



# Breaking the links between economics and conflict in Mindanao

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## DISCUSSION PAPER

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# Foreword

THIS REPORT SHEDS analytical light on the complex linkages between economic factors and the conflict in Mindanao, and on the possible role of local business leaders and their associates in communities or other sectors in the country in breaking these links. It also explores options for government in addressing these dynamics.

Mindanao symbolises resistance. Generations of Moro peoples have resisted colonial conquest, assimilation by central government, and declarations of all-out war for over four centuries. Their quest for self-determination and their aspiration to establish a Bangsamoro nation has taken different forms of struggle.

The peoples of Mindanao symbolise resilience. In times of war or peace, the people of the southern islands of the Philippines including Moro peoples, the lumads (indigenous peoples) and the Christian settlers in the lowland areas have managed to survive and to thrive – at times, together, and, at other times, separately. The island of promise more often than not has seen the expectations of its inhabitants frustrated either by the failure of development efforts, by poor governance or neglect, or by successive military operations.

In this light, the people’s pursuit of peace in Mindanao, with support from friends, represents a compelling response to what indeed is a complex reality. Citizens of Mindanao have raised and continue to advocate just and durable responses to the unresolved issues which cry for imperative action: the question of ancestral domain and agrarian reform; the plight of thousands of war victims comprised of displaced and landless families who have witnessed the destruction of their properties or experienced human right violations; the relationship characterised by social and cultural discrimination that still exists between people of different historical or religious traditions; the widespread poverty, characterised by deep inequalities, in the regions inhabited by predominantly Muslim populations; the exploitation of natural resources that somehow constitute what has been described as ‘development aggression’; and finally, the desire to design a way of life and a system of governance compatible with the values of the tri-peoples (the Muslims, the lumads, and the Christian settlers) in the land they commonly inhabit.

There have been a number of milestones in the journey to find an acceptable resolution to the country’s oldest conflict: a 1996 Peace Agreement was signed between the Government of the Republic of the Philippines and the Moro National Liberation Front (MNLF), the armed movement that was founded in 1969 and initially espoused separation. However this accord, which created the autonomous region of Mindanao focusing on peace and development, failed to deliver on the aspirations of the Moro peoples.

Three years later, formal talks between the government and the Moro Islamic Liberation Front (MILF), which had broken ranks with the MNLF, opened on 25 October 1999 in Sultan Kudarat, Maguindanao, giving rise to what has become a cycle of negotiations combined with deadly armed clashes on the ground. Major military offensives were launched on at least three occasions: in 1997, 2000 and 2003.

To complicate matters, the Abu Sayyaf, a band of local bandits that has specialised in kidnappings of foreign tourists and missionaries, and that formed in the late 1980s, was linked by the national government and major powers to the global war on terror. This led to joint military exercises near the island of Basilan in south-western Mindanao involving US troops and materiel in the armed conflict.

With the good offices of the Organisation of Islamic Conference, and in particular with the active facilitation of the government of Malaysia, these steps were nevertheless taken to broker a fragile peace. A General Framework of Agreement of Intent was signed in March 2001 and later an Agreement on Peace was signed in Tripoli in mid-2001, which focused on security, rehabilitation and development of conflict affected areas. Other joint communiqués and guidelines for the implementation of either humanitarian activities or ceasefire monitoring were signed. None of these was definitive however, and formal talks to put closure on the more contentious issues have now been calendared in the remaining seven months of the current administration.

Perhaps the single most important development on the peace front (in contrast to the battle front) are the citizens' initiatives that abound in the southern part of the country, including courageous efforts such as the building of the 'sanctuaries for peace', the 'spaces for peace', and the zones that combine development of livelihoods with the creation of opportunities for dialogue to avert or reduce political violence. Peace advocacy engaged in by local peoples has resulted in backdoor linkages or joint monitoring mechanisms built by groups such as the Mindanao People's Caucus, or Kusog Mindanaw, together with other networks and alliances with both the government and military, and the MILF. Women have formed vehicles such as the 'Women in White,' the Mindanao Women's Group, and the Mindanao Commission on Women, which have become a vital part in the mobilisation for peace with activities such as the Mindanao 'week of peace' and the 'peace caravans', and incessant peace campaigns. Religious groups have likewise engaged in inter-faith dialogue, in particular, the Bishops-Ulama Conference, as well as groups of priests, imams and pastors in several areas.

This report seeks to promote a role for local business leaders alongside other civil society constituencies in pushing for peace. It aims to make a modest contribution to the pursuit of a peace that has long eluded the people of southern Philippines, through making recommendations to both business and government on the economic dimension of the conflict, and future roles and opportunities in this area.

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# Chapter 1

## Conflict in Mindanao

### 1.1 Roots of the conflict

#### 1.1.1 Diverse cultures

MINDANAO IS THE SECOND largest island of the Philippines and home to 24% of the Filipino population. In 2000, this represented about 18 million people of highly diverse ethnicities, cultures and ways of life.

The peoples of Mindanao include 13 Islamised ethno-linguistic groups – more popularly known collectively as Moro or Bangsa Moro (Moro nation) – and more than 18 other indigenous peoples who call themselves the Lumad.<sup>1</sup> The third group is made up of descendants of migrants or settlers who have been arriving in the island since the early years of the US regime.

The policies and strategies of national governments have pushed Mindanao's indigenous and Muslim populations to the margins of socio-economic and political development – at odds with what constitutes the 'national identity' of the majority lowland Christian population (who have been assimilated into the cultures and ways of the two major colonial regimes). Education, services and opportunities for Mindanao's distinct populations have been consistently inadequate over time. Conflict in Mindanao has its roots in this socio-economic and political exclusion.

Competition for resources between poorer settlers and Lumad on the one hand and wealthy landowners or corporations, backed by the state, on the other has led to violent conflict, often subsumed into the nationwide war between the Philippine government and the left-wing National Democratic Front (NDF) and its New Peoples Army (NPA). But the most intense conflict in Mindanao, and seemingly the most intractable, is that between the Bangsa Moro armed groups and the Philippine state. This conflict is the main focus of the present report.

#### 1.1.2 Historical background

The beginning of the conflict, and of Mindanao's economic decline, can be traced to the colonial era. Starting in the 16th century, Spain conquered most of Luzon and the Visayas islands, and went on to establish footholds in northern and eastern Mindanao and the Zamboanga peninsula. It failed to establish political control over the powerful Muslim sultanates of Mindanao, whose wealth was based on maritime trade, but did undermine their economic base through war and maritime blockades. Three centuries of intermittent warfare also sowed the seeds of animosity between Muslim and Christian peoples of the archipelago: Spain used Filipino troops against the sultanates, while Muslim raiders attacked coastal settlements in Spanish-controlled territory and abducted the inhabitants into slavery.

In the early 20th century, the US colonial regime incorporated Mindanao forcibly into the Philippine state, subordinating the Muslim peoples to political control from Manila and passing land laws that formally dispossessed the Muslims and Lumads.

#### 1.1.3 Dispossession

The new land laws provided for registration of land ownership. Unregistered land became open to occupation and purchase by citizens of the Philippines and the United States. Although several

Muslim leaders took advantage of the new rules to register large tracts in their own names, many Muslims did not bother to register the land they had been cultivating. Some simply did not understand the concept of land registration and ownership, which was at odds with their traditional concept of rights to use, rather than own, land. Others had difficulty with the bureaucratic process involved.

At the same time, the colonial government encouraged settlers from the more densely populated northern islands to settle in Mindanao, and encouraged US, Filipino and other corporations to establish plantations on the island. By 1912 there were 159 large plantations (over 100 hectares) in Mindanao, 66 owned by Americans, 39 by Filipinos (mostly Christians) 27 by Europeans and 27 by Chinese.<sup>2</sup>

Post-independence governments attempted to defuse rural unrest in Luzon and the Visayas by continuing to encourage the landless poor to settle in Mindanao. By the late 1960s, Muslims accounted for about one quarter of Mindanao's population, down from about three-quarters at the beginning of the 20th century. Where Muslims attempted to resist the takeover of their lands, corporations and the wealthier incomers were more likely to seek, and to gain, recognition of their claims from the courts: they were more familiar with the legal institutions and procedures, and the court officials were invariably Christians.

As competition for land intensified, both Christian and Muslim landowners established private armies to extend or defend their holdings.

Philippine governments also continued the policy of encouraging plantation agriculture in Mindanao. Some of the most productive lands were occupied by transnational corporations producing rubber, bananas and pineapples. Logging companies also acquired huge concessions and deforestation proceeded on a large scale.

The result was that 'the Muslims resented the detachment of lands, even those which had gone unused, from the traditional pattern of community land ownership, with its customary (*adat*) and Islamic sanctions. This resentment increased as they saw the steady occupation of good lands by outsiders and faced the prospect that soon there would be insufficient living space for their descendants.'<sup>3</sup> The loss of territory was a key issue leading to the outbreak of war in the 1970s.

#### 1.1.4 Poverty

Most of the Muslim population made a living from agriculture, so loss of land meant loss of income and an insecure food supply. The 1948 census reported that 80 % of Muslims in the Philippines had no definite source of income and no property.<sup>4</sup> Even where Muslim farmers retained access to land, unless they could prove ownership through a land title, they could not obtain credit from the banks.

By the 1960s, other means of making a living were also under pressure. In Sulu, there was competition between the local population and outsiders (both foreign fishing fleets and those from the northern Philippines) over fishing rights. The government also moved to limit Sulu's barter trade with North Borneo. A traditional source of income was suddenly redefined as smuggling.

The provision of health, welfare and education services is one way of helping people to cope with some of the effects of poverty. But government service provision in Mindanao in general, and in predominantly Muslim areas in particular, was significantly lower than in the rest of the country. In 1970, the country as a whole had one doctor for every 2,800 people; Mindanao had one doctor to 3,954 people; 'Muslim Mindanao'<sup>5</sup> had one doctor to 6,959 people. Infant mortality rates, which are influenced by poverty as well as by levels of service provision, were particularly high in



Central and Western Mindanao, at 152.1 and 133.2 per thousand live births respectively. The national average was 90.2 per thousand.

Educational provision was similarly inadequate. In 1959–60, only 17.75% of children of school age (7 to 13 years) were in state schools in Lanao, 63% in Cotabato<sup>6</sup> and 66.37% in Sulu. The national average was 78.6%. Nevertheless, educational institutions existed and some Muslim students went on to tertiary education in Mindanao – or in Manila, where they could compare conditions in their locality with those in the richest part of the Philippines.

### 1.1.5 Discrimination

Dispossession at the hands of settlers and plantation companies, poverty, and awareness of different standards elsewhere fed a sense of grievance reinforced by more obvious forms of discrimination. There was discrimination against Muslims in employment and access to credit.

Muslims also felt that their culture and identity were under attack. The establishment of a Philippine nation-state led to the entrenchment of a national identity based on the values of the majority group, the Christian Filipinos.<sup>7</sup> Efforts at ‘national integration’ in the 1950s and 1960s were perceived as attempts to suppress the Muslims’ identity and ways of life. At the same time, contacts were increasing with the Islamic world, reinforcing a sense of collective Muslim identity.

### 1.1.6 Political marginalisation

Moro politicians and traditional leaders also felt marginalised by national laws and political structures, and an establishment that labelled them and their constituents as a ‘cultural minority’. The influx of Christian settlers into Mindanao created Christian electoral majorities in formerly Muslim areas, with the result that these areas then fell under the sway of Christian politicians.

The authority of traditional leaders (*datus*) did not rest simply on descent from a traditional aristocracy. It derived from their ability to protect and assist their followers, which was under threat from the administrative and judicial institutions imposed by colonial and post-colonial governments.<sup>8</sup>

In addition to the marginalisation of Muslims in a predominantly Christian country, Mindanao as a whole was marginalised in the Philippine body politic. The centre of power in the Philippines is firmly in Manila. National governments were generally aware that problems existed in Mindanao, but few presidents gave it priority (Fidel Ramos, 1992–98, was an exception). Mindanao was more often considered as a means to an end: a solution for the problem of rural unrest in the north, a source of raw materials for export, and a place where local conflicts could be manipulated for political gain at national level.

The feeling of being excluded from and misunderstood by the country’s political establishment is not limited to Muslims. The phrase ‘Manila imperialism’ has often found resonance among Christians (or ‘majority Filipinos’) as well.

## 1.2 Conflict and peace efforts

### 1.2.1 Triggers of conflict

Mindanao Muslims staged a series of local uprisings throughout the US colonial period and in the first two decades after independence, to resist land-grabbing, or in response to perceived attempts to suppress their culture or way of life. It was not until the early 1970s, however, that these evolved into a full-scale war.

According to one observer, four sets of events can be identified as triggering the war and the organisation of the Moro National Liberation Front (MNLF) (Santos 2000). The first of these was

the Jabidah massacre in March 1968, when a group of young Moro recruits was killed by their Philippine army superiors. The government of President Ferdinand Marcos was allegedly preparing them to infiltrate Sabah, in North Borneo, as a prelude to invasion. There was an immediate outcry from Moros in Mindanao and Moro students in Manila.

The second trigger was a series of paramilitary atrocities against the Muslims in the early 1970s, especially those involving a Christian vigilante group called the *Ilaga* (the Ilonggo Visayan word for rat). Some Moros believe that the *Ilaga* was supported by the military and that its organisers included wealthy loggers and Ilonggo<sup>9</sup> politicians who wanted to take control of the few places where the Muslims still predominated. Their activities were certainly systematic and widespread. One of the most publicised atrocities was the massacre on 19 June 1971 of 70 Maguindanaon Muslim women, children and elderly men. They were killed by *Ilaga* inside a mosque in Manili, Cotabato province. The *Ilaga* have been identified as the perpetrators of four massacres in Maguindanao, Cotabato, Lanao del Sur and Bukidnon and four cases of arson involving more than a hundred houses in Central Mindanao. Hostilities between Muslim and Christian paramilitary groups also escalated in the run-up to the November 1971 elections.

Many Muslims saw the Jabidah massacre and the failure of the government to protect them from the *Ilaga* as further evidence of discrimination. The message from the government seemed to be that Muslim lives did not count.

The shift of political power from the Muslims to the Christians, particularly in the Cotabato and Lanao provinces, after the elections, may also have contributed to the outbreak of war.

The 'final triggering event' according to Santos, was the proclamation of Martial Law by President Marcos, on 21 September 1972. One of the reasons he cited for declaring martial law was the unrest in Mindanao.

### 1.2.2 Emergence of the MNLF

In May 1968, Datu Udtog Matalam, a prominent Maguindanaon political leader, formed the Mindanao Independence Movement (MIM), which he said was a response to the Jabidah incident. The MIM's youth section was sent to train in Malaysia and soon afterwards some of the trainees organised the Moro National Liberation Front (MNLF) and the Bangsa Moro Army, its military arm.

Unlike the paramilitary groups organised by local politicians, the MNLF defined its struggle as one against the Philippine state, not against Mindanao Christians, and went beyond sporadic clashes to fight a conventional war, and its ideology went beyond immediate local concerns. The MNLF's young and educated leadership promoted a Bangsa Moro identity over and above the various ethnic affiliations of Mindanao Muslims. Their declared goal was secession from the Philippine state.

As a movement claiming to represent all Muslims in the Philippines, the MNLF was able to gain recognition and support from Islamic countries. Most of its funds came from Libya and many MNLF fighters were trained there. Another important source of aid and logistical support in the early days was the Chief Minister of the state of Sabah in Malaysia, Tun Mustapha, a Tausug whose family originated from Sulu. Much of the arms and money sent to the MNLF from the Middle East was delivered through Sabah, which also hosted the largest MNLF military base.

The Islamic world as a whole, as represented by the Organisation of Islamic Conference (OIC), expressed concern for the plight of fellow Muslims. But it would not support the demand for independence. Malaysia and Indonesia, the two Muslim countries neighbouring the Philippines, were influential members of the OIC, and they had no wish to set a South-east Asian precedent for secession from a multi-ethnic state.

### 1.2.3 The Tripoli Agreement

By the mid-1970s, the war had reached a stalemate, but the government was reluctant to negotiate with the MNLF. Economic pressure from Islamic countries was crucial in bringing the warring parties to talks. The Philippine government feared the threat of an oil embargo, while the MNLF, dependent on Libya for financial support, was forced to drop its demand for secession and agreed to discuss political autonomy. The negotiations led to the Tripoli Agreement of December 1976.

The agreement provided for autonomy to be granted to 13 of the 23 provinces in Mindanao, Sulu and Pawan islands.<sup>10</sup> The autonomous regional government would have its own executive, legislative and judicial branches, and a regional security force independent of the Armed Forces of the Philippines (AFP).

The agreement unravelled in disputes over its implementation, and within the year war resumed. The MNLF viewed territorial coverage – the 13 provinces – as a settled issue. The government insisted on subjecting it to a plebiscite. Several months after signing the agreement, President Marcos established two separate regional governments, with little autonomous authority, in 10 of the 13 provinces.

The government succeeded in winning over some MNLF commanders with various political and economic incentives: positions in the regional governments, timber concessions, barter market licences, export-import permits, and livelihood assistance projects for their followers.

Despite popular dissatisfaction with the administration of the autonomous regions, they lasted until the dictatorial regime of Marcos was toppled by a mixture of mutiny and popular uprising in Manila in 1986.

### 1.2.4 Emergence of the MILF

The resumption of hostilities was accompanied by fragmentation of the MNLF. Two new organisations eventually emerged: the MNLF-Reformist Group and the Moro Islamic Liberation Front (MILF).

Initially the MILF presented less radical demands than the MNLF, calling for autonomy rather than independence. But their positions were later reversed. The MILF now seeks an independent Islamic state in what it calls the Bangsamoro Homeland. By the mid-1980s, it was also the stronger group militarily.

The MILF's support base is in Central Mindanao, in particular Maguindanao and Lanao del Sur, but it also has a presence in Muslim communities of North Cotabato, Sultan Kudarat, South Cotabato, Lanao del Norte and the Zamboanga peninsula.

The MNLF-Reformist Group broke away from the MNLF in 1982. It was composed mainly of Maranao leaders who eventually reached a settlement with the Aquino government and obtained positions in the government's Office of Muslim Affairs.

### 1.2.5 The Aquino government and the ARMM

Corazon Aquino became President of the Philippines after the overthrow of Ferdinand Marcos. In line with the promise that her regime would be 'radically different' from the Marcos dictatorship, civil-society actors were invited to participate in drawing up a new Philippine constitution. A new constitution was framed in 1986 and ratified the following year. It included provisions for an autonomous region for 'Muslim Mindanao'.

Another step was to resume peace negotiations with the MNLF. The MILF was ignored. When talks with the MNLF broke down, the government persisted with its efforts to establish an

autonomous region. The president appointed a Regional Consultative Committee of civil society representatives – though none from the two major armed groups – to draft the legislation for an autonomous region. Committee Report No. 457, better known as Senate Bill No. 907, was passed into law on 1 August 1989, as RA 6734 or the Organic Act for Muslim Mindanao.

On 19 November 1989, a referendum was conducted in the proposed areas of regional autonomy (as provided for in the Tripoli Agreement): 13 provinces and the nine cities in those provinces. Only four of the provinces, and none of the cities, voted for inclusion. Both the MNLF and the MILF boycotted the vote. The MNLF considered the plebiscite to be a serious violation of the intent of the Tripoli Agreement and boycotted the exercise, arguing that plebiscites and other ‘democratic’ electoral exercises simply reinforced the rule of the numerically superior majority Christian Filipinos.

The creation of the Autonomous Region in Muslim Mindanao (ARMM) provided a limited measure of self-rule. But the autonomous government lacked the resources to tackle the problems of the poorest region of the Philippines, and the devastation caused by years of war. In the views of many Muslims, the ARMM simply became another layer of bureaucracy, providing positions, privilege and opportunities for graft to Moro politicians.

The continuation of conflict meant that the economic impacts of war were not addressed, and there was little or no investment, and no major development effort, in the affected areas. The only exception was the continued construction of the dams along the Agus River, which flows out of Lake Lanao. Occasional MNLF attacks on construction workers and a civil society protest movement in the early 1990s failed to prevent the extension of the dams, which were built to provide electricity for the industrial, and predominantly Christian, city of Iligan. Their operation affects the water level in the lake, and therefore the Maranao communities living along its shores. The water level fluctuates according to decisions made by the operators of the hydro-electric plant. But as late as 1997, local NGOs were reporting that the operators regularly neglected to warn local farmers when their homes and fields were about to be flooded.

