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**Recommendations toward
Successful Agribusiness
Venture Arrangement**

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and Flordeliza A. Sanchez*



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List of Acronyms

AMSEFPCO	Alberto M. Soriano Employees Fresh Fruits Producers Cooperative
AO	Administrative Order
ARB	agrarian reform beneficiary
ARBO	agrarian reform beneficiary organization
AVAs	agribusiness venture arrangements
CARP	Comprehensive Agrarian Reform Program
CARL	Comprehensive Agrarian Reform Law
CFD	commercial farms deferment
CLOA	Certificate of Land Ownership Award
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DARBC	Dolefil Agrarian Reform Beneficiaries Cooperative
FAO	Food and Agriculture Organization
ha	hectare
Hearbco-2	Hijo Employees Agrarian Reform Beneficiaries Cooperative-2
HB	House Bill
HR	House Resolution
KII	key informant interview
MNC	multinational corporation
NDC	National Development Company
PARC	Presidential Agrarian Reform Council
PSRS	Policy and Strategic Research Service
PBME	performance beneficiaries monitoring and evaluation
PSRTI	Philippine Statistical Research and Training Institute
RA	Republic Act
SB	Senate Bill
TADECO	Tagum Agricultural Development Company
TCBC	Tagnanan CARP Beneficiaries Cooperative
TEI	Tagnanan Estate, Inc.
WEARBEMPCO	Wadecor Employees Agrarian Reform Beneficiaries

Abstract

This study assesses the implementation of selected agribusiness venture arrangements (AVAs) and identifies the prerequisites needed to ensure that the adoption of AVAs will improve farm income and productivity, thereby enhancing sustainability of the agrarian sector. As such, a framework for AVAs was devised considering the supply chain, the policy environment, and the global market influence. Using a case study approach, the study focused on two export crops—banana and pineapple—that were selected based on their significant contribution to the Philippines' export earnings and gross value added of agriculture. In particular, the AVAs considered in the study were lease/leaseback and growership arrangements for banana and pineapple.

The study notes several issues on production and capital investments, marketing and pricing, institutional support, and contract terms that affect the implementation of AVAs. It recommends that AVAs should be encouraged but government has to provide a policy environment for Philippine export crops to be competitive. Agrarian reform beneficiaries and their associations should also be supported through capacity-building activities and access to legal advice.

Introduction

Background of the study

When Republic Act (RA) 6657, or the Comprehensive Agrarian Reform Law (CARL), was promulgated in 1988, all crops, regardless of tenure arrangements, were subjected to land acquisition and distribution under the Comprehensive Agrarian Reform Program (CARP). Agricultural export crops such as banana, coconut, mango, pineapple, and sugarcane were not exempted from coverage of the CARP even though they contribute largely to gross value added of agriculture.

While most crops were immediately placed under land acquisition and distribution or leasehold arrangements, export or commercial crops were not. Instead, they were placed under commercial farms deferment (CFD). Under Chapter II, Section 10 of the CARL, commercial farms¹, referred to as private agricultural lands devoted to commercial livestock, poultry and swine raising, and aquaculture, will be subjected to immediate compulsory acquisition and distribution only after 10 years from the effectivity of RA 6657. For newly established commercial farms, the 10-year period will begin from the first year of commercial production and operation, as determined by the Department of Agrarian Reform (DAR), the lead agency in the implementation of CARL.

After the 10-year deferment period, the DAR issued Administrative Order (AO) 1998-06, series of 1998, which aims to optimize the operating size of commercial farms for agricultural production efficiency and promote security of tenure and income of agrarian reform beneficiaries (ARBs) through agribusiness venture arrangements (AVAs). AVAs, according to DAR, will also ensure that investment in commercial farms continues even though former operators have pulled out of the area. The concept of AVAs is similar to land consolidation programs in other countries (e.g., Japan, Taiwan, and South Korea) which were executed after implementation of their land reform programs. Although the Philippine government did not intentionally implement a land consolidation program, with DAR recommending the AVAs for commercial farms and the sugarcane block farming program for sugarcane, a semblance of land consolidation is pursued.

¹ These include saltbeds, fishponds and prawn ponds, fruit farms, orchards, vegetable and cut-flower farms, and cacao, coffee, and rubber plantations.

Agribusiness venture arrangement

AVAs are collaborations between the ARBs and the private sector to implement an agribusiness venture using agrarian land (DAR 2012). These agreements began in the late 1980s with the lands owned by the National Development Company (NDC).

DAR AO 1998-09 provided for the adoption of the following AVAs: (1) joint venture agreement; (2) lease agreement; (3) contract growing/growership arrangement; (4) management contract; (5) production, processing, and marketing agreements; and (6) build-operate-transfer scheme. DAR AO 1999-02 further reinforced AVAs and provided for the rules and regulations governing joint economic enterprises in agrarian reform areas.

The various types of AVAs are defined as follows:

- 1) Joint venture agreement is an AVA scheme wherein the ARBs and the investors form a joint corporation to manage farm operations. ARBs provide the land as contribution including the facilities and improvements, if any. On the other hand, the investor furnishes capital and technology for production, processing, and marketing of agricultural goods, or construction, rehabilitation, upgrading, and operation of agricultural capital assets, infrastructure, and facilities.
- 2) Lease agreement is an AVA scheme wherein the beneficiaries bind themselves to give the investor general control over the use and management of the land for a definite period.
- 3) Contract growing/growership/production arrangement is an AVA scheme wherein the ARBs commit to produce certain crops that the investor buys at prearranged terms. This may come in the form of production and processing agreements.
- 4) Management contract is an AVA scheme wherein the ARBs hire the services of a contractor that may be an individual, partnership, or corporation to assist in the management and operation of the farm for the purpose of producing high-value crops or other agricultural crops in exchange for a fixed wage or commission.
- 5) Marketing agreement is an AVA scheme wherein the investor explores possible markets for the produce of ARBs and in turn receives commission for actual sales. It is distinct from the direct marketing arrangement wherein the regional or

provincial marketing assistance officer of DAR helps in the sale and marketing of ARBs' produce to a regular market. This is a DAR marketing assistance program and not considered as an AVA scheme.

- 6) Build-operate-transfer is an AVA scheme wherein the investor, at his own cost, builds, rehabilitates, or upgrades capital assets, infrastructure, and facilities applied to the production, processing, and marketing of agricultural products and operates the same at his expense for an agreed period after which the ownership thereof is conveyed to the ARBs, who own the land where such improvements and facilities are located.

As stipulated in DAR AO 1998-09 and DAR AO 1999-02, AVAs could be entered into by the ARBs individually or through their cooperative. Moreover, a greater portion of commercial farms covered and distributed under the CARP were issued collective certificate of land ownership awards (CLOAs) rather than individual CLOAs. As such, consolidation in AVAs is two pronged, one in terms of land title and, the other, in terms of management. Thus, some AVA schemes, such as lease arrangements, could be entered into by investors with farmers having individual CLOAs or collective CLOAs. With the investor acting as operator, the management is collective and, as such, there are two modalities of AVAs: (1) collective management and individual ownership and (2) collective management and collective ownership. For growership, two modalities had been observed. With the CLOA named after the cooperatives operating the farm, this becomes a modality of collective ownership with collective management. However, there are also instances wherein the investor enters into a growership agreement with farmers with individual titles who operate the farms on their own and just adopt the recommended technologies of the investors who are also their markets. This is a case of individual ownership with individual management.

Recently, there is a mounting concern on the continued implementation of AVAs, which prompted some lawmakers to take action. For instance, House Resolution (HR) 919 directed the committee on agrarian reform to conduct an investigation on the impact of the AVA, considering that ARBs, other farmers, and agricultural workers are clamoring for its revocation. Two other bills, namely, House Bill (HB) 5085 and Senate Bill (SB) 1351, have also been filed. Both bills

look into the regulation of the establishment of AVAs, which include corporative schemes, contract growing, profit-sharing agreements, block farming, leasehold, leaseback, and other arrangements, in agrarian reform lands. In particular, HB 5085 intends to “promote productive and collaborative ventures between the private sector and ARBs wherein the latter are transformed into farmer-entrepreneurs of agriculturally-related businesses” (HB 5085, p. 1) without compromising their tenurial rights. On the other hand, SB 1351 mentioned that “AVAs should give ARBs incentive to develop their lands and improve their productivity” (SB 1351, p. 1). Realizing that one of the weak points of the ARBs is in the negotiation of the terms and conditions, SB 1351 also aims to ensure the provision of the needed assistance, social preparation, and capacity building to the ARBs.

Objectives of the study

Given this backdrop, the objective of the study is to assess the implementation of selected AVAs and identify prerequisites needed to ensure that the adoption of AVAs as a business model will improve farm income and productivity, thereby, enhancing sustainability of the agrarian sector.

Specifically, this study aims to

- 1) review selected cases of AVAs arrangements;
- 2) provide the framework that identifies critical factors needed to make AVAs increase farm productivity and income successfully;
- 3) assess the viability of selected AVAs in the Philippines and measure the productivity and profitability of lands covered;
- 4) examine the institutional and regulatory environment of AVAs in the country; and
- 5) provide recommendations to improve implementation of AVAs.

