

## Ensuring the success of agribusiness ventures in the Philippines

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The country's agricultural lands, specifically crop plantations, have been traditionally owned by influential Filipino families and large agrocorporations (FAO 2016). This setup has since led to social unrest, especially in the rural communities, as many farmers have remained landless and poor despite their contributions to the agricultural productivity.

To address these issues, the Philippine government enacted the Comprehensive Agrarian Reform Law in 1988 as the legal basis for the Comprehensive Agrarian Reform Program (CARP). The said law aimed to advance equitable land distribution in the country by granting landless farmers and farmworkers land ownership and imposing a 5-hectare limit on traditional land owners (DAR 2013). It also mandated the government to provide support services to agrarian reform beneficiaries (ARBs) geared toward their development and the sustainability of their agricultural lands.

However, the government support to farmers of high-value crops (HVCs), such as banana, pineapple, and sugarcane, has been insufficient and ARBs were

enticed to enter into business engagements to boost their income (FAO 2016). One of these arrangements is the agribusiness venture arrangement (AVA), which covered awarded lands planted to HVCs, primarily bananas and pineapple. Meanwhile, sugarcane farmers affiliated with cooperatives have enrolled in the sugarcane block farming (SBF) to consolidate their operations and attain economies of scale.

This *Policy Note* analyzes the elements of a successful implementation of AVAs and SBF in the country. It also includes a framework useful in the future assessments of the said agribusiness ventures.

### **Agribusiness venture arrangements**

AVAs are collaborations between the ARBs and the private sector to implement an agribusiness venture using agrarian land (DAR 2013). These agreements began in the late 1980s with the lands owned by the National Development Company.

The Department of Agrarian Reform (DAR), in its Administrative Order (AO) 1998-09, identified six AVAs, namely, (1) the joint venture agreement, (2)

the lease agreement, (3) the growership arrangement, (4) the management contract, (5) the production, processing, and marketing agreements, and (6) the build-operate-transfer scheme. It further reinforced AVAs through its AO 1999-02, which laid out the rules and regulations governing joint economic enterprises in agrarian reform areas.

According to the Food and Agriculture Organization (2016), more than three-fourths (77%) of the farms covered by AVAs have entered into three types of lease agreements, namely, lease arrangement, lease contract, and leaseback agreement. Meanwhile, roughly 20 percent have growership agreements (FAO 2016).

As per crops covered, data from DAR (2015) showed that banana (14,501 ha) has the largest area covered by AVAs, closely followed by pineapple (14,185 ha). In terms of number of ARBs, pineapple ranked first at 19,864 ARBs while banana was only second at 14,866 ARBs (DAR 2015). Meanwhile, sugarcane ranked fifth and fourth in terms of area covered and number of ARBs, respectively (DAR 2015).

### **Sugarcane block farming**

On the other hand, SBF<sup>1</sup> aims to increase the productivity of sugarcane farms of the members of agrarian reform beneficiaries organizations (ARBOs)<sup>2</sup> by consolidating their farms into 30–50 hectares (ha) to take advantage of plantation-scale production. The ARBO members who participate in the SBF are called enrollees. Under the said initiative, the DAR identifies and organizes the ARBOs while the Department of Agriculture (DA) provides the necessary irrigation systems and farm-to-market roads (FMRs). Meanwhile,

<sup>1</sup> Conceptualized under the National Convergence Initiative of the DA, DAR, and SRA

<sup>2</sup> These include cooperatives and farmers' associations under the Agrarian Reform Community Connectivity and Economic Support Services project.

the Sugar Regulatory Administration (SRA) assists the DAR in identifying and validating the block farm enrollees and provides technical assistance and extension and capacity-building programs.

The SBF was supposed to adopt a collective management approach, wherein cooperatives take over the management of farm operations from farmer-enrollees. Two modalities were originally espoused under it, namely, the collective landownership<sup>3</sup> with collective management and the individual ownership<sup>4</sup> with collective management.

However, some farmers with individual ownership resisted the collective management approach. Consequently, the DAR allowed the adoption of another SBF arrangement, the individual ownership with individual management modality. In this case, the cooperative acts merely as a consolidator of inputs, other support services, and outputs while the farmer-enrollees are the ones managing their farm operations.