### 1.2.6 The Abu Sayyaf

The failure of the Tripoli Agreement, the fragmentation of the liberation movement, and the weakening of the leadership’s control over its troops in the field also diminished the status of the MNLF. This contributed to the emergence of a more radical armed group, the Abu Sayyaf, based in the island of Basilan. Its original members were said to be former MNLF guerrillas who volunteered to fight in Afghanistan against the Soviet-backed government in the 1980s.

One of its leaders was later revealed to be a police agent, leading to speculation that the group was set up by the military to discredit the Moro cause.

Unlike the MNLF and MILF, the Abu Sayyaf is explicitly anti-Christian, and is believed to be responsible for bomb attacks on churches and department stores. The group appears to have lost any serious political aim or strategy it may have had when it was founded; it now functions more like an organised crime gang, although its leaders and members continue to present justifications for their activities in crude political and religious messages.<sup>11</sup> The group has been involved in various illegal ‘business’ ventures, notably kidnapping for ransom, arms smuggling and logging, often in collusion with local politicians and the military.

### 1.2.7 The Ramos government: a final peace agreement with the MNLF

Fidel V. Ramos, a former head of the armed forces, was elected to the presidency in 1993.

Mindanao was a primary component in Ramos' overall development vision, and he was determined to forge a comprehensive and enduring peace settlement, starting with the MNLF. The administration aimed to attract foreign investment to the Philippines, and to Mindanao in particular. But in the 1980s, political instability was perceived as a deterrent to investors, and hence an obstacle to economic growth. For the Ramos administration, peace was a prerequisite for development.

Ramos chose to negotiate first with the MNLF because of its status as the original liberation movement, and because the OIC formally recognised it as representing Philippine Muslims. The government had hopes that Islamic states would support an eventual peace settlement with aid and investments. The negotiations went back to the Tripoli Agreement as a framework.

The 'Final Peace Agreement' (FPA) was signed on 2 September 1996. It provided for new institutions, led by the MNLF and supported by the government, to oversee a major development effort in a Special Zone of Peace and Development (SZOPAD) covering the territory stipulated in the Tripoli Agreement. The institutions – the Southern Philippines Council for Peace and Development (SPCPD) and its Consultative Assembly – would have three years to make an impact. At the end of this period, the population of the SZOPAD would vote on a proposal to establish an autonomous regional government with greater powers and a larger territory than the existing four-province ARMM. As part of the package, the government arranged for MNLF Chair Nur Misuari to run unopposed in the elections for governor of the ARMM.

The agreement omitted many key issues, including reparations, economic redistribution, affirmative action and conflicting land claims. The latter, in particular, were considered 'too explosive' to tackle. Perhaps the hope was that rapid economic development would provide adequate livelihoods for all and obviate the need to address the land problem.

Some observers are quick to comment that the FPA represented a detour in the long and arduous journey to forge lasting peace in Mindanao. Others see it more positively as a remarkable benchmark, given the MNLF's decision to scale down its demands from separatism to autonomy.

### *Implementing the FPA*

Problems arose almost immediately, as a result of challenges then facing the government at both national and local levels. First, the FPA provided for the injection of funds for 'massive socio-economic development' in the newly defined SZOPAD. The funds were supposed to address the clamour for compensatory justice for the Muslims, but the government lacked the resources for this. By the time the peace agreement was signed, all government funds for the next budgetary cycle had already been allocated.

Second, the plan to establish the SPCPD met vociferous objections, even in Congress, where some of the most vocal opponents were descendants of the Christian settler elite in Mindanao. The critics mounted a legal challenge to the SPCPD. Thus when the time came for President Ramos to issue the executive order creating the council, its powers were considerably diluted.

Third, the lack of consultation, especially with grassroots groups and other civil-society actors, stoked resentment among Mindanao's majority Christian and indigenous non-Muslim population (Lumad) who felt excluded from the peace process. At the height of the controversy, broadcast media in Mindanao held daily talkshows on the merits or weaknesses of the FPA and the SPCPD. The preponderance of negative views expressed led many non-Muslim listeners to believe that that SPCPD was just another government development package favouring business interests. Mindanao people are wary of investors, especially if they are likely to require large tracts of land.

Small farmers, in particular, are afraid of losing their land to agri-business companies. They felt that this would not address the basic needs of Mindanao's poor and politically powerless Lumads and Christians, or even the grassroots Muslim communities.

Meanwhile, Muslim civil-society groups sympathetic to the MILF saw the FPA as demonstrating the insincerity of the government's approach to the Bangsa Moro problem. They saw in the SPCPD yet another attempt to assimilate the Bangsa Moro people into the wider Philippine society, and argued that the creation of an independent state was the only workable solution.

While the FPA temporarily silenced the guns of the MNLF, it rubbed salt into the wounds inflicted by the war. The majority Christian population, in particular, typically believe they have become 'victims' in the Moro people's armed struggle for self-determination. Old prejudices against Muslims surfaced, even among sectors in civil society that were thought to have developed tolerance. Many journalists and academics were among the fiercest critics of the SPCPD and the FPA, which they viewed as granting favours to a troublesome population – Muslims in general and the MNLF in particular.

Many of the MNLF leaders who were appointed to posts in the ARMM and the SPCPD in the wake of the peace agreement lacked administrative experience (though some were quick to learn). They found themselves negotiating a complex web of institutions with overlapping functions, with different levels of authority, resources and political support. The new structures, according to Fr Eliseo Mercado, chair of the SPCPD Consultative Assembly, were established without 'any change in the existing regional boundaries or administrative structures in the Southern Philippines'. The result, he said, was a 'bureaucratic nightmare' (Mercado 1999).

But even experienced administrators would have struggled to succeed in a structure that had neither the resources nor the power to make an impact. The SPCPD's budget covered little more than salaries, maintenance and operating expenses. It lacked the authority to implement programmes, or to influence national or local government agencies or units in the SZOPAD. Moreover, the East Asian currency crisis of 1997 reduced the amount of government money available for infrastructure projects, and in 1997–78 drought led to hunger and disease, affecting at least a million people throughout Mindanao.<sup>12</sup>

In the end, the SPCPD focused primarily on the only task that was clearly within its authority: livelihood programmes for MNLF ex-combatants funded by a range of international donors. As a result, the population at large received the impression that the SPCPD and the MNLF cared little about the fate and conditions of regular civilians.

President Ramos attempted to build on the achievement of the FPA by pursuing talks with the MILF. Although a series of 'pocket wars' (outbreaks of fighting lasting a few days at a time) continued in Central Mindanao, negotiations went ahead.

Things changed when Joseph Ejercito Estrada was elected to the presidency in May 1998. Congressional elections (held concurrently with the presidential elections) brought many opponents of the FPA into Congress as members of Estrada's political party.

### 1.2.8 The Estrada government: all-out war

At first, the policy of peace talks continued, but in 2000, following the takeover of a town hall in Lanao del Norte by the MILF in March, Estrada announced an all-out war. In April, the armed forces launched a military offensive against the MILF's camps, including their main headquarters, Camp Abubakar. Many of the camps were in fact communities run by the MILF, and they housed

a considerable number of civilians and civilian buildings: mosques, *madrasahs* and homes. They were treated as military targets and subjected to indiscriminate bombardment. The government declared victory over the MILF. The MILF responded by declaring a *jihad* against the government.

The war was popular with the Christian population in the country at large. A series of violent incidents in Western Mindanao earlier in the year – including a mass kidnapping by the Abu Sayyaf, who went on to kill some of their hostages – had provoked a public outcry and in its public statements the government bundled the MILF and its numerous supporters together with the small, explicitly anti-Christian Abu Sayyaf. But although opinion polls showed a majority in the Philippines as a whole backed the war effort, civil society in Mindanao was vocal in its opposition.

Various reasons have been advanced for the new hard line against the MILF. Probably, different motives appealed to the different groups represented in Estrada's cabinet. The chair of the government peace panel, Edgardo Batenga, said later that the military action was intended to correct a 'blunder' in the negotiations, when the government agreed to acknowledge seven of the 46 camps the MILF claimed to have around Mindanao. The notion of acknowledging MILF-controlled territory was particularly unpopular with the military.

President Estrada may also have seen a war against the Moros as a way to restore his own waning popularity. A former film actor famous for playing no-nonsense, tough guy roles, he had been elected by a landslide. But two years later, his administration had few achievements to its credit and rumours of corruption were emerging.

The seven camps acknowledged by the government represented an area of 451,700 hectares of potential agricultural land, and included the oil and natural gas deposits of the Liguasan Marsh. In August 2000, a month after the fall of Camp Abubakar, Agrarian Reform Secretary Horacio Morales told reporters in Davao City that the government was considering development of Moro lands, including those ravaged by the war, into cash crop plantations through joint ventures with foreign companies.<sup>13</sup> This prompted speculation that the war had been launched to clear the way for plantations and for exploration of the marsh. It also raised fears among evacuees that they would be prevented from returning to their farms.

Although the government captured the main MILF camps against little resistance, the Bangsa Moro Islamic Armed Forces (BIAF – the MILF's army) emerged relatively intact and reverted to guerrilla warfare. However, losing the camps represented a significant blow to the MILF's status, and is likely to have weakened the control of the leadership over its forces in the field.

Meanwhile, a group of former MNLF fighters, claiming allegiance to the Abu Sayyaf, kidnapped a group of foreign tourists in the Malaysian resort of Sipadan, brought them to Sulu, and demanded huge sums in ransom. The saga of the hostage negotiations and subsequent kidnapping of reporters dominated international news coverage of the Philippines, eclipsing the larger-scale conflict in Central Mindanao. Once all the hostages but one (the only Filipino among them) were released, the armed forces launched a massive campaign against the Abu Sayyaf in Sulu, cutting the island off from the outside world and launching indiscriminate attacks in rural areas.

Estrada also alienated the MNLF by creating a Mindanao Coordinating Council to manage infrastructure projects in the ARMM, thus usurping the role of the institutions set up under the FPA.

### 1.2.9 The Arroyo government: inconsistent approaches

Estrada was ousted by an uprising in Manila in January 2001, because of his role in a corruption scandal. He was succeeded by his Vice President, Gloria Macapagal Arroyo, who declared a counter policy of 'all-out peace' and sent emissaries to talk to the MILF.

She also formed a presidential task force to take the lead in rehabilitating areas in Mindanao that have been devastated by the war in 2000. Funds for Mindanao's rehabilitation allotted during the previous administration were still available, and were used to organise the interagency task force. With the co-operation and support of the international donor community, Arroyo also asked technocrats to design a programme for the 'reconstruction of institutions for Mindanao's enhanced development' (codenamed PRIMED). A series of consultations with civil-society actors, especially among marginalised and disadvantaged groups such as women and indigenous peoples, were held in many places in Mindanao to work out the framework for the programme.

Despite the initial focus on restarting peace talks, discussions with the MILF have been accompanied by a military build-up in Mindanao and intermittent warfare. The BIAF has responded to military pressure with attacks on urban centres. In June 2001 talks in Tripoli led to an agreement between the MILF and the government on an agenda for further negotiations: the issues to be discussed included security, rehabilitation and development of conflict areas, and ancestral domain.

But in early 2002 ceasefire violations by the MILF were reported, and the military claimed the MILF was sheltering criminal gangs among its troops. Arroyo suspended the formal peace talks, although 'back channel' negotiations continued. These eventually resulted in a joint communiqué (which came as a complete surprise to the official negotiating panel) allowing for joint AFP-MILF operations against 'criminal elements' in the conflict-affected areas, and an agreement on humanitarian rehabilitation and development work. To the horror of hawkish congressional representatives, the MILF set up its own development agency.

#### *The 'war on terrorism'*

After the attacks in New York and Washington on 11 September 2001, President Arroyo was one of the first Asian leaders to express support for the 'war on terrorism', and her pledge of support included statements about the war against 'local terrorists' that included Muslim armed groups.

The President and the military seemed inclined to cast the conflict in Mindanao in the framework of George W. Bush's 'war on terror', and threatened to have the MILF branded a 'terrorist organisation'. Some local government officials called for tough action against the Abu Sayyaf and MILF as members of what they imagined to be a local network of Al-Qaeda. In reality, links to Al Qaeda are quite tenuous.

Nevertheless US forces were sent to Basilan to train Philippine troops who were pursuing the Abu Sayyaf, and Arroyo obtained a US\$356m package of defence and counter-terrorism aid during her state visit to the US. There are fears that some of the military equipment from the US could find its way on to Mindanao's large illegal arms market.

The anti-terror campaign has opened an opportunity for the Philippine military to obtain more funds, equipment and training from the US. It also raises the danger of an inappropriate framework being imposed on the Mindanao conflict, defining the Moros – and in particular the mass base of the MILF – as supporters of 'terrorism', and neglecting the historical grievances of dispossession, insecurity and poverty that created the conflict in the first place.

#### *The fate of the FPA*

By the time Arroyo assumed the presidency, the deadline for the promulgation of an expanded ARMM and elections for a new set of regional officials had passed. In the meantime, political manoeuvres in the cabinet resulted in the ousting of MNLF chairman and ARMM governor Nur Misuari, by senior



MNLF officials who went on to form the so-called 'Council of 15'. They accused Misuari of squandering the opportunities and resources provided for the regional autonomous government.

Congress passed a new law on autonomy, allowing for expansion of the ARMM. The new law was similar to the original Organic Act of 1989. A plebiscite, notable for its low turnout, went ahead on 13 August 2001. The result was that one province (Basilan) and one city (Marawi) voted to join the autonomous region. Elections followed, and the presidential nominee Parouk Hussin, one of the Council of 15, became governor – despite objections from some quarters that he had dual Swedish-Philippine nationality.<sup>14</sup>

#### *New confrontations, new peace talks*

On 11 February 2003 (an important Islamic celebration – *Eid'ul Adha* or the Feast of Sacrifice) the military launched a campaign, purportedly against a group of kidnapers known as the Pentagon gang. Troops from the sixth infantry division of the Philippine army attacked rebel positions in several municipalities of North Cotabato and Maguindanao along the Liguasan Marsh area using heavy artillery, helicopter gunships and bombers – even as Presidential Assistant for Mindanao, Jesus Dureza, who also heads the government peace panel, was arranging a meeting of the government and MILF joint committee on the cessation of hostilities in an effort to restart the stalled peace talks.<sup>15</sup> The area that bore the brunt of the attack was a residential compound belonging to MILF Chairman Salamat Hashim, the Buliok complex, an area of 200 hectares controlled by the MILF.

As a result of the attack, the MILF decided to boycott the joint committee meeting, accusing the government of an unprovoked attack and demanding the immediate withdrawal of AFP troops.<sup>16</sup> There was speculation that the military offensive was a pre-emptive strike against the possibility of attacks against government forces and installations by MILF forces in reaction to the Philippine government's support of the US-led war in Iraq.

The capture of the Buliok complex prompted Hashim to issue a taped radio message urging all Muslims with firearms to fight until death.<sup>17</sup> This was followed by a series of bomb attacks in Cotabato City, North Cotabato, South Cotabato and Davao City<sup>18</sup> and armed attacks in the provinces of Maguindanao, Lanao del Norte and Sur, North and South Cotabato and Zamboanga.<sup>19</sup> Bombings in Davao City killed at least 40 people and injured 200 and were blamed on the MILF, which denied them. The government filed murder charges against MILF leaders and 146 other people – some of whom appeared to have been charged at random.<sup>20</sup>

Not all the violent incidents were attributable to the MILF, as the targets included mosques. In May 2003, a group of soldiers in Manila organised a revolt primarily against corruption in the military. They claimed that the bombing of Davao airport had been carried out by the armed forces. An official enquiry has started into their claims.

The government, for its part, intensified its military operations. Just hours before her departure for a state visit to the US, President Arroyo ordered aerial bombings and artillery attacks on known MILF positions. This was naturally viewed by critics as a demonstration of the administration's support for the US anti-terrorist campaign.<sup>21</sup>

Both opposition and administration senators called on the President to withdraw her order, saying that it could result in heavy civilian casualties. Civil-society groups and religious leaders, among them the Catholic Bishops Conference of the Philippines (CBCP) Permanent Council, the Bishops-Ulama Conference, the Mothers for Peace and the Mindanao Business Council, immediately called on government and the MILF to declare a ceasefire and return to the negotiating table.<sup>22</sup>

The international community also joined the call for both warring parties to restart the stalled negotiation process. Malaysia and Libya agreed to act as 'go-betweens'. The OIC offered to send a fact-finding mission to settle charges of ceasefire violations on both sides.

International and domestic pressure for a ceasefire and return to negotiations bore some fruit when, towards the end of May, the MILF declared a ten-day suspension of military action (SOMA). According to MILF spokesman Eid Kabalu, the ceasefire was 'a response to calls made by the CBCP, various peace advocates and well-meaning government officials'.<sup>23</sup>

The government response was cautious. The President welcomed the offer as 'a positive and welcome development', but challenged the rebel group to turn in bombing suspects. Defence Secretary Reyes was suspicious that the rebels were only suing for time to re-group and re-supply.<sup>24</sup>

The US, on the other hand, welcomed the truce offer by the MILF. US Ambassador Francis Ricciardone in a media statement said: 'It looks as if both sides are interested in getting back to serious talks', adding that US President Bush had promised President Arroyo that the US will help to 'underwrite peace' in Mindanao.<sup>25</sup>

Despite the threat of escalating conflict, hopes remain high among Mindanao's constituents. Such optimism amid debilitating events both within and outside the region springs from the dynamic and vibrant state of civil society. Mindanao citizens are impatient to see 'peace dividends', and to participate actively in efforts to harness these. Over the months since the breakdown of the peace process between the Philippine government and the MILF, and the military offensives from both sides, civil-society based peace groups have continually called on the government and the rebel forces to go back to the negotiating table. These groups were also active in providing relief services to those displaced in the fighting.

ARMM Vice-Governor Mahid Mutilan, an active member of the Bishops-Ulama Forum,<sup>26</sup> said in a recent consultation in the regional government that the problem in Mindanao 'must be solved, whether we like it or not, and whatever it will take, because we cannot afford more war'. However, the 'solution' must be based on a principle of fairness and justice, and of empowerment, 'giving us the freedom to eat what we want to eat, when to eat it, and how to eat it too'.<sup>27</sup>

## Chapter 2

# Mindanao's economy

### 2.1 Economic underdevelopment

SINCE INDEPENDENCE IN 1946, successive Philippine governments have endeavoured to develop the primarily agricultural economy by promoting industrialisation in various forms. An initial emphasis on import substitution gave way from the 1970s to export-oriented industrialisation, modelled on the apparently flourishing economies of the 'Asian tigers': South Korea, Taiwan, Hong Kong and Singapore. This meant a focus on attracting foreign investment and technology in light industries and assembly operations. Export processing zones were established in Bataan (near Manila) and Mactan (near Cebu in the Visayas) to attract transnationals to set up operations in the Philippines. In time, electronics and garments replaced coconuts and sugar as the country's main exports. Mindanao remained essentially a source of raw materials and agricultural products, with an enclave of heavy industry around the city of Iligan on the north-west coast.

Measurable economic activity (the formal economy) in the Philippines is concentrated in the northern island of Luzon, and particularly around Metropolitan Manila. The National Capital Region (NCR)<sup>28</sup> alone accounted for 31% of the Philippines' gross domestic product (GDP) in 2000, more than either Mindanao or the Visayas. Mindanao contributed about 18% of the country's GDP (see Tables 1a and 1c in Appendix), slightly more than the Visayas (16%) but substantially less than Luzon (66%).

Over a 20-year period, Mindanao's share of the country's output has been declining, from 20.4% in 1981 to 18.1% in 2000, partly because the NCR's GDP increased faster, thereby eroding Mindanao's share in national output. The primacy of the NCR and Luzon in the national economy has been maintained and appears set to continue well into the future.

Policy analyst Lourdes Adriano attributes Mindanao's economic underdevelopment to four factors: the relegation of Mindanao to the role of supplier of food and raw materials to the rest of the country; neglect of Mindanao's infrastructure needs; a bias against agriculture and for industry – until recently; and 'the peace and order problem', ie. armed conflict and/or crime.