Review of Literature

Studies on agribusiness venture arrangements

The Policy and Strategic Research Service (PSRS) of the DAR assessed several AVAs to derive inputs for policy and program planning (DAR 2006). Among others, the said study revealed that some AVAs benefitted the ARBs, particularly joint venture agreements, full takeover

with sales and marketing agreement, and production and purchase agreement. Meanwhile, lease agreements proved to be disadvantageous to ARBs due to low lease rentals—which hardly increased over the 25-to-30-year period stipulated in their contracts. It also raised concerns on the lack of social preparation and training measures to strengthen the entrepreneurial and management capabilities of ARBs, their lack of knowledge and skills in contract negotiations, and high interest rates of existing credit sources.

As a result of the study, PSRS revised its rules and regulations governing AVAs through AO 09, series of 2006 to reinforce the implementation and monitoring of the AVAs. It also issued guidelines governing lease of land under AVAs through AO 2, series of 2006. While these AOs were crafted to protect the ARBs, they do not have retroactive effect to cover contracts entered into prior their issuance. Issues concerning the ARBs also kept on surfacing, concerning farms planted with banana and other high value crops.

In a follow-up study by PSRS, DAR (2012) still found that lease agreements did not benefit the ARBs. However, the land use management agreement, a variation of a lease agreement between the ARBs and Dole Philippines, improved ARBs' socioeconomic conditions because aside from lease rental, the beneficiaries were also given employment. Dole Philippines is one of the leading producers of fruits and vegetables operating in the Philippines.

Meanwhile, not all production and purchase agreements benefited the ARBs (DAR 2012). For instance, while agreements between the Dapco United Small Growers Multipurpose Cooperative and Dole Philippines, and Kenram Agrarian Reform Beneficiaries Multipurpose Cooperative and Mapantig Agrarian Reform Beneficiaries Multipurpose Cooperative and Kenram Industrial Development, Incorporated, were able to enhance ARBs' socioeconomic status, the agreement between Hijo Employees Agrarian Reform Beneficiaries Cooperative-2 (Hearbco-2) with Lapanday Foods Corporation neither improved nor dampened incomes of the ARBs. This is because Hearbco-2 has been experiencing financial losses since 2004 and its members are still in the period of adjustment due to the shift from cooperative type of farming to individual farming.

The intent of adopting AVAs is to help ARBs and their organizations increase income and productivity. However, with the status of majority of the ARBs and farmers' organizations in the cases analyzed hardly

improving, the AVAs did not seem to help increase income of farmers and agrarian reform beneficiary organizations (ARBOs). The question of who really benefits in such an arrangement came to fore.

Aside from DAR, the Food and Agriculture Organization (FAO) also conducted a study on AVAs, which focused on bananas, cacao, palm oil, and pineapple in Mindanao and on predominant arrangements, such as leasehold and contract growing. It revealed that after 26 years of operation of AVAs, the number of successful AVAs were very limited, which could be attributed to several factors (FAO 2016). For one, the provisions of the agreements tend to be one sided as a result of insufficient legal representation and transparency issues on the part of the cooperative leaders. This is aggravated by inadequacies of ARBOs in managing their farms, making collective decisions, understanding financial statements, and entering into intelligent negotiations. Sadly, the study was not able to describe the credit standing of the ARBOs and investor confidence and interest in the AVAs.

On the other hand, the analysis of Rosete (2016) was focused more on the contractual types, looking into the political and economic conditions that influence the terms of the contracts and determining which provisions deprive small holders of effective control over their lands. To a certain extent, the study also touched on the income and well-being of the ARBs. However, instead of getting the average income, Rosete (2016) used the median reported by 62 sample respondents from six cooperatives and nine ARBs with individual contracts with investors. Moreover, the study's sample, 62 respondents from the cooperatives, is just 5 percent of the total members of the six organizations. Sampling procedure was not explained. Meanwhile, well-being was measured in terms of children who have stopped going to school due to lack of finances, presence of running water in the house, toilet access, access to electricity, ownership of motorcycle and mobile phones, and having savings. The study compared these indicators across cooperatives, including those of the individual ARBs. However, given the very limited sample size, the findings and results of the comparative analysis may not hold water at all.

Another study on AVAs was conducted by Nozawa (2016), who conducted case studies of four AVA cooperatives operating banana farms. The intent of the study was to evaluate the role of cooperatives in promoting self-reliance among farmers, focusing on farms under AVAs. Two of the cooperatives were under contract-growing arrangements

with ARBs having collective CLOAs. One cooperative had a contract-growing agreement with the ARB members having individual CLOAs while the other cooperative, where members are under a collective CLOA, entered into a lease agreement. Using data obtained from the financial records of the cooperative, Nozawa (2016) compared the net farm income of ARB members per hectare (ha) and per ARB derived in 2010 and found that the cooperative that has a contract-growing arrangement under a collective CLOA (called Cooperative C), had the biggest net income/ha and per ARB. On the other hand, the lowest net income/ha and per ARBs was earned by the cooperative that was into contract growing under a collective CLOA (called Cooperative H) which had a lower selling price (USD 2.95/box) and a higher cooperative retention of USD 0.95/box compared to Cooperative C at USD 3.15/box and USD 0.50/box, respectively. Moreover, the Pilipino Banana Growers and Exporters Association reported that productivity of Cooperative C was (5,194 boxes/ha) compared to Cooperative H (4,091 boxes/ha) which are above the 2011 average of 3,847 boxes/ha. The paper further debunked common notions that poverty among small banana growers is aggravated by entering into contracts with multinational corporations (MNCs), which offer low prices while farmers incur high input costs. While Nozawa (2016) was able to show increase in income and productivity of ARBs under AVAs, the study did not provide insights and opinions of the ARBs themselves since it was focused on the cooperatives.

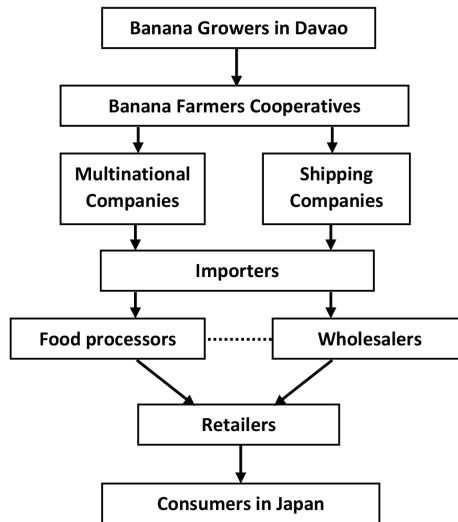
In another study, Nozawa (2013) compared two types of AVAs, namely, lease and growership agreements. Lease agreement involves ARBs who were issued a collective CLOA and entered into an AVA with the investor through the cooperative that they formed. Meanwhile, growership agreement entails two types of modalities. The first involves the agreement between an investor and ARBs issued with individual CLOAs, hence, these ARBs were operating their farms on their own. The second growership arrangement entails an investor and a cooperative that operated lands issued with a parent CLOA. In his comparison, Nozawa (2013) noted that ARBs under lease agreement are contented with being farmworkers, relying on their wages and lease rent for their source of income. In the growership arrangements, contracts of investors with both individual ARBs and cooperatives contained stipulations on production, processing, and marketing agreement. Incentive is provided

to farmers with individual CLOAs who produce more, thereby resulting in higher income. It was the same for ARBS collectively operating the farms since higher production translated to higher net surplus, which the cooperative members distributed among themselves. This is aside from the income they received as workers. The study then concluded that the type of CLOA issued was immaterial but what was more critical was the type of AVA entered into by farmers. It recommended that DAR should push for the growership arrangement given that it gives the ARBs the opportunity to become entrepreneurs of lands awarded to them.

Commodity flow of banana

This paper intends to identify important elements in making AVAs a successful business arrangement that will increase farm productivity and income specifically for banana and pineapple growers. Hence, various aspects from production to post production activities and marketing need to be looked into. As such, it is best to understand the product flows of the two commodities as well as the key players involved in the supply chain.

In their study, De los Reyes and Pelupessy (2009) delved into the banana supply chain in both export and domestic market. The commodity channel in the export market points to a contract grower scheme between banana farmer cooperatives and export firms or MNC (Figure 1). In some instances, the study noted that farmers' produce was consolidated by the cooperative, which operated on an ex-patio type of contract growing. This was described as an arrangement where farmers are responsible from planting until packing, boxing, and branding, and exporters will just collect the product and prepare it for shipping. The bananas from the exporters will then be bought by importers from Japan. These bananas will either go to the wholesalers or food processors, depending on their quality—where the fresh ones will be sold to the consumers through the retailers while the others will be processed. Processed bananas can either be sold to consumers through the retailer or can be sold to the wholesalers as represented by the dotted line. According to De los Reyes and Pelupessy (2009), the dotted line can also signify possible reverse relationship, where wholesalers can also sell fresh bananas to processors. The price distribution for this type of arrangement was also presented in the paper. De los Reyes and Pelupessy (2009) noted that a bulk of the consumer price (52%) went to the retailers while 23 percent went to the wholesalers.

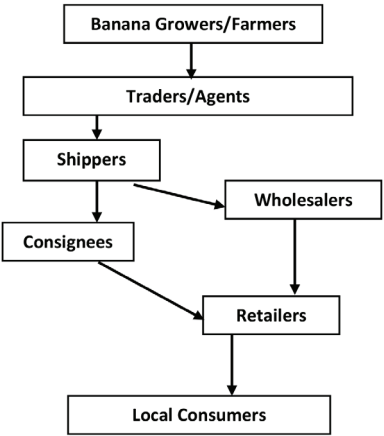
Figure 1. Banana supply chain in the export market

Source: De los Reyes and Peluppetsy (2009)

On the other hand, the banana value chain for the domestic market is shown in Figure 2. The commodity chain for domestic market starts with the farmers selling their produce to the traders. These traders consolidate the produce to reach a given volume required by the wholesalers of supermarket chains. The study reported Dole Philippines, Inc. to be a major consignee of the commodity and supplies almost the entire retailed banana in the country. However, there is no existing standard for the commodity in the domestic market, unlike in the export market. Therefore, consumers decide to purchase depending on the price and their preference. From the price distribution presented in the paper, the wholesalers acquired the biggest share of consumer price.