### **The current issues of AVAs and SBF**

Recently, some ARBs, farmers, and other agricultural workers have been calling for the revocation of AVAs, citing, for instance, the one-sided provisions on these agreements (FAO 2016). This consequently stirred lawmakers to file House Bill (HB) 5085 and Senate Bill (SB) 1351, which propose the regulation of the establishment of AVAs, as well as House Resolution 919, which directed the House Committee on Agrarian Reform to conduct an investigation on the impact of the AVAs.

This attention being given by the Congress to AVAs was brought about by claims of farmers that AVAs did not positively affect their income and productivity.

<sup>3</sup> If collective certificate of land ownership awards were issued

<sup>4</sup> If individual certificate of land ownership awards were issued

However, based on the records of the cooperatives interviewed, the productivity of the crops covered under the study had risen and even higher compared to the national statistics.

Furthermore, a comparison of the incomes received by ARBs affiliated with cooperatives before and during AVAs indicates that they are better off with the AVAs. For instance, the incomes of the members of two ARBOs, namely, Tagnanan CARP Beneficiaries Cooperative (TCBC) and Alberto M. Soriano Employees Fresh Fruits Producers Cooperative (AMSEFPCO), have actually improved.

For sugarcane, the ARBs cannot remember their exact income prior the SBF regime. However, most of them claimed they incurred losses as they were unable to apply the recommended inputs due to lack of capital. Nonetheless, each ARB received about PHP 42,100 per year after the implementation of SBF.

These findings indicate that not all AVAs failed. Hence, the question of what factors are essential for an AVA to be successful comes to fore.

### **Conceptual framework for AVAs and SBF**

Figure 1 shows the conceptual framework for the successful implementation of AVAs and SBF. Among others, it points to government assistance, availability of required capital, and provision of production, postproduction, processing, and marketing needs as important elements for a successful AVA. The interplay of these elements eventually affects farm productivity and income as well as the decision of investors to continue investing in said crops and arrangements.

This study conducted a series of focus group discussions (FGDs) and key informant interviews (KIIs) to identify the different stages in the supply chain,