Combined together, these 'resulted in a vicious cycle of underdevelopment where the lack of employment and economic opportunities led to declining incomes, where extremely limited demand resulted in less jobs and greater poverty, where high unemployment and poverty incidence fuelled political unrest, and where political instability further discouraged investments that create economic opportunities and jobs' (Adriano, 1998).

The first three factors cited by Adriano appear to stem from the long-term marginalisation of Mindanao in national development policy. This may also explain why a disproportionately small share of the national budget allocation for regional development goes to Mindanao.

While Mindanao's economic performance is generally below the national average, it nevertheless managed to expand its output in recent years. The average growth rate in Mindanao from 1995 to 2000 was below that of Luzon and the national growth rate (Table 1b). Mindanao was, however, generally relatively resilient during the Asian financial crisis of 1997–98, managing to increase its output while that of Luzon and Visayas fell, as did that of the Philippines in general.

Over the decade from 1992 to 2001, private local investment in Mindanao, based on local equity investment figures from the Board of Investments (BOI), averaged about P5.1 billion annually

– compared to P17.9 billion in Luzon. This implies that Mindanao only accounts for approximately 10% of annual local equity investment in the Philippines compared to 34% accounted for by Luzon. Visayas' share is slightly lower than that of Mindanao at about 8% or about P4.4 billion a year on average (Table 4a). However, 43% of investments were spread over several locations, which might affect these proportions quite significantly if it was disaggregated between the three island groups. Over the last decade, growth of local investment in the country overall, at an average 33% annually, was much faster than in Mindanao where the average was 8%.

Foreign investors prefer to invest in Luzon rather than in Mindanao or Visayas. Luzon attracted an average of about P17.6 billion of foreign equity investment annually (61% of total foreign equity investment in the Philippines) between 1992 and 2001, compared to only P1.4 billion for Mindanao (5% of the total) (Table 5). Visayas attracts slightly more than Mindanao at an annual average of P1.6 billion. The impact of the Asian financial crisis is evident in the decline of foreign equity investment between 1997 and 2000. In 2001, despite the 9/11 incident, both the Philippines and Mindanao appeared to be on the way to recovery, with investments increasing by 187% and 108% respectively – although in the case of Mindanao, this was from a particularly low base. This was also the period when heavy investment in infrastructure facilities flooded into Mindanao.

In terms of project costs – a measure of the total cost of a project for a year including the operating costs, which provides an indication of the magnitude of investments – investment in Mindanao lagged well behind that in Luzon between 1992 and 2001, but was slightly higher than in Visayas. On average, investment in Mindanao in terms of total project costs accounted for 8% of total investment in the country, compared to 40% for Luzon. The annual average investment in Mindanao over the decade was P19.5 billion compared to P100 billion in Luzon (Table 6).

Mindanao's share of the country's total government services was only around 16% in 2000, with approximately 84% going to Luzon and Visayas.

Mindanao accounts for a relatively small proportion of the Philippines' external trade. Electronic goods account for almost 70% of Philippine exports, whereas the chief exports of Mindanao are coconut products and bananas.<sup>29</sup> Coconut products account for only 1% of the value of the country's total exports.

Mindanao lags behind Luzon and Visayas in terms of infrastructure facilities (Table 12). It has the lowest percentage of paved national and local roads and the lowest percentage of irrigated areas. The inadequacy of government services in Mindanao has been detrimental to its economy. It increases business costs relative to the other island regions, thus eroding the competitiveness of existing enterprises and discouraging investment.

## 2.2 Regional disparities

Mindanao's dominant economic sector is agriculture, which accounted for 37% of the island group's Gross Regional Domestic Product (GRDP) in 2000 (see Table 2b in appendix). The shares of industry (27%) and services (35%) are smaller, but both are steadily increasing their share. Output in all three sectors has been growing, despite some fluctuations for agriculture, owing mainly to the drought of 1987–88.

Within Mindanao, Region XI (Southern Mindanao) is the hub of the island's economy.<sup>30</sup> It accounts for 35% of Mindanao's total GRDP, more than half of its mining and quarrying sector output, a third of its agricultural and fishery produce, 37% of its service sector output and 45% of its trade. It is also the island's financial centre and has a larger share of its population than the other

regions (29%, or 5.19m, of Mindanao's population of 18.13m). Region XI also attracts quality human resources, as it is the educational centre not only of Mindanao but also of the Brunei-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA).

The next wealthiest region is Northern Mindanao (Region X), which accounts for 21% of Mindanao's total output. With its smaller population, it currently surpasses Region XI in terms of per capita GRDP (Table 1d).

Together, Regions X and XI produce more than half of Mindanao's output. The population in both is predominantly majority Filipino, indicating that economic development has focused on 'Christian' areas, although not equally. Caraga, in the north-east of Mindanao, is also predominantly 'Christian', but is the next poorest region after the ARMM. Even within Regions X and XI, economic development is concentrated around the large urban centres, particularly Davao City and General Santos City in Southern Mindanao and Cagayan de Oro in Northern Mindanao. Within Mindanao, predominantly Muslim areas lag behind economically.

The regional pattern of investment is similar to that for output: Regions X and XI receive the bulk of local and foreign equity investment, while the ARMM receives almost none (Tables 4b, 5b, 6b). Local investment in Mindanao fell sharply after 1998, possibly owing to the effects of the East Asian financial crisis. It halved again in 2000, probably owing to the 'all-out war' declared by President Estrada on the MILF.

Many factors underlie the dismal level of investment in the conflict areas, including inadequate infrastructure, political instability, and the shortage of financial and human resources.<sup>31</sup>

In recent years Mindanao has generated a trading surplus of around \$600m a year. Ten products account for approximately three-quarters of Mindanao's exports, headed by fresh bananas, whose exports were valued at about \$290m, or 22.3% of the island's total exports in 2000. Next in importance is crude coconut oil, with exports around \$284m, or 21.8% of the total in 2000, followed by refined coconut oil (\$105m). Total coconut oil exports therefore amounted to \$389m or 30% of total exports (Table 8). Unlike bananas, (produced principally in Southern Mindanao) coconut-based exports come from all regions in Mindanao except Caraga. More than half of Mindanao's exports go to just two countries, the US and Japan (Table 9).

Again, Regions X and XI dominate, generating more than 70% of Mindanao's export revenues. Region XI alone accounts for half of Mindanao's exports – but these may include products from Region XII shipped out through ports in Region XI. The ARMM contributed just 0.5% of the island's exports between 1994 and 2000 (Table 10).

### 2.2.1 The economy in Muslim areas

The ARMM is predominantly Muslim, while Regions IX and XII have significant Muslim populations.<sup>32</sup> General Santos was transferred from Region XI to Region XII (Central Mindanao) in September 2001, probably in an effort to distribute economic resources more equitably among the regions.

The ARMM is clearly far less economically developed than the other regions. It contributed only about 1% of the country's total annual output between 1994 and 2000, while Mindanao contributed about 18% on average during this period (Table 1c). The ARMM contributed about 5% of Mindanao's total output in 2000. At P9.18 billion, its GRDP was by far the lowest of the six regions, and only one-sixth that of Southern Mindanao. Even in per capita terms, ARMM's output is significantly lower: two-thirds that of the next poorest region, Caraga, and less than one-third that of the top performer, Region X.

The ARMM's economy grew by an annual average of 3.7% from 1994 to 2000, although it posted negative growth in 2000, the only decline registered since 1994. This was a direct result of the 'all-out war' declared by the Estrada administration. The economy of other regions in Mindanao grew in 2000 at rates that surpassed the national average.

The ARMM's economy is highly dependent on the agriculture, forestry and fishing sector, which accounted for 61% of its output<sup>33</sup> and employed 71% of its workforce<sup>34</sup> in 2001. In Western Mindanao, the sector accounted for 52% of GRDP and 51% of employment. Among the predominantly Muslim areas, only Region XII appears to be relatively less dependent on agriculture. However, agriculture is still important there, accounting for 36% of GRDP and 52% of employment.<sup>35</sup>

The other major sector in terms of employment – wholesale, retail and repair – employs 9% of the workforce in ARMM, compared with 14–19% in the other regions. Fishing is much more important as an occupation in ARMM than elsewhere: 17% of ARMM's labour force – 131,000 people – is employed in fishing, compared with 2–5% in other regions.

Industry contributed only about 11% of ARMM's total output in 2001, 15% in Western Mindanao and 36% in Central Mindanao. The share of services in the three regions was 28%, 33% and 28% respectively.<sup>36</sup> The relatively high share of industry in Central Mindanao comes primarily from Iligan City, whose population is predominantly 'Christian', or majority Filipino.

Government services accounted for 9% (in terms of current prices) of Mindanao's total output in 2000, a lower percentage than the national average. Among the regions, government services accounted for 18% of total GRDP in the ARMM, 13% in Caraga, 11% in Region IX, and 10% in Region XII. The high percentage level for the ARMM is not due to high government spending in the region, but to the low value of output in other sectors. In terms of absolute amounts, Region XI received P13 billion and Regions IX and XII P9.2 billion and P8.5 billion respectively, while the ARMM received least with only P5.6 billion.<sup>37</sup>

Dependence on agriculture makes the economy vulnerable to changes in the weather; drought caused by the El Niño effect in 1997-98 affected ARMM badly. Given the high poverty levels in the region, government intervention to support the agricultural sector is essential to boost its economy. The necessary infrastructure facilities, such as farm-to-market roads and irrigation facilities, are inadequate. The ARMM, for example, has both the lowest national road-density ratio and proportion of paved roads (particularly where municipality roads are concerned) in Mindanao (see Table 3 in Appendix). It also has the lowest proportion nationally of irrigation development in potentially irrigable land (Table 3b in Appendix). In Region IX, however, the proportion of irrigated land is higher than the national average.

### 2.3 BIMP-EAGA

The Brunei, Indonesia, Malaysia, Philippines, East ASEAN Growth Area (BIMP-EAGA) was initiated in 1994, in the framework of increasing economic cooperation within the Association of South East Asian Nations (ASEAN).<sup>38</sup> The idea was to boost the economy of the area by intensifying cross-border co-operation in trade, investment and tourism (Table 11). About 70% of the 45m people in the BIMP-EAGA region are Muslims and part of the rationale of engaging, from the Philippine side at least, was to boost trade among Muslims in the region. However, export figures indicate that the predominantly Muslim areas in Mindanao have not benefited much from it. The economic backwardness of the predominantly Muslim areas of Mindanao constrains them from responding effectively to the opportunities of BIMP-EAGA.

Total exports to Brunei, Indonesia and Malaysia (BIM) reached a peak of \$79.8m in 1995, but then declined to a low of \$7.4m in 1999 before recovering to \$42m in 2000. The decline was much steeper than the decline in Mindanao's aggregate exports. The Asian financial crisis contributed but lack of government support under the Estrada administration was also a significant factor.<sup>39</sup>

Between 1996 and 2000 Mindanao's imports from the BIMP-EAGA region exceeded exports to it, resulting in an average trade deficit with the region of about \$21m annually. The Philippines' main trading partner in the region over the past five years, Indonesia, accounts for more than half of total trade. Malaysia is also important with total trade averaging \$47m annually.

## 2.4 Overseas development aid

The government relies heavily on overseas development assistance to address economic and social disparities in Mindanao. Foreign-assisted projects have tended to be biased towards the less-developed areas, which have been at the centre of the armed conflict or potential conflict. Programmes in these areas address poverty reduction and rural development through strategic emphasis on the provision of rural infrastructure to increase agricultural production and efficiency, and to ensure that the poor have enough food.

Some overseas aid, including aid from Muslim countries, went to Muslim areas before the 1996 GRP–MNLF Peace Agreement. But after it, there was a larger infusion of aid into the SZOPAD, with large multilateral agencies, including those of the UN system and the World Bank, and Western governments stepping in to support the agreement. The government has developed a socio-economic package, the Integrated Development Framework and Investment Program (IDF/IP) for SZOPAD. Total ODA from 1997 to 2000 amounted to P18.5 billion. Of course, the existence of financial resources does not automatically mean they will be spent well and wisely. But the peace agreement had succeeded in attracting considerably increased levels of international aid.

Eleven high-impact projects were identified for SZOPAD, based on the priorities of various stakeholders, of which three were in the ARMM. However, as of October 2000, only one (the concreting of the Jolo mainland circumferential road, at a cost of P910m) had got under way. The other two – the expansion of Bongao Port into a transshipment seaport, and the offsite development of a regional agri-industrial centre – proved impossible to take beyond the proposal stage.<sup>40</sup>

Otherwise, only two ODA-funded projects are solely dedicated to the ARMM: the Kabulnan Irrigation and Area Development Project and the Salam (Peace) Bridges Project, costing a total of P4.81 billion.

## 2.5 Poverty

By all economic indicators, the ARMM and Muslim areas in general lag behind non-Muslim Regions X and XI in terms of economic growth and, therefore, productive activities and employment opportunities. Poor economic performance, and the accompanying low standards of living and lack of employment opportunities, are bound to lead to social problems. And where economic disparities coincide with ethnic differences, such problems are more likely to generate armed conflict.

In terms of poverty incidence among families, four of the five poorest regions and six of the ten poorest provinces in the Philippines are in Mindanao – and the ten include all four provinces in the ARMM. More than 50% of families in all these provinces are living in poverty (Tables 13 and 14).<sup>41</sup> As one would expect, the regions with the highest GRDP (Regions X and XI) have the lowest incidence of poverty.

In the five predominantly Muslim provinces, average per capita income fell between 1997 and 2000, with particularly large decreases in Basilan and Tawi-Tawi, although average incomes were lowest in Sulu (Table 15).

A second tier Mindanao is emerging which is much poorer than the rest. This includes the ARMM and Central Mindanao, the areas where armed conflict has been most intense.



## Chapter 3

# Conflict and the economy

### 3.1 The human cost of war

THERE ARE NO precise figures for the death toll in the Mindanao conflict in its early years. In July 1996, the current minister of national defence, Eduardo Ermita (then a congressional representative) estimated that more than 100,000 people were killed between 1970 and 1996. At the height of the conflict, from 1970 to 1976, an average of 18 people were killed every day.<sup>42</sup>

According to the Department of Social Welfare, 1.1m people were made homeless in 1972–72 alone<sup>43</sup> – a figure that does not take account of those who took refuge with friends and relatives, or the estimated 200,000 people who fled to Sabah.<sup>54</sup> No estimates are available for the numbers of homes, schools, roads and business premises destroyed.

Ermita said that in the same period, the AFP spent P73 billion, or an average of 40% of its annual budget, on the war in Mindanao.<sup>45</sup> More recently, National Security Adviser Roilo Golez said that at least P6 billion were spent on the war against the MILF in 2000. Clearly these represent funds lost to development expenditure.<sup>46</sup>

### 3.2 Impact on the economy

No reliable statistics are available for the economic cost of the war before 2000. In April 2002, Paul Dominguez, Presidential Assistant for Regional Development, told a civil-society forum on the costs of the Mindanao conflict that ‘the present value of the economic cost of a never-ending conflict would be at least \$2 billion over the next 10 years’. This statement was based on the ‘very preliminary’ findings of a World Bank study which cited the ‘hidden costs’ of the conflict, including profits made from investments in south-western Mindanao that were reinvested or spent in other areas; defence budgets used to mobilise troops to fight the war, rather than for modernisation; and social services repeatedly disrupted by violence.<sup>47</sup>

In September 2000, the government’s Mindanao Coordinating Council placed the total cost of damage from the war that started in March at P556,327,345 and government relief and short-term reconstruction costs at P349,789.<sup>48</sup> In March 2003 agricultural damage in the areas affected by the most recent round of fighting was estimated at P46.18m.<sup>49</sup>

In Mindanao as a whole, however, the ‘all-out war’ had little apparent effect on output, although sporadic violent incidents in or near urban centres caused some losses by disrupting transport. For example, on 3 May 2000, the tuna industry in General Santos City lost an estimated P1 billion because of a hostage-taking and road blockade by the MILF.<sup>50</sup> But Mindanao’s overall economic performance during the all-out-war period was better than that of the rest of the country, with GDP increasing by nearly 5% in 2000, while exports rose to about \$1.3 billion in 2000, from \$1.1 billion in 1999. Export performance was not affected by the conflict because production areas and essential export facilities such as the sea and airports are located mostly in progressive and peaceful areas.

Mindanao’s tourism and hotel industry was affected, however. Three major international and national conventions scheduled to take place in Davao City (well away from the fighting) in May 2000 were cancelled when the war broke out.

The main economic loss for Mindanao as a whole was probably in foregone investments.

Investment in Mindanao plummeted during 2000, although the lingering effects of the 1997 financial crisis may have compounded the decline during the year (Tables 4, 5 and 6 in Appendix). Local investment in Mindanao fell by 62% in 2000 – faster than the countrywide decline of 47%. Foreign equity investment in Mindanao dropped by 79%, more than local investment, while the decline in the rest of the country was 67%. Consequently, investment in terms of project costs in Mindanao declined by 69% compared to 59% for the rest of the country.

The fall in investment is reflected in the decline in the loan portfolio of the Mindanao banking sector between 1997 and 2000. Meanwhile, bank deposits continued rising sharply as equity investors sought a safer haven for their funds.

The decline in investment resulted in a reduction in jobs by around 10%, from 241,000 to about 216,000.<sup>51</sup> This was felt all over Mindanao, and not only in conflict-affected areas, indicating that it was due to investors' fears, rather than to the real damage done by the conflict.

### 3.3 Displacement

Much of the direct cost of the war in 2000 was borne by displaced people. Previously, little precise data was available on the effects of war on the civilian population. In the early years of the conflict, the toll in deaths and injuries, and the scale of human rights violations and loss of livelihood, could only be estimated. The presence of local and international relief agencies in the affected areas in 2000 meant the immediate social and micro-economic impact of war was more closely monitored.

According to a social assessment of conflict-affected areas carried out for the World Bank, fighting in Central and Western Mindanao and the ARMM displaced 932,000 people. (The figure includes those displaced in Sulu and Basilan as a result of Abu Sayyaf action and the government's military response.)<sup>52</sup>

Oxfam estimates that 85% of those affected by the conflict were Muslims, 17% Christians and 7% were Lumad. In Basilan, displaced people tended to be Christians fleeing the Abu Sayyaf, but once government forces went after the Abu Sayyaf and Christians started to arm themselves, the pattern reversed.

Most of the people who fled to evacuation centres in Central Mindanao were women and children. Some adult men in Muslim communities were MILF combatants. Others feared that government forces would suspect them of being MILF combatants, or feared conscription by the MILF, and went into hiding.

Most of the evacuees were from farming families living in remote rural areas where input markets are monopolised by a few traders who are also the main source of credit for rice and corn production. Indebtedness is high. The immediate economic impact of the war was an income shock: incomes were lost when unharvested crops were abandoned, and when planting seasons passed by with workers unable to work their farms.

In 58% of the displaced families interviewed for a survey by Oxfam in November 2000, the children had stopped going to school; 22% of families had borrowed money on interest, while 50% per cent had sold their productive assets and 21% had sold their farmland, house and land rights to buy food.<sup>53</sup>

One direct consequence of the income shock was that loans advanced by traders could not be paid, and this may have affected the flow of credit. Before the war, two-thirds of the families in the Muslim-dominated areas had used credit, but after the conflict, only one-half did. The average amount borrowed by internally displaced persons before the conflict was P2,394. This fell to P1,571 after the conflict.

Farmers also lost their assets – farm animals and implements – when they fled. Carabaos were killed by stray bullets, died of starvation, or were slaughtered for food by the armed groups. The few farmers who brought their carabaos when they fled eventually had to sell them to buy food for their families. In some cases, men exchanged productive assets for weapons with which to protect their families and property. The price of one firearm is equivalent to several months of a poor family's income.

In times of peace, misfortunes such as sickness or loss of income rarely happen to all members of a community at the same time. But the conflict affected everyone, so mutual support systems could not operate.

The number of people who earned incomes from farming increased after the conflicts, but average household income decreased. With households in desperate straits, women, children and elderly people were mobilised to earn an income.