Digal (2007) also studied the supply chain for banana but his study focused on contract-growing agreements in Mindanao. For both output and inputs in banana growing, there is a principal or the buyer and an agent or the seller. The principal for outputs or the buyer of the produce pays the grower the amount of the produce meeting the specific quality requirements. Price of the produce depends on the arrangements with regard to the inputs and requires a price review or negotiation at least every two years in cases of a 5-percent increase in the price of imported materials, such as fertilizers, herbicides, and fungicides, among others. Before proceeding to the payment, all outstanding accounts and

Figure 2. Banana supply chain in Philippine domestic market



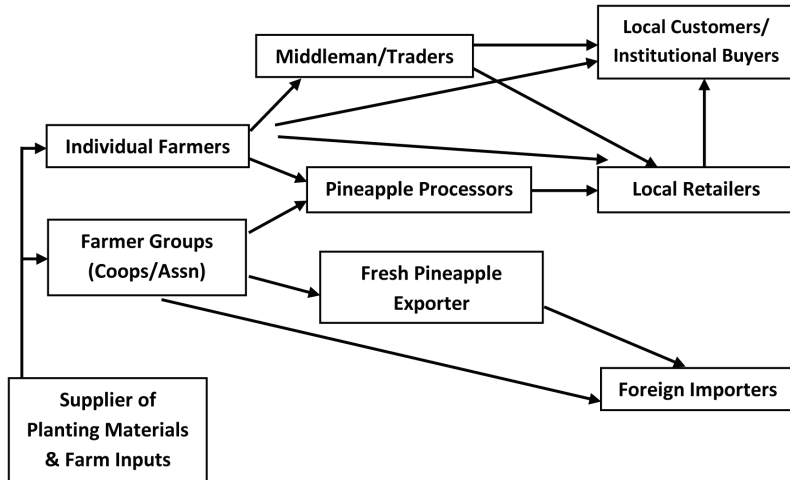
Source: De los Reyes and Peluppeesy (2009)

compensation due to the buyer, including loans, are deducted first from the gross sales. In addition, the principal has complete ownership of the produce and has the right to reject those that do not meet quality standards. On the contrary, the agent or the seller is only responsible in producing banana optimizing the farm’s capacity.

Commodity flow of pineapple

In the Republic of the Philippines-Spain, Strengthening of the Agro Industrial Sector in Bicol and Caraga (SAIS-BC) Project, the commodity flow of pineapple was presented as indicated in Figure 3 (Department of Agriculture Regional Field Unit 5 and the Republic of the Philippines-Spain n.d.). Under this project, the produce from individual farmers and farmer groups goes to traders, exporters, processors, local retailers, and local customers or institutional buyers. Pineapple from traders goes to either local retailers or local customers, while the processed pineapple only goes to local retailers, and exported ones go to foreign importers. In this structure, different sales arrangements are employed depending on the marketing level. Goods sold are either picked-up or delivered, and the mode of payment is either cash or installment. Among traders, the manner of selling is per delivery basis, where seller delivers to buyers in times of surplus while the reverse is observed during scarce months.

According to Digal (2007), most of the contractual arrangements in pineapple industry are leaseback agreements. Under this kind of agreement,

Figure 3. Commodity flow of fresh pineapple

Coops = cooperatives; Assn = association

Source: Department of Agriculture Regional Field Unit 5 and the Republic of the Philippines-Spain (n.d.)

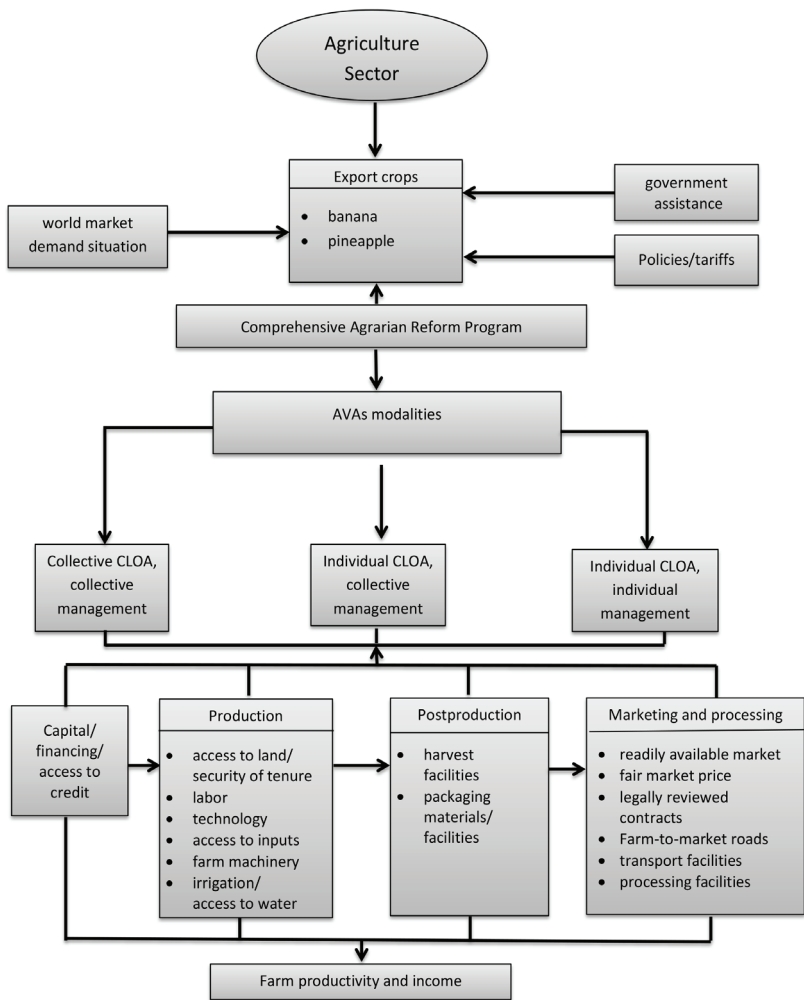
the buyer directly operates the land for growing and processing while the grower leases the land.

Conceptual Framework

The FAO (2016) study showed that majority of AVAs had been unsuccessful in improving farmers' farm income and productivity. Nevertheless, some arrangements have worked out and have improved the ARBs' yield and economic standing. This implies that the AVA will succeed if crucial factors are taken into consideration in the arrangements that cover production, postproduction, and marketing aspects. The question on what brought about these positive effects comes to fore. One of the objectives of this study is to formulate a conceptual framework that identifies the factors needed for successful AVAs in terms of increasing farm income and productivity. The recommended framework considers the different stages in the supply chain, from production to marketing and postproduction activities.

Figure 4 presents the conceptual framework that examines different modalities. It considered the type of land ownership (individual or collective) and type of farm operations (individual or done collectively through a cooperative or ARBOs). In the suggested framework, three modalities were studied, namely, (1) collective

Figure 4. Conceptual framework identifying critical factors for successful agribusiness venture arrangements



AVAs = agribusiness venture arrangements; CLOA = Certificate of Land Ownership Award
Source: Authors' representation

CLOA, collective management, (2) individual CLOA, collective management, and (3) individual CLOA, individual management.

Several factors make the AVAs a successful business arrangement. First, they need to have capital at the onset to support production, as well as postproduction and marketing activities. For production, access to land is critical, and under the CARP, lands are distributed to provide security of tenure. To attain high yields, farmers must have knowledge on the latest and appropriate technology and have access to recommended inputs, farm machinery, and irrigation water. For the postproduction activities, facilities should be available for harvesting, processing, storage, and packaging. Another critical factor in the supply chain is the market. Those under AVAs should readily have markets and farm-to-market roads are also essential as well as transport facilities. Agreements must be protected by contracts that are reviewed by lawyers regularly to ensure farmers receive reasonable prices based on sound economic viability study.

These factors can be efficiently implemented under AVAs by taking advantage of the economies of scale. Based on studies by Guo et al. (2015), Chen (2016), Zhou (2017), and Du et al. (2018), land consolidation in other countries was implemented with the intent of improving irrigation facilities, transportation conditions, and adoption of farm machinery. Another benefit from land consolidation was improvement in the production function of cropland and crop supply. It also drove investment in agriculture and promoted development of the rural agricultural economy. However, one factor to consider is the stability of productivity.

As stated earlier, AVAs could be entered into by the ARBs individually or through their cooperative. Generally, investors provide capital and technology for production, processing, and marketing of agricultural goods, or construction, rehabilitation, upgrading, and operation of agricultural capital assets, infrastructure, and facilities, depending on the type of arrangement and contract between ARBs and investors.

Nonetheless, the world market demand also affects the marketing of banana and pineapple. Other factors critical to the success of AVAs are world market demand situation, provision of government assistance, and the policy environment, particularly on tariffs and quotas. 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.

