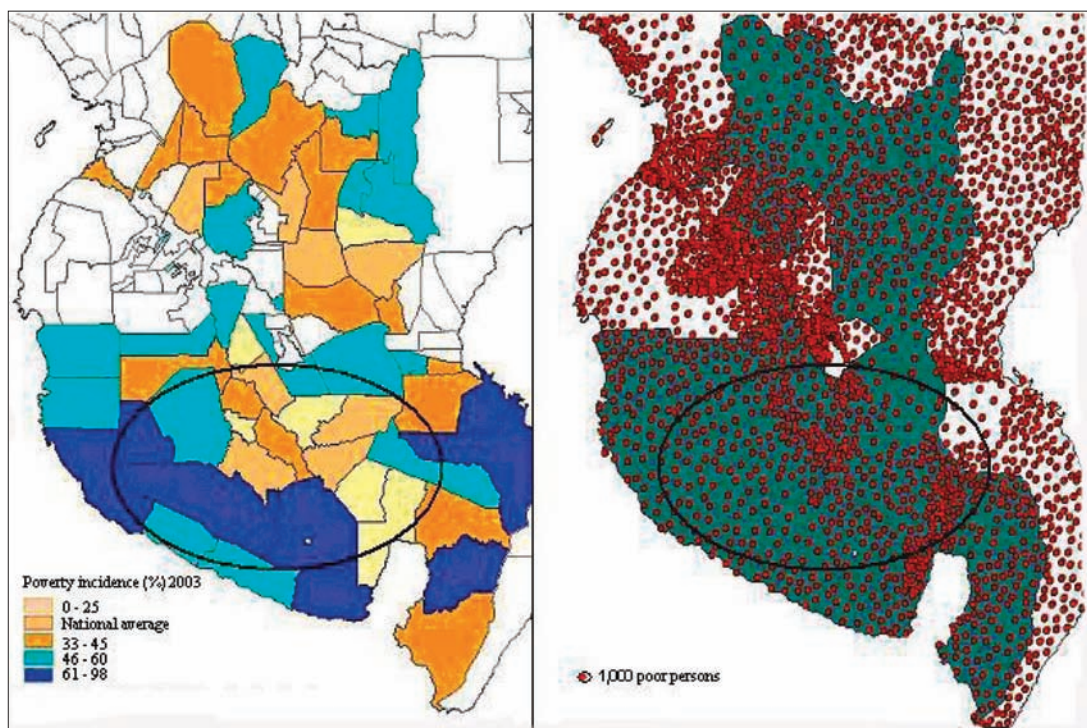
Making decentralization work is a must. Community-driven development approaches need to be encouraged in areas where community participation is hindered by low levels of competence, weakened social structures, and extreme poverty. Major policy innovations—introduced in the national poverty targeting framework piloted by Department of Social Welfare and Development programs—can mobilize considerable resources to achieve universal access to basic education and health services. This will be crucial for developing human capital and improving living standards in both lagging and growth areas. In conflict-affected areas where basic services are efficiently delivered and where grievances are redressed, communities will become more motivated to prevent the recurrence of conflict and protect established institutions from the aggressive behavior of armed rebel groups. For example, the experience of the municipality of Kiamba, which had recently come out of serious conflict-generated isolation, illustrates the importance of rebuilding institutions (box 4.3).

Box 4.2 The Development Alternative Framework (Project DAF) in South Cotabato

The provincial government of South Cotabato has observed that lack of good local governance and basic services such as water systems, road infrastructure, health and education services, and alternative sustainable livelihoods is the major reason why extreme poverty and conflict thrive in certain communities (see figure). These conditions contributed to insecurity, low confidence, and limited growth in

Project DAF establishes several convergence zones in areas that are predominantly affected by insurgencies. Unlike the conventional convergence approach applied in Mindanao, Project DAF recognizes the importance of linking conflict-ridden, often isolated communities with major or secondary trading areas within the province. Links are provided by infrastructure systems such as

Poverty incidence and poverty density in South Cotabato province, 2006



Source: Family Income and Expenditures Survey 2006, National Statistical Coordination Board.

isolated communities where, according to the provincial governor, “people literally close their windows once outsiders stray or visit the area.” In 2006 the provincial government of South Cotabato implemented a concerted effort to address development gaps in conflict-ridden and isolated areas in the province: the Development Alternative Framework (Project DAF).

South Cotabato’s innovative convergence model to coordinate and complement development activities in isolated communities, Project DAF pools government resources and integrates basic services to address both conflict and isolation at the barangay level. Its goals are to improve delivery of infrastructure and local governance through reactivation of barangay-based institutions—such as the Barangay Development Councils and the Peace and Order Councils—to empower local communities, and to reduce poverty through provision of sustainable alternative livelihood programs. Its unintended benefit is reducing local conflict.

bridges and farm-to-market roads. The provincial government encourages better coordination, learning, and efficient operationalization and use of resources in all layers of administrative structures, including the lowest level of political administrative unit, the barangay. Barangay planners in areas covered by Project DAF are required to visit other communities in South Cotabato that have successfully implemented convergence approaches to development.

Project DAF uses whichever convergence platforms can best sustain peace and development initiatives, provided they are anchored in the philosophy of a community. For example, the success of Co-Management for Watershed Protection of Barangay Seloton in Lake Sebu has demonstrated that peace and development can be sustained even outside the confines of traditional interventions in Mindanao. Taking advantage of improved basic and physical infrastructure and improved local governance,

the constituents of Barangay Seloton have also learned to value their livelihoods and to appreciate environmental protection as a way to resolve ideological differences.

The success of Project DAF is attributed to its use of community organizing activities. To date, 28 of the 199 barangays in the province are covered by Project DAF. Reports by the Armed Forces of the Philippines on two pilot barangays state that community members have immersed in productive livelihood

activities, such as abaca and vegetable production and livestock/poultry raising. The only challenge faced in implementing Project DAF is in the mining communities. Small-scale miners and households are likely to abandon the livelihood programs supported by the project once mineral prices go up and returns on small-scale mining become higher than farming.

Source: Mindanao study team interviews with officers and staff of the Provincial Government of South Cotabato, April 2009.

Box 4.3 Local institutions to transform conflict-affected communities

The municipality of Kiamba in the province of Sarangani has strong prospects for integration because of its physical location along the national highway to General Santos City, a major growth center. It is a coastal town, with agricultural areas planted mostly in coconut. Its people are of mixed ethnic origins: majority Moro tribes of Maguindanao and Sangil, an Indigenous Peoples tribe (the T'boli), and a considerable population of Christian settlers from the Visayas. A case study of Barangay Lagundi in the municipality of Kiamba reveals how the area's residents are dealing with the transformations ushered by increased opportunities for economic integration.

Barangay Lagundi in Kiamba was originally governed through a partnership between the chiefs of the T'boli (Indigenous Peoples) and Sangil (Moro) tribes. It started to produce cash crops when settlers (Christian) introduced coconut and rubber crops and hired local residents to work in the plantations. It is remembered as a peaceful area in the 1960s where Muslim and Christian groups co-existed. Conflict began to emerge in the 1970s with the eruption of hostilities between the Moro National Liberation Front and the Christian vigilante groups. The people of Lagundi suffered heavy losses and disruptions from military assaults and Moro rebel activities during the last three decades, causing the increasing isolation of Lagundi as massive evacuations of residents were reported in 1974, 1976, and 2000.