By November 2001, 90% of the displaced had returned to their homes or resettled elsewhere: many communities played host to displaced persons, and in Maguindanao *datu*-landowners as a class employed many displaced people as farm workers. Muslims found it harder to return home than did Christians once the fighting was over, partly because evacuation centres were further away from Muslim communities.

Muslim communities in or near the MILF camps are particularly reluctant to return, given the continuing presence of the military and the high risk that conflict will resume. Those who do return will have to struggle with a lack of rural infrastructure. The government has sought to rebuild homes, but bridges, roads, *madrassahs*, state schools, water systems and health centres were also destroyed. People who have resettled in new communities are likely to find themselves on marginal land, possibly indebted to members of the host community.

In some mixed communities, return to one's place of origin may be difficult because of the fear and mistrust aroused by the conflict. Some neighbourhoods have become segregated, as Muslims moved to predominantly Muslim areas, and Christians to predominantly Christian ones to avoid attack. The tensions released by the war may be released again when neighbours meet again for the first time. Christian communities attacked by the MILF blame their Muslim neighbours 'for not having warned them'. Some communities have armed themselves, and some Christian communities have asked government-backed paramilitary groups to help them defend themselves. In other mixed communities, however, Muslims and Christians have endeavoured to work together to overcome the tensions and the physical damage done by the conflict.<sup>54</sup>

### 3.4 The long-term effects of conflict

In the long term, one effect of war has been to exacerbate some of the factors that led to conflict in the first place. It seems there is a vicious circle where poverty, government neglect and dispossession lead to civil and political conflict, which in turn increases poverty, makes it harder to provide government services, and leads to further dispossession as people are displaced from their land. Meanwhile, other forms of violence – competition between warlord politicians, localised resource conflicts, blood feuds and criminal activities – go unchecked and the warring parties collude with their perpetrators.

#### 3.4.1 Conflict and poverty

There is a strong correlation between armed conflict and poverty in Mindanao. The poorest regions, ARMM, Western and Central Mindanao have been at the centre of armed conflict. People

in these regions have the lowest per capita income, and the least access to basic services such as water and sanitation, electricity and health care (see Table 16 in Appendix). Even in relatively peaceful regions such as Southern Mindanao, there are pockets of armed conflict in the areas with the highest incidence of poverty, such as Davao Oriental.

After 30 years of fighting, it is difficult to disentangle the causes and effects in the relationship between poverty and conflict. The predominantly Muslim areas of Mindanao were among the poorest parts of the Philippines when the war started, so the continuing poverty in south-western Mindanao cannot be explained by conflict alone. But conflict has certainly contributed to poverty by disrupting agricultural production, destroying social and economic infrastructure, and deterring long-term investment at all levels: from the farmer in a war zone reluctant to invest in the next crop, to the professionals who invest their training and the family savings to obtain a job abroad, to the corporate investors who look for safer places to put their money.

Some foreign and Filipino-owned corporations left Mindanao in the 1980s because of the conflict, notably the rubber plantation owners in Basilan. This did not automatically lead to the ending of production and loss of jobs. The plantation workers' union helped the workforce to establish co-operatives, one of which was doing well enough by 1997 to absorb a group of MNLF ex-combatants as a security force. Finding markets, however, appeared to be a problem.

During the 1990s the gap between poverty incidence in ARMM and in the rest of Mindanao grew. In 1991, poverty appeared to be less widespread in ARMM than in Caraga and Central Mindanao. But between 1991 and 2000, in the other regions of Mindanao the incidence of poverty fell, whereas in ARMM poverty became more widespread. The relatively rapid economic growth of the more prosperous regions of Mindanao seems to have trickled down to at least some of the poor. The pattern of enclave development in Mindanao – with investment in infrastructure, production and services converging on a few large urban centres – may have compounded the effects of conflict to broaden the disparity between the ARMM and other regions.

### 3.4.2 Access to services

The clearest gap between predominantly Muslim areas and the rest of the country, however, is in the lack of government services. And even more than income disparity, awareness of this gap serves as a symbol of government discrimination and neglect, one of the key grievances in the conflict.

Although the conflict provides a convenient justification for government failure to establish health, education and other services, it does present a real impediment to making services accessible to the population at large. In addition to the destruction of facilities, the insecurity prevailing in rural areas encourages government employees to stick to the safety of urban centres.

The Human Development Index (HDI) developed by the United Nations Development Programme seeks to indicate quality of life by aggregating per capita income, functional literacy rates and life expectancy. It thus takes into account the extent to which education and health services may alleviate the effects of income poverty. In 2000, the five predominantly Muslim provinces were the five worst off in the Philippines in terms of HDI.<sup>55</sup>

In 1995, the ARMM had the highest infant and under-five mortality rates in Mindanao (although not the highest in the Philippines – infant and child mortality rates were a little higher in the Eastern Visayas, another area of endemic poverty, long-term conflict and government neglect). Maternal mortality rates in ARMM were the highest in the country.

In relation to its population, ARMM has fewer *barangay* health units (the most accessible type of service) and far fewer hospitals than other regions (in 2000, there was one hospital to

200,000 people in ARMM, compared with one hospital per 42,000 people in Western Mindanao, which has the next lowest ratio).<sup>56</sup> The number of rural health units in ARMM compares quite well with other regions (only Regions IX and XI have more in absolute numbers). But that does not mean their services are accessible to the people. It is common for staff of rural health units to remain inside their offices because they lack an operational budget.<sup>57</sup>

The proportion of children enrolled in elementary schools in Mindanao ranges from 90.94% in Western Mindanao to 97.88% in Caraga, with 95.17% enrolled in ARMM. However, the proportion of children who reach the final grade of elementary school in ARMM is much lower than elsewhere, at about one-third. Elsewhere in Mindanao, the proportion ranges from 56% in Central Mindanao to 63% in Region XI. For secondary schools, although the enrolment rate is significantly lower in ARMM, the proportion of children enrolled who reach the final grade is comparatively high, at 71% (the second highest after Central Mindanao, with 86%) despite a shortage of teachers. In state secondary schools, taking population size into account, ARMM has roughly half as many teachers as other regions in Mindanao.<sup>58</sup> Government statistics do not recognise Islamic *madrasah* schools, thus ignoring the number of children receiving education in Arabic.

The number of elementary schools and teachers in ARMM appears to be roughly similar, in relation to population size, to that in other regions in Mindanao, although the regional breakdown does not indicate whether schools and teachers are concentrated in particular areas within the region. And the presence of a school building is no indicator that children are receiving an education. There is some anecdotal evidence to indicate that teachers fear for their safety in remote rural areas, and may not turn up to school on a regular basis.

By displacing more than a million people, the conflict exacerbated poverty and dispossession. Many of the better educated Muslims left for the northern Philippines, or Malaysia, thus depriving south-western Mindanao of skilled and educated people. In rural areas, repeated displacement also forced people to leave their land and opened opportunities for further encroachment by outsiders.

### 3.4.3 Lawlessness

Large areas of south-west Mindanao have been abandoned to lawlessness, so that local communities, and also businesses are insecure. There is a proliferation of armed groups, in some cases 'lost commandos' who once fought for one or other of the warring parties, but who now operate outside any external control. Added to this are the civilian 'volunteers' armed by the military over the years to fight perceived supporters of the Moro armed groups and the NPA.<sup>59</sup> Civilian volunteers can use their weapons in pursuit of gain, or in localised resource conflicts.

In Muslim areas, the failure of government to provide for or protect Muslims in the past means that many people question its legitimacy, so there is little or no confidence in law enforcement agencies. Rumours and reports – some quite well-founded – of the police, the military and government officials colluding with criminal gangs, local politicians (many of whom have an extensive armed following) and illegal loggers erode this confidence even further.

There is some indication that decreasing the alienation of law enforcers from the community helps reduce crime. There was a substantial reduction in recorded crime in Jolo after MNLF members integrated into the Philippine National Police (PNP) under the 1996 agreement were deployed in the town.<sup>60</sup> Of course, a fall in recorded crime may not reflect the levels of actual crime; but the fact that Jolo is an MNLF stronghold makes the obvious explanation quite probable.

Efforts by government forces or companies to protect economic infrastructure or businesses

usually take the form of employing an armed force. Larger businesses in rural areas may employ a Special Civilian Armed Auxiliary (SCAA) group, armed and given rudimentary training by the military. These may be used not only against armed groups, but to suppress community opposition to a company's presence or its operations. In some cases, they adopt harsh security measures and commit human rights violations, provoking further conflict that draws in armed political groups and the AFP.

The relationship of illegal activities to conflict is not clearcut. Organised crime in the Philippines is not confined to conflict areas; kidnapping for ransom and drugs manufacture go on in Metro Manila as well as in Mindanao; arms and other goods are smuggled through many of the country's ports. According to Sheila Coronel of the Philippine Centre for Investigative Journalism, by conservative estimates, earnings from organised crime are equivalent to 10–20% of the Philippines' GDP, or P300–600bn a year.<sup>61</sup>

The biggest money earners are drugs, kidnapping, bank robberies and smuggling. The illegal drugs trade alone is estimated at more than \$5bn a year – about 8% of GDP. The most common product is 'shabu' or crystal methamphetamine hydrochloride. Some of it is manufactured in Manila, but some is smuggled into the country through Sulu. NGO development workers based in Zamboanga say that shabu is widely used by young people in Sulu's provincial capital, Jolo, and that it is manufactured in factory ships off the coast of the Zamboanga peninsula.

Criminal gangs, according to Coronel, are 'nurtured by a complex layer of protection involving police and local, even national officials'.<sup>62</sup> This could explain why their members so often escape when allegedly 'surrounded' by the police or military. The gangs also use kinship, community and ethnic networks to recruit members and provide cover for their activities.

#### 3.4.4 Arms-dealing

Gunrunning in Mindanao is not primarily due to civil and political conflict, although the conflict has clearly contributed to the number of guns in circulation, and armed opposition groups provide a ready market for weapons. But they are not the only ones. Over 70% of the population in Mindanao owns one or more guns (some of them bought and registered legally).<sup>63</sup>

There is a thriving illegal market in small arms all over the Philippines. Much of it centres on the Visayas, where there are a number of unregistered gun manufacturers. From the Visayas, guns are shipped to Luzon and Mindanao on passenger boats and fishing vessels, and some are smuggled to Japan.<sup>64</sup>

Many people feel the need to possess firearms for security reasons, to protect their homes, livelihoods and farm animals. With the upsurge in hostilities in Central Mindanao since April 2000, Christians have started to arm themselves for security reasons. However, according to a report on arms proliferation in Mindanao prepared for the Canadian government, in interviews and informal discussions conducted in Mindanao, no-one cited the need for self-defence as a reason for the huge demand for firearms. Possession of firearms is also a matter of power and prestige.<sup>65</sup>

The PNP attributes the prevalence of gunrunning to the prospect of huge profits, connivance among gun running syndicates, encouraged by corrupt law enforcement efforts; persistent involvement of political families and other influential people who want to beef up their private armies; a 'yearning for guns' – for status as well as security – which provides a ready market.<sup>66</sup>

An additional factor in the arms market in Mindanao is the persistence of violent family/clan feuds, among families wealthy enough to afford weapons – even artillery.

One important source of arms is diversions from government-controlled stocks, through sale, theft, capture or transfer to paramilitary groups.<sup>67</sup> Others are unlicensed manufacture of

pistols in Western Mindanao and Zamboanga; foreign shipments, reportedly from Afghanistan via Pakistan; gunrunners based in Mindanao; and armed groups manufacturing their own weapons. For example, the MNLF used to manufacture landmines and the MILF manufactured rocket-propelled grenades.

The main route for arms smuggling in Mindanao is the ‘southern backdoor’, along the extensive coastline of the Zamboanga peninsula and the scattered islands of Sulu, Tawi-tawi and Basilan. This is also the area used by the Moro armed groups as the delivery point for arms from abroad. The most commonly smuggled firearms are pistols, rifles, sub-machine guns and shotguns.<sup>68</sup>

Law-enforcement is hampered by lack of equipment, personnel and informants, insufficient co-ordination – and sometimes competition – between the government agencies responsible – and apathy among the public at large. This stems from a common perception that law enforcers are either conniving with the smugglers or helpless in the face of political influence wielded by powerful political clans.

Over the years, governments have run *Balik Baril* (return the gun) programmes offering surrendering rebels compensation for each firearm they turned in. According to local NGOs, in some areas this turned ‘surrendering’ into a livelihood in the 1980s: people would turn up and hand over their worst quality weapon, and live on the compensation for a few months, then ‘surrender’ again. After the FPA, it was reported that MNLF ex-combatants were using the modest amount earned from turning over their firearms to purchase newer and more powerful weapons.<sup>69</sup>

### 3.4.5 Illegal logging

The Philippines lost much of its forest cover in the 20th century. In Mindanao, vast areas of forest were cleared to establish plantations. The environmental effects of deforestation include soil erosion, floods and loss of watersheds.

Under the Forestry Code, it is a criminal offence to cut, gather, collect and remove timber or other forest products without licence or authority. There are also regulations that ban certain practices even when logging is licensed, for example clear-cutting. Logging of virgin forests was banned in 1992, although by that time the country retained very little of its original forest cover. One of the largest remaining areas of virgin forest is in Lanao del Sur.

Most of the illegal logging in Mindanao takes place in Caraga and the ARMM. Some small-scale illegal logging is done by the rural poor, to supplement inadequate incomes. But large-scale illegal logging involves businesspeople, often in collusion with local politicians, members of the armed forces and government officials.

Armed opposition groups have also engaged in illegal logging to finance their activities. It is not clear to what extent this has been the case in Mindanao, although in 2000 the military claimed to have found piles of illegally cut logs when they captured an MILF camp in Lanao del Sur.

According to Catholic church sources in Basilan, the Abu Sayyaf and the Philippine Marines co-operated in illegal logging in the island from 1992 to 1996.<sup>70</sup>

At the beginning of 2003 the military in Northern Mindanao reported the existence of a big-time illegal logging syndicate using fake security papers to transport illegally cut logs past police and military checkpoints from Lanao del Sur through Bukidnon to Cagayan de Oro. One of the businesses involved was the Maging Rebel Returnees Cooperative (MRRC).<sup>71</sup>

The transport of timber depends on collusion between illegal loggers, government officials and big wood processing plants. Illegally cut timber is transported from Mindanao to Manila along commercial shipping lanes – using both cargo and passenger ships.<sup>72</sup>

### 3.4.6 Kidnapping for ransom

Kidnapping is a source of income for many of the ‘lost commands’ that proliferate in conflict-affected areas. The abductors frequently call on assistance from friends and family to guard and feed the hostage, so it has been described as a ‘cottage industry’ in parts of south-western Mindanao. Although mass abductions and the kidnappings of foreign tourists have gained the most notoriety, the most common target is the local middle class, whose families are perceived to be rich enough to pay a ransom.

People may also be taken hostage for political reasons. At least some of the spate of kidnappings that occurred about one year after the FPA were intended to draw attention to the needs of MNLF ex-combatants who had yet to receive help with establishing a new livelihood.

### 3.4.7 Crime and conflict

Media coverage of crime in Mindanao has often exacerbated inter-ethnic tension by labelling perpetrators as ‘Muslim’ kidnappers or robbers. This has reinforced prejudices among the majority Filipino community, and angered Muslims who see such descriptions as a slur on their religion.

The reason why a considerable number of young men in south-western Mindanao turn to crime has nothing to do with religion, and more to do with the absence of alternative ways of earning status and a livelihood. A younger generation has grown up, many in displaced families, who have no other asset but guns. After more than three decades of warfare and unrest, rebellion has become a way of life; but in many former MNLF strongholds, the political movement has weakened its hold. The result is a blurring of the lines between political rebellion and banditry exemplified by the Abu Sayyaf. The danger of the effort to subdue the Moro political movements by military means is that it risks exacerbating this trend.

## 3.5 The economics of pacification

Ironically, some of the approaches taken by Philippine governments to establishing peace in south-western Mindanao have helped to exacerbate some of the problems that led to conflict.

Under the Marcos regime in particular, but also subsequently, the government sought to buy off rebel leaders with appointments to government positions. The implicit expectation was that they would use these positions to make a living for themselves and their followers. In effect, they were being recruited into a system of patronage politics and corruption that contributed to the economic and political exclusion of the majority.

Both governance and corruption were highly centralised under Marcos. The democratisation brought in by the Aquino government led to decentralisation of corruption at all levels of government service and all over the country, but especially in the ARMM. Many Muslim officials see the government as an alien structure imposed from Manila. Using public funds and equipment may then be seen not as criminal acts, but as the normal and logical exercise of authority of the *datu* or politician in dealing with an alien entity. Sometimes what may be seen as corruption is intended as an act of defiance against a government perceived as oppressive.<sup>73</sup>

Another common feature in peace efforts, from the Marcos era to the FPA, was to announce grandiose development projects for ‘Muslim Mindanao’. The projects rarely materialised. (In the case of the FPA, this was largely due to a lack of funds, made worse by the East Asian financial crisis.) The effect was that the expectations of Muslims were raised and then dashed, while the majority Filipino population resented what they saw as favouritism towards rebellious Muslims.

A more serious problem, however, is that the pattern of development supported by the state in Mindanao has changed so little from the early 20th century. Even the Ramos administration,



which made greater efforts than any other to secure a lasting peace, promoted extractive activities – notably mining and plantation agriculture – which involve taking over land from Moros, Lumads and sometimes the Christian poor also. This exacerbates one of the key problems in the conflict, particularly when control of land is transferred from members of one ethnic group to another.

It is possible to avoid permanently alienating land used for plantation agriculture from its occupiers, although even here resentment could emerge, and any plantation requires a minimum land area under crop to be economically viable. But hydro-electric projects and mining displace people on a long-term basis and are likely to provoke community resistance. Even small, localised resource disputes in Mindanao are likely to get drawn into the wider conflict. Land or resource conflicts provoked by larger projects are even more likely to attract the participation of the warring parties, as all sides will see them as significant.

Extractive activities that result in dispossession are incompatible with the security of land tenure for indigenous communities, including the Moros. Mining companies appear to agree with this analysis: in the late 1990s, a group of mining companies brought a case to the Supreme Court to overturn the Indigenous Peoples' Rights Act (IPRA), passed by Congress under the Ramos administration. The act gives indigenous communities the right to claim ancestral domain. Once such a claim is recognised, the community has the right to accept or reject any development project proposed by outsiders.

### 3.6 The links between economics and conflict: conclusions

While the Mindanao conflict cannot be reduced to economic issues, these are clearly at the heart of the conflict. Competition for natural resources (particularly land) has been crucial in the escalation of armed violence, and economic exclusion has fed feelings of alienation from the Philippine state. The next section of this report will identify opportunities for breaking the links between economy and conflict in Mindanao, highlighting in particular the role that local business leaders could play in this, and steps that the government could in turn take to create an enabling environment for private sector peacebuilding initiatives.

## Chapter 4

# Breaking the link between economics and conflict: what role for the private sector?

### 4.1 Scope for action

WITH SOME CLEAR exceptions, war is bad for national economies and bad for business.<sup>74</sup> Companies cannot provide services, produce goods or generate profits if there is disruption to transport networks, markets, labour supplies, equipment and basic levels of trust.

Although issues relating to peace and security have traditionally been seen as the provenance of political actors and not of the private sector, the private sector has a clear interest in working for peace, to counter the disruption that violent conflict imposes. Moreover, there is a growing body of evidence that shows that local private sector actors have chosen this path with positive effect in a number of different conflict contexts.<sup>75</sup> In Northern Ireland, South Africa and Sri Lanka, for example, companies and business associations from different sectors and even across conflict divides have rallied together in order to use their combined strength to devise and implement peacebuilding strategies in the midst of violent conflict.

Civil conflict is caused by factors that often appear intractable in their complexity (Rupesinghe, 1998). Conflict resolution or transformation is the process of addressing these causes, and working with those concerned to redefine relationships and bring about a change in the conflict context. To this end, relationship building across sectoral and social divides is key. Conflict transformation practitioners advocate the use of ‘multi-track diplomacy’ – actors at different levels of society engaging in peacebuilding work (Lederach, 1995). The role of the private sector as one such actor is now receiving increasing attention within the field (Nelson, 2000; Champain, 2002). The types of interventions companies can make in this area can be categorised as follows:<sup>76</sup>

#### **1 Support for local enterprise development**

Such support is an important developmental tool, particularly in countries where high unemployment and social deprivation are significant factors in escalating tensions. While this has long been the focus of many international agencies’ work, less thought has been given to how targeted economic initiatives can be given an explicit peacebuilding objective.