Methodology

The case study approach was used for this study, focusing on two export crops, namely banana and pineapple, which are contributing substantially to the Philippines' exports as well as the gross value added of agriculture. Coconut, a major contributor to Philippine exports, was excluded because it has hardly been covered under AVAs. Unlike banana and pineapple, coconut does not require a large amount of investment and is distributed individually, while pineapple and banana are mostly distributed under collective ownership.

Two types of data, primary and secondary, were gathered. Primary data were collected through key informant interviews (KIIs) involving officers and staff of government agencies, such as the DAR national, regional, and provincial offices, and focus group discussions and/or KIIs with AVA investors, officers of farmer groups or cooperatives, and individual farmers. Meanwhile, secondary data were gathered from the cooperatives, including their 2015 and 2016 financial statements, records on the production, income and expense of their members, and copy of contract with member-ARBs and with investors. These were likewise collected from the Philippine Statistics Authority and the Philippine Statistical Research and Training Institute (PSRTI).

Data were gathered in three provinces, namely, Davao del Norte and Compostela Valley for banana and South Cotabato for pineapple. Different arrangements on banana and pineapple were also considered. For banana, two agreements, namely, lease and growership arrangements, were studied. Meanwhile for pineapple, lease arrangement was looked into. Table 1 indicates the list of respondents covered in the study.

Table 1. List of contracted parties and investor-respondents by crop

Crop	Contracted Party	Investor	Location of Cooperative/ARB
Banana	Wadecor Employees Agrarian Reform Beneficiaries Multi-Purpose Cooperative (WEARBEMPCO)	Tagum Agricultural Development Co., Inc. (TADECO)	Minda, Carmen, Davao del Norte
	Alberto M. Soriano Employees Fresh Fruits Producers Cooperative (AMSEFPCO)		Sampao, Kapalong, Davao Del Norte
	Tagnanan CARP Beneficiaries Cooperative (TCBC)	Unifrutti, Philippines, Inc.	Tagnanan, Mabini, Compostela Valley
	Laak farmers of Compostela Valley	Sumifru Philippines, Corp.	Barangay Laak, Compostela Valley
Pineapple	Dole Philippines (Dolefil) Agrarian Reform Beneficiaries Cooperative (DARBC)	Dole Philippines, Inc.	Polomolok, South Cotabato
	Individual farmers from various barangays of Polomolok, South Cotabato	Dole Philippines, Inc.	Polomolok, South Cotabato

ARB = agrarian reform beneficiary; CARP = Comprehensive Agrarian Reform Program
Source: Authors' compilation

Results and Discussion

Type of agribusiness venture arrangements

More than three-fourths of ARBs of cooperatives entered into three types of lease agreements, the most popular of which was the lease agreement (51%) followed by lease contract (21%) and growership agreements (20%). In terms of areas covered, various lease agreements had the largest share (63%), particularly lease agreement (42%). Although only four farms (1%) entered into joint venture agreement, these farms constituted almost 11 percent of total area of all farms (Table 2).

In terms of crops covered, banana had the largest area covered by AVAs at about 14,501 ha followed closely by pineapple at 14,185 ha (Table 3). The third largest was palm oil at nearly 12,454 ha. However,

Recommendations toward Successful Agribusiness Venture Arrangement

looking at the number of ARBs involved, pineapple ranked first with 19,864 ARBs while banana was only second with 14,866. Third was palm oil with 4,019 ARBs covered. In terms of both area and number of ARBs, sugarcane ranked fifth and fourth, respectively.

Table 2. Number and area covered by type of agribusiness venture arrangement (AVA): Philippines, 2015

Type of AVA	Number of AVAs	Percent to Total AVAs	Area Covered (ha)	Percent to Total Area
Lease Agreements	334	77.14	33,016.93	63.16
Lease agreement	222	51.27	22,015.11	42.12
Lease contract	90	20.79	6,570.63	12.57
Leaseback agreement	22	5.08	4,431.19	8.48
Growership Agreements	88	20.32	12,605.26	24.12
Marketing contract	4	0.92	4,458.00	8.53
Growership	33	7.62	4,391.82	8.40
Growership/contract growing	37	8.55	940.12	1.80
Growership/contract growing (agro-forestry)	1	0.23	272.00	0.52
Contract growing	9	2.08	1,246.60	2.38
Banana production purchase agreement	1	0.23	27.00	0.05
Banana supply and marketing agreement	3	0.69	1,269.72	2.43
Other Agreements	11	2.54	6,649.09	12.72
Joint venture agreement	4	0.92	5,602.44	10.72
Marketing with incentives	2	0.46	846.00	1.62
Contract of development agreement	1	0.23	57.40	0.11
Management contract	2	0.46	54.25	0.10
Rice retailing	1	0.23	30.00	0.06
Not indicated	1	0.23	59.00	0.11
Total	433	100.00	52,271.28	100.00

ha = hectare

Source: Food and Agriculture Organization (FAO) (2016)

Table 3. Area and number of agrarian reform beneficiaries (ARBs) covered under the agribusiness venture agreement as of October 2015: Philippines

Crop	Area (ha)	Number of ARBs
All Banana	14,501.07	14,866
Banana	10,452.67	11,726
Banana (Cavendish)	3,993.80	3,054
Banana (Bongolan, Organic)	54.60	86
Palm oil	12,453.57	4,019
Pineapple	14,185.15	19,864
Pomelo	92.41	552
Sugarcane	3,777.20	2,619
Cacao	1,327.71	888
Other Crops (Rubber, HVCs, Papaya, Rice, Fruit Tees, etc.)	5,934.16	2,591
Total	52,271.28	45,399

ha = hectare; HVCs = high-value crops

Source: FAO (2016)

AVAs adopted by sample respondents

The ARBs of all three cooperatives under a growership scheme were issued collective CLOAs. In contrast, those under lease/leaseback agreements were issued either collective or individual CLOAs but opted for collective management (Table 4).

Most of the respondents covered by AVAs have started adopting different AVA schemes since 1998. For instance, the Wadecor Employees Agrarian Reform Beneficiaries Multipurpose Cooperative (WEARBEMPCO) started adopting said scheme on June 15, 1998, the final year of the CFD and, as such, was supposed to be covered and distributed under CARP. It also entered into a leaseback agreement with the former owner and operator, Tagum Agricultural Development Company (TADECO).

Meanwhile, the Alberto M. Soriano Employees Fresh Fruits Producers Cooperative (AMSEFPCO) initially had a 10-year leaseback arrangement with its former landowner, Andres M. Soriano Group of Companies. After the stipulated period, Dole Philippines, the former market of AMS, took over as investor.

Table 4. Type of ownership and management of agrarian reform beneficiaries (ARBs)

Name of Coop	Scheme	Type of CLOA	Type of Management
Tagnanan CARP Beneficiaries Cooperative (TCBC)	Growership	Collective (but started to issue individual CLOAs)	Collective management
AMS Employees Fresh Fruits Producers Cooperative (AMSEFPCO)	Growership	Collective	Individually managed
Dolefil Agrarian Reform Beneficiaries Cooperative (DARBC)	Leaseback and Growership	Collective	Collective management
Wadecor Employees Agrarian Reform MPC (WEARBEMPCO)	Leaseback	Collective	Collective management
ARBs/farmers of Brgy. Laak, Compostela Valley	Lease	Individual	Collective management
ARBs/farmers from various barangays of Polomolok, South Cotabato	Lease	Individual	Collective management

ha = hectare; HVCs = high-value crops

Source: FAO (2016)

The land distributed to ARBs of Tagnanan CARP Beneficiaries Cooperative (TCBC) was formerly planted with coconut and intercropped with cacao. It was owned and operated by Tagnanan Estate, Inc. (TEI). Since it was having financial difficulties, TEI decided to employ collective farming in 1990, which necessitated the formation of the farm-workers into a cooperative that operated the 1,005-hectare plantation. The net income derived from the operation of the farm was shared equally among all farmworkers. In 1992, TEI decided to place the property under the voluntary land transfer scheme and entered into a lease agreement with the Marsman-Drysdale Agri-Ventures Group at the same time. Marsman-Drysdale, meanwhile, was a key player in the banana industry, particularly Cavendish variety, hence the plantation was converted into a Cavendish banana plantation. The ARBs then reverted to being farm workers of the plantation that was distributed to them. In 2003, the role of Marsman as investor and market was turned over to Unifrutti.

The area covered by Dolefil Agrarian Reform Beneficiaries Cooperative (DARBC) was formerly owned by the NDC. At that time,

Dolefil was renting and operating the NDC area, which they planted to pineapple. The lands were awarded collectively to the rank-and-file employees of Dole who formed a cooperative, now known as DARBC. DARBC initially went into a lease agreement with Dolefil. Later, some portions of the awarded land leased out to Dolefil was operated by the cooperative under a growership arrangement, where the technology was provided by the company while inputs were also extended on loan basis.

Investors also entered into AVA contracts with individual farmers whose farms are near each other, such as in the case of the lease agreements of Sumifru (Philippines) Corporation with farmers from Laak, Compostela Valley. According to the individual farmers interviewed, Sumifru conducted a general assembly in their barangay in 2008 and convinced farmers to enter into a lease agreement with the company. The farmers were identified by a canvasser coming from the barangay hired by Sumifru, who surveyed farmers on their willingness to lease their lands. Dolefil also leased farms of individual farmers, who, due to lack of capital, agreed to enter into such agreement. These farmers came from different barangays and cooperatives.