Several projects were introduced to stimulate economic activities and social interactions in Lagundi, especially after the signing of a peace agreement between the government and the Moro National Liberation Front in 1996. Foreign aid and funds from the national and local governments supported projects such as health centers, schools, roads, and livelihood assistance. But most of these projects were short-lived and considered failures by the community members who were supposed to have benefited from them.

Social workers in the area note that community members continue to divide their loyalty among certain power groups, affecting their participation in and their commitment to the success of aid projects. Some women felt discriminated against in project activities

and benefits because of their low level of education. Moreover, projects for post-conflict rehabilitation that were intended for Moro National Liberation Front groups were commonly perceived as discriminating against non-Muslims. Overall, there was insufficient capacity to properly manage project implementation, economic enterprises, grievance and dispute resolution, community organizing, and public service delivery—mainly because the community had the weak institutions.

From these experiences, local governments and development partners can learn to implement projects in a way that considers the influence of groups and social issues that divide the residents. For example, the Bangsamoro Development Agency, one group currently working in the area, engages community members in values enhancement activities as an integral component of its community organizing and education activities. Through its small-scale community infrastructure projects, using the community-driven development approach and supported by the Mindanao Trust Fund, the Bangsamoro Development Agency tries to bring the community closer to the local government so that community needs are well understood and local development plans are seen to provide equitable opportunities.

By other social indicators, such as access to health services, elementary participation rates, and poverty reduction, Lagundi appears to be doing well relative to other conflict-affected areas. The local government can sustain this success through participatory planning activities. It needs to consider models for grievance redress and dispute resolution at the local level that can work for its diverse citizens. Infrastructure goals should also be simple, focusing first on basic rural access to maintain efficient links among coconut producers, integrators, processors, and traders. Over time, local planners can focus on ways to support market-oriented diversification of farms and producers, such as contract farming facilitation, market information, efficient utilities, and access to technology.

Source: Institute for Autonomy and Governance and Bangsamoro Development Agency case studies, 2009.

Seeking the right model of autonomy for service delivery

Developing institutions that ensure a minimum level of welfare is of utmost importance in the Autonomous Region in Muslim Mindanao (ARMM). The poor performance of the ARMM by most social and economic indicators (see chapter 2) highlights the urgent need to improve the regional autonomy model of basic service delivery. Ironically, the ARMM was created to provide the predominantly Muslim population in its provinces and cities the opportunity to apply culturally appropriate policies and strategies.

Instead of being a vehicle for the development of Moro communities in Central Mindanao, the ARMM has not been able to make good on its promise of a better quality of life for its residents. But the ARMM regional government is unlikely to play a large role in Mindanao's economic integration for two reasons. First, while the Moro struggle for a better life continues to be an unfinished agenda for stakeholders in lagging and conflict-affected areas in ARMM, the agenda for Mindanao-wide integration will likely be overlooked in favor of local concerns. Second, the heavy burden of closing big gaps in service delivery will most likely keep the regional government preoccupied, leaving few resources for it to participate in strategic interventions, such as connective infrastructure.

The ARMM regional government needs to see that building autonomy and cultural identity should not mean isolation. It has the power to enact laws, mobilize resources, and implement programs in accord with the needs and preferences of Muslim communities. Disparities in the quality and coverage of basic services need to be reduced considerably between ARMM and non-ARMM areas not only to alleviate poverty where it is most pervasive but also to speed up convergence of living standards among growth and lagging areas in Mindanao.

At the very least, a development strategy in the ARMM that proactively supports the growth of transactions with its nearest neighbors—both the growth centers and the lagging conflict affected areas—can enhance regional integration. The ARMM needs to be able to override tendencies to take autonomy to the extreme by asserting its independence from the Mindanao economy. Autonomy can be used by the ARMM to put in place the right institutional mechanisms and development policies that can enhance investor confidence and promote more transactions with neighbors and with high-growth markets.

Strengthening land market institutions and administration of property rights

Land is an important asset for a largely agriculture region like Mindanao. But its full potential cannot be realized unless landowners or developers are assured of their rights to investments they might combine with land assets. Institutions governing land titling, registration, and land use are crucial. If there were widely accepted rules for gaining access to land resources and adjudicating conflict, investors would not have to be physically present to defend their investments. Unfortunately, the land market in the Philippines has been characterized by weak and inefficient institutional structures, rigid and outdated land laws and regulations, multiple and inconsistent land valuation systems used in various government agencies, and no transparency in the land registration system. As a result, the cost of obtaining a land title that can be defended in court is estimated at US\$2,000, one of the highest in the world.⁶⁷ Smallholders who cannot afford such costs are under constant threat from land grabbers.

Land-related problems are particularly challenging in Mindanao because of ancestral domain issues and territorial disputes among its inhabitants (see chapter 1). Difficult as it has always been, mechanisms for peaceful and just resolution of land disputes without triggering violence will be critical in Mindanao.

The national government's Land Administration and Management Project is a step in the right direction. The project includes: the development of a land policy and regulatory framework; a consensus-building program for systematic land titling programs and awareness of community rights, roles, and responsibilities in the adjudication process for tenure rights and land boundaries; and the development of implementing guidelines, standards, and procedures for property valuation.⁶⁸ A World Bank report on project execution as of fiscal year 2008 showed that, overall, "only very modest progress has been made towards achieving the objectives concerning tenure security and land administration service delivery. The many institutional and legal challenges facing land administration reform in the Philippines have proven to be far more challenging and complex than envisaged."⁶⁹ Nonetheless, the project continues to be implemented, with some adjustments in light of such difficulties.

While some major land-related issues require national-level resolution, such as new laws or amendments, some subnational initiatives have already achieved significant gains, as in the case of Cotabato province (box 4.4).

Box 4.4 Local Government Unit land titling reform in Cotabato province

For many years, Cotabato had been plagued by social unrest, resulting in poverty, family feuds, political instability, and conflict. Rural development was moving slowly, and employment opportunities were simply not enough to support residents' subsistence needs. Indigenous Peoples and other rural families were migrating to urban areas, leaving behind abundant land resources in the countryside.

After careful analysis, the provincial government realized that its plans for enhancing sustainable agricultural productivity were not making much progress because of the prevalence of untitled lands. Many disputes among family members and clans were being fueled by conflicting claims of land ownership—which inhibited landowners from investing in land development and related ventures.

The provincial government spearheaded a strategy, the Handog Titulo Program, to engage national government agencies in facilitating the documentation, registration, and processing land titles for legitimate and eligible claimants. The program targeted: private lands that had been transferred, inherited, or subdivided but not formally documented and registered; public lands (alienable and disposable) that were being privately used; and forest lands that had been converted to other uses and whose stewardship certificates had been changing hands as land rights.

The provincial government formed a joint task force with the national agencies to define criteria for

eligibility, develop parameters for area coverage, and work with municipal and barangay leaders to identify and endorse applicants. The Land Management Bureau of the Department of Environment and Natural Resources evaluated and screened applicants and presented the results to the task force. Applicants endorsed for titling were forwarded to the Register of Deeds of the Department of Justice for issuance of land titles. The province reported that hundreds of tiller-occupants were awarded land titles, including residents of predominantly Muslim communities in the conflict-affected municipalities of Kabacan, Matalam, and Pikit.

As simple as it seems, such a program runs many governance risks. The provincial government is aware that the influential people in the locality have the money to bribe evaluators or to use “dummies” to front as eligible beneficiaries. Ancestral Domain Claim titles, which are communal in nature and whose sale is restricted, are not closely monitored and can be sold to other parties without the knowledge of the government. Thus far there were no reports of such cases but the provincial team acknowledges the need to design appropriate mitigation strategies, such as client surveys, third party monitoring, and periodic evaluation.

