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Agribusiness Venture Arrangements (AVAs) in Agrarian Reform Areas in the Philippines: Identifying Alternative Schemes and Investments for Sustained Productivity and Competitiveness

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ABSTRACT

Engagement of agrarian reform beneficiaries (ARBs) in Agribusiness venture arrangements (AVAs) is recognized by the Department of Agrarian Reform (DAR) through policies that govern the implementation of AVAs. Growership is considered as the most advantageous to the land recipients or ARBs, while lease arrangements, the most predominant are less preferred. Documented successes in AVAs were due to good management and better participation in the value chain for those engaged in growership schemes while failures were attributed to organizational dynamics, issues arising from low land lease rates and long duration of lease which limit opportunities for land management, productivity improvement and efficient marketing and trading by the ARBs. Other arrangements need to be explored and promoted by the agriculture, agrarian reform, and trade departments supported by responsible private sector investments that will further contribute to improving productivity, agricultural trade and competitiveness in the Asia-Pacific region.

Keywords: agrarian reform, agribusiness, growership, lease, arrangements.

INTRODUCTION

Agribusiness venture arrangements (AVAs) are business partnerships between private investors and agrarian reform beneficiaries (ARBs) involving the awarded lands planted to high value crops. The Department of Agrarian Reform (DAR) recognizes the existence of AVAs, formerly called "alternative venture agreements" as a way of promoting responsible private sector investments in agrarian reform areas, enhancing and sustaining the productivity and profitability of awarded lands, facilitating and hastening the transformation of ARBs into small and medium farmer-entrepreneurs and contributing to sustainable rural development and global competitiveness of the Philippine agricultural sector. Agribusiness arrangements with ARBs began with the lands owned by the National Development Company in the late 1980s. When the Commercial Farm Deferment (CFD) program under the Comprehensive Agrarian Reform Program (CARP) lapsed in 1998, these same commercial farms were subjected to agrarian reform (DAR-FAO, 2016). To date, more than 400 agreements between ARB organizations or individual ARBs and private investors have been accounted for. Most of them are in the island of Mindanao, involving around 52,000 hectares, with banana, pineapple and oil palm as the most widely planted crops. Based on the DAR-FAO Study on AVAs in 2016, 20% of total area planted to banana, oil palm, cacao and pineapple in the country are in AVA areas. Banana and pineapple products are among the top agricultural exports of the Philippines along with coconut oil.

Discussion of the experiences in existing schemes was based on documented AVA experiences studied by earlier researches. Discussion is also limited to selected AVAs that have been evaluated.

AVA POLICIES

DAR Administrative Order (A.O.) 09, Series of 2006 otherwise known as the "Revised Rules and Regulations Governing Agribusiness Venture Arrangements (AVAs) in Agrarian Reform Areas" was issued in December 2006. It was an enhancement of the previous policy guideline – A.O. No. 02, Series of 1999, otherwise known as Rules and Regulations Governing Joint Economic Enterprises in Agrarian Reform Areas.

DAR A.O. 02, Series of 2008 otherwise known as Guideline Governing Lease of Land under Agribusiness Venture Arrangement (AVA) in Agrarian Reform Areas and the Determination of Lease Rental thereof provides the rules for lease arrangements and recommended a lease rental formula based on poverty threshold, maximum land award limit, land amortization value and real property tax per hectare.

AVA SCHEMES

DAR Administrative Order (A.O.) 09, Series of 2006 defined the following AVA schemes:

Contract Growing or Growership is a scheme wherein the ARBs commit to produce certain crops which the investor buys at pre-arranged terms (volume, quality standard, selling price).

Joint Venture Agreement (JVA) is a scheme wherein the ARBs and investors form a joint venture corporation (JVC) to manage farm operations. The ARBs contribute the use of the land held individually or in common and the facilities and improvements, while the private investor furnishes capital and technology for production, processing and marketing of produce, or construction, rehabilitation, upgrading and operation of agricultural capital assets, infrastructure and facilities.

Lease Agreement is a scheme wherein the beneficiaries or ARBs bind themselves to give the former landowner or any other investor general control over the use and management of the land for a certain amount and for a definite period.

Management Contract is a scheme wherein the ARBs hire the services of a contractor to assist in the management and operation of the farm for production of high value or other crops in exchange for a fixed wage and/or commission.

Marketing Agreement is a scheme wherein the investor explores possible markets/buyers for the ARB's produce and in turn receives commission for actual sales.

Service Contract is a scheme wherein the ARBs engage the services of a contractor for mechanized land preparation, cultivation, harvesting, processing, post-harvest operations and/or other farm activities for a fee.

Build-Operate-Transfer (BOT). In this scheme, the "investor builds, rehabilitates or upgrades and operates capital assets, infrastructure and facilities applied to the production, processing and marketing. Ownership will then be transferred to the ARBs after an agreed period.

EXPERIENCES AND EVIDENCES

Growership or contract growing arrangements exist mostly in awarded areas planted to banana in Southern Mindanao and for oil palm in the Eastern Mindanao or Caraga region. It is considered a more favorable arrangement allowing control and management of awarded lands by the recipients or ARBs. Compliance to quality standards and good agricultural practices by the ARBs is highly necessary under this scheme. However, pole-vaulting or side selling by the ARBs to a third party buyer, offering higher prices, in violation of the exclusive contract