The concept of the AVAs was introduced to the ARBs primarily by the investors who are basically the former operators of the land prior to land distribution. Nevertheless, one cooperative mentioned that DAR, particularly the municipal agrarian reform office and the municipal cooperative council, as well as the investor were responsible for briefing them on AVAs. Moreover, although AO 1998-09 came up with six AVA modalities, the interviews indicated that most often, only two modalities were brought to the attention of the ARBs, namely, lease (or leaseback) and growership.

Comparison of cooperatives in terms of elements for a successful AVA

The study revealed that the cooperatives have the important elements for a successful agreement that contributed to the improvement in farm income and productivity.

Capital requirement

Financing is a major consideration in going into banana and pineapple production because both crops require large capital outlay. Establishment of 1 ha of banana requires about PHP 500,000.

Meanwhile, about PHP 250,000 is needed to put up 1 ha of pineapple and additional PHP 150,000 for the succeeding ratoon crop.

The lack of capital was the main reason why the ARBs decided to enter into an AVA. For growership arrangements, financing is provided by the investors to the cooperatives covered, usually through provision of inputs on loan basis that are later on deducted from the proceeds of the sales. Under a lease agreement, investors do not extend loans either to the cooperatives or individual ARBs because the farms are operated by the investors themselves, not the ARBs.

Land and security of tenure

Together with security of tenure, access to land is the most important aspect of production. CARP provided ARBs with access to land. ARBs were provided with security upon entering into AVAs in the form of contracts.

Table 5 shows the varying conditions under the contracts entered into by ARBs and cooperatives. The contracts of investors with cooperatives seemed more favorable compared to contracts of investors with individual ARBs. In the contracts of investors with cooperatives, whether lease or growership arrangement, payment of land amortization was shouldered by investors although it was deducted from the proceeds of the lease payment or sales from the produce. Provisions in the contract had been set to be reviewed every two to five years. Meanwhile, the growership agreement provided its growers with a price based on market prices. However, TADECO mentioned that if the prices of bananas go up, even without negotiations, the price offered to TCBC also increases.

Meanwhile, individual ARBs who had their farms leased out to banana investors received between PHP 15,000 and PHP30,000 per year, which lasted for and is reviewed every five years. However, said amount was below the poverty threshold of PHP 9,064 per month for a household of five members or PHP 108,768 per year. Considering that the average household size of ARBs is six, the rental fee was really very low. Moreover, while other terms were stipulated in the contracts, such as assured employment of the cooperative member or a household member upon retirement, hospitalization benefits, and burial benefits, not all individual ARBs under AVAs received additional benefits. Payment of land amortization was also not always shouldered

Table 5. Terms and conditions of ARBs/ARBOs and investors

Contracting parties/Item	Terms and conditions in the contract
Cooperative: Wadecor Employees ARB Multipurpose Cooperative	Growership
Investor: Tagum Agricultural Development Co., Inc.	Growership
Amount of lease rental	PHP 8,000/ha/year with PHP 1,000/ha/year increment every five years and to be reviewed after five years
Terms on payment of land amortization	Amount of amortization: PHP 3,066.67/year deducted on lease rental
Other terms (e.g., assured employment of another household member upon retirement, guarantee payment, hospitalization, etc.)	<p>Economic benefits:</p> <ol style="list-style-type: none"> 1) Beneficiary livelihood support program– PHP 8,000.00/ha/year 2) Retirement relief fund–PHP 0.70/box for the first two years, PHP 0.80/box for the second two years, and PHP 0.90/box for the last year prior to the next review, which provides the individual retired ARB with an average PHP 7,000/year 3) Cooperative share from the sales of production waste and recyclable materials–PHP 1.00/kilo 4) Productivity incentive program amounting to PHP 19,145.82/employed ARB/year 5) Quality incentive program amounting to PHP 4,571.48/employed ARB/year <p>Employment security:</p> <ol style="list-style-type: none"> 1) Preference of ARBs in human resource reduction 2) Preference of ARBs and their dependents in employment 3) Employment of dependent as replacement of retired ARBs <p>Cooperative ventures livelihood activities</p> <ol style="list-style-type: none"> 1) Money lending 2) Job contracting 3) Trucking services 4) Consumer store 5) Homelots <p>Hospitalization(retirees) Cash Gifts</p>
Cooperative: AMS Employees Fresh Fruits Producers Cooperative Investor: Dole-Stanfilco	
Terms of price of banana/ pineapple	<p>Assumption–4,000 boxes/ha/year</p> <p>ARBs pay for 3,000 boxes at USD 0.75/ARB/year</p> <p>Buying Price–USD 3.15/box</p> <p>Total cost/box–PHP 110.00</p> <p>98 percent of income goes to ARB and 2 percent to cooperative</p>

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Table 5. (continued)

Contracting parties/Item	Terms and conditions in the contract
Terms on payment of land amortization	PHP 5,000/ha/year deducted by the cooperative from ARBs' proceeds
Other terms	<p>Dole gives subsidy to ARBs: Fertilizer (PHP 48,000/yr.); Drainage rehabilitation and maintenance (PHP 21,000/year); Harvesting (PHP 10/bunch)</p> <p>Labor (PHP 12.00/box–deducted from ARB) while ARBs are in-charge of farm operation.</p> <p>ARB receives total subsidy from Dolefil amounting to PHP 135,000/year for banana production.</p>
Cooperative: Tagnanan CARP Beneficiaries Cooperative Investor: Unifrutti	
Terms of price of banana/pineapple	<p>Class A (hand pack) – USD 3.88 per box Cluster pack – USD 4.88 per box Small hand – USD 2.20 at 13.5 kilos/box; USD 0.35/box – deductible as development cost and this is paid through Unifrutti Reviewed every two years</p>
Terms on payment of land amortization	None
Other terms	<p>Conducts economic review every two years; Provides PHP15,000 cash advance/ARB payable within one year, trucking services, inputs, hospitalization (PHP 200,000/year/ARB), financial assistance and relief goods (principle 7), burial assistance, patronage refund, and dividend</p>
Cooperative: Dolefil Agrarian Reform Beneficiaries Cooperative Investor: Dole Philippines	
Amount of lease rental (for lease arrangement)	<p>Before (1998): Rental started at PHP 8,000/ha/year and a production bonus of PHP 500/ha/year with 7-percent escalation rate per year Present (2017): PHP 24,250/ha/year (combined rent and production bonus) at 3-percent annual escalation paid annually in advance</p>
Terms of price of banana/pineapple (for growership arrangement)	<p>Dolefil guaranteed a net income of PHP 50,000.00/ha/year Deductible expenses are labor expenses and farm supplies for farm activities undertaken by both parties, expenses for farm inputs incurred by the investor, rental and related expenses, trucking services undertaken by the cooperative, rental and other related expenses for utilization of the investor's equipment and machineries in the grower area, and expenses for security services as incurred by the investor.</p>
Terms on payment of land amortization	PHP 8,000/ha/year - paid by the cooperative and then deducted from ARBs' land rental income
Other terms	<p>Dolefil performs the farming activities and other related activities in accordance with the previously agreed farm plan and sound agricultural practices; Dolefil hires farmworkers to undertake farming and related activities from the cooperative's partner cooperative or at its option ; and Dolefil regularly utilizes the cooperative's spraying equipment and trucks in their other operational areas and will pay the cooperative based on its prevailing contract rates</p>

Table 5. (continued)

Contracting parties/Item	Terms and conditions in the contract
Individual farmers from Brgy. Amor Cruz, Laak, Compostela Valley Investor - Sumifru (Philippines) Corporation	
Amount of lease rental (for lease arrangement)	PHP 15,000/ha/year in lumpsum for 5 years and given upon the signing of the lease contract and submission of supporting documents. An additional PHP 500/ha for every two years of the contract until its termination
Terms on payment of land amortization	None
Other terms	The investor pays advance land rental in case of hospitalization and burial of the lessor. Employment for lessor's relative who will be hired through the cooperative human resource services.
Individual farmers from various barangays in Polomolok, South Cotabato; Investor: Dole Philippines (Dolefil)	
Amount of lease rental (for lease arrangement)	PHP 30,000/ha/year with five years advance rental and one-year signing bonus at 10-percent escalation every 5 years
Terms on payment of land amortization	PHP 1,300/ha/year - deducted by Dolefil from ARB's lease rental
Other terms	The rental shall be adjusted and increased on the sixth year from the anniversary date at the rate of 10 percent of the previous rental for every 5 years, subject to 5-percent withholding tax. Escalation will take effect on the 6th, 11th, 16th, and 21st year only. Dolefil shall pay the lessor an amount equivalent to five years of the lease contract, as advance payment, including the remaining quarterly land rental due for 2017. Dolefil shall pay the lessor a one-time goodwill signing bonus equivalent to one-year land rental. The rental shall be paid annually after the fifth year. The cash advances incurred by the lessor before the execution of this contract shall be deducted from the proceeds of the advance payment.

ARBs=Agrarian Reform Beneficiaries; CARP=Comprehensive Agrarian Reform Program;

ha= hectare; PHP= Philippine Peso; USD= US Dollars

Source: Authors' compilation

by investors considering that the duration of the contract is normally long-term, lasting for 25 years. Under AO 2008-02, the following should be considered in determining lease rental: poverty threshold, maximum land award limit, land amortization value, and real property tax per hectare. Since DAR is often not involved in the negotiation, these factors may not have been considered during contract negotiation, particularly among investors and individual farmers.