The Handog Titulo Program has merit and is perhaps a model for other LGU-led good practices.

Source: Acting Provincial Planning and Development Officer, Province of Cotabato. Interview, April 2009.

Resolving conflicting legal frameworks for mining

Another land use that requires strong, working institutions is mining. Ancestral domain lands of Indigenous Peoples that have strong mining potential are typically under much governance stress from conflicts between national laws and preexisting customary laws and practices. Legal conflicts have led many Indigenous Peoples groups to isolate themselves from the mainstream economy in fear of further loss of ancestral domain lands and encroachment by outsiders. Still, some ancestral lands have become sites of intensive mining by unregulated small-scale operations, with serious environmental hazards for miners and local residents (see chapter 2 for a discussion of these problems).

Mindanao's negative mining experiences have taught that institutions and processes to regulate mining should be set up and be fully functional

before mining actually begins. The transformation of isolated, resource-rich areas of Mindanao into models of sustainable and equitable growth must start by resolving governance questions and strengthening the institutions that can assure stakeholders of the protection of their ancestral domain lands and the resources within their established territorial boundaries. As in the past, efforts to fast-track growth through mining by providing infrastructure and liberalized extraction permits may open the way for unscrupulous practices by outsiders and further erode residents' trust in government and the rule of law.

Current Philippines law does require benefit sharing between mining companies and various government and private stakeholders, but implementation problems abound (box 4.5). These problems can aggravate social stress, economic isolation, and unbalanced development in remote mining areas.

Box 4.5 Benefit-sharing in the mining industry: Can it work?

The two most important pieces of national legislation on benefit sharing in mining are the Indigenous People's Rights Act (1997) and the Philippine Mining Act of 1995. These laws prescribe the following benefits:

- Payments to the national government include: 2 percent excise tax on gross output, contractors' income tax of 35 percent of taxable income, royalties on mineral reservations of 5 percent of gross output.
- Payments to LGUs include: local business tax of 37.5 percent of 1 percent of gross sales, occupational fees of PHP 75–100 per hectare, and a community tax of PHP 10,500 per year.
- Payment to private land title and claim owners of approximately 1 percent of gross output.
- Payment to informal land and claim owners (without land titles) of 0.5 percent of gross output.
- Payment to indigenous communities with a Certificate of Ancestral Domain Title of at least 1 percent of gross output.
- Compensation for damages in case of destruction of burial grounds and cultural resources in indigenous cultural communities.

Other nonmonetary benefits cover a wide variety of activities and inputs, such as community organizing, formulation of the Social Development and Management Plan, housing, infrastructure, livelihood programs, and scholarships. Mining companies typically employ residents of host communities in low-paying jobs and recruit highly skilled workers from outside the host communities. Electricity, emergency response, and medical care are also frequently subsidized by the mining companies.

Actual implementation of benefit sharing arrangements is less than ideal because of insufficient clarity and inconsistent interpretation of such aspects as the timing of royalties, eligible items that can be deducted from royalties due, and how royalties are to be divided if a mining operation covers more than one Indigenous Peoples community. Given the weak institutional structures and low literacy among elders in the most isolated Indigenous Peoples communities, mining firms get the upper hand in interpreting and applying relevant rules. Problems have also arisen after royalties were handed over to the communities that did not have prior experience in or working arrangements for transparent handling of funds. Another problem has been establishing the financial liability of mining firms that take over the operations of other firms originally given clearance for exploration and mining.

Source: Mindanao study team.

A clear and consistent policy framework for resource extraction and management in ancestral domain claims can be complemented by local development plans and policies. For example, the municipality of T'boli and the province of South Cotabato have started to strengthen regulation of small-scale mining operations by taking over some of the regulatory functions of the national government—thereby facilitating efficient local solutions. The Provincial Mining and Regulatory Board is being considered as the appropriate unit to regulate small-scale mining, serve as the environmental monitoring arm of the local government, keep records of small-scale mining operations, and pave the way for sharing information with all stakeholders, especially the local communities that can take a more active role in decisionmaking.

When the Indigenous Peoples community begins to trust state structures—beginning with the LGUs—it can gradually become a more active player in governance and development planning for regional integration at a pace that is comfortable for all.

Developing credit markets to reduce financial constraints caused by conflict and poverty

In Mindanao, violent conflict and poverty can be binding constraints on the island's economic integration. Even if there is good connective infrastructure, political and social instability prevents entrepreneurs from executing their investment and trading plans. Risk-averse people

abandon their business plans if they perceive risk as high. And risk-averse credit institutions are not willing to lend to entrepreneurs who want to take risks and invest in Mindanao. Credit institutions are also unwilling to lend to poor farmers and smallholders who want to invest in machines or materials to increase productivity because lenders fear default when crops fail or are hit by natural disasters. The credit crunch is exacerbated by limited insurance markets that do not properly allocate such risks and by limited or unreliable legal recourse for lenders.

Institutions to address such financial market failures are needed to reduce disparities in access to finance and credit. Moving people to growth areas where the jobs are will not be sufficient to improve Mindanao's overall economy. According to a recent World Bank report, investments in physical and social infrastructure and measures to improve the investment climate in smaller cities are also needed. Only then "growth clusters beyond the current set of dynamic urban agglomerations may be developed that offer off-farm employment opportunities to rural population."⁷⁰

Developing credit markets to reduce the financial constraints on poor households will allow these households to take advantage of economic opportunities offered by growth. Credit institutions catering to small farmers in rural Mindanao—such as the One Network Bank (box 4.6)—may need to be encouraged.

Given the volatile conflict situation in Mindanao that inhibits investments, the development of financial risk insurance schemes to complement enhanced credit market institutions may be worth considering (see the "Interventions" section later in this chapter).

Removing barriers to mobility

Facilitating migration is especially important in conflict areas where people are constantly threatened and livelihoods are insecure. Migration allows people to respond easily to job opportunities in the cities and in nonconflict rural areas. Initial migration of one or two family members to the city for employment allows them to study the labor market. This will help families prepare more methodically—through training or acquisition of

Box 4.6 Dasuraicor: "Mindanao's money for Mindanao"

A key challenge for growth in Mindanao is for capital to move beyond the cities into the rural areas. The growth areas of Mindanao are atypical because their present growth derives from increased productivity in the rural areas. But investors or creditors find it difficult to identify rural investment projects that are bankable because of low farm yields and low skill levels among farmers of banana, coconut, corn, and rice. Some rural banks rely only on investing local deposits in risk-free government treasury bills.

Low productivity, difficult access to markets, and demands for high quality by discriminating export markets are key hurdles facing agriculture in Mindanao. And production needs to be based on smallholders because of the difficulty of consolidating land needed for corporate farms. Corporations have taken the next available option: coordinating production by smallholders who are capable of achieving the volume, competitive production costs, and quality demanded by export markets.

Dasuraicor (Davao del Sur Agro-industrial Corporate, Inc.) is a joint venture of the Land Bank of the Philippines and the One Network Bank. Its corporation by-laws provide for mandatory ownership takeover by farmer clients once they have built up their share capital.

Dasuraicor bridges the wide gap that prevents the meeting of finance supply and finance demand through

its "supervised agri production financing scheme." Its goals, as described by One Network Bank, are to:

- Look for a long-term buyer and validate if there are mature and risk-free production technologies that can be disseminated to communities of smallholders.
- Establish with the long-term buyer what the optimal production volume should be.
- Validate that farmers can make good money by being long-term contract producers, and establish a binding contractual arrangement between the buyer, the farmers, the corporate processor (Dasuraicor), and the Bank (One Network Bank).
- Organize farmers and create a venture capital firm they will subsequently own (Dasuraicor) that will provide the production technology, set up the long-term contract with the buyer, and supply financing for operations and required capital investments.