#### **2 Bringing conflicting communities together**

In countries experiencing ethnic or religious divisions, the workplace might be one of the few spaces where people from opposing sides can meet together on neutral ground. This makes it a potentially valuable forum for promoting reconciliation and trust. When local businesses pursue a fair and inclusive employment policy accompanied by relevant training, barriers created by ignorance and negative perceptions can be broken down.

### **3 Policies and standards**

Local businesses can set standards through their policies on labour, social protection and equal opportunities. In situations where governments are undemocratic, repressive, corrupt or discriminatory, private businesses can offer an alternate vision of society and can encourage and educate employees in democratic participation, human rights and tolerance of diversity.

### **4 Social investment**

As with foreign businesses, local companies can be active in social investment initiatives that address genuine needs. This may come in the form of assistance in the aftermath of humanitarian crises, or longer-term projects undertaken in partnership with local communities, the government and international organisations. While the concept of corporate social responsibility in its diverse forms has been to some extent mainstreamed in the West, there has been less emphasis on conveying the roles, responsibilities and potential of local businesses in this area in other parts of the world.

### **5 Influencing peace processes**

There is clearly huge potential for domestic business communities to engage in national peace processes. While this is a complex and sensitive area, both Northern Ireland and South Africa provide examples of the kinds of role that can be played by business. In Northern Ireland, a coalition of businesses supported the peace process by consistently promoting the economic benefits to the country, while in South Africa a network organisation of senior business leaders, the Consultative Business Movement, played a vital role in facilitating negotiations between the African National Congress and the former National Party government.

### **6 Confidence building**

Private sector initiatives can be a strong positive influence on political and community relations through building confidence between governments and non-state actors. Because it is less politically charged, economic co-operation can be a first step adversaries take towards each other, creating trust as well as productive processes for resolving problems.

### **7 Strength through partnerships**

Partnership with others is fundamental to enhancing the peacebuilding capacities of local business. Strong networks of business associations and employers' organisations can be valuable mechanisms for promoting co-operation, cross-border initiatives, sharing of information and ideas, and lobbying governments and multilateral institutions. Partnerships between local businesses and multilateral institutions such as the World Bank and the UN are also potentially hugely influential, as are linkages with civil society actors.

### **8 Political strengthening and democratisation**

When the private sector is transparent and incorporates civil society and government as part of its operational processes, these efforts provide models for, and experience of, good governance and democratisation. Furthermore, an open and competitive business environment often encourages citizens to demand similar political and social changes.

## 4.2 Case studies

### Box 1: DATU PAGLAS: CAN THE MIRACLE BE SUSTAINED?

R.J. de la Rosa & L. Abreu

For the last few years, the town of Datu Paglas in the war-torn province of Maguindanao in the ARMM has received a large amount of press coverage, both local and international. It has been pictured as a 'miracle town', its economic-development framework heralded as a model for developing areas shattered by the Moro conflict.

Datu Paglas municipality is in the southeastern protrusion of Maguindanao bordering with the provinces of North Cotabato in the east and Sultan Kudarat in the south. It was created mainly out of the town of Buluan in Maguindanao with some *barangays* that used to belong to the town of Colombio, Sultan Kudarat on the west. Old Buluan was part of the old province of Cotabato which was subdivided into the provinces of Maguindanao, Sultan Kudarat, South Cotabato and North Cotabato. It is an area where some of the most intense conflict has played itself out.

Part of the Marcos strategy to pacify areas that were hotbeds of the Bangsa Moro struggle for independence was through a combination of political pressure and accommodation of local Moro political leaders. The area that is now Datu Paglas was one such area.

Having made his peace with Marcos, Datu Paglas was appointed mayor of the newly created town that was named after him in the 1970s. He held office until his death. His wife, Bai Aga Piang Paglas, continued his term up to 1986. His eldest son Ibrahim III was to be appointed officer-in-charge when President Aquino came to power but he declined the appointment.

The Paglas clan is related to the other politically powerful clans in the area through kinship and inter-marriage and its members are blood relatives of MILF chairman, Salamat Hashim.

As with other Muslim communities in Mindanao, the Buluan-Colombio area used to have its share of *rido* – age-old clan feuds that periodically erupt in violence. The Paglas family itself used to be deeply embroiled in this sort of political conflict. *Rido* between the Paglases and the other powerful clans in Maguindanao – the Mangundadatos of Buluan, and the Ampatuans of Sharif Aguak – usually resurfaces during election time.

There was another major threat to peace and stability in the area, however, and this came from the political and armed agitation for Bangsa Moro independence. Datu Paglas saw fierce armed confrontations between the AFP and the Moro rebel forces of the MNLF and MILF for more than a decade. At the local level, the 1976 Tripoli Agreement did not contribute much to achieving peace. Armed conflict ebbed and flowed with periodic resurgence of *rido* and terrorist activities in the area up to the early 1980s. The split in the original MNLF with the formation of the MILF in 1980 also affected the political configuration in the town. Datu Paglas is within the area of MILF Camp Rajamuda.

The terrain of the municipality and its environs – a vast cogonal area and the Buluan lake-river estuary system – is favourable to kidnappers, highway robbers and other lawless elements. But the government's inability, if not lack of political will, to control anti-social activities was the more telling factor in the sustained lack of peace and order.

Sustained peace finally came to Datu Paglas with the signing of the Final Peace Agreement between the GRP and the MNLF in 1996 and the agreement on cessation of hostilities between the GRP and the MILF the following year.

#### Land in need of capital

The environs of Paglas town are endowed with rich clay loam soil ideal for agricultural production. These lands are irrigated and fertilised by the flooding of both the Buluan River in the south and the Alip River in the north of the town. Moro farmers use the land alternately for rice and corn production.

But some portions of the town are less well endowed. Their rocky topsoil means these areas need intensive land preparation. With poverty endemic in the area, and with government services nowhere to be found, the Moro rebel forces of the MNLF and MILF found support among the population.

#### Capital in need of land

ORIBANEX Holdings Corporation is a consortium of foreign (Italian, Saudi Arabian and US) and local investors dealing with the production and export of cavendish bananas. As shown by its annual General Information Sheet

submitted to the Securities Exchange Commission (SEC) in the year 2000, ORIBANEX had an initial capital of P50.1m. With 51% Filipino and 49% foreign investment participation, the company enjoys the benefits accorded to a corporation with Filipino nationality.

By the early 1990s, ORIBANEX had already entered into several joint ventures to establish banana plantations in Mindanao. But the company was still hungry for more land for its expansion programme. One of the areas it had its eyes on was the vast fertile plain in the Moroland, particularly in and around Datu Paglas. However, the peace and order situation posed a serious threat to potential investment.

The situation changed dramatically in 1996. With the signing of the MNLF–GRP peace agreement in that year, two important factors for the development of the municipality came into place. First, a stable situation of peace and order; second, the government, anxious to demonstrate 'peace dividends', embarked on a programme to promote investment in areas affected by the armed conflict.

### **Marriage of land and capital ...**

In 1997, capital led by ORIBANEX and land controlled by the Paglas family merged to form La Frutera, Inc. (LFI). This marriage was brokered by no less than then-President Ramos who facilitated the registration of the company as a pioneer corporation.<sup>77</sup> Out of this union was born the first cavendish banana-for-export plantation in the Muslim region.

ORIBANEX put up the bulk of the initial capital for LFI. Another group of local entrepreneurs in Manila, ULTREX, Inc., led by a former Department of Agriculture head, Senen Bacani, and an old hand in banana-plantation management, Pedro Chanco, also took an equity stake. ULTREX took responsibility for most of the day-to-day management of LFI while ORIBANEX handles marketing of LFI produce abroad.

LFI started with the 565 hectare Paglas Estate in 1997. By 2002, the plantation covered a total land area of 1,100 hectares, including that occupied by the office site, roads and irrigation canals. Due to fungal Sigatoka infection afflicting some of the areas, only around 900 hectares were then planted with bananas<sup>78</sup>

The whole LFI plantation area is owned by 257 landowners, with some of them owning more than one plot within. Thus LFI has 273 contracts with landowners in all. The majority of the landowners are small, owning around 5 hectares or less. In an interview conducted for this report, a landowner could only name four big LFI landowners with 40 hectares and above. These included the Paglas family.

LFI production from 1998 to 2000 showed a dramatic increase as shown by the following figures:

PERIOD COVERED	PRODUCTION (in million boxes)
January to August 1998 (8 months.)	0.7
September 1998 to August 1999 (12 months)	3.7
September 1999 to December 2000 (16 months)	5.5

Source: KULINTANG, *La Frutera Aims High, Period 1 & 2, FY2001: 1*

The produce is of high quality.<sup>79</sup> On one occasion, the leading LFI packing plant (PP23) had 95.7% Class A produce. This was 'a feat never before accomplished by any packing plants of LFI or from any joint-venture corporations'.<sup>80</sup> LFI also boasts producing at one point the heaviest bananas worldwide, at 35 kilos per bunch.<sup>81</sup> LFI exports its produce to the following countries: Japan, Singapore, South Korea, China, Hong Kong, and the Middle East.

### **Midwifed by a modernising elite**

In 1985, Ibrahim Paglas III, widely known as 'Toto', heir apparent to his father's leadership position within the clan and the municipality, gave up college in Manila and went back to his hometown to pursue his late father's dream of developing this land into a 'coffee, cacao and rubber plantation'.<sup>82</sup>

Toto Paglas is a visionary leader and a man of action whose sense of timing appears to be impeccable. In 1986, he made his first move to jumpstart economic development with an irrigation project in the municipality. In 1988, when he was elected mayor, he followed-through on this initiative by harnessing the manpower of the landowners of the less-endowed areas of Datu Paglas and Buluan. They redirected the flow of Alip River and had its

abundant water flooded on their properties. Eventually, their efforts became the basis for the National Irrigation Administration (NIA) Alip River Irrigation Project.

Tired of the cycle of violence that exacerbated poverty and underdevelopment in the family sphere of influence, Datu Ibrahim Paglas III wanted to put an end to *rido*. As a reigning patriarch of a powerful clan, his efforts to maintain peace and stability met with some success.

However, it took Datu Paglas III a decade of hard work for his dream of economic development to take off. His moment came in 1997. With the GRP–MNLF peace agreement and the GRP–MILF agreement on the cessation of hostilities in place, he seized the opportunity offered by ORIBANEX to establish a banana plantation in Datu Paglas. By 1998, LFI was fully operational.

LFI investors relied on Datu Paglas to push the project through, knowing his political mettle and personal connections, not only with the other leading traditional clans but more importantly with the chairman of the MILF, his uncle, Salamat Hashim. The latter gave his support to the project, albeit with some provisos on environmental and human rights matters.

The Paglas family, meanwhile, established the Paglas Group of Companies (PAGCORP), to handle the labour and logistical needs of LFI. This group of companies, with Datu Paglas III at the helm as president and chief executive officer, is set up as follows:

COMPANY	RESPONSIBILITY TO LFI
Cowboy Employment Agency	Subcontractualisation of labour
Cowboy Trucking Services	Hauling of bananas to Davao
Cowboy Security Agency	Field security guards
PLAS Philippines	Plastic covering for mature banana bunches
Rural Bank of Datu Paglas	Loan accessibility to LFI workers and landowners

The Paglas family was able to set up this group of companies with finance from government-owned and controlled banking institutions. The Land Bank of the Philippines (LBP) extended the financing for the tens of ten-wheeler container vans making the daily deliveries of bananas to ORIBANEX. The P8m loan portfolio of the Rural Bank of Datu Paglas was financed in full by the Bangko Sentral ng Pilipinas (BSP – the Central Bank of the Philippines) and the LBP.

### **The positives and negatives of the LFI venture in Moroland**

Datu Paglas municipality has a lot to show for the 'economic miracle'. Where once economic sluggishness confronted the visitor, today economic activity is apparent with a number of business establishments operating. Where once the municipality was considered a haven for lawless elements, today a peaceful community is seen busy in pursuit of economic well-being. The lively economy is also expressed in better delivery of social services. With leaping revenue from taxes, the town has built more classrooms and schoolhouses in the *poblasyon*.

But there is still some way to go. Critics observe that villages in the interior still need more school buildings and health centres. Some respondents interviewed for this report said that much still needed to be done to ensure that the new wealth really benefits the people. There are allegations that local officials have been spending more on top-of-the-line cars and vans for official purposes than on local development.

While the initial capital-based agricultural venture in Datu Paglas looks lucrative to investors, both local and foreign, LFI farmworkers and small landowners whose lands have been leased to LFI offer a different view.

Big landowners like the Paglas family, who were unable to develop their lands for lack of capital before, have much to thank LFI's venture for. But other landowners, especially those with less than five hectares, have expressed misgivings about their lease contracts. Given the current going-rate for lease rentals offered by banana companies elsewhere of P12,000 per hectare annually, they feel short-changed by the P6,500 LFI pays them. Those with more fertile land say that they would have been better off with rice farming, which could earn them about P18,000 per cropping season (irrigated lands in Datu Paglas could harvest 2.5 times annually). These misgivings are compounded by the fact that the lease contract covers a period of 15 years.

All of the concerns now being expressed have the benefit of hindsight. When La Frutera negotiated with the

landowners in 1997, they offered substantial amounts – in many cases amounting to hundreds of thousands of pesos – covering payments for standing crops and land improvements, redemption of properties that were facing foreclosure by banks, three-to-five year lump-sum rentals, and security for untitled properties. This seemed a good deal at that time, with this positive perception probably enhanced by the Paglas family being principals in the agreement. Feudal loyalty is still strong among the Moro people.

Capital-based production has contributed to the development of a new work ethic among the labour force in Datu Paglas and Buluan. The old work ethic, based on the family-based mode of production is slowly being replaced with one based on large-scale capital. There is some truth in the town's slogan – *Walang tamad su Datu Paglas* (complacency has no place in Datu Paglas).

On the downside, information from farm workers suggests that labour contracting by the Paglas family has resulted in the reduction of plantation workers' benefits. While farmworkers earn the legally pegged regional minimum wage for agricultural workers in the ARMM of P128 daily, 4% of this goes to the Paglas family-owned Cowboy Employment Agency (CEA), which subcontracts the labour force to LFI.

There have been a number of cases of farmworkers quitting due to low wages and delayed payment. A case in point is that of a worker from Panabo, Davao province, who left behind thousands of pesos of debt to local storeowners that had piled up through months of delayed salaries. Other workers resort to selling rice bought on credit from the canteen at a loss just to get cash for other urgent needs. A sack of rice bought on credit for P800 could be sold for P600.

A number of landowners suspect that LFI, through CEA, has purposely rejected job applications by their families or relatives in order to undermine an earlier agreement to employ on a one-worker-per-hectare basis those recommended by owners of land leased to LFI. The Landowners Association of LFI, headed by Ibrahim Paglas, has ruled that a landowner loses his prerogative to recommend when his first three recommendations are turned down. In this way, CEA acquires absolute control over employment. There are those who believe that this power is used by the Paglas clan for political purposes.

Some local residents claim that LFI, contrary to its avowed concern to alleviate the plight of Muslims, do not seem keen on hiring Muslims for its administrative staff. This could be justified by the emphasis LFI places on merit in its hiring process. There are certainly more Christians than Muslims who are professionally skilled and experienced. Since the company puts a premium on efficiency, the less-trained Muslim applicant is at a disadvantage. While this might meet the immediate, short-term goals of the company, in the long run this might prove to be disastrous, since it is not addressing the oft-cited social problem of the Muslims' lack of access to better-paid jobs and professional advancement.

### **The Magic Formula**

The magic combination that opened the door to development in Datu Paglas can be expressed in something like a mathematical formula. Development (D) involves a state (S) that is determined to deliver the dividends of peace, plus capital (C) that is willing to invest in peace, plus a modernising elite (E) within an enabling environment of peace (P). The 'magic formula' may be expressed as  $D=P(S+C+E)$ .

Datu Paglas was once a wilderness ruled by violence and lawlessness. It was the battlefield of armed forces fighting for self-rule against the army of a state that is determined to preserve the ruling order. The resultant breakdown of state authority made the area a haven for lawless elements engaged in violent means for economic gain. The people, already suffering from abject poverty, were caught in a seemingly hopeless vicious cycle of violence and underdevelopment. Feuding clans exacerbated the already desperate situation.

The entire series of events that led to the development miracle of Datu Paglas was set into motion by the decision by the government and the MNLF to stop fighting and establish a climate of peace. The MILF contributed to the stabilisation of the political situation by agreeing to a cessation of hostilities. Peace was the key element that broke the vicious cycle of violence and underdevelopment. It was also the catalyst that set off a chain reaction that produced the miracle of Datu Paglas. The political will displayed by national and local political leaders to ensure that peace dividends actually accrued to the community was no less essential. The incentives given to capital encouraged investors to venture into Datu Paglas.

A modernising elite, led by the powerful and influential Paglas clan, that was willing to co-operate with

government and business in pursuit of its own interests, allowed the state and capital to penetrate and integrate into the Moro community. This clever – even brilliant – move to harness the positive influence of a local traditional elite forestalled any hostility from the townfolk, who had hitherto been isolated from mainstream society, towards a government which had, until recently, sent armed troops against their kin, and an alien business entity whose interest in agricultural land may be suspect. It certainly helped that the figurehead of this modernising elite, in the person of Toto Paglas, has established his credibility among the people through leadership by example, as shown in his single-minded determination to develop the municipality, even without help from central government, by mobilising the town people to build an irrigation system.

### **Lasting peace: the continuing challenge**

The 'miracle of Paglas' was a product of a fortunate social conjuncture. Its elite-led nature also poses challenges however, as this report has already shown. In its most recent history, people have begun to talk about corruption, oppression and lack of social justice.

The architects of the economic miracle must not lose sight of the social context of the long period of conflict in Datu Paglas. Poverty, ethnic oppression, bad governance and social injustice were the main ingredients of the cycle of violence in the municipality. These were the bases for political agitation for Bangsa Moro secession. Addressing these issues, therefore, has to be part of a long-term strategy for lasting peace and sustainable development in the municipality.

Democratising the dividends of peace, equitable sharing of wealth, and social justice are the recurring themes that emerged from interviews conducted for this report. Corporate social responsibility (CSR) and the enlightened self-interest of capital would suggest that good relations with labour and the community are essential to maintaining a stable business environment. Small and medium-sized landowners who have entered into long-term lease contracts with La Frutera are community opinion-makers. It is important that they do not feel short-changed in the bargain, and are not left out of labour-hiring decisions. Labour conditions, especially with respect to just wages, must be addressed.

Ethnic oppression is strongly felt among the Moro people. They feel that they have fewer opportunities for social mobility than their Christian brothers and sisters. This is an important issue for LFI given that it operates in a predominantly Moro community. Affirmative action in hiring Moro professionals and technicians in white collar and highly skilled technical positions would prevent disillusionment among the Muslim middle class regarding company employment policies. This could be coupled with a good training and apprenticeship programme to upgrade professional and technical skills. Government, through the appropriate agencies has a lot to contribute in this area.

Good governance ensures that peace dividends accrue to all stakeholders. The newly found prosperity of the local government must find its way to more efficient delivery of social services. In the far-flung *barangays* of the municipality school buildings, health care facilities, public utilities, farm-to-market roads and *barangay* halls, would go a long way towards establishing government presence and dispelling suspicions of corruption.

Community values must be enhanced. A work ethic that puts a premium on honest hard work and peaceful means to economic gain is being hammered in by the slogan *Walang tamad sa Datu Paglas*. But this is not enough. A culture of peace has to seep deep into the social fabric where cultural openness, social unity and pursuit of peaceful means to resolve conflict is appreciated and practiced.

Social reforms are the key ingredients of lasting peace and development. Without them the issues that underlay the breakdown of peace and social order will again rear their ugly heads. Lasting peace and development (LPD) needs a sustained effort at social justice (SJ), good governance (GG) and corporate social responsibility. If  $D=P(S+C+E)$  then  $LPD=(SJ+GG+CSR)n$ .