Moreover, several issues related to security of tenure and distribution of land titles need to be addressed (PSRTI 2016). For instance, nearly two-thirds (65%) of AVAs ARBs owned their farms but a

bigger share (77%) of non-AVAs ARBs also owned their farms (Table 6). A large proportion of AVAs ARBs also had owner-like status (22%) and had owned lands that are mortgaged (13%). A higher share of non-AVAs ARBs (33%) had individual CLOAs compared to AVAs ARBs (20%), more than half of whom possessed collective CLOAs (52%) (Table 7). This indicated that one of the backlogs that DAR has to address among AVAs ARBs is the issuance of individual CLOAs. Moreover, the high incidence of mortgaging among AVA ARBs should also be looked into by the DAR.

Technologies

To enhance productivity, the adoption of new technologies is imperative. In the grower-ship arrangement, technologies adopted or recommended by the investors were transferred to the ARBs or cooperatives. Moreover, to ensure that their recommended technologies were adopted, investors provided the inputs through credit basis. The prices of inputs were said to be lower than those sold in the market because investors imported the inputs directly in bulk. Moreover, needed farm machines were either rented out by the investor or acquired by the cooperatives with the investor acting as guarantor. Irrigation was also not a problem given that farms were formerly planted to either banana or pineapple, thus the system or water source had already been set up.

Knowledge on, access to, and adoption of modern technologies, access to farm machinery, and irrigation were also assured under the lease/leaseback agreement given that investors were operating the lease properties. However, individual farmers or cooperatives leasing out their lands did not have access to the technology, except DARBC, which had two types of agreements with Dolefil—lease and grower-ship.

Control of diseases, such as fungal diseases Black Sigatoka and Panama disease, also beset the Philippine banana industry. This was one of the main contributors to the high production costs of Philippine-produced bananas compared with those of South America. Thus, Philippine banana growers must use the appropriate technology to ensure that pests and diseases are controlled given the high standards of the world market.

Table 6. Tenure status of ARBs, AVAs, and non-AVAs ARBs: Philippines, 2015

Tenure status	AVAs ARBs		Non-AVAs ARBs	
	Number	Percent	Number	Percent
Owner	86	64.7	4,357	76.9
Owner but mortgaged	17	12.8	342	6.0
Owner-like status (stewardship agreement, untitled property, claimant)	29	21.8	641	11.3
Tenant/lessee		0.0	204	3.6
Trustee	1	0.8	85	1.5
Others		0.0	36	0.6
Total	133	100.0	5,665	100.0

AVAs = agribusiness venture arrangements ; ARBs = agrarian reform beneficiaries
Source: PSRTI (2016)

Table 7. Tenure instruments of AVAs and non-AVAs ARBs: Philippines, 2015

Tenure instrument	AVAs ARBs		Non-AVAs ARBs	
	Number	Percent	Number	Percent
Individual certificate of land ownership	24	20.0	1,385	33.0
Collective certificate of land ownership	62	51.7	390	9.3
Emancipation patent	2	1.7	265	6.3
Certificate of land transfer	1	0.8	763	18.2
Certificate of ancestral domain title			16	0.4
Certificate of ancestral land title			15	0.4
Free patent			531	12.6
Homestead patent			10	0.2
Agricultural sales patent	31	25.8	334	7.9
Community-based forest management agreement			5	0.1

AVAs = agribusiness venture arrangements ; ARBs = agrarian reform beneficiaries
Source: PSRTI (2016)

Postproduction and marketing

Postproduction practices varied depending on AVAs. Under a leaseback arrangement, for instance, postproduction activities, such as harvesting, grading, packaging, and processing, were done by investors who have the necessary equipment for such operations. Under growership agreement for both banana and pineapple, harvesting, washing, dehiscing, grading, and packing were done by cooperatives. Meanwhile, it may be hard for individual farmers to afford the equipment and facilities needed for harvesting and postproduction activities. For pineapple, those for canning were further processed by DARBC in their cannery.

In AVAs, markets were assured. In the case of DARBC, Dolefil was the market, which in turn marketed pineapple abroad although majority of which were canned. It also had the same market for products from areas leased from individual farmers. For banana, TADECO, which has a leaseback agreement with WEARBEMPCO, marketed their produce abroad. Meanwhile, cooperatives that are under growership arrangement, such as AMSEFPCO and TCBC, went through two stages of marketing—at the local level, where the buyer was the investor, and at the international level, which primarily involved Japan and South Korea, also the main markets of TADECO.

Government assistance, policies, taxes, and tariffs

To boost banana and pineapple industries, government assistance is needed. However, banana and pineapple were provided with less assistance than other crops. For banana, a key informant revealed that only the Pilipino Banana Growers and Exporters Association, a private sector organization, provided support for the concerns of the industry and no government entity provided assistance. Meanwhile, no local group, whether private or government, oversees the welfare of the pineapple industry.

Furthermore, investor-respondents of banana lamented that tariffs imposed on competitors (other countries) had been reduced and are expected to decline until 2022 while tariffs imposed against the Philippines remained at 30 percent, particularly in South Korea. In the case of Japan, tariffs varied depending on the season. For the season that covers the months of October to March, a higher tariff (18.2%) was imposed. It dropped to 8.2 percent for the period covering the months of April to

September, averaging at 13.2 percent. Meanwhile, pineapple tariffs in Japan and South Korea were 17 percent and 30 percent, respectively.

With tariffs of competitors decreasing, it is expected that foreign markets will reduce their importation of Philippine banana and pineapple. In fact, from 2011 to 2016, importation of Japan, South Korea, China, Middle East, and New Zealand from the Philippines already dropped (Table 8). In contrast, importation from Latin America by countries in Asia and the Middle East increased from 10 million boxes to 68 million boxes (580%) and its share of the market grew from 4 percent to 27 percent while the share of the Philippines dropped from 96 percent to 73 percent.

The lack of support by Philippine government affects the banana industry. Philippine banana exports were imposed a tariff of USD 2.00/box. Additional costs are borne by investors, such as on cold storage trucking facilities (USD 4.50/box), packing materials (USD 1.25/box), and discharge or loading costs. Meanwhile, in Ecuador, storage and ports are owned by the government, which contributes to the reduction of costs to the investors, thus have greater control of export price of banana.

Earlier this year, HB 5085, or the AVAs in Agrarian Reform Lands Act, was proposed. A similar bill was filed in the Senate, SB 1351, or “An act regulating the establishment and implementation of AVAs in agrarian reform lands”. These bills aim to institutionalize the establishment and implementation of AVAs for a productive collaboration between ARBs and private investors. Meanwhile, HR 919 stressed the need for the Committee

Table 8. Importation of banana from the Philippines by country, 2011 and 2016

Country	Imported banana boxes (millions) *		Percent Decrease
	2011	2016	
Japan	85.7	56.5	34
South Korea	28.1 **	22.8	19
China	51.8	4.9	11
Middle East	72.6	53.6	26
New Zealand	4.4	1.3	70

Notes: * 1 box = 13 kg

** 2012

Source: Dole Philippines, Inc. (n.d.)

on Agrarian Reform to assess the impact of the AVAs on farmers, as well as review the policies on AVAs. Public hearings and deliberations on the bills forwarded by the House of Representatives are ongoing.

Given that AVAs were introduced by DAR, the government should play a major role in its implementation. However, the study revealed that DAR was not actively involved in the AVAs, particularly in identifying investors. Investors were mostly previous farm operators who also convinced farmers to enter into an arrangement.

Income and productivity

Based on the records of the cooperatives interviewed, yield per hectare of banana and pineapple improved after AVAs (Table 9). A comparison of the income received by banana and pineapple ARBs affiliated with cooperatives before and during AVAs likewise indicated increased income during AVAs (Table 10). While the annual income of individual farmers who leased their lands appeared to have risen as well, the increment seemed to be very minimal. Moreover, compared to those affiliated with cooperatives, the income of individual farmers from leased lands was very low and not even enough to support a family of four for one year and also not sufficient to cover land amortization payments. Evidently, several identified elements needed for a successful case of AVA are missing in the case of farmers who leased their farms individually.

Nonetheless, PSRTI (2016) indicated a very low average income for AVAs ARBs (Table 11). Moreover, mean income of AVAs ARBs was much lower compared to non-AVAs ARBs. This could be attributed to the low lease rental rates reported by individual farmers renting out their farms.