One Network Bank deploys loan officers who are also agricultural technicians responsible for farmers achieving production volumes and standards, instead of simply screening and processing loans.

Source: Adapted from Buenaventura 2007.

relevant job experience and referrals—before making a more permanent move with all family members. Improving access to basic services such as education, housing and health for migrants in destination areas will be an important support to this process.

The low human capital base of potential migrants, particularly among Indigenous Peoples, impedes immediate realization of migration's potential to contribute to both growth and the well-being of the poor. For example, a 2007 study commissioned by the International Labor Organization on youth unemployment in Quezon City (part of the National Capital Region) and Bulacan province found that education matters significantly in job searches. The study found that it takes an average of 9.8 weeks for a non-high school graduate to find a job in the main urban areas; with a high school diploma, however, the job search would be cut by almost half to 5.3 weeks.⁷¹

The importance of sustained public investment in education in Mindanao cannot be overemphasized. An important complement to investments in public education will be expansion of such schemes as the cash transfers for families that keep their children in school and the mothers healthy. As migration is often a step-wise process whereby some family members first make exploratory and tentative attempts at finding employment in the city, providing public support for the care of young children during the absence of their parents can enable potential migrants to discover opportunities the city might offer.⁷²

Infrastructure: Enabling transactions between areas

To close the distance and address the physical isolation of remote areas, developing connective infrastructure helps to foster economic concentration in growth areas while giving remote areas access to markets and jobs. Many successful nations achieved convergence of living standards across areas where there used to be spatial disparities by increasing the mobility of people and goods across territories.⁷³

Connecting Mindanao to Luzon

Linking Mindanao to the capital city necessitates reducing the cost of transporting commodities and people from Mindanao to Metro Manila or nearby

growth centers in Luzon and Visayas. Although the Philippines has taken great strides in addressing infrastructure backlogs, challenges remain—not only in infrastructure investments and spending but also in governance—that contribute to higher costs of transporting commodities in the Philippines relative to its neighbors. With the quality of its transport infrastructure network low and cost high compared to other countries,⁷⁴ the Philippines ranked 65 out of 150 countries in the 2007 Logistics Performance Index, behind neighboring Thailand (31), China (30), Indonesia (43), and Vietnam (53).⁷⁵ Addressing infrastructure bottlenecks and improving competitiveness in the transport sector would allow Mindanao to participate in the large markets in the National Capital Region and outside the country.

Linking Mindanao's cities and rural areas

Unifying Mindanao also requires physically connecting its rural areas and smaller cities to its growth centers. Connection will generate sufficient scale-up of economic activities to enable value-added production within Mindanao, improving its chances of getting into the National Capital Region and export markets.

Mindanao's physical landscape is comprised of vast agricultural lands, forest resources, and rich marine territories. Despite the abundance of land and other resources, these potentials are separated by vast mountain ranges, barricading the island along its shores and cutting it into smaller regions from the plateaus of Bukidnon to the hills of Davao. The island's contoured geography was a challenge for many years until the government started building national roads to link Agusan and Zamboanga, as well as Cagayan de Oro and Davao. Crisscrossing the rugged slopes, these arterial roads have helped fuse the isolated growth centers of Davao, Cagayan de Oro, Zamboanga, Iligan, and General Santos cities into a regional economic unit.

The expansion of human and economic activities in these growth centers spills over opportunities to the smaller economies around these hubs. These second-tier localities have benefited from the upsurge in infrastructure development that made access to markets easier—as in the case of agriculture-based industries in southern and central Mindanao. But a great number of municipalities, such as those of the ARMM, have failed to benefit from the economic success of their neighbors.

Geographically, the provinces of Tawi-Tawi, Sulu, and Basilan are the nation's back door to the trade system of Southeast Asia, but their economies remain blighted by lack of investment because of conflicts and insecurity in these islands. This is the paradox of Mindanao: blessed yet unable to maximize its full potential.

Efforts to develop Mindanao's infrastructure base have focused on improving the ability of its growth centers to conduct trade with Visayas and Luzon, as well as with other countries. Airport and port improvements, along with investments in site development and services for industrial areas, were among the major programs of the 1990s.

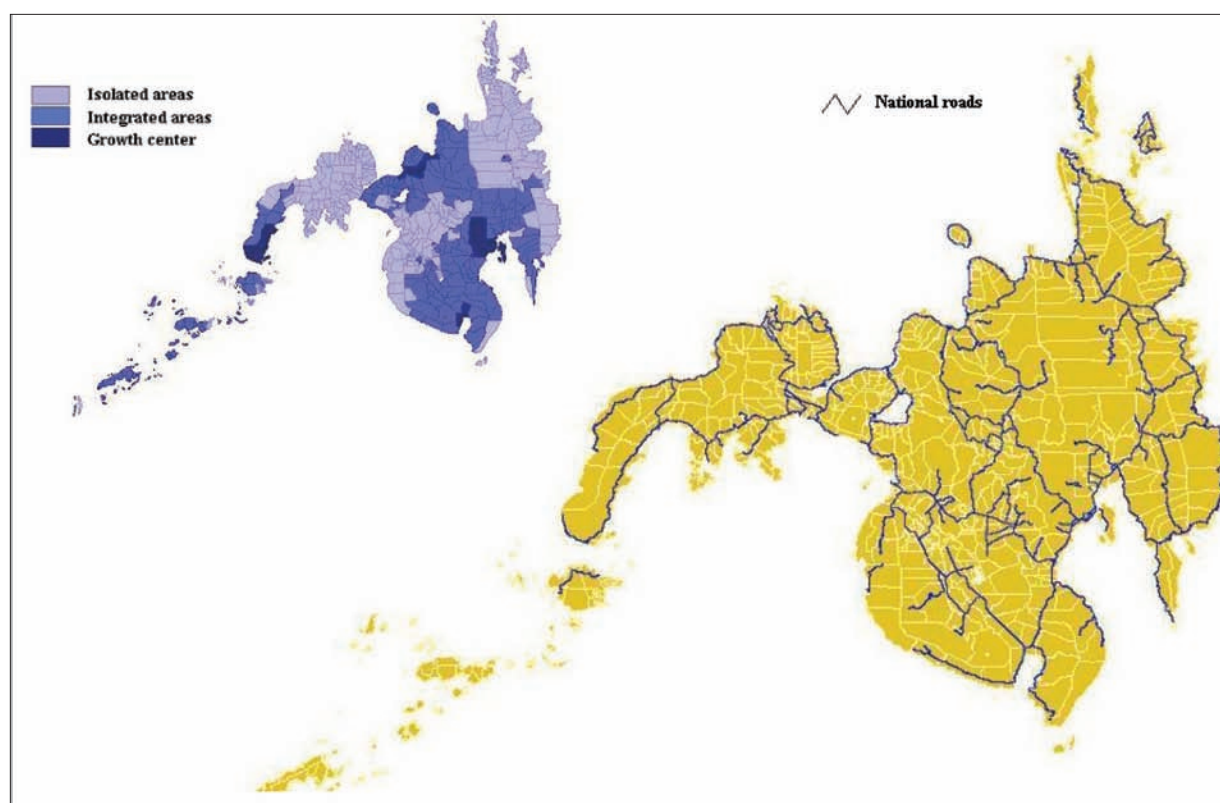
Within Mindanao, growth centers have helped integrate their peripheral economies, but the remainder of the Mindanao countryside needs better connections. Regional integration has been promoted through regional infrastructure projects—implemented by the Department of Public Works and Highways with funding from the national government—that focused on improving the arterial and secondary road network. And convergence in services standards and coverage has been rapid in telecommunications and energy.