## Box 2: PHILIPPINES BUSINESS FOR SOCIAL PROGRESS

Thirty years' ago, the heads of 50 of the largest Philippines corporations set up a foundation that is now known as the Philippines Business for Social Progress (PBSP), that has as its mission helping the poor to help themselves. PBSP is the country's largest business-led social development foundation, the only of its kind in Asia, and has a wide range of projects geared towards promoting practical corporate social responsibility initiatives among its members. As PBSP has gathered experience over time, projects have increased in complexity and ambition - addressing key developmental themes such as area resource management and economic development.

In recognition of the need to address socio-economic disparities and underdevelopment in Mindanao, the PBSP Centre for Corporate Citizenship launched a Business and Peace programme in October 2001. Scheduled to run initially for three years, the Business and Peace programme enables member companies (now numbering 154) to develop a business sector response to the Mindanao Peace and Development programme of the foundation. The programme partners with the UK-based Prince of Wales International Business Leaders Forum, the British Embassy in Manila, and the UK Chamber of Commerce. The approach of the programme is to encourage local companies to adopt internal management policies that promote peace and diversity, in order to:

- Improve culturally-sensitive business management practice through technology transfer;
- Facilitate business sector involvement in promoting policies aimed at improving business environment, peace and development;
- Facilitate community enterprise development through the promotion of business linkages between larger companies and Muslim SMEs/ community enterprises in core business operations.

The programme to date has formed an advisory committee composed of top Muslim business leaders to provide advice and inputs into programme activity; enabled the participation of six selected Muslim CEOs at a Bridging Leadership Seminar; deployed six young Muslim professionals to top British firms for internships; offered executive briefings to Muslim SMEs; established business links and corporate and community partnerships; and facilitated business training for select Muslim SMEs and Chambers of Commerce. PBSP has also conducted and supported research into the relationship between business and peace in Mindanao, including identifying best practice among companies. It has provided timely and welcome leadership on the issue of promoting a peacebuilding role for business in Mindanao which provides important learning for others.

## Box 3: ARMM BUSINESS COUNCIL, MINDANAO BUSINESS COUNCIL AND MUSLIM BUSINESS FORUM

The ARMM Business Council and the Mindanao Business Council are local business fora that work together proactively in tackling root causes of conflict in Mindanao. After several consultations with different stakeholders, they have begun to support improved tolerance of different cultures by encouraging their business members to adopt culturally sensitive business practices. They work with the business community to increase the consideration, adoption and application of Islamic cultural properties in business practices.

The Councils seek to promote peace by:

- Reopening Islamic banking facilities on the island, (providing facilities for Islamic practices such as *zakat*), and including introducing an amendment in the Amanah Bank's Charter;
- Establishing skills training centres across the ARMM to address long-term unemployment and related conflict issues;
- Reviving 'Barter Trade' to stimulate customary trading.

The Muslim Business Forum has also sought to promote peace in Mindanao, and enhanced opportunities for Muslim business, including through encouraging Muslim participation in BIMP-EAGA meetings and catalysing the first Muslim Business Summit, held in 2001.

### 4.3 Recommendations

Some initial recommendations to government on breaking the links between economy and conflict in Mindanao and promoting a positive role for the private sector were developed in consultation with local business actors during the course of research for this report:

*o Provide ample infrastructure facilities to attract more private investment to the SZOPAD areas*

Good roads, bridges, sea and airport facilities, telecommunication systems, power supplies, irrigation systems, post-harvest facilities and other infrastructure essential to smooth and efficient operations are important considerations to investors when deciding where to locate business. Without such infrastructure the comparative advantages of a geographic location cannot be realised. Mindanao's comparative advantages are its natural endowments – in terms of climate, soil and natural resources – and its location within the east ASEAN sub-region. But these comparative advantages are nothing without the necessary facilities for the efficient flow of goods and services. Investors might even give good infrastructure more weight than economic incentives in their choice of business location.

Agro-industrial processing zones are special centres where modern, sometimes state-of-the-art, infrastructure facilities are provided to service companies that locate their operations in a designated area. Such facilities could be established in strategic locations within the SZOPAD to attract investors. These centres could be connected to suppliers and markets through first-class infrastructure facilities.

*o Enhance business opportunities and access to markets for the Mindanao Muslim business community*

In the past, there has not been much effort to assist Muslim business people to develop business opportunities and access a wider market for their products. This is true even of the BIMP-EAGA, which is a Muslim sub-region that has engaged in cross-border trade for centuries already. Until recently, the Philippines' delegation to EAGA conferences was predominantly Christian. In fact, the business-matching activities and memoranda of understanding (MOU) from these conferences reveal that while business people from Malaysia, Indonesia and Brunei are Muslim, their Filipino partners are mostly Christian. This is evidence that Muslims and Christians can do business together, but that Filipino Muslims and Christians are not maximising joint opportunities.

The situation is beginning to improve, thanks to the efforts of the Muslim Business Forum (MBF) and the First BIMP-EAGA Muslim Business Summit, which was held in General Santos City in January 2001. This effort, however, has to be supported and sustained.

One area that could be developed specifically for and by Muslim companies is production of halal products targeted at Muslim, domestic and international markets. Here Muslims have a natural advantage over the rest of the business world because of their familiarity with the cultural and religious practices required.

*o Training and organising Muslim businesspeople for mainstreaming*

The profile of a typical Muslim business is a small or medium scale retail trading operation. They do not relate much with the banking sector (due to prejudice or religious belief or both, as discussed above). Many belong to the underground economy, preferring not to register themselves as business entities.

Hesitance to join the mainstream limits Muslim business enterprises' capacity for growth. While there are positive signs of mainstreaming, largely as a result of efforts by the MBF and local Muslim business associations, there is still much to be done to overcome the reticence of Filipino Muslim business people.

*o Develop Islamic banking for a more open access to credit for Muslim business enterprises.*

Muslim business people report that banks have turned down their applications for business financing because they are Muslims. Christian prejudice sees them as less trustworthy than their non-Muslim counterparts when it comes to qualifying for a bank loan, even if their applications are fully secured.

In other cases, Muslim business people do not avail themselves of existing banking services because of fear that they will violate Islamic religious laws if they do so. This is largely due to the fact that the normal Western bank interest charge is not allowed in Islam.

These conflicting cultural practices limit Muslim business people's access to capital with which to finance their business ventures. Their competitiveness, and ability to penetrate new markets, is thus affected.

The establishment of Islamic banking would provide better access to institutional financial services for Muslim entrepreneurs. Initially, Islamic banks from the ASEAN and Arab countries could establish partnerships with local investors and financial companies to set up Islamic banks in the SZOPAD area as well as in the major cities of the country, especially in Mindanao. Less government involvement in Islamic banking operations will ensure that they do not become politicised.

*o Provide incentives for Corporate Social Responsibility programmes that promote peacebuilding*

Companies should promote peace because it is good for business. A peaceful society means a smooth flow of commerce that translates into healthy bottom-line returns for business. CSR programmes that support peacebuilding reflect sound business practice because they promote the long-term sustainability of an enterprise. In the short run, however, CSR costs money. And while there is no doubt that it will have a beneficial impact on a firm's business in the long run, this might not be immediately felt. The impact on company profits might be indirect and difficult to measure. Thus, developing CSR programmes might not seem an attractive undertaking to small firms with limited financial resources.

This is where incentives play a role. Tax credits, for example, will enable companies to recover costs of implementing CSR programmes immediately. Other incentives could be developed to encourage even small firms to undertake social projects for peacebuilding within their immediate communities or further afield.

*o Sensitise investment programmes to land issues*

Agriculture is the lifeblood of Mindanao's Moro areas. The economy and the lives of people revolve around land. But land is also at the heart of the conflict that has caught Moroland in its vortex. The suggestion that *Ilaga*, the group that was the archenemy of the Muslim Blackshirts in the 1970s, means Ilongo Land Grabbers' Association indicates how the Moros view the armed conflict. This view was reinforced when, during the MNLF war that broke out in 1973, lands that were abandoned by Muslims fleeing from the war were taken over

by Christians. Today, Moros still talk about their longing to return to their old farms.

Availability of land is an important consideration for investors. One of the attractions of the SZOPAD area is the untapped potential of rich agricultural lands for plantations and other agri-business ventures. Given a more stable political climate, investments would start pouring in. Datu Paglas is a case in point. The current interest of Malaysian and Indonesian investors in developing oil palm plantations in the SZOPAD is another clear indicator.

Private-sector investment should be encouraged in order to address the severe poverty in Muslim Mindanao. However, agricultural investment schemes that will allow small farmers to maximise farm productivity and improve incomes also have to be encouraged. As far as possible, the entry of agri-business companies should not result in the dispossession and displacement of small farmers and farm labourers. If this cannot be avoided, alternate livelihoods and relocation should be offered.

#### *o Strengthen the development orientation and function of the ARLA*

The ARMM has not maximised the potential of its legislative powers to promote economic activity within its territory. This has to change, if only to test the limits of its authority in terms of planning and shaping development among the Moro people.

One thing that needs to be strengthened within the region's bureaucracy is a peace and development orientation. The people working in the ARMM government – from the politicians down to the lowliest janitors – must be imbued with a sense of purpose to bring peace and development to the Moro people. Current governance training for local government units should be augmented with orientational and motivational modules.

A thorough review of all legislation passed by the ARLA should be conducted with the objective of identifying gaps in developmental legislation. Investment incentives, tax measures and land-use planning are among the measures that could be developed.

Some initial recommendations to business on breaking the links between economy and conflict in Mindanao and promoting peace can also be made based on this report:

#### *o Developing Corporate Social Responsibility programmes*

There is a view among Moro business people that development is government's function and it is enough for business to give *zakat* to the poor. On the one hand, this view dichotomises charity and development. But on the other hand, it opens the possibility of corporate social responsibility programmes in the name of *zakat*. The practice of *zakat* can be elevated from simple alms or aid-giving to developing people's capacity to provide for themselves. This is the developmental aspect of *zakat*.

A strong culture that prioritises CSR should be developed among companies operating in Mindanao. The big corporations should lead the way, together with the Mindanao Business Council, the Muslim Business Forum and the various business-support organisations. The underlying theme of CSR culture in Mindanao should be peace and development.

CSR for peace and development in Mindanao modules should be incorporated in business and management courses – diploma, graduate and undergraduate – in the colleges and universities of Mindanao to train a cadre of managers with a strong peacebuilding consciousness. These modules should include training on the culture of peace and a deeper understanding of the history and culture of the Moro people.

Initially, programmes that are aimed at confidence building and developing trust between business and the Moro communities could be started. Companies may conduct relief operations, medical missions, construct potable water systems or undertake ‘adopt-a-school’ (or *madrasa*) programmes in depressed or war-affected Moro communities. Scholarship programmes for deserving Moro youth could also be started.

*o Affirmative action*

Businesses operating in Moro areas should have a policy of ‘hiring Moro’ where skills, expertise and trainable human resources are available. This will enable companies to take deep roots in communities where they locate their operations. This will not only enhance corporate image but will result in improved security for company operations, properties and personnel. Ongoing technical training programmes to enable local people to qualify for highly skilled jobs in the company when these become available will give affirmative action schemes greater chances of success.

*o Developing strong ties between big business and the ‘associative sector’ and community enterprises*

Christian business people, especially big foreign investors, look for local ‘kingpins’ (the other term used was ‘natural leaders’) to collaborate with. This is a risk-reduction strategy to ensure rapid project gestation (no delays) and fast decision-making, and to keep the local situation under tight control. The objective appears to be rapid recovery of investment given the uncertainty of long-term stability.

There is, however, a counter concern that concentrating economic and political power in the local ‘kingpins’ could lead to a breakdown of free competition as forces other than economic could be brought into play in controlling business operations in the area. Related to this is the underlying view that co-opting the local elite, in Datu Paglas for example, is a divide-and-rule strategy on the part of government and big business. Critics point to the danger of an elitist approach to peacebuilding. They assert that while the Datu Paglas experience illustrates that vigorous economic activity and growth help stabilise the political situation in former conflict-ridden areas in the short term, the answer to sustaining peace and development lies in dispersing the dividends of peace to the broader population.

The ‘kingpin’ approach, however, is not the only way to do business in Muslim Mindanao. The community approach is an alternative that is worth exploring and developing. This approach calls for the participation of the broader community in the business enterprise, either through their co-operatives (the associative sector) or community-based enterprises such as craft villages. The village of Tugaya in Lanao del Sur is an example of a natural craft village that has a long tradition of producing high quality mother-of-pearl inlaid furniture and brassware. In agri-business, such schemes as nucleus estates and ‘grower ship’ arrangements could be encouraged. Other innovative approaches could also be developed.

*o Encourage more research into Filipino Muslim business culture and practices*

Christian business people who are schooled in mainstream Western business practice understand very little of Filipino Muslim business culture and practice. For example, from a religious perspective, the Muslim concept of business is ‘perfection of God’s creation’. On the one hand, this concept justifies the profit motive. On the other hand, it also obliges the

businessperson to give part of his/her profits to the poor. Thus, business is closely related to the concept of *zakat*, or charity to the poor.

Research should be encouraged into Filipino Muslim business culture and practices so that they become more thoroughly understood, and, more importantly, to encourage closer relations between Christian and Muslim business communities. Business and management schools should encourage their faculty and students to undertake these studies, which could be supported by grant-giving institutions. Orientation seminars could be given by Muslim business groups to Christian business people to foster understanding and partnerships.

*o Strengthening business–civil society co-operation*

There is mutual suspicion between business and civil society, yet both have a role to play in promoting peace and development in Mindanao. They are often seen as coming from opposite poles of social discourse – one primarily concerned with social justice, the other with profit. But an alternate view can be developed that looks at them as complementary. In a situation like Mindanao, where social conflict has reached the level of a violent internal war, an alternate view is required to harness the energy of these social forces for sustained peace and development.

Corporations can team-up with civil-society organisations in developing and implementing CSR programmes. The community-organising skills of non-governmental and grassroots organisations can be tapped for these purposes. CSOs, for their part, can link up with companies to develop viable community or household-based income generating projects. They can also tap into the marketing skills of businesses to assist them in developing markets for community products.

# Endnotes

<sup>1.</sup> Specialists who have written extensively about Muslims in the Philippines agree that there are at least 13 ethno-linguistic groups indigenous to Mindanao that have adopted Islam as their way of life. These are:

- the Maguindanao 'people of the flooded plains' of the Cotabato River Basin, so called because they occupy the flooded alluvial plains in that region of Central Mindanao
- the Maranaw 'people of the lake' of the Lanao provinces
- the Tausug 'people of the current' of the Sulu archipelago
- the Yakan of Basilan island
- the Sama (sometimes referred to as Samal) of Tawi-tawi and its islands
- the Badjaw, 'sea gypsies' also from different islands in the Sulu archipelago
- the Kalagan of Central Davao
- the Sangil of Sarangani Bay
- the Iranun who live on the boundaries of Lanao, Maguindanao and Cotabato provinces
- the Palawani of Palawan
- the Melbugnon (or Melebuganon) of Palawan
- the Kalibogon of the Zamboanga Peninsula
- the Jama Mapun of Cagayan de Sulu island

In addition, there are a growing number of Muslim converts all over the island. They come from various ethno-linguistic groups throughout the Philippines, from Luzon, Visayas and Mindanao. Among this growing number of Muslim converts in Mindanao are spouses of Muslims from the 13 groups listed above. In 1996, their number was estimated at a conservative 95,000 (Guiam, 2002). This group could constitute the fourteenth group of Muslims in Mindanao and in the whole Philippines today. Of the 13 groups, three are the most numerous and politically dominant: the Maguindanao, the Maranaw and the Tausug. Several political leaders of national prominence come from these groups, like the former 1st district of Maguindanao Congressman, Datu Michael O. Mastura (Maguindanao); the present governor of the Autonomous Region in Muslim Mindanao, Gov. Parouk Hussin (Tausug); and the current vice-governor of the ARMM, Mahid Mutilan (a Maranaw).

The 18 or more other indigenous cultural groups who belong to the Lumad have maintained the ways of life of their ancestors despite the coming of Islam and Christianity to the island. Some of them have become Christians or Muslims but many of them have continued to observe their tribal culture and traditions. These groups include: Ata, Bagobo (Davao-Cotabato provinces), Banwaon, B'la-an (Southern Cotabato), Dibabawon, Bukidnon/Higaonon (Davao-Bukidnon provinces), Mamanwa (Surigao, Agusan, Butuan), Mandaya (Davao), Mangguwangan, Manobo, Mansaka (Davao, Cotabato), Matigsalug, Subanen (Agusan, Zamboanga), Tagakaolo, Talaandig (Bukidnon), T'boli, (South Cotabato), Teduray (Maguindanao province) and Ubo (Davao, Zamboanga).

<sup>2.</sup> Muslim (1994).

<sup>3.</sup> Gowing (1979), cited in World Bank (2003) *Social Assessment of Conflict-Affected Areas of Mindanao*.

<sup>4.</sup> Muslim (1994).

<sup>5.</sup> Defined as the present-day provinces of Maguindanao, North and South Cotabato, Sarangani, Sultan Kudarat, Lanao del Norte, Lanao del Sur, Sulu, Tawi-tawi, Zamboanga del Norte, Zamboanga del Sur and Basilan.

<sup>6.</sup> Today's provinces of Maguindanao, North and South Cotabato, Sultan Kudarat and Sarangani.

<sup>7.</sup> Cagoco-Guiam and Muslim (1989).

<sup>8.</sup> Although the authority of the *datu* was undermined, it was not completely lost and traditional leaders still maintain their role in many rural communities. Also, several observers have noted similar patterns of loyalty-for-protection in the relationship between military commanders and their followers. In later years, being a commander in the MNLF would qualify one to become a *datu*.

<sup>9.</sup> From the province of Iloilo in the Visayas.

<sup>10.</sup> Basilan, Sulu, Tawi-tawi, Zamboanga del Sur and del Norte, North Cotabato, Maguindanao, Sultan Kudarat, Lanao del Sur and del Norte, Davao del Sur, South Cotabato and Palawan.

<sup>11.</sup> Gutierrez, Eric 'New faces of Violence in Muslim Mindanao' in Gutierrez *et al.* (2000).

<sup>12.</sup> The Asian currency crisis forced devaluation, which increased the peso valuation of the foreign debt, so that more of the government's budget had to be diverted to debt service payments.

<sup>13.</sup> Arguillas, Carolyn 'The cost of war: Rehabilitation and the Morolands', *Mindanews*, 16 March 2003.

<sup>14.</sup> Hussin had spent many years in exile in Sweden.

<sup>15.</sup> 'Gov't Troops, MILF Engage in Heavy Fighting in Pikit', *Business World*, 12 February 2003.

<sup>16.</sup> 'MILF Negotiators Boycott Meeting, Demand Military Pullout from Pikit', *Business World*, 13 February 2003.

<sup>17.</sup> Pablo, Carlito, 'Salamat Hashim in RP: Intelligence Report', *Inquirer News Service*, 12 March 2003 [http://www.inq7.net/nat/2003/mar/13/nat\\_3-1.htm](http://www.inq7.net/nat/2003/mar/13/nat_3-1.htm).

<sup>18.</sup> Two bombs were exploded in Davao City within a month (on 4 March and 2 April) killing at least 40 people and wounding some 150 others.

<sup>19.</sup> Zamora, Fe, 'Macapagal Orders Air, Artillery Attacks on MILF', *Philippine Daily Inquirer*, 17 May 2003 [http://www.inq7.net/brk/2003/may/17/brkpol\\_8-1.htm](http://www.inq7.net/brk/2003/may/17/brkpol_8-1.htm).

<sup>20.</sup> Cagoco-Guiam, Rufa 'Negotiations and detours: the rocky road to peace in Mindanao', *Accord Update Issue 6*, 2003.

<sup>21.</sup> Gloria, Violeta, ' "Enough of bloodshed", Zambo Interfaith Conference says', *MindaNews*, 21 May 2003 <http://www.mindanews.com/2003/05/21nws-enough.html>.

<sup>22.</sup> 'GMA: "To Retreat Now Would Only Invite More Depredations"', *MindaNews*, 16 May 2003 <http://www.mindanews.com/2003/05/16nws-terrorist.html>.