Table 9. Comparative yield of banana and pineapple

Crop	Yield Per Hectare (MT/ha)		
	Before AVAs	During AVAs	PSA (2015)
Banana	44.4	60	20.49
Pineapple	82	98	41.12

MT = metric ton; ha = hectare; AVAs = agribusiness venture arrangements
Note: Data from focus group discussions and Philippine Statistics Authority (PSA)
Source: Authors' compilation

Table 10. Income of ARBs before and during AVAs

Crop	Income Per ARB	
	Before AVAs	During AVAs
Banana	WEARBEMPCO:	
	a) Employee: Salary	Salary with benefits
	Supervisory: (cannot recall)	PHP 315,348.96/year
	Nonsupervisory: (cannot recall)	PHP 208,085.78/year
	b) ARB: PHP 0	PHP 46,536.24/year
	TCBC	
	a) Employee: PHP 216,000/year	
	b) ARB: PHP 0	PHP 480,000/year
	AMSEFPCO	
	a) Employee: Salary	
	Supervisory: PHP 72,000/year	
	Nonsupervisory: PHP 42,000/year	
	b) ARB: PHP 0	PHP 720,000/year
Pineapple	Laak farmers (individual lease)	PHP 15,000/ha/year with PHP 500-increase every two years
	DARBC (leaseback)	
	a) Employee: Salary (no record)	(no record)
	b) ARB:	PHP 50,000/ha/year
	Individual lease	
	1980's: PHP 3,000/ha/year	PHP 12,000/ha/year with 10 percent every 5 years
	1999: PHP 8,000/ha/year + PHP 1,050 monthly allowance	

ARBs = agrarian reform beneficiaries; AVAs = agribusiness venture arrangements; ha = hectare;

PHP = Philippine Peso

Source: Authors' compilation

Table 11. Average household income by source, AVAs and non-AVAs ARBs: Philippines, 2015

Income	AVAs ARBs		Non-AVAs ARBs	
	Amount (PHP)	Percent	Amount (PHP)	Percent
Nonfarm income	10,294.76	35.95	10,480.33	21.91
On-Farm income	8,459.53	29.54	16,376.95	34.24
Off-Farm income	5,550.58	19.38	9,830.83	20.55
Remittances	4,333.33	15.13	11,138.89	23.29
Total income plus remittances	28,638.20	100.00	47,827.00	100.00

AVAs = agribusiness venture arrangements; ARBs = agrarian reform beneficiaries; PHP = Philippine Peso

Source: Philippine Statistical Research and Training Institute (2016)

Issues

Several issues, such as production and capital, marketing and pricing, institutional support, contract terms and negotiations, directions of AVAs and projects of cooperatives, monitoring the status of ARBs under AVAs, and state of cooperatives were raised during interviews. Concerns over the consequences of HB 5085, HR 919, and SB 1351 were likewise raised.

Production and capital

Access to capital, technology, needed inputs, and labor are important in increasing the productivity and income of ARBs. While growership upheld the intent of CARP, which is to make ARBs tillers and entrepreneurs of their own lands, individual ARBs or cooperatives that lack sufficient capital, appropriate technical knowhow, and access to inputs, opted to lease their lands even at very low rates.

Moreover, the production cost incurred by banana investors in the Philippines was higher compared to other banana-exporting countries due to high incidence of pests and diseases in the country.

Marketing and pricing

In growership, prices of produce are already stipulated in the contracts. However, prices at the black market tend to be higher than the set price, thus, some cooperative members were tempted to pole vault. In pole vaulting, cooperative members negate on their contractual obligation by selling their produce to other buyers who offer better prices compared to what is stipulated in their contract with the investor.

Institutional support

Investors lamented on the absence of government agency that protects or caters to the concerns of the banana and pineapple industries. They had been asking the Department of Trade and Industry to represent them in negotiations with other countries since they think that a government-to-government transaction will have more impact rather than just having the private investors do the lobbying. At the moment, Philippine exporters of pineapple and banana are lobbying that tariffs imposed by countries like Japan and South Korea be decreased for them to be more competitive with other countries like South America and Viet Nam which were able to bargain for lower tariffs with Japan and South Korea.

Pineapple and banana growers who are part of a cooperative do not have issues regarding institutional support since they are receiving the needed assistance from the investors. Meanwhile, individual ARB-respondents who leased their lands to Sumifru (Philippines) Corporation and are cultivating other parcels lamented on their predicament. They mentioned that in tending to the parcels that they did not lease out to Sumifru (Philippines) Corporation, government is not providing them with support services particularly credit and marketing assistance.

Negotiation and terms of contracts

DAR, if requested, is supposed to provide assistance to ARBs in reviewing the terms and conditions of the contract. However, assistance from DAR was often not requested and DAR was not even informed of the negotiation until the contracts had been finalized. This could be attributed to two factors. First, in the guidelines on AVAs, there is no stipulation that the contracts should pass through the scrutiny of DAR before these can be finalized. Second, DAR has no hand in locating investors for the ARBs and their cooperatives. Normally, investors directly approach the ARBs or their cooperatives on their own thus negotiations start and end between the two parties without the knowledge of DAR. Unfortunately, when conflicts arise after the contract was signed, DAR's assistance is sought as mediator. Due to unfamiliarity with the terms and conditions of the contract, DAR encountered difficulty in conflict mediation. Also, DAR sometimes was not provided with a copy of the contract.

Issues in contract negotiation also exist as discussed by ARBs. Given that farmers, particularly those holding individual CLOAS and not bonded together as a cooperative, do not have access to legal advice, they are easily attracted when offered with a lump sum amounting to five years of rental fees. With the absence of legal advice, the ARBs do not realize the consequences of hastily agreeing with the offer of the investors. For instance, the ARBs did not take into account the possibility that before the five-year contract ends the lump sum given to them will have been spent, which often occurred as accounted for by the respondents as well as the DAR staff. In case where an ARB has only one parcel and this was leased to the investor, once the lump sum paid had been fully spent, he has no other source of income. Other concerns that an ARB should consider are whether the price offered is fair with respect to the prevailing market rates, whether there are provisions in the contract that

require negotiation on regular intervals, and whether the contract will cover land amortization that the ARB has to pay as part of its obligation. Moreover, the ARBs should be provided with a copy of the contract. However, the study revealed that majority of the individual farmers do not have copies of the contracts although all cooperatives interviewed had a copy of their contract with the investors.

The AVA-covered cooperatives were satisfied and contented with the terms and conditions of their contract with the investors. In contrast, many individual farmers felt that the terms and conditions of the contracts were favorable only to the investors, hence, contracts need to be reevaluated. This issue of the AVA contracts was the main concern that the proposed HBs 5085 and 919 and SB 1351 want to address.

Another difficulty in contract negotiation, as pointed out by the investors and DAR officers, was the requirement for lease or leaseback agreements to be approved at the level of the Presidential Agrarian Reform Council (PARC) while other arrangements are approved only at the DAR provincial level. This causes delay for lease or leaseback agreements because if the President does not call for a PARC meeting, the contract is left unsigned for a long period (e.g., 17 years).

Direction of AVAs and projects of cooperatives

Cases of lease or leaseback agreements covered under this study indicated that the status of ARBs belonging to cooperatives are better compared to when they were farm workers and not cooperative members. However, as pointed out by some DAR officials and even an investor, growership follows the concept of CARP, wherein lands are managed and controlled by the ARBs while support services, such as credit, technology transfer, extension services, irrigation, farm machinery, are provided to them. This brings to fore the question on what direction DAR wants the cooperatives to take in terms of AVAs. For instance, WEARBEMPCO proved to be a successful entrepreneur operating several earning businesses and had generated labor in the area. However, it has veered away from the original intent of CARP, that is, to make the farmers entrepreneurs of agriculture-based businesses in their own lands.

Monitoring the status of ARBs under AVAs

A regular monitoring of all ARBs should be done regularly to obtain a firm conclusion whether AVAs indeed had benefitted the ARBs concerned. This will also enable the DAR to compare the status of the ARBs. However,

the DAR admitted that due to their various tasks and concerns, they do not have enough time to monitor beneficiaries under AVAs.

State of cooperatives

The cooperatives covered in the studies had been capacitated and the officers and staff can manage the businesses undertaken by the ARBO. However, not all ARBOs can run businesses, which had been the cause of failures of some AVAs.

Conflicts among cooperatives had also been noted. Some cooperatives have also been divided into at least two organizations due to differences of opinion on AVAs and how the ARBOs should be managed, among others. Examples are Dolefil and TCBC. Although the organizations have learned to coexist with each other, conflicts may still worsen and eventually affect the performance of the ARBOs. This may also affect the agreements entered with the investors.

HB 5085, HR 919, and SB 1351

Investors were worried about the possible negative effects the proposed HBs 5085 and 919 and SB 1351 may have on their current agreements. Although HR 919 merely orders the Committee on Agrarian Reform to conduct an investigation on the impact of AVAs, some investors were apprehensive that the results may be biased given certain premises of HR 919. For instance, it stated that the AVAs enchain ARBs with contracts favoring *hacenderos* or landowners, corporations through corporative schemes, contract growing, profit-sharing agreements, block farming, leasehold, leaseback, and other arrangements. Meanwhile, the features of HB 5085 and SB 1351 are the same except that the HB 5085 contains an additional item, which is the Resolution of Disputes. Nevertheless, one major worry of investors was the provision in both bills stating that only two-thirds of the land subjected to AVA could be cultivated by investors while the remaining one-third shall be exclusively controlled by ARBs. This will lessen the area covered by the investor. Moreover, the bills stipulate that all AVA contracts must contain provision allowing the ARB to rescind the AVA and that the duration of AVAs shall not exceed 10 years. The 10-year duration is much shorter than the usual 25-year duration of most current contracts. The bills also gives PARC the right to revoke AVA contracts under the following conditions:

- 1) Gross violation or noncompliance of terms and conditions of the contract

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- 2) Failure of AVA to provide benefits and incentives stipulated in the contract
- 3) Financial and economic unviability of AVA
- 4) Conversion or fragmentation of a portion of the farm into nonagricultural uses
- 5) Transfer of ownership to investors
- 6) Cases of permanent or temporary takeover under when conditions identified in Article 8 are not met
- 7) Acquisition or approval of AVA through fraud, intimidation, coercion, deceit, and other analogous or meritorious grounds

Moreover, there are stipulations that may cause additional expenses or lower profits for investors. These include the following:

- 1) In case of food shortage, at least 50 percent of the produce will automatically be set aside for domestic market.
- 2) Investors shall assist the ARBs in disaster relief and rehabilitation efforts.

There is also a provision that the AVAs shall be subject to the approval of the PARC. However, based on current experience, lease/leaseback contracts usually take a very long time to be approved.