The strategic distribution of seaports nationwide seems sufficient. Ports that are not roll-on, roll-off (RORO) capable are to be RORO-enabled under the Mindanao medium-term investment plan by 2010. The Philippines already has 85 airports, 24 in Mindanao. Plans are underway to improve or expand Mindanao's major airports.

Though these infrastructure improvement programs greatly improve the connectivity of communities and mobility of people and products in the region, they have had minimal impact on lagging areas. The ongoing national road improvement program in Mindanao is meant to link growth centers to underdeveloped areas as well as other growth areas (figure 4.1).

Infrastructure programs to further regional integration need to focus on expanding provincial access links, especially to areas that produce raw materials, in order to reduce disparities in economic opportunities among growth areas and lagging areas. Road improvements are especially needed in areas with remote locations, low levels of economic activities, and social tensions and conflict, which suffer the most from heavily deteriorated *barangay* and farm-to-market roads.

Figure 4.1 Mindanao national road network, arterial and secondary roads in relation to economic integration



Source: Department of Public Works and Highway 2000.

Regional infrastructure programs can complement the initiatives by many community organizations and their development partners to develop access trails and roads, especially in conflict-affected areas that had been isolated for years. Typically too small to be covered by national or regional infrastructure development policies, these access road initiatives require only simple engineering for construction and maintenance. In many cases, they are also valued for their positive effects on community participation and rebuilding social networks after peace is restored in an area.

In the context of economic integration, these community-level infrastructure initiatives play a critical role in completing the connections to areas that are physically isolated. Local planning processes and barangay councils should be encouraged to look into various structural solutions and make the most of local materials and volunteered labor from community members. Basic access and mobility have been neglected in many isolated communities, perhaps because the devolution policy assigned responsibility for these roads to barangays without regard for the financial implications.⁷⁶ Perhaps the right solution must come from local initiatives, with just the right support to catalyze the process through community organizing and seed money.

Interventions

Economic integration will be difficult for areas with problems of distance, density, and division. Even as institutions and connective infrastructure are enabling Mindanao's growth and lagging areas to interact and converge economically, some areas will remain isolated because of Mindanao's persistent social divisions.

Targeted interventions to accompany improvements in institutions and infrastructure are needed in two places: areas with low economic integration and multiple sources of conflict; and urban slums made up of communities displaced by recurrent conflict. Many conflict-affected areas already have the advantage of proximity to growth centers and need only enhance that by improving institutions and closing distances through connective infrastructure and labor mobility. Decreasing their vulnerability to conflict would help usher in economic prosperity.

Reducing the level of violent conflict and implementing a post-conflict strategy

The island-province of Basilan is economically isolated, with some municipalities extremely distant from trading centers, and socially divided among three groups: migrant families in the arable plains, indigenous Yakan tribes in the hinterlands, and Moro sea-farers along the coasts. The Philippines' comprehensive agrarian reform program transferred the title of lands from plantation owners to farmers, but the beneficiaries were mostly the descendants of Christian migrant workers recruited in the early part of the twentieth century. The likelihood of Muslim communities integrating with the farming economy remains slim, as frequent evacuations and mismatched skills discourage labor mobility and stable employment. Most tragically, the local government units in the island are unable to function at all. Residents live under constant fear of violence from the rivalry between two clans that have been fighting for political and economic control of the island for generations.

The use of government military force in restoring peace and order in Basilan is almost inevitable, even under a successfully negotiated peace agreement with the Moro Islamic Liberation Front. But the government needs to realize that any post-conflict development strategy cannot rely solely on the military but should simultaneously start developing institutions and infrastructure. Measures to reduce the level of conflict will need to accompany well-planned and well-financed programs to improve basic services in the communities and to restore mechanisms for participation and governance. Grievance redress mechanisms to avert relapse into conflict will be critical, requiring strong interventions in accordance with customary practices for conflict resolution.

A technical assistance study for the Office of the Presidential Assistant for the Peace Process and supported by the Australian government presents a detailed strategy to transform areas where conflict has resulted in the collapse of enabling factors for development.⁷⁷ The first step is to de-escalate violent conflict and strengthen mechanisms to manage conflict. The short-term goal is security, the target to prevent further death and destruction. Support from the international community, peace

advocates, and government negotiators should be coordinated to address the causes of conflict and human rights abuses. At the local level, facilitated dialogues should seek nonviolent resolution between conflicting parties. Humanitarian assistance must be allowed access to the area.

Once security conditions are stabilized,⁷⁸ stakeholders can address the humanitarian, economic, and environmental consequences of violent conflict. For this stage the strategy includes programs to protect vulnerable populations, provide disaster relief for populations affected by conflict, and initiate the rehabilitation of local infrastructure, institutions, and economies damaged by conflict. With sustained conditions for development assistance, such areas can become sites of “transformative development” where communities can start rebuilding their lives.

Such a sequenced strategy, coupled with incremental provision of basic services, is consistent with using economic integration as a way to sustain peace in conflict-affected areas. However, the provision of basic services can begin even before security conditions are fully stabilized. Even during highly volatile conditions in an early post-conflict scenario, a clear program to restore institutions⁷⁹ and infrastructure to reconnect an area with the rest of Mindanao is going to be as urgent as humanitarian assistance and security measures. Contractors and nongovernmental organizations are best equipped to provide this program, so securing their safety is of utmost importance. But state institutions, such as national agencies and LGUs, must be gradually phased in with substantial resources to continue programs with unrelenting and intensive delivery strategies that can reach all communities in an area. Only when conditions for transformative development have taken root in the area can strategies for addressing density and distance be designed and implemented.

In the immediate period following the restoration of peace and order, it would be a mistake to transfer total governance responsibilities to newly created political structures without financial resources, mentoring, and technical guidance—especially in new territories or jurisdictions that may have been negotiated under the peace process. Local managers need to acquire development management skills under closely supervised and guided processes to avoid becoming overwhelmed. Failure to manage and rise above inevitable difficulties may only lead to frustration—and a return to conflict. The experience of the ARMM after the government–

Moro National Liberation Front peace accord suggests that the transfer of power and resources without initial assistance was premature and abrupt, leading to poor performance by the new ARMM and disappointing results in the plebiscite. Self-governance mechanisms are important, but starting the transformation to realistic and effective self-governance mechanisms at the barangay level may be the best strategy for participatory development.

Encouraging private investment through financial risk insurance schemes or guarantees

Though migration may be the most effective way out of poverty in isolated, conflict-affected areas, targeted programs for those who choose to stay may enable them to make the most out of their resources. The economic opportunities offered even by the growing cities of Mindanao may not be great enough to warrant widespread urban migration. Another reason for program interventions in the hinterlands and conflict areas is that people may not find it easy to move out of lagging regions, especially Indigenous People, internally displaced people, and Moros. In such situations, targeted, place-based interventions may be justified.

Conflict zones in rural areas do not need to be excluded from growth-inducing investments. Starting with areas affected by *rido*, public planners may begin to think about investments to improve agricultural productivity. Such improvements in rural, agricultural areas could also lead to more opportunities in the cities—to the extent that these cities’ prosperity is based on more robust agricultural growth.