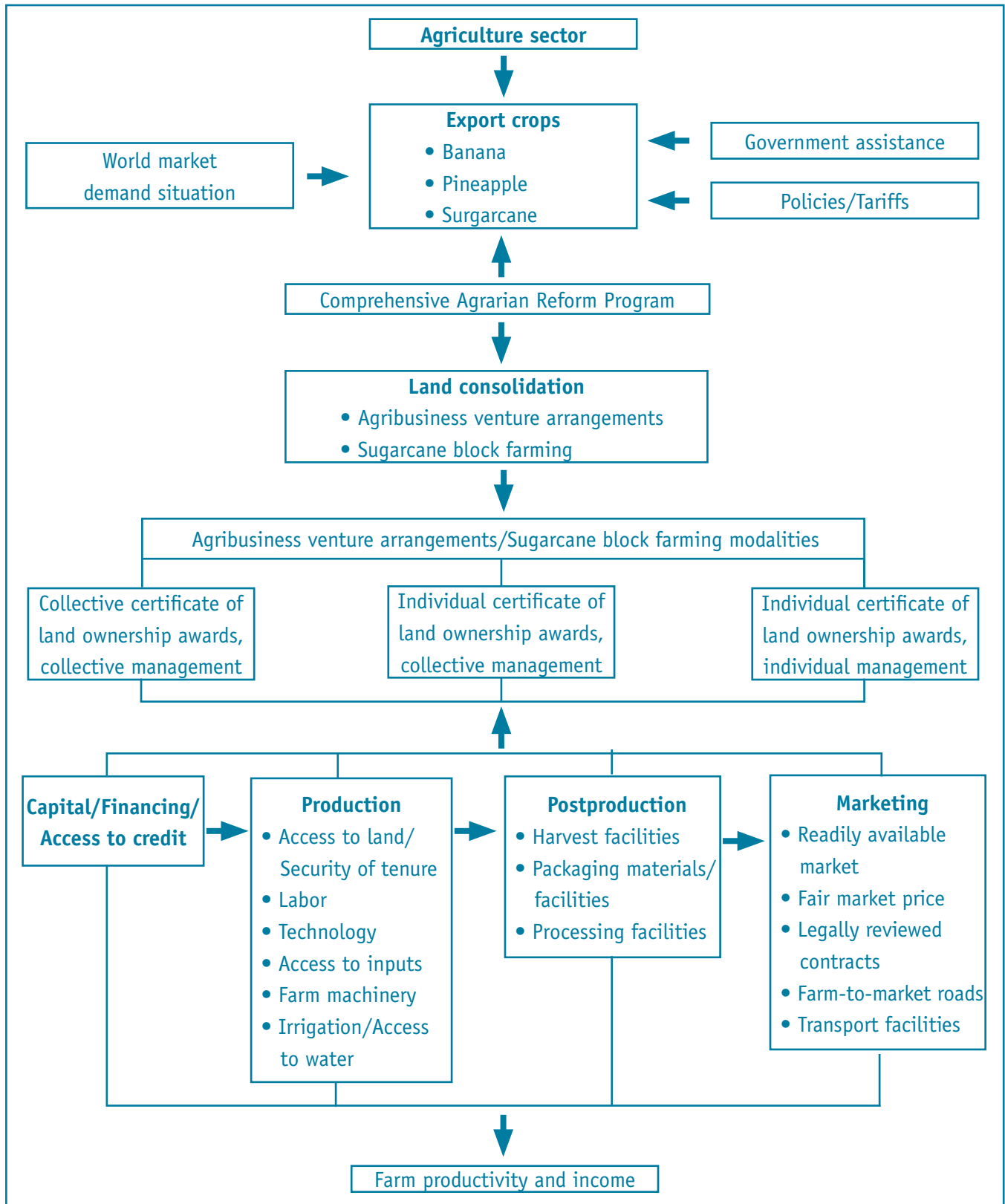
from production to marketing and postproduction activities, which became part of the conceptual framework. For FGDs, it involved the following ARBOs: (1) WADECOR Employees Agrarian Reform Beneficiaries Multi-Purpose Cooperative, (2) AMSEFPCO, (3) TCBC, (4) DOLEFIL Agrarian Reform Beneficiaries Cooperative (DARBC), (5) KAMAHARI Agri-based Multi-Purpose Cooperative, (6) Taludtod Multi-Purpose Cooperative (MPC), and (7) Lucban Multi-Purpose Cooperative. Meanwhile, it conducted KIIs with DAR officials, farmers from Laak, Compostela Valley and Polomolok, South Cotabato, and officials from the private sector, such as Tagum Agricultural Development Co., Inc.; UNIFRUTTI, Philippines, Inc.; SUMIFRU - Philippines, Corp.; and DOLE-Philippines, Inc. (DOLEFIL).

### **Capital requirement**

Financing is a major consideration in going into the production of banana, pineapple, or sugarcane because all these crops require large capital outlay. For instance, the establishment of 1 ha of banana will require about PHP 500,000. Meanwhile, an investor will need PHP 250,000 to put up 1 ha of plant crop of pineapple and PHP 150,000 for the succeeding ratoon crop. The financial requirement for sugarcane is relatively lower at PHP 65,000–PHP 75,000.

This lack of capital was the main reason why ARBs entered into an AVA or SBF. Sadly, not all AVAs and SBF ensure the farmers' financial support. For banana and pineapple under growership, the investors provide financing through the provision of inputs on loan basis. For instance, DOLEFIL provides DARBC its required fertilizers and chemicals which are later on deducted from the proceeds of the sales. Under the leaseback agreements, however, the investors bear all the costs. Under this arrangement, investors also serve as farm operators while the ARBs only receive a fixed rental fee for the use of their land. For sugarcane, loans used to purchase inputs and pay

Figure 1. Conceptual framework for AVAs and SBF



Source: Authors

farm workers are secured from the Philippine Sugar Corporation (PHILSUCOR) or the Land Bank of the Philippines through the cooperatives.

### ***Government assistance, policies, taxes, and tariffs***

Government assistance ensures the growth of HVCs, such as banana, pineapple, and sugarcane. However, among the three, sugarcane seems to receive the largest assistance. Such stronger assistance is clear in terms of institutional support, wherein the government even established the PHILSUCOR and the SRA to provide assistance to the sugarcane industry. This was not done by the government for banana and pineapple. For banana, only the Pilipino Banana Growers and Exporters Association, a private organization, is taking care of the concerns of this industry. Meanwhile, no group oversees the welfare of the pineapple industry.