Nonetheless, while these stipulations cause apprehensions on the part of the investors, they intend to protect the interest of ARBs and ensure control by ARBs of the lands awarded to them.

Conclusions and Recommendations

While AVA is basically a land consolidation model and adopts the concept of economies of scale, the elements needed to ensure its successful implementation should consider the supply chain. Taking advantage of economies of scale, the different cases of AVA studied showed that its adoption can be successful if the elements of the whole supply chain are present in the arrangement.

Initially, there should be capital to ensure that appropriate production inputs are applied at the right amount and time. Also essential is land together with security of tenure, as no investor will enter into an agreement if the farmer or cooperative does not have a firm hold over the rights on the land. Labor, farm machinery, and

irrigation, as well as postproduction facilities, market facilities, and infrastructure should also be available and accessible. Aside from a sure market, a stable and optimal price is also necessary to ensure profitability. Government assistance should also be extended, and the policy environment should be supportive of the AVAs. Other recommendations include the following.

Provision of credit and access to inputs

Under growership, capital is not a problem since investors provide the needed capital. In a lease agreement, again capital is not an issue because investors operate the farm. However, for individual ARBs leasing out a parcel but still operating other parcels, provision of credit is another necessity that needs to be addressed by DAR. Unless capital is provided, these farmers will always be tempted to go into a lease agreement without considering its consequences or consulting appropriate authorities, like the DAR, to ensure that their rights are protected in the contract. The government can link these farmers to financing institutions like the Land Bank of the Philippines. If government cannot provide the needed capital, it should look into the possibility of providing subsidized inputs to farmers or cooperatives through the local government units.

Markets, pricing, and policy support

While the government does not have control over the prices of banana and pineapple, it can provide the necessary policy support. At this point, private entities, composed of the AVA investors and operators, are lobbying for lower tariff rates of banana and pineapple. Government could study this further to see its effects.

Institutional support

Creating a new government entity that would address the needs of the banana and pineapple industry is costly and tedious. It may be more practical and feasible for the DA or the DTI to create a section within its organization that will look into the concerns of the two industries.

Direction of AVAs and projects of cooperatives

While WEARBEMPCO proved that a lease agreement may be beneficial to the cooperative and members had been capacitated to undertake successful income-generating projects, this model failed in upholding the

goal of CARP, which is for ARBs to gain access and control of the lands awarded to them and make them agriculture-based entrepreneurs. While there are risks and uncertainties involved in terms of the capabilities of the ARBs to run a business under growership arrangements, this agreement is consistent with the expectations of CARP. DAR should encourage more growership agreements.

Furthermore, the arrangements seemed to be more successful under a collective or cooperative management rather than an individual management. Terms and conditions were also more favorable toward a cooperative and investor partnership. Even the lease agreement worked better for the ARBs bonded as a cooperative than individual ones. Thus, DAR should push for more cooperative-investor arrangements.

Monitoring of the status of ARBs under AVAs

One of the provisions of the CARP is for the DAR to have a performance beneficiaries monitoring and evaluation (PBME) system. However, until now, a PBME has not been set up by the DAR. This is primarily the reason why farmers are able to sell, lease, or mortgage lands that had been distributed to them. DAR may want to consider utilizing the PBME system created and recommended by the then Institute of Agrarian Studies through a project based at the University of the Philippines Los Baños Foundation, Inc. way back in 2000. The system had been given to the planning section of the DAR.

With a monitoring and evaluation system in place, the DAR can readily find out the status, income, and productivity of ARBs, regardless of whether they are under land transfer scheme, leasehold arrangement, AVAs, or any other CARP scheme. DAR will also be able to monitor and assess if agreements of ARBs with investors are within the provisions allowed under the AVAs.

Contract negotiation

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. It should be considered that the provincial office is knowledgeable about the situation in the area.

The contract entered by ARBs and investors should also have two prerequisites to ensure that both contracting parties are protected. One is the provision of legal advice particularly to the ARBs that do not have access to such. Second is the terms in the contract, specifically those related to lease rents and prices of commodities, should be backed up by a sound economic or feasibility study. Lease rent agreements should also be able to factor in the amortization payment of ARBs considered usually in contracts between cooperatives and investors but not between individual ARBs and investors.

Capacity building of cooperatives

Although the cooperatives covered were stable and generating income, some of them still need to be strengthened to manage businesses properly. Thus, DAR needs to coordinate with the Cooperative Development Authority, as well as other service providers, and seek their assistance to strengthen managerial, financial, and marketing abilities of cooperatives' officers and staff. Values formation is also important to avoid incidents like pole vaulting.

Given the possible decline in global demand for banana and pineapple due to tariffs, cooperatives should be able to rely on other income-generating projects not dependent on said products. Their capacities to identify and engage in other agriculture-related businesses should be strengthened. Related to this, trainings on preparing project proposals and conducting feasibility and market studies can also be extended to them.

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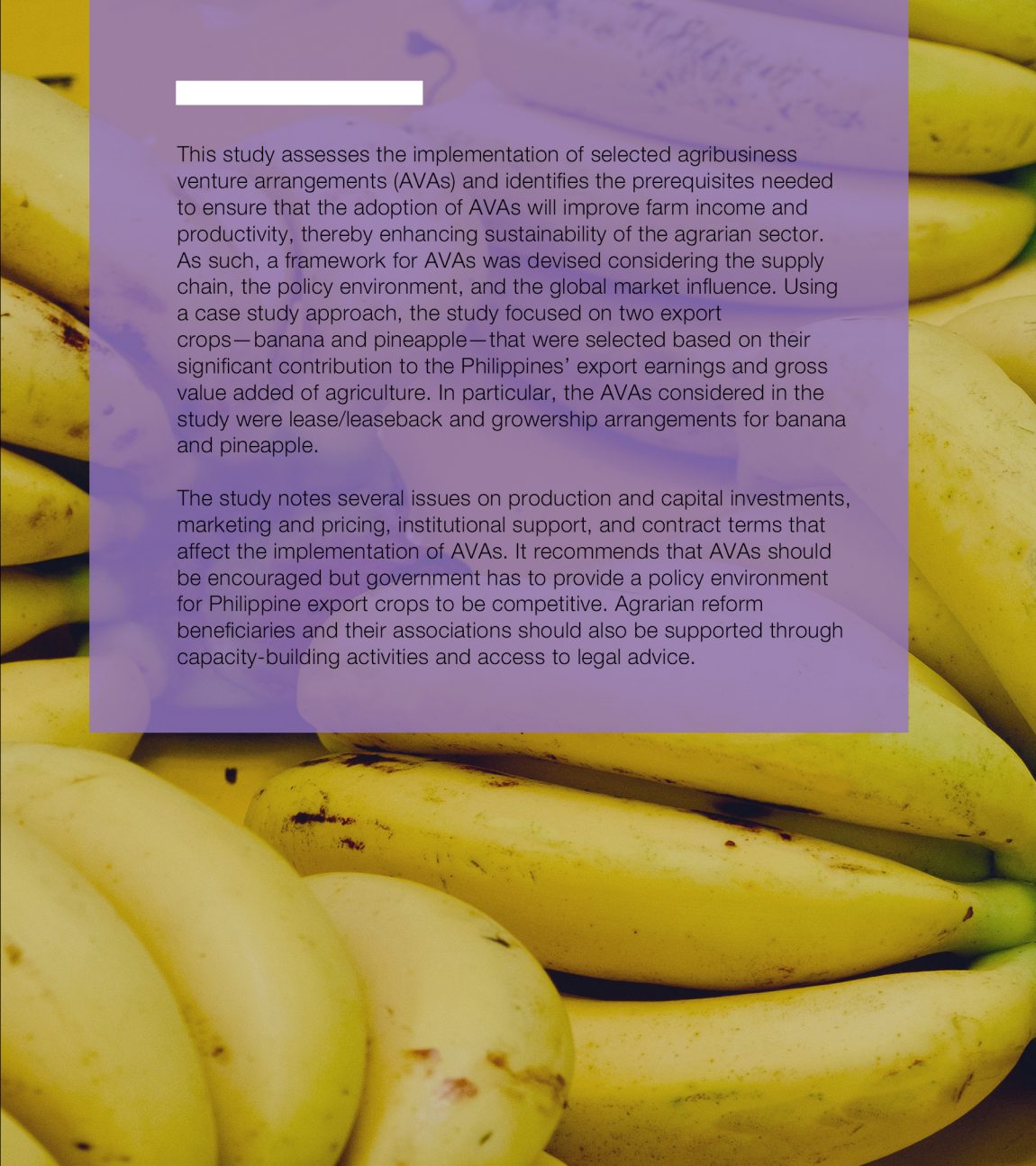
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This study assesses the implementation of selected agribusiness venture arrangements (AVAs) and identifies the prerequisites needed to ensure that the adoption of AVAs will improve farm income and productivity, thereby enhancing sustainability of the agrarian sector. As such, a framework for AVAs was devised considering the supply chain, the policy environment, and the global market influence. Using a case study approach, the study focused on two export crops—banana and pineapple—that were selected based on their significant contribution to the Philippines' export earnings and gross value added of agriculture. In particular, the AVAs considered in the study were lease/leaseback and growership arrangements for banana and pineapple.

The study notes several issues on production and capital investments, marketing and pricing, institutional support, and contract terms that affect the implementation of AVAs. It recommends that AVAs should be encouraged but government has to provide a policy environment for Philippine export crops to be competitive. Agrarian reform beneficiaries and their associations should also be supported through capacity-building activities and access to legal advice.