Given that limited public resources are hardly adequate to provide basic services now, public investments may not be affordable. Private investments need to be encouraged. Targeted incentives may come in the form of financial risk insurance schemes or guarantees for private investors who may want to invest in such things as agricultural facilities, machineries, and transport that can be used to improve agricultural productivity, that will enable processing of agricultural commodities, or that will facilitate trade and enhance market linkages between isolated, conflict-affected areas and growth centers.

Addressing the needs of internally displaced people

The case of internally displaced people in Mindanao illustrates how nonmarket forces can prematurely induce labor mobility. Internally displaced people move not because of economic opportunities but for basic survival and security. Instead of working and contributing to the growth of communities that receive them, internally displaced people could add to receiving communities' burden if they lack job skills and fail to be productive. Some urban and integrated areas in Mindanao that accommodate a sizeable number of internally displaced people experience food insecurity, limited opportunities for income generation, and poor access to basic services, including drinking water, health services, and sanitation. When conflict drives migration to urban centers, people can become trapped in under- and unemployment (because of mismatched job skills), lower incomes, insecurity, and extreme poverty. When the conflict cycle sends waves of displaced people into the urban slums, a cycle of arrested development becomes the norm, further perpetuating socioeconomic disparities within a municipality or city.

Should city governments be expected to realize the nature and magnitude of the displaced person problem and work out local solutions? What sort of strategy can both protect the urban environment and alleviate poverty? How can these migrant communities compete for local government's priority attention and scarce resources to meet their basic needs? The national government's formal response to the needs of internally displaced people has been framed as disaster management and coordination; how will it meet this poverty challenge?

Recommendations for national and local governments

The needs of internally displaced people are complex and require coordinated responses at both national and local levels. Recommended measures include:

- Enhancing the capacity of host communities to respond immediately

to the needs of internally displaced people by providing basic services such as water and sanitation, primary health services, and food and education subsidies.

- Establishing appropriate governance structures through community projects for small service facilities.
- Helping city governments coordinate with neighboring municipalities to create efficient links between urban and nearby rural economies where internally displaced people can find opportunities for livelihoods.

The first objective of all programs should be to cross the imaginary barriers between displaced communities and their host communities through dialogues with the local government unit, policy guidance, responsive technical assistance, and incentives. By addressing the needs of internally displaced people, there is a greater chance that Mindanao's prosperity can be shared beneficially with remote rural areas. The spillover of growth benefits from the cities to surrounding areas could be facilitated and future development could result in greater social inequity and be less vulnerable to conflict.

Improving conditions in their original community is also a much desired goal of Mindanao's internally displaced people. Efforts need to focus on building or restoring basic institutions and laying the foundation for economic integration that is sensitive and protective of the cultural and social concerns of Mindanao's stakeholders. In many cases, the process can be launched effectively with community-based strategies for mediation, participation in local governance, and rebuilding of social networks. For areas experiencing open aggression from warring groups, efforts will necessarily focus on security measures before initiating institution-building for self-sustaining law and order. Basic goals in conflict-affected areas are to achieve discernible improvements in the quality of basic services, and to sufficiently address land rights and territorial boundaries.

Conclusion

The basic development challenge that Mindanao—particularly Muslim Mindanao—faces is how to catch up with the level of development that leading regions in Luzon and Visayas have achieved. Major tasks include: connecting the five growth centers of Mindanao to high-density areas within and even outside of the Philippines; and allowing the economic benefits of Mindanao's growing cities to spill over to communities in the peripheries.

Achieving an economic turnaround for Mindanao will require Mindanao's urban growth centers—such as Cagayan de Oro, Davao, Iligan, General Santos, and Zamboanga cities—to become economically integrated with economically dense areas outside Mindanao. The most proximate agglomerates will be Metro Manila and Metro Cebu. For example, the dynamic regions of Central Luzon and Southern Tagalog have been able to take advantage of their proximity to the capital, achieving high growth by anchoring their strategies in Metro Manila. Mindanao should also strengthen market linkages outside of the country—particularly with the United States and Japan, Mindanao's top trading partners. Access to domestic and export markets by Mindanao's urban centers will permit specialization and realization of scale economies.

Connecting Mindanao to economically dense areas within and outside the country requires addressing infrastructure challenges. Improving connective infrastructure and promoting greater competition in the transport sector are necessary to reduce distances and lower business costs (see chapter 2)—allowing Mindanao to substantially increase its contribution to the country's growth. Sharing the benefits of development from the capital and growth centers with the lagging areas depends on mobility of all kinds, from labor to capital. Given inevitable resource constraints, not all hinterlands can be connected to the cities. It will not be worthwhile to invest in connective infrastructure if the resource endowments of some places do not show significant potential for increased production links with the cities. In these cases mobility will be key. Both labor and capital should be allowed to move from low- to high-productivity areas. Within Mindanao, it will be important to pay attention to rural-to-rural links so that lagging areas that are not connected to the cities will find it possible to send people to growing and better-endowed

lagging areas that have a greater connectivity to the cities.

Barriers to movement and temporary settlement will certainly continue, given the cultural, political, and religious diversity in Mindanao. Not everyone in the periphery can move to the center. There also must be well-functioning financial markets, formal or informal, so that those who move to growth centers can remit to their dependents who stay in the periphery. To the extent that such remittances permit those staying in the periphery to carry out their consumption and production plans, all will be able to benefit from business activities in high-density centers regardless of where they live. Well-functioning credit and insurance markets can also allow those left behind to invest in the places they choose to stay.

It will be critical to establish institutions across all areas that enable people to acquire the portable human capital that will allow them to move to areas of economic opportunity. The bedrock of an economic integration policy is common institutions that equalize opportunities for people, regardless of where they are, to participate in markets and realize their human potential and the potential of their natural resources.⁸⁰ Universal provision of basic services and facilities should be foremost in the minds of policymakers and planners. These will equip people with the necessary portable skills, education, and health that can be employed anywhere.

While spatially blind institutions will help diffuse development from the growth centers, Mindanao's case may also warrant special attention to peripheral lagging areas. Fortunately, what is good for the peripheries will also be good for the cities in Mindanao; the growth of the cities depends on the growth of the peripheries. The hinterlands in the peripheral towns are also the source of the agricultural products on which the growth of industrial and services sectors in the cities will depend for a long time to come. More of the value-added agricultural production now done abroad or in leading Philippines regions such as Cebu and Luzon could be done in Mindanao's cities, and even in the rural communities that provide agricultural goods to the cities. In that case, connecting rural communities to Mindanao's growth centers may allow these growing cities to generate enough economic activity to spill over growth and improve human welfare in the rest of the island.

What will it take to increase value-added agricultural production in Mindanao? Because value-added production of agricultural goods requires significant investment (and probably some scale), increased production volume is needed to generate higher returns. And the instability caused by conflict must be addressed so that investors can make long-term investments.

Especially in the hinterlands, conflict has left an indelible imprint on Mindanao's economic life: investments are short-term, production units are small and flighty, and productivity is typically too low to be commercially viable in competitive urban and international markets. Seen in a positive light, this means that there is plenty of scope for economic growth in Mindanao. About half of its municipalities are already well-connected to the five major cities of the island. Many of these are resource-rich, already sites of city-directed production of banana, carageenan, coconut, corn, pineapple, rice, and tuna—even if they are also the sites of past and ongoing armed conflict.

Many of the municipalities that are lagging economically are engaged in traditional subsistence agriculture. For lagging municipalities with good connectivity to the cities and resource endowments, the first step is to organize production to increase agricultural productivity to a sufficiently high level to yield surpluses for trade—even if for only a small segment of the population. The proceeds from this new trade can be used to purchase other basic requirements of the community. Increasing agricultural productivity usually requires some degree of mechanization, use of electric power for agricultural activities, investments in training and education, capital equipment, and acquisition of modern technologies.