23. Guinto, Joel, 'MILF declares 10-day unilateral ceasefire', *Philippine Daily Inquirer*, Internet Edition, 28 May 2000 [http://www.inq7.net/brk/2003/may/28/brkpol\\_5-1.htm](http://www.inq7.net/brk/2003/may/28/brkpol_5-1.htm).
24. Gutierrez, Jason, 'MILF offers 10-day Truce; Gov't: Turn Over Suspects', Agence France-Presse, 28 May 2003 [http://www.inq7.net/brk/2003/may/28/brkpol\\_17-1.htm](http://www.inq7.net/brk/2003/may/28/brkpol_17-1.htm).
25. 'US Welcomes MILF Truce, Sees Start of "Serious Talks"', *Agence France-Presse*, 29 May 2003 [http://www.inq7.net/brk/2003/may/29/brkpol\\_19-1.htm](http://www.inq7.net/brk/2003/may/29/brkpol_19-1.htm).
26. The Bishops-Ulama Forum is an inter-religious dialogue among Catholic and Protestant bishops, and Muslim religious leaders, who affirm their common commitment to the peace process. It holds regular quarterly dialogues on areas of common concern to promote a culture of peace. For more information see <http://www.mindanao.com/kalinaw/buf/buf.htm>.
27. ARMM Consultations on the World Bank-sponsored Peace and Development Project for Mindanao, 17 January 2002, Cotabato City.
28. The national capital region (NCR) is the political and economic centre of the country. As an administrative region, it is composed of 13 cities and 4 municipalities.
29. Figures for 2002 from the website of the Department of Trade and Industry, [www.dti.gov.ph](http://www.dti.gov.ph).
30. Mindanao is divided into six regions: Western Mindanao (Region IX), Northern Mindanao (Region X), Southern Mindanao (Region XI), Central Mindanao (Region XII), ARMM and Caraga. The regions are referred to by their names and region numbers interchangeably throughout this report.
31. For the impact of conflict on investment, see Chapter 3.
32. In August 2001, the Muslim-majority province of Basilan voted to join the ARMM, thus decreasing the proportion of Muslims among the population of Region IX.
33. Calculated from figures posted on [www.nscb.gov.ph](http://www.nscb.gov.ph) (National Statistical Coordination Board).
34. Calculated from figures in *Philippine Statistical Yearbook*, 2002. Occupations in the sector include farming, forestry, hunting and fishing.
35. Elsewhere, the contribution of this sector to regional GRDP ranged from 26% in Northern Mindanao to 35% in Southern Mindanao and Caraga. It employed 52% of the workforce in Caraga, 48% in Northern Mindanao and 44% in Southern Mindanao.
36. Calculated from figures posted on [www.nscb.gov.ph](http://www.nscb.gov.ph) (National Statistical Coordination Board).
37. See *Growth with Equity in Mindanao (GEM) Indicators Baseline Report Update*, Vol.1, March 2002, pp.24–26.
38. BIMP-EAGA includes Mindanao and Palawan in the Philippines, the whole of Borneo (Kalimantan) including Brunei and the Malaysian and Indonesian portions of the island, as well as the Indonesian territories of Sulawesi and Maluku, and Irian Jaya (West Papua). This is roughly the area covered by the trading network of the Sulu sultanate before the 20th century.
39. Support is being revived under the Arroyo administration, however.
40. See Mindanao Economic Development Council, 2001 *Mindanao Development Statistics*. Unpublished material.
41. Figures for 2000, from National Statistical Coordination Board website.
42. Arguillas, Carolyn, 'Economic cost of "never-ending conflict" is P30-M daily', *Mindanews*, 12 March 2003.
43. Ahmad, Aijaz, 'The War Against the Muslims', *Southeast Asia Chronicle* Issue 82, 1981.
44. Muslim and Cagoco-Guiam (1999).
45. Arguillas, Carolyn, 'Economic cost of "never-ending conflict" is P30-M daily', *Mindanews*, 12 March 2003.
46. *Ibid.*
47. *Ibid.*
48. Arguillas, Carolyn, 'Rehabilitation to win hearts and minds?' *Mindanews*, 15 March 2003.
49. Arguillas, Carolyn, 'Economic cost of "never-ending conflict" is P30-M daily', *Mindanews*, 12 March 2003.
50. 'The economics of war'. *Philippine Daily Inquirer*, 11 May 2000.
51. Figures based on the PowerPoint presentation by Merly Cruz (2001) during a Region XI Private-sector consultation. Mindanao Business Council, 2002.
52. World Bank (2003) *Social Assessment of Conflict-Affected Areas in Mindanao*. Unless otherwise stated, the rest of the information in this section comes from this study.
53. 'Anthropometric and Household Food Security Survey among Displaced Families in Central Mindanao' Oxfam-Great Britain, November 2000.
54. For an account of some of these initiatives, see Gaspar *et al* (2002).
55. World Bank (2003) *Social Assessment of Conflict-Affected Areas in Mindanao*.
56. *Philippine Statistical Yearbook 2002*.
57. World Bank (2003) *Social Assessment of Conflict-Affected Areas in Mindanao*.
58. All statistics on education are from *Philippine Statistical Yearbook 2002* and refer to school year 2001–02.
59. They have been known at various times as Civilian Home Defence Force (CHDF), Civilian Armed Forces Geographical Units (Cafgus) and Civilian Volunteer Organisations (CVOs).
60. Makinano and Lubang (2001).
61. Coronel (2003).
62. *Ibid.*
63. Amnesty International, 'USA supplies small arms to the Philippines', *Terror Trade Times*, Issue 4 (2001).
64. Makinano and Lubang (2001).
65. *Ibid.*



<sup>66.</sup> *Ibid.*

<sup>67.</sup> For example, the report of a fact-finding commission of the Philippine Congress (the Feliciano Commission) cited the case of ammunition intended for the 103rd Brigade of the 1st Infantry Division of the army and the 3rd Marine Brigade, but apparently diverted to the Special Para-Military Force (SPMF) of a group of politicians in Sulu known as the Magic Eight. The head of the Southern Command at the time, Lieutenant General Romeo Paternos (ret), admitted to the commission that he authorised the transfer of ammunition for Garand rifles to Mayor Bagis, one of the Magic Eight. Other testimony given to the commission suggests a more powerful selection of ammunition was transferred.

<sup>68.</sup> Makinano and Lubang (2001).

<sup>69.</sup> *Ibid.*

<sup>70.</sup> Danguilan Vitug and G.M. Gloria (2000).

<sup>71.</sup> Amarga, Lizanilla J, 'Illegal logging turning into ring in R10: group', *Cagayan de Oro Sun Star*, 30 January 2003.

<sup>72.</sup> 'Alvarez Breaks Hot Logs Sea Corridor Seizes 6 Container Vans of Illegal Lumber', DENR press release (8 November 2002).

<sup>73.</sup> Gutierrez, Eric and Marites Danguilan-Vitug, 'ARMM after the Peace Agreement' in Gutierrez et al (2000).

<sup>74.</sup> The relationship between private-sector activity and conflict varies depending on type of activity and conflict context. Some forms of private-sector activity have been shown to flourish during conflict, in particular conflict-dependent industries such as the arms trade, and other forms of commodity and other trade that can emerge and become self-sustaining in conflict economies (Collier and Hoeffler, 2001; Le Billon *et al*, 2002). Some national economies have also been known to prosper through war – for instance the USA during both world wars. The bulk of mainstream legitimate private-sector activity is negatively affected during conflict however.

<sup>75.</sup> This argument is proposed in a report jointly published in 2000 by International Alert, the Prince of Wales International Business Leaders' Forum, and the Council on Economic Priorities: Nelson J. *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution* (London: International Alert, International Business Leaders Forum, Council of Economic Priorities).

<sup>76.</sup> This list is based on research conducted by International Alert. The typology will be developed as part of a large research project on this theme in the coming year.

<sup>77.</sup> Companies registered as pioneering with the Board of Investments enjoy, among other incentives, a 20-year tax holiday.

<sup>78.</sup> From an interview with an LFI supervisor, LFI Office, Brgy. Digal, Buluan Maguindanao.

<sup>79.</sup> 'Japan Commends PP23', *KULINTANG* Vol. 1 & 4, Period 8 & 9, FY1999. (*KULINTANG* is the official publication of LFI.)

<sup>80.</sup> *Ibid.*

<sup>81.</sup> Hercedo Noel H. 'Where are the Boxes, Tiro?' *KULINTANG*, Vol. 1 & 4, Period 8 & 9, FY 1999–2000.

<sup>82.</sup> 'La Frutera's Invasion of Datu Paglas, Agri-Asia Feature, *KULINTANG* Period 3 & 4, FY 2001.

<sup>83.</sup> Mindanao is separated into regions known as: Western Mindanao (Region IX), Northern Mindanao (Region X), Southern Mindanao (Region XI), Central Mindanao (Region XII), ARMM and Caraga. The regions are referred to by their names and region numbers interchangeable throughout the report.

<sup>84.</sup> Caraga is the newest administrative region of the Philippines. It was created on February 23rd 1995, through Republic Act No. 7901. However, prior to 1997, Caraga has been included in Regions X and XI as there is no separate data available from the National Statistics Office.

<sup>85.</sup> The Aggregate of the Gross Value Added is equivalent to the Gross Regional Domestic Product (GRDP).

<sup>86.</sup> According to the NSCB, services, which are considered as Private Services, are: educational, medical and health, business, recreational, personal, hotel and restaurant, etc.

<sup>87.</sup> Similarly, all services being rendered by the government fall under Public Services.

<sup>88.</sup> These GDP figures do not exactly match those in Table 1 due to rounding of totals.

<sup>89.</sup> The national road density is derived by dividing the total length of road network by the total land area.

<sup>90.</sup> Investments that are classified into 'several locations' are those investments of a project whose branches/subsidiaries are not just confined in one region.

<sup>91.</sup> Investments that are classified into 'not indicated' are those investments that have been registered but are not in operation on the ground yet, thus the exact location of investment is still to be identified.

<sup>92.</sup> This represents the exported commodities that do not feature in the existing commodity classification, or are 'not elsewhere specified'.

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**Table 1a: Gross Domestic Product by Region at constant (1985) prices, 1994–2000**

(Pesos million)	1994	1995	1996	1997	1998	1999	2000
<b>Philippines</b>	766,368	802,224	849,121	893,151	888,001	918,161	954,962
<b>Luzon</b>	497,135	524,812	551,523	585,923	583,782	603,021	626,947
<b>Visayas</b>	129,800	133,441	142,338	147,594	144,137	150,278	154,988
<b>Mindanao<sup>83</sup></b>	141,656	147,470	155,260	159,634	160,082	164,862	173,027
<b>Western Mindanao</b>	21,125	21,813	24,702	24,909	25,493	25,662	27,001
<b>Northern Mindanao</b>	37,726	41,866	42,752	39,736	34,192	34,876	36,515
<b>Southern Mindanao</b>	52,570	53,501	55,929	48,541	55,141	56,832	60,275
<b>Central Mindanao</b>	20,815	22,174	23,491	24,135	23,656	24,686	25,721
<b>ARMM</b>	7,420	8,116	8,386	8,582	8,775	9,207	9,179
<b>Caraga<sup>84</sup></b>	n/a	n/a	n/a	13,731	12,825	13,599	14,336

**Table 1b: Annual Growth of Gross Domestic Product at constant (1985) prices, 1995–2000**

(%)	1995	1996	1997	1998	1999	2000	Average
<b>Philippines</b>	4.68	5.85	5.19	(0.58)	3.40	4.01	3.76
<b>Luzon</b>	5.57	5.09	6.24	(0.37)	3.30	3.97	3.97
<b>Visayas</b>	2.81	6.67	3.69	(2.34)	4.26	3.13	3.04
<b>Mindanao</b>	4.10	5.28	2.82	0.28	2.99	4.95	3.69
<b>Western Mindanao</b>	3.26	13.24	0.84	2.34	0.66	5.22	4.26
<b>Northern Mindanao</b>	5.39	2.12	(7.05)	(13.95)	2.00	4.70	(0.32)
<b>Southern Mindanao</b>	1.77	4.54	(13.21)	13.60	3.07	6.06	2.64
<b>Central Mindanao</b>	6.53	5.94	2.74	(1.98)	4.35	4.19	4.03
<b>ARMM</b>	9.38	3.33	2.34	2.25	4.92	(0.30)	3.65
<b>Caraga</b>	n/a	n/a	n/a	(6.60)	6.04	5.42	1.62

**Table 1c: Distribution of Gross Domestic Product at constant (1985) prices, 1994–2000**

(%)	1994	1995	1996	1997	1998	1999	2000
<b>Philippines</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>Luzon</b>	64.87	65.42	64.95	65.60	65.74	65.68	65.65
<b>Visayas</b>	16.94	16.63	16.76	16.53	16.23	16.37	16.23
<b>Mindanao</b>	18.48	18.38	18.28	17.87	18.03	17.96	18.12
<b>Western Mindanao</b>	2.76	2.72	2.91	2.79	2.87	2.79	2.83
<b>Northern Mindanao</b>	5.18	5.22	5.03	4.45	3.85	3.80	3.82
<b>Southern Mindanao</b>	6.86	6.67	6.59	5.43	6.21	6.19	6.31
<b>Central Mindanao</b>	2.72	2.76	2.77	2.70	2.66	2.69	2.69
<b>ARMM</b>	0.97	1.01	0.99	0.96	0.99	1.00	0.96
<b>Caraga</b>	n/a	n/a	n/a	1.54	1.44	1.48	1.50

Sources: National Statistical Coordination Board (NSCB). 2001 Philippine Statistical Yearbook, July 2001.

**Table 1d: Per capita Gross Regional Domestic Product, 2001 (pesos)**

<b>National average</b>	45,453
<b>Region IX</b>	24,168
<b>Region X</b>	45,221
<b>Region XI</b>	36,929
<b>Region XII</b>	32,598
<b>Caraga</b>	21,326
<b>ARMM</b>	14,156

Source: National Statistical Coordination Board (NSCB). Philippine Statistical Yearbook 2002

**Table 2a: Mindanao, Gross Value Added<sup>85</sup> by sector at constant (1985) prices, 1994–2000**

(Pesos million)	1994	1995	1996	1997	1998	1999	2000
<b>Agriculture</b>	60,956	59,084	61,394	61,553	59,100	60,570	64,714
<b>Agriculture and Fishery</b>	58,605	58,110	60,217	60,797	58,332	60,134	63,935
<b>Forestry</b>	2,350	974	1,178	756	768	436	779
<b>Industry</b>	35,783	38,701	42,236	42,955	44,985	44,258	47,182
<b>Mining and Quarrying</b>	2,262	2,919	2,666	2,852	3,289	2,872	3,109
<b>Manufacturing</b>	24,219	25,022	27,236	27,657	27,814	27,956	31,037
<b>Construction</b>	6,729	7,811	9,174	9,173	10,547	9,973	9,424
<b>Electricity, Gas, Water</b>	2,574	2,949	3,160	3,274	3,334	3,457	3,612
<b>Services</b>	47,267	49,685	52,514	55,427	56,681	58,845	61,132
<b>Transport, Communication, Storage</b>	4,667	4,925	5,206	5,476	5,725	5,983	6,367
<b>Trade</b>	22,706	23,892	25,238	26,633	27,008	28,505	29,909
<b>Finance</b>	1,095	1,133	1,273	1,700	1,422	1,442	1,470
<b>Ownership of Dwellings &amp; Real Estate</b>	8,687	8,928	9,262	9,562	9,647	9,703	9,699
<b>Private services<sup>86</sup></b>	4,681	4,878	5,175	5,447	5,788	5,947	6,185
<b>Government services<sup>87</sup></b>	5,431	5,928	6,361	6,6100	7,092	7,265	7,502
<b>Gross domestic product<sup>88</sup></b>	144,006	147,469	156,144	159,935	160,766	163,673	173,027

**Table 2b: Mindanao, Gross Regional Domestic Product: percentage breakdown by sector, 1994–2000**

(%)	1994	1995	1996	1997	1998	1999	2000
<b>Agriculture</b>	42.33	40.07	39.32	38.49	36.76	37.01	37.40
<b>Agriculture and Fishery</b>	40.70	39.40	38.56	38.01	36.28	36.74	36.95
<b>Forestry</b>	1.63	0.66	0.75	0.47	0.48	0.27	0.45
<b>Industry</b>	24.85	26.24	27.05	26.86	27.98	27.04	27.27
<b>Mining and Quarrying</b>	1.57	1.98	1.71	1.78	2.05	1.75	1.80
<b>Manufacturing</b>	16.82	16.97	17.44	17.29	17.30	17.08	17.94
<b>Construction</b>	4.67	5.30	5.88	5.74	6.56	6.09	5.45
<b>Electricity, Gas, Water</b>	1.79	2.00	2.02	2.05	2.07	2.11	2.09
<b>Services</b>	32.82	33.69	33.63	34.66	35.26	35.95	35.33
<b>Transport, Communication, Storage</b>	3.24	3.34	3.33	3.42	3.56	3.66	3.68
<b>Trade</b>	15.77	16.20	16.16	16.65	16.80	17.42	17.29
<b>Finance</b>	0.76	0.77	0.82	1.06	0.88	0.88	0.85
<b>Ownership of Dwellings &amp; Real Estate</b>	6.03	6.05	5.93	5.98	6.00	5.93	5.61
<b>Private services</b>	3.25	3.31	3.31	3.41	3.60	3.63	3.57
<b>Government services</b>	3.77	4.02	4.07	4.13	4.41	4.44	4.34
<b>Gross domestic product</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00

**Table 2c: Mindanao, Gross Regional Domestic Product: annual growth by sector, 1995–2000**

(%)	1995	1996	1997	1998	1999	2000
<b>Agriculture</b>	-3.07	3.91	0.26	-3.99	2.49	6.84
<b>Agriculture and Fishery</b>	-0.85	3.63	0.96	-4.05	3.09	6.32
<b>Forestry</b>	-58.57	20.93	-35.82	1.55	-43.20	78.64
<b>Industry</b>	8.15	9.13	1.70	4.72	-1.62	6.61
<b>Mining and Quarrying</b>	29.05	-8.66	6.99	15.32	-12.69	8.26
<b>Manufacturing</b>	3.32	8.85	1.55	0.57	0.51	11.02
<b>Construction</b>	16.09	17.45	-0.02	14.99	-5.45	-5.50
<b>Electricity, Gas, Water</b>	14.57	7.15	3.60	1.85	3.68	4.48
<b>Services</b>	5.12	5.70	5.55	2.26	3.82	3.89
<b>Transport, Communication, Storage</b>	5.53	5.70	5.19	4.54	4.51	6.43
<b>Trade</b>	5.22	5.63	5.53	1.41	5.55	4.92
<b>Finance</b>	3.54	12.31	33.51	-16.36	1.43	1.92
<b>Ownership of Dwellings &amp; Real Estate</b>	2.78	3.74	3.24	0.90	0.58	-0.04
<b>Private services</b>	4.20	6.09	5.26	6.27	2.75	3.99
<b>Government services</b>	9.15	7.30	3.90	7.30	2.44	3.26
<b>Gross domestic product</b>	2.41	5.88	2.43	0.52	1.81	5.72

Source: National Statistical Coordination Board (NSCB). 2001 Philippine Statistical Yearbook, July 2001.

**Table 3a: Road density and pavement ratio, 1999**

	Total land area (km <sup>2</sup> )	National road density (km/km <sup>2</sup> ) <sup>89</sup>	Paved road (%)				
			National	Provincial	City	Municipal	Barangay
<b>Philippines</b>	300,000.3	0.10	57.62	20.44	75.28	34.10	6.59
<b>Luzon</b>	141,395.2	0.17	60.61	32.36	79.14	40.74	11.39
<b>Visayas</b>	56,616.2	0.13	61.84	16.24	60.54	47.18	4.64
<b>Mindanao</b>	101,998.7	0.07	47.73	9.28	76.93	16.75	2.28
<b>IX</b>	15,997.2	0.07	46.32	4.14	89.87	20.48	4.44
<b>X</b>	14,032.9	0.10	54.53	6.02	43.91	21.73	2.41
<b>XI</b>	27,140.7	0.07	53.83	17.69	50.14	14.56	1.20
<b>XII</b>	14,538.8	0.07	48.56	3.45	59.10	10.36	1.91
<b>Caraga</b>	18,847.0	0.07	41.15	6.33	50.15	25.59	2.50
<b>ARMM</b>	11,442.2	0.06	31.40	5.69	100.0	3.88	1.57

Source of Basic Data: Department of Public Works and Highways Central Office, 2000. Unpublished material.

**Table 3b: Mindanao, irrigation development as percentage of potentially irrigable area, 2001**

<b>National average</b>	43.9
<b>Region IX</b>	46.1
<b>Region X</b>	36.8
<b>Region XI</b>	33.5
<b>Region XII</b>	27.1
<b>Caraga</b>	23.7
<b>ARMM</b>	13.9

Source: National Statistical Coordination Board. 2002 Philippine Statistical Yearbook.

**Table 4a: BOI-approved local equity investment, 1992–2001**

(pesos million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average	%
<b>Philippines</b>	20,239	18,402	96,051	59,128	86,081	129,732	44,475	19,238	10,288	45,635	52,927	100
<b>Luzon</b>	5,754	8,766	52,453	16,496	17,717	41,203	3,941	13,675	9,393	9,396	17,879	34
<b>Visayas</b>	1,974	2,148	15,715	3,813	1,857	9,092	8,977	120	173	311	4,418	8
<b>Mindanao</b>	11,985	7,384	7,558	2,016	5,365	5,406	9,483	1,156	436	600	5,139	10
<b>Several Locations<sup>90</sup></b>	456	104	6,443	28,508	61,013	71,127	22,074	4,288	7	35,328	22,935	43
<b>Not Indicated<sup>91</sup></b>	70	0	13,882	8,295	128	2,904	0	0	278	0	2,556	5

**Table 4b: Mindanao, BOI-approved local equity investment, 1992–2001**

(pesos million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average
<b>Mindanao</b>	11,985	7,384	7,558	2,016	5,365	5,406	9,483	1,156	436	600	5,139
<b>Region IX</b>	55	202	1,642	24	777	70	8,555	111	0	77	
<b>Region X</b>	10,395	4,226	2,438	764	234	3,027	665	120	58	193	
<b>Region XI</b>	1,146	1,624	975	585	3,270	1,821	252	226	364	300	
<b>Region XII</b>	60	827	1,631	60	760	223	2	97	0	0	
<b>Region XIII</b>	51	503	873	583	325	265	9	602	15	30	
<b>ARMM</b>	278	2	0	0	0	0	0	0	0	0	

**Table 4c: Growth in BOI-approved local equity investment, 1993–2001**

(%)	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average
<b>Philippines</b>	-9	422	-38	46	51	-66	-57	-47	344	72
<b>Mindanao</b>	-38	2	-73	166	1	75	-88	-62	37	2

Source: Mindanao Economic Development Council. 2001 Mindanao Development Statistics. Unpublished material.

**Table 5a: BOI-approved foreign equity investment, 1992–2001**

(pesos million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average	%
<b>Philippines</b>	5,597	13,158	62,725	48,112	24,508	53,833	36,432	19,623	6,378	18,296	28,866	100
<b>Luzon</b>	3,936	6,301	46,697	28,997	22,042	15,643	21,589	18,939	4,921	6,967	17,603	61
<b>Visayas</b>	1,062	4,609	6,360	325	82	552	1,325	63	1,187	68	1,563	5
<b>Mindanao</b>	541	2,046	2,417	348	1,225	816	5,756	396	82	171	1,380	5
<b>Several Locations</b>	19	202	3,926	3,802	22	36,793	7,762	226	0	10,940	6,369	22
<b>Not Indicated</b>	41	0	3,324	14,641	1,136	29	0	0	188	151	1,951	7

**Table 5b: Mindanao, BOI-approved foreign equity investment, 1992–2001**

(pesos million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Mindanao</b>	541	2,046	2,417	348	1,225	816	5,756	396	82	171
<b>Region IX</b>	15	1	1,070	1	197	7	5,698	71	9	0
<b>Region X</b>	76	1,094	192	309	147	630	33	124	0	154
<b>Region XI</b>	118	876	57	35	873	95	23	7	63	17
<b>Region XII</b>	170	0	1,065	0	0	84	0	14	0	0
<b>Region XIII</b>	13	74	33	2	8	1	1	180	9	0
<b>ARMM</b>	150	1	0	0	0	0	0	0	0	0

**Table 5c: Growth in BOI-approved foreign equity investment, 1993–2001**

(%)	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average
<b>Philippines</b>	135	377	-23	-49	120	-32	-46	-67	187	67
<b>Mindanao</b>	278	18	-86	253	-33	605	-93	-79	108	108

Source: Mindanao Economic Development Council. 2001 Mindanao Development Statistics. Unpublished material.

**Table 6a: Cost of BOI-approved projects, 1992–2001**

(pesos million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average	%
<b>Philippines</b>	93,397	90,767	465,809	335,465	414,345	569,059	267,368	101,463	41,765	100,999	248,044	100
<b>Luzon</b>	24,215	36,210	273,375	119,231	130,033	143,489	122,315	91,873	33,875	27,605	100,222	40
<b>Visayas</b>	8,641	25,276	61,655	19,420	10,128	26,269	12,255	561	5,960	1,054	17,122	7
<b>Mindanao</b>	59,630	28,557	37,723	6,783	19,181	19,140	17,766	3,011	921	2,309	19,502	8
<b>Several Locations</b>	785	708	30,175	116,883	242,075	360,861	113,618	6,018	0	69,881	94,100	38
<b>Location Not Indicated</b>	126	17	62,881	73,148	12,928	19,299	1,414	0	1,010	151	17,097	7

**Table 6b: Mindanao, Cost of BOI-approved projects, 1992–2001**

(pesos million)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Mindanao</b>	59,630	28,557	37,723	6,783	19,181	19,140	17,766	3,011	921	2,309
<b>Region IX</b>	127	332	10,738	1,445	3,447	377	14,841	197	9	95
<b>Region X</b>	54,488	19,688	8,196	1,545	1,600	11,368	2,328	626	83	1,265
<b>Region XI</b>	2,658	5,224	3,373	2,770	10,998	5,651	552	342	804	836
<b>Region XII</b>	766	1,690	13,091	213	2,660	865	6	222	0	0
<b>Region XIII</b>	163	1,611	2,324	810	475	879	40	1,623	24	113
<b>ARMM</b>	1,428	11	0	0	0	0	0	0	0	0

**Table 6c: Growth in cost of BOI-approved projects, 1993–2001**

(%)	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	Average
<b>Philippines</b>	-3	413	-28	24	37	-53	-62	-59	142	46
<b>Mindanao</b>	-52	32	-82	183	0	-7	-83	-69	151	8

Source: Mindanao Economic Development Council. 2001 Mindanao Development Statistics. Unpublished material.

**Table 7: Mindanao exports, 1991–2001**

Year	Volume (in million kg)	Value (FOB in million US\$)
<b>1991</b>	8,291	993
<b>1992</b>	7,129	1,081
<b>1993</b>	7,455	1,060
<b>1994</b>	8,288	1,230
<b>1995</b>	8,770	1,487
<b>1996</b>	7,703	1,375
<b>1997</b>	8,955	1,441
<b>1998</b>	7,572	1,309
<b>1999</b>	8,328	1,084
<b>2000</b>	9,763	1,299
<b>2001</b>	10,488	1,229
<b>Total</b>	92,741	13,579
<b>Average</b>	8,431	1,234

Source: GEM Indicators Baseline Report Update. March 2002. Vol. 2, pp. 232-241. Mindanao Economic Development Council. 2002 Mindanao Development Statistics. Unpublished material.

**Table 8: Mindanao exports, 2000**

	<b>Gross weight (Kg)</b>	<b>FOB value (US \$)</b>	<b>%</b>
<b>Total Exports</b>	9,762,937,988	1,298,692,470	100.00
<b>Percentage of Philippine Exports</b>	n/a	3.41	
<b>Leading Exports</b>	7,321,165,530	991,958,549	76.38%
<b>Bananas (Inclgd Plantains), Fresh</b>	1,596,157,188	290,075,320	22.34%
<b>Coconut (Copra) Oil, Crude</b>	652,417,962	283,550,571	21.83%
<b>Coconut (Copra) Oil, Refined &amp; Its Fractions</b>	203,159,267	105,044,809	8.09%
<b>Export of Finishd Prods, Manufd from Mat'l on Consign Basis</b>	3,858,806,383	77,526,626	5.97%
<b>Pineapple, Othws Preprd/Preserved</b>	213,221,050	76,612,860	5.90%
<b>Tuna, Whole/In Pieces, Not Mincd</b>	35,499,289	51,889,442	4.00%
<b>Pineapple Juice Concentrates</b>	108,884,636	36,266,972	2.79%
<b>Pineapples, Fresh</b>	135,376,238	24,584,732	1.89%
<b>Shrimps &amp; Prawns, Frozen</b>	3,102,776	23,856,884	1.84%
<b>Oil-Cakes &amp; Other Solid Residues, oil extraction for coconut/copra</b>	514,540,741	22,550,333	1.74%

Source: *Mindanao Economic Development Council. 2001 Mindanao Development Statistics*. Unpublished material.

**Table 9: Mindanao export markets, 2000**

	<b>Gross weight (kg)</b>	<b>FOB value (US \$)</b>	<b>%</b>
<b>Total Exports</b>	9,762,937,988	1,298,692,470	100.00
<b>Japan (Excludes Okinawa)</b>	5,622,302,244	393,398,182	30.29
<b>United States</b>	808,565,107	329,205,581	25.35
<b>Netherlands</b>	408,673,382	150,661,193	11.60
<b>China, people's rep.</b>	327,986,868	66,284,895	5.10
<b>South Korea</b>	515,274,156	65,617,083	5.05
<b>Taiwan</b>	299,518,978	54,187,030	4.17
<b>Singapore</b>	289,879,281	38,968,772	3.00
<b>Hong Kong</b>	231,920,896	25,335,257	1.95
<b>Canada</b>	29,721,863	19,745,905	1.52
<b>United Arab Emirates, n.e.s.<sup>32</sup></b>	99,899,350	17,601,220	1.36

Source: *Mindanao Economic Development Council. 2001 Mindanao Development Statistics*. Unpublished material.



**Table 10: Mindanao, foreign trade by region, 1994–2000**

(% of FOB value in US\$)	1994	1995	1996	1997	1998	1999	2000	Average
<b>TOTAL TRADE</b>								
Region IX	10.13	11.08	10.14	13.46	11.19	8.36	9.68	10.58
Region X	30.95	27.24	24.55	24.07	24.73	27.90	28.88	26.90
Region XI	42.20	37.03	44.94	42.06	46.37	51.69	51.09	45.05
Region XII	16.50	23.88	17.45	17.60	15.13	9.12	8.32	15.43
Caraga	n/a	n/a	2.66	2.31	1.80	2.94	1.78	2.30
ARMM	0.21	0.78	0.27	0.49	0.79	0.01	0.24	0.40
Mindanao	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>EXPORTS</b>								
Region IX	15.85	16.11	13.81	16.52	13.66	10.32	13.21	14.21
Region X	26.13	27.96	20.67	20.96	18.91	20.27	21.06	22.28
Region XI	47.40	42.07	52.52	49.49	53.20	59.62	55.73	51.43
Region XII	10.30	12.97	10.68	10.88	12.50	7.92	8.09	10.48
Caraga	n/a	n/a	1.87	1.36	0.99	1.87	1.88	1.59
ARMM	0.32	0.89	0.44	0.79	0.74	0.01	0.04	0.46
Mindanao	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>IMPORTS</b>								
Region IX	2.53	2.84	4.07	8.47	6.83	5.13	2.75	4.66
Region X	37.37	26.05	30.95	29.16	35.21	40.45	44.28	34.78
Region XI	35.29	28.75	32.41	29.95	34.40	38.63	41.98	34.49
Region XII	24.74	41.77	28.62	28.55	19.89	11.09	8.76	23.35
Caraga	n/a	n/a	3.95	3.86	2.80	4.70	1.58	3.38
ARMM	0.07	0.59	0.00	0.01	0.87	0.00	0.65	0.31
Mindanao	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Mindanao Economic Development Council. 2001 Mindanao Development Statistics. Unpublished material.

**Table 11: Mindanao, trade with EAGA Countries, 1994–2000**

(US\$ FOB)	1994	1995	1996	1997	1998	1999	2000
<b>EXPORTS</b>							
Brunei Darussalam	750	6,094	11,328	25,386	141,353	264,795	41,355
Indonesia	18,182,195	55,004,013	47,835,694	40,033,246	27,628,695	1,908,971	12,367,593
Malaysia	26,729,435	24,709,317	16,504,396	14,961,947	6,232,292	4,858,173	29,559,518
Sabah & Sarawak	1,220,663	53,282	3,021	-	-	373,738	-
TOTAL	46,133,043	79,772,706	64,354,439	55,020,579	34,002,340	7,405,677	41,968,466
<b>IMPORTS</b>							
Brunei Darussalam	1,338,463	-	-	-	-	-	-
Indonesia	12,388,716	22,352,248	27,237,410	19,797,028	16,853,845	38,850,912	29,135,229
Malaysia	20,362,243	19,965,499	35,688,946	31,402,784	23,960,135	39,742,379	35,481,780
Sabah & Sarawak	3,669,840	7,583,001	4,074,488	1,832,289	-	2,476,553	5,761,901
TOTAL	37,759,262	49,900,748	67,000,844	53,032,101	40,813,980	81,069,844	70,378,910
<b>TOTAL TRADE</b>							
Brunei Darussalam	1,339,213	6,094	11,328	25,386	141,353	264,795	41,355
Indonesia	30,570,911	77,356,261	75,073,104	59,830,274	44,482,540	40,759,883	41,502,822
Malaysia	47,091,678	44,674,816	52,193,342	46,364,731	30,192,427	44,600,552	65,041,298
Sabah & Sarawak	4,890,503	7,636,283	4,077,509	1,832,289	-	2,850,291	5,761,901
TOTAL	83,892,305	129,673,454	131,355,283	108,052,680	74,816,320	88,475,521	112,347,376
<b>BALANCE OF TRADE</b>							
Brunei Darussalam	(1,337,713)	-	-	-	-	-	-
Indonesia	5,793,479	32,651,765	20,598,284	20,236,218	10,774,850	(36,941,941)	(16,767,636)
Malaysia	6,367,192	4,743,818	(19,184,550)	(16,440,837)	(17,727,843)	(34,884,206)	(5,922,262)
Sabah & Sarawak	(2,449,177)	(7,529,719)	(4,071,467)	-	-	(2,102,815)	-
TOTAL	8,373,781	29,871,958	(2,646,405)	1,988,478	(6,811,640)	(73,664,167)	(28,410,444)

Source: Mindanao Economic Development Council. 2001 Mindanao Development Statistics. Unpublished material.

**Table 12: Selected infrastructure facilities, % allocation**

Infrastructure Facility	Luzon	Visayas	Mindanao
% Paved Road (National Roads, 2000)	68	63	48
% Paved Road (Local Roads, 2000)	23	11	6
% Irrigated Area	52	45	29
% DPWH Infrastructure Program Budget (1992–98)	56	21	23
% DPWH Infrastructure Program Budget (1999–2002)	52	22	27
% DPWH Infrastructure Program Budget (2003–2004)	56	17	27
% PPA Program (1999–2004)	25	32	25

Source of Basic Data: Department of Public Works and Highways (DPWH) Central Office Statistics, 2001. Unpublished material.

Table 13 compares poverty incidence in different regions in Mindanao. Table 14 shows the considerable variation within the ARMM. It should be noted that the two sources use different ways of calculating poverty incidence.

**Table 13: Poverty incidence in Mindanao, by region**

	Percentage of families with per capita income below the poverty threshold		Percentage of population with income below the poverty threshold	
	1997	2000	1997	2000
Region IX	31.9	38.3	37.1	44.5
Region X	37.8	32.9	43.3	38.7
Region XI	31.1	31.5	37.1	36.5
Region XII	45.3	48.4	51.6	55.3
ARMM	50.0	57.0	55.6	62.9
Caraga	44.7	42.9	51.0	50.2

Source: National Statistical Coordination Board website, 2003

**Table 14: Poverty in predominantly Muslim provinces**

	Poverty incidence % of population in poverty		Poverty depth (how far incomes fall below poverty line, as percentage of the poverty threshold)	
	1997	2000	1997	2000
Philippines (national average)	25.1	27.5	6.4	7.2
Lanao del Sur	40.8	48.1	10.4	9.7
Maguindanao	24.0	36.2	4.0	9.2
Sulu	87.5	92.0	33.1	37.3
Tawi-Tawi	52.1	75.3	13.4	25.8
Basilan	50.2	63.0	5.9	16.7

Source: Philippine Human Development Report 2002, cited in *Social Assessment of Conflict-Affected Areas*, World Bank, 2003.

**Table 15: Mindanao, average annual per capita income, by province**

	Average annual per capita income, in 1997 pesos	
	1997	2000
Lanao del Sur	16,145	15,936
Maguindanao	21,915	19,967
Sulu	8,994	7,850
Tawi-Tawi	19,794	11,349
Basilan	22,269	13,193

Source: Philippine Human Development Report 2002, cited in *Social Assessment of Conflict-Affected Areas*, World Bank, 2003.

**Table 16: Selected social indicators in Mindanao**

	Reg IX	Reg X	Reg XI	Reg XII	ARMM	Caraga
<b>Crude Death Rate (deaths per 1,000 population, 1998)</b>	6.4	6.4	5.9	6.3	9.8	n.d.
<b>Share of Country's Health Workers (% , 1997)</b>	9.0	8.9	6.5	7.1	4.3	5.6
<b>Share of Country's Public and Private Health Facilities (% , 1995)</b>	4.4	4.8	3.7	4.4	1.8	3.6
<b>Proportion of population with access to safe water (% , 1995)</b>	61.3	65.0	71.5	45.8	67.9	24.5
<b>Proportion of population with access to electricity (% , 1995)</b>	46.7	42.3	42.9	28.0	42.4	21.9
<b>Proportion of population with access to toilet facility (% , 1995)</b>	91.2	85.3	88.0	79.6	92.7	74.1
<b>Proportion of population using health care when sick (% , 1995)</b>	43.4	31.3	34.0	36.9	48.8	43.4
<b>Participation in public &amp; private education at elementary level (% change 1997–98 &amp; 1999–2000)</b>	4.09	-1.32	4.35	17.53	2.46	-1.94
<b>Participation in public &amp; private education, secondary level (% change 1997–98 &amp; 1999–2000)</b>	-3.40	10.11	4.43	-16.73	40.82	-5.77
<b>Cohort Survival Rate (public &amp; private, elementary level) (% change 1997–98 &amp; 1999–2000)</b>	3.18	0.25	-1.31	6.70	4.92	2.71
<b>Cohort Survival Rate (public &amp; private, secondary level) (% Change 1997–98 &amp; 1999–2000)</b>	-11.84	5.10	-1.55	-7.66	20.82	22.13
<b>Percentage passing Science &amp; technology scholarship exam (1999)</b>	3.32	3.24	6.14	3.86	1.09	4.00
<b>Successful Examinees, Licensure Exam for Teachers (1998) (%)</b>	17.39	21.53	29.87	18.21	5.24	19.95

Sources: Department of Health 1999 Updates on Philippine Health Statistics. Unpublished material.

Department of Education, Culture & Sports Statistics. Unpublished material.

Mindanao Economic Development Council, 2001 Mindanao Development Statistics. Unpublished material.

**Table 17: Mindanao, poverty incidence: percentage of families in poverty**

	1991	2000
<b>National average</b>	39.9	33.7
<b>Region IX</b>	49.7	46.6
<b>Region X</b>	53.0	45.7
<b>Region XI</b>	46.2	40.0
<b>Region XII</b>	57.0	51.1
<b>ARMM</b>	50.7	66.0

Source: Philippine Statistical Yearbook 2002, National Statistical Office

Note: The figures for 2000 given in the Statistical Yearbook 2002 differs from those cited in Table 12 above and published on the NSCB website in 2003 because in January 2003 the NSCB adopted a different method of calculating poverty. The older calculation method is given here to enable comparison with 1991.

# Notes

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