Moreover, the DAR notably plays a pivotal role in SBF implementation. However, it seems to be taking a less aggressive role in the regulation of AVAs. This is probably because its interventions in AVAs are often not sought given that the investors and ARBs or cooperatives are merely continuing their former linkage prior to CARP.

Recent developments that have impaired the growth of the sugar sector may further explain this government focus on sugarcane. Foremost of which is the importation from China of sugar substitute, specifically corn syrup, which soft drinks manufacturers now use. Such preference to imported inputs may be due to lower Philippine tariffs imposed on imported raw or refined sugar, from 38 percent in 2011 to merely 5 percent in 2015. This lower tariff rate is in line with the Association of Southeast Asian Nations (ASEAN) Trade Goods Agreement which aims to make the region a single market, the ASEAN Economic Community.

In relation to the policies, both HB 5085 and SB 1351 are also expected to have repercussions on the implementation of AVAs and SBF.

First, they will lessen the area that can be cultivated by the investors by setting one third of the land subjected to AVAs strictly under the control of ARBs. Second, they will also truncate the duration of AVAs to 10 years, shorter than the usual 25-year duration of current contracts. Third, they also contain a provision allowing both the ARBs and the Presidential Agrarian Reform Council (PARC) Executive Committee to rescind AVA contracts under certain conditions. Fourth, they will place additional financial burden on investors by stipulating that investors must set aside at least 50 percent of the produce for domestic market in case of food shortage and shall assist the ARBs in disaster relief and rehabilitation efforts. Fifth, they subject the agreements to the approval of PARC, which based on current experiences, takes years to approve the said agreements. Although they may cause apprehensions on the part of the investors, these provisions intend to protect the interest of ARBs and make sure that they control the lands awarded to them.

### ***Production***

Access to land, together with security of tenure, is critical to production. No investor will enter into an agreement if the farmer or cooperative does not have a firm hold over the rights on the land. Sadly, farmers currently face certain issues related to it, according to a survey by the Philippine Statistical Research and Training Institute (2016).

For instance, a bigger share (77%) of non-AVA ARBs own their farms compared to AVA-covered ARBs (65%). Moreover, a higher share of non-AVA ARBs (33%) have individual certificate of land ownership awards (CLOAs) than AVA-covered ARBs (20%), more

than half of whom possess collective CLOAs (52%). This indicates that one of the backlogs that DAR must address among AVA-covered ARBs is the issuance of individual CLOAs.

As a protection to farmers, both parties should have a copy of the written agreements. An evaluation of the current contracts indicates that those that involve cooperatives seem more favorable than those that involve individual ARBs.

For instance, contracts with cooperatives take care of the land amortization payment. For contract under a lease agreement, members get a share of the lease rental every year. Rental rates and other provisions in the contract have also been set to be reviewed every two to five years. Under a growership agreement between an investor and a cooperative, land amortization payment is also accounted for. Buying prices of produce are set based on market prices. Whether arrangements are lease or growership, the duration of the contract is a long-term one normally lasting for 25 years, which ties down the ARBs for a very long period.

Meanwhile, individual ARBs leasing out their farms receive between PHP 15,000 and PHP 30,000 per year without any provision on land amortization payment. Their contracts are also reviewed usually every five years.

To enhance productivity, adoption of new technologies is imperative, and some AVAs provide for this. For instance, under the growership arrangement, technologies adopted or recommended by the investors are transferred to the ARBs or cooperatives. Moreover, to ensure that their recommended technologies are adopted by the ARBs or cooperatives, they provide the inputs through credit basis. The prices of inputs are said to be lower than those sold in the market

because investors can import the inputs directly in bulk. Meanwhile, the needed farm equipment are either rented out by the investor or acquired by the cooperatives with the investor acting as guarantor. The irrigation is also not a problem given that the farms were formerly planted to either banana or pineapple, thus the system or source had already been set up.

Knowledge on, access to, and adoption of modern technologies and access to farm machinery and irrigation are also assured under the lease/leaseback agreement given that investors are operating the lease properties. However, individual farmers or the cooperatives leasing out their lands do not have access to the technology except DARBC, which has two types of agreements with DOLEFIL, namely, lease and growership.

Diseases, such as Sigatoka and Panama, also beset the banana industry and make the production costs of Philippine-produced bananas higher than those from South America. Thus, banana growers must use the appropriate technology to ensure that pests and diseases are controlled.