Mindanao's past experience has shown that supply contracts with agribusiness firms and city-based exporters require predictability, scale, and capacity to measure up to highly demanding quality standards. The practice of using supply contracts with community-based providers persists because large agribusiness firms have

been unable to gain secure long-term access to large tracts of land because of unsettled and competing claims over territories. In this system, entrepreneurial and managerial intermediaries—often lacking in communities of smallholders—are needed to tie together traders, agribusiness firms, and smallholders in business plans that are both bankable and attractive to all participants, especially the smallholders. Incentives to strengthen the reach of these intermediaries between rural communities and agribusinesses need to be studied.

All this requires a political and legal framework that is conducive to peace, political stability, and a stable and predictable economic environment. Capital accumulation of any kind cannot proceed properly in an uncertain environment fraught with risk.

For areas with relative peace and stability, the policy option should be to facilitate economic integration and reduce social disparities. This policy will also require Mindanao's urban growth centers—such as Cagayan de Oro, Davao, Iligan, General Santos, and Zamboanga cities—to become economically integrated with economically dense areas outside Mindanao.

For conflict-affected areas in Mindanao, conflict reframes the policy direction. The overlapping effects of physical isolation, vulnerability to multiple sources of conflict, and nonfunctioning governance institutions (both state and informal social structures) in lagging areas call for carefully sequenced assistance. Securing residents and external service providers from violent outbreaks is an important first step, followed by community-driven development to enable residents to rebuild their social networks and structures for local governance. Such interventions would require huge public spending and could be a source of abuse if not planned and monitored carefully. The end-in-view for Mindanao's conflict-affected areas is securing law and order, strengthening institutions, promoting social infrastructure, and allowing market forces to foster economic integration.

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Appendix: Methodology

The empirical analysis of economic integration proceeds in three stages. First, the study uses the municipal or city level as the unit of analysis. Second, it generates a geographic proximity indicator to provide a starting point for the analysis of relationships (economic and spatial) between growth centers and other localities in Mindanao. Third, the proximity indicator is used in conjunction with other indicators such as growth, poverty, and presence of conflict to show relationships among them.

Municipal or city level of disaggregation

To analyze the geographic distribution of density within Mindanao, this study uses the level of total output per municipality. The unit of analysis of the study is municipal or city level in an attempt to provide a micro perspective of economic growth in Mindanao. The choice of level of disaggregation is in part motivated by the recent findings on income and social disparities in the Philippines by Balisacan and Hill⁸¹ indicating that intraregional inequalities matter more than interregional disparities.

The study is, however, constrained by the published data from the national statistical offices, which are at best disaggregated at the regional or provincial levels. Official statistics to measure economic growth can be used to get the average of output growth across the six administrative regions, weighted by the share of gross regional domestic product (GRDP). This approach seems highly problematic because since 1997 almost a third of total output in Mindanao has been produced by one region (Region 11) by just over 25 percent of the total population in Mindanao. Meanwhile, the ARMM region has produced only 5 percent of the total output, with a population share of 17 percent. The study therefore uses population density and economic mass as its indicators.

Where data permits, the study goes further by transforming key regional or provincial data into municipal datasets.⁸² For example, the municipal output extensively used in the study, which covers the period 2000–06, is constructed from the GRDP published by the National Statistical Coordination Board (NSCB). The share of registered establishments at the provincial or city level serves as a weight to derive the provincial or city outputs. The provincial output is then distributed, using municipal population data (projected) to derive the municipal output.

This approach has three weaknesses. First, it does not generate enough heterogeneity at the municipal or city level; that is, it assumes that provincial output is somewhat evenly distributed among all municipalities. Second, the share of local (provincial or city) registered establishments that is used to assign weights to regional outputs does not capture the transactions in the informal sector—those of the “flea market”⁸³ small and anonymous transactions that abound in Mindanao. Third, the methodology fails to capture the effect of remittances home by residents who work in another municipality or city. While output is actually produced in a municipality where the workers are employed, it gets assigned to another municipality where the workers send the remittances. The derivation of municipal output thus effectively overestimates the output of the “residential” municipality that receives remittances and underestimates that of the “workplace” municipality that remits income.

An alternative method for deriving municipal output is to rely either on a weighting factor based on the municipal share of electricity consumption or on the weighting factor used by the NSCB in estimating small area poverty statistics. Paucity of data on electricity consumption provided by local distributors prevented the study from pursuing the first alternative. On the other hand, severe underestimation of municipal output is highly likely if the study relies on the second alternative because poverty estimates only capture the consumption component of municipal output. (Consumption here pertains to amounts that go to households and excludes those that go to other entities that own production factors.)

Despite its limitations, the study pursued its analysis using the first option, so that the computed municipal output merely serves as a proxy for the “true” municipal output. Population data are from the National Statistics Office, data on registered establishments from the NSCB, Department of Trade and Industry regional offices, and provincial and city planning offices.

Geographic proximity indicator

In the second stage, the study uses a geographic proximity indicator as its principal variable of interest. The indicator tries to gauge the level of integration with growth centers of a municipality such that it is able to capture the spillover effects and advantages due to agglomeration and scale economies. In other words, the geographic proximity indicator tries to measure the extent to which a municipality benefits from its proximity or physical closeness to growth centers. In this case, Mindanao growth centers are identified as the cities of Cagayan de Oro, Davao, General Santos, Iligan, and Zamboanga.

The geographic proximity indicator calculates the total outputs of the five growth centers multiplied by a weighting factor based on distances between the municipality of interest and each of the five growth centers. Similar to Battersby's,⁸⁴ it is a decayed aggregation of outputs where the decays depend on the physical distance between the municipality of interest and the five growth poles.

This geographic proximity indicator is based on a gravity model that measures the ease or difficulty of connecting to markets or the accessibility between locations. However, it is not a perfect measure because it does not consider two factors that affect transport costs: the heterogeneity in the quality of roads and ports and the limited competition in the trucking industry.

The dataset used to derive the proximity indicator includes the average outputs of the five growth centers in Mindanao from 2000 to 2006 and the physical distances (in miles) between the municipality or city of interest and each of the five growth poles, conditional on the shortest travel time. Distances were provided by www.maps.live.com.

The proximity indicator, denoted as ζ_i , is calculated as follows for each of the 430 cities and municipalities in Mindanao:

$$\zeta_i = \sum_{j=1}^n Y_j \cdot d_{ij}^{-\alpha}$$

where ζ_i is the proximity indicator for municipality or city i , Y_j is the output of growth pole j , d_{ij} is the physical distance between municipality or city i and growth pole j , and a parameter α is assumed to be equal to 5 for the five growth centers.

The higher the value of the proximity indicator, the more integrated or spatially proximate a municipality is to the five growth centers. If the proximity indicator for a municipality or city has a value near zero, then that locality has the least integrated or most spatially isolated economy.

The study classifies localities as either integrated or isolated based on the median score, which is used instead of the mean score because the range of the study's observations (430 cities and municipalities) in terms of the proximity indicator is substantially large and because 96 percent of the observations have proximity values of less than one.

An integrated municipality or city is that locality with a proximity indicator value greater than or equal to the median score, meaning that it is spatially proximate to the five growth centers and is said to capture the advantages due to agglomeration of economies and spillover. An isolated municipality or city is a locality with a proximity indicator value of less than the median score and is said to be economically excluded from growth in Mindanao.

Correlating proximity with conflict and other indicators

Having generated data on geographic proximity, the study correlates these with conflict data to test whether and to what extent conflict affects the variable of interest. Conflict data are derived from various sources: data on conflict due to political causes, such as the Moro National Liberation Front and Moro Islamic Liberation Front rebel groups, are taken from the Office of the Presidential Adviser on the Peace Process; data on conflict due to *rido* or clan feuds are from The Asia Foundation; and data on conflict due to banditry, such as the Abu Sayyaf group, are sourced from the *Philippine Human Development Report 2005*, produced by the Human Development Network and the United Nations Development Programme. Apart from conflict, the proximity indicator is also correlated with poverty incidence and density and with output growth.

Notes

1. 2002 Census of Agriculture, National Statistics Office.
2. Dy and Adriano 2006.
3. The spatial approach used for the analysis of development issues in Mindanao draws from the World Bank's *World Development Report 2009: Reshaping Economic Geography* (2009b).
4. Collier 2007.
5. Loan Agreement for the Second Land Administration and Management Program, <http://www-wds.worldbank.org>.
6. Stankovich and Carl 1999, 8.
7. Berndt and others 2008.
8. The Abu Sayyaf is an armed group based in the island of Basilan that used to be part of the MNLF but broke away in the early 1990s. It is linked to high-profile kidnap-for-ransom cases involving journalists, humanitarian aid workers, and teachers and has been declared a terrorist organization by the U.S. State Department. For more information, see <http://www.cfr.org/publication/9235>.
9. Torres 2007.
10. Balisacan, Hill, and Piza 2009.
11. The government groups its provinces into 15 regions for economic planning and some administrative support for national government programs and services.
12. According to indicators generated by Balisacan, Hill, and Piza (2009).
13. Balisacan, Hill, and Piza 2009.
14. Sandoval 2008.
15. Berndt and others 2008.
16. Collier 2007.
17. Fafchamps and Minten 2001.
18. Burgess and Venables 2003.
19. Burges and Venables 2003.
20. Battersby 2006.
21. Berndt and others 2008.
22. As cited in Bendt and others (2008) and Armed Forces of the Philippines reports online, <http://balita.ph>.
23. The National Commission on Indigenous Peoples data include Muslim groups as indigenous peoples.
24. The description of Mindanao's overlapping leadership structures in these paragraphs is based on de Dios (2007).
25. Sultans were the traditional heads of state that governed Mindanao.

26. Abinales 2000.
27. Lara and Champaign 2009.
28. Conde 2007.
29. de Dios 2007.
30. Conde 2007.
31. German Federal Ministry of Economic Cooperation and Development, 2008.
32. de Dios 2007.
33. Though it can be argued that the social capital accumulated by powerful clans can provide a basis for good governance, in poor communities this does not happen because conditions perpetuate tolerance of LGU leaders who can provide handouts.
34. National Statistical Coordination Board 2006.
35. World Bank 2003, 24.
36. InciteGov 2007. Only PHP 32 million, less than 1 percent of total resources in the ARMM, comes from its own locally generated revenues.
37. World Bank 2005a, 24.
38. World Bank 2008.
39. Kanbur and Venables 2007, pp. 210-211.
40. Sen 2006.
41. Gross regional domestic product (GRDP) is the aggregate of the gross value added of all resident producer units in the region (see www.nscb.gov.ph/technotes/grdp_tech.asp for the National Statistical Coordination Board's explanation).
42. World Bank 2009b.
43. World Bank 2005b.
44. Balisacan and Hill, 2007.
45. See National Statistics Office, <http://www.census.gov.ph/data/sectordata/tsst04.htm>.
46. Balisacan and Hill 2007, citing Pernia, Paderanga, and Hermoso, 1983.
47. World Bank 2009b.
48. Esguerra and Manning 2007. But note that there are conflicting data for in-migration. Balisacan and Hill (2007) stated that four regions experienced net in-migration in 2000 (Southern Tagalog, Central Luzon, Central Visayas, and Northern Mindanao).
49. Esguerra and Manning 2007.
50. Esguerra and Manning 2007.
51. Esguerra and Manning 2007.
52. Further research is needed to supplement the profile of migrants from Mindanao, including costs of

migration or mobility, such as availability and cost of housing in receiving areas, cost of transportation, and wage differentials and other factors in labor markets. Another possible area for further research is scale economies.

53. Baunto 2008.

54. World Bank 2009b.

55. Philippine Institute for Development Studies, Economic and Social Database. http://econdb.pids.gov.ph/index.php?option=com_philippines&i=152&lev=3.

56. Mindanao Economic Development Council and National Statistics Office database.

57. Balisacan and Hill 2007.

58. World Bank 2005b.

59. Balisacan, Hill, and Piza 2008.

60. World Bank 2005b.

61. See also ASEAN Centre for Energy, http://aseanenergy.org/publication/electricity_prices.php?year=2005.

62. World Bank 2005b.

63. World Bank 2005b.

64. World Bank 2009b, 23.

65. Acemoglu (2003) found a strong relationship between the colonization strategies of European countries and the reversal of fortune of new territories after colonization.

66. Edison 2003.

67. Project Appraisal Document, Second Land Administration and Management Project. <http://www-wds.worldbank.org>.

68. Loan Agreement for the Second Land Administration and Management Program. <http://www-wds.worldbank.org>.

69. World Bank. 2008. "Status of Projects in Execution—FY08." World Bank, Washington, DC. http://www1.worldbank.org/operations/disclosure/SOPE/FY08/SOPE_FY08_final.pdf.

70. World Bank 2007b, 303.

71. Esguerra 2007.

72. These may be considered targeted interventions as well as institutional changes.

73. World Bank 2009b.

74. World Bank 2009a.

75. World Bank 2007a.

76. At the barangay level, funds for public expenditures are typically just enough to cover salaries and other operating costs, leaving the barangay largely dependent on the municipal government and other sources for its capital expenditures for infrastructure.

77. AusAID 2009.

78. The AusAID study aptly terms this as a “no war, no peace” situation, in which services can resume but conditions remain highly volatile.

79. Institutions include: conflict resolution using customary ways of mediation, a system of property rights with effective grievance mechanisms, and community organizing.

80. World Bank 2009b.

81. Balisacan and Hill 2007.

82. This process forcibly creates assumptions—and thereby increased margins of error and its own limitations. So, the results from using the derived municipal dataset should be treated as indicative.

83. Fafchamps and Minten 2001.

84. Battersby 2006.



MINDANAO BEHIND THE VEIL OF CONFLICT

MOVING TOWARDS ECONOMIC INTEGRATION
FOR SUSTAINED DEVELOPMENT AND
PEACE IN MINDANAO, PHILIPPINES

This study looks closely at how economic transformations along multiple dimensions of economic geography can be promoted to realize Mindanao's full development potential.

It seeks to determine both factors that promote or hinder the integration of this resource-rich land with the rest of the Philippines and factors that promote or hinder integration of cities and municipalities within Mindanao. We believe that new insights on factors driving growth disparities will be useful for planners and policymakers at the local level. The period immediately following the elections in 2010 will be an opportune time for Mindanao policymakers and planners to consider the integration of Mindanao—its communities, economic sectors, stakeholder groups, cities, and municipalities—as a means for sustainable and equitable development in the next cycle of strategic planning—as well as its goal.

Sustained growth and development for all of Mindanao cannot happen without giving attention to the development needs of conflict-affected areas, comprising a sizeable portion of lagging areas in the island. We hope that the study's findings can provide useful options for the government and Mindanao stakeholders to develop concrete action plans and institutional arrangements for peace and development in conflict-affected Mindanao.



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