For the SBF, the knowledge of enrollees on the latest technology is enhanced through the help of agricultural extension service providers contracted by the DAR. As to farm machinery for production and irrigation needs, these were provided to the farmers through the Agrarian Reform Community Connectivity and Economic Support Services. Inputs including fertilizers and pesticides are provided by the cooperatives.

### *Postproduction and marketing*

Postproduction practices vary depending on AVAs. Under a leaseback arrangement, postproduction activities such as harvesting, grading, packaging, and processing are done by the investors who have the necessary equipment for such operations. Under

the growership agreement for both banana and pineapple, harvesting, washing, dehanding, grading, and packing are done by the cooperatives. Meanwhile, it may be hard for individual farmers to afford the equipment and facilities needed for harvesting and postproduction activities.

For pineapples, those for canning are further processed by DARBC in their cannery. DOLEFIL is the market of DARBC, but DOLEFIL markets pineapples, majority of which are canned, abroad. For banana, investors under a leaseback agreement market their produce abroad. Meanwhile, those under growership arrangement go through two stages of marketing. First is at the local level, where the buyer is the investor. The second is at the international level, primarily involving Japan and South Korea, which are also the main markets for investors under a lease agreement.

In the SBF, harvesting is done either by KAMAHARI and Lucban cooperatives, which hire farm laborers to do this said task. However, hiring harvesters in Batangas has become difficult because they are becoming scarce. This can be attributed to the urbanization of Batangas and the preference of the younger generation to work in nonfarm jobs. In fact, most of the farmers' children expected to take over the harvesting have already assumed professional, white-collar, and blue-collar jobs.

For the SBF under collective management, all costs incurred are deducted from the proceeds of the sales except from trucking which is shouldered by the cooperatives. For the SBF under individual management, the ARBs will attend to the harvesting and the transporting of their produce although financial support is extended to the cooperative by PHILSUCOR.

In terms of transporting goods, both AVAs and SBF organizations have access to FMRs. For pineapple,



*Despite the passing of the Comprehensive Agrarian Reform Law, government support to farmers of high-value crops has remained insufficient. This scenario enticed the agricultural reform beneficiaries to enter into agribusiness ventures, such as AVAs and SBF, to boost their income. Still, this study finds that not all AVAs and SBF ensure the farmer's financial support. (StevanBaird/Flickr)*

FMRs have already been built by former plantation operator-owners, such as DOLEFIL. For SBF sites, FMRs have also been built.

Currently, markets are heavily dependent on the global situation. Importation of banana of other countries from the Philippines has declined. Meanwhile, demand for sugar locally is threatened by the corn syrup. This has led to a decline in prices that penalizes local sugar producers by receiving lower revenue.

## Summary

The cited cases show that AVAs and SBF can be successful if essential elements are present. Initially, the ARBs must have the capital to ensure that appropriate production inputs are applied at the right amount and time. For SBF, the DAR should be the one to address the provision of credit, particularly for farmers who were issued individual CLOAs. If government cannot provide the needed capital, it should look into the possibility of providing subsidized inputs to farmers or cooperatives. Meanwhile, in the case of AVAs, the investors should be the one to extend financial assistance to the farmers.

Aside from land, security of tenure, and capital, labor, farm machinery, and irrigation should also be available and accessible. The government should also provide postproduction facilities together with market facilities and infrastructure. Sure markets and stable and optimal prices are likewise critical to ensure profitability. Besides these, government assistance should also be extended and the policy environment should be supportive of AVAs and SBF. Government interventions, such as lobbying for lower tariff rates of banana and pineapple, are also needed. With the lowering of tariffs, the Philippine share in the global market is expected to rise.

For SBF, the DAR should ensure that the support services being given to the ARBOs are sustained. Government should also be able to lobby for the

imposition of a quota on corn syrup after 2018 to ensure that local demand for sugar will increase. As to strengthening institutional mechanisms, creating a new government entity that will address the needs of the banana and pineapple industry will be costly and tedious. Instead, installing a new section within the DA or the Department of Trade and Industry may be more feasible.

To ensure that every party upholds contract stipulation, the DAR should monitor AVA implementation regularly. Moreover, to fast track approval of contract for any type of AVAs, including lease and leaseback, concurrence of DAR should be only at the level of the provincial office. The contracts should undergo legal advice while rental fees and prices of commodities should be backed up by a sound economic or a feasibility study. 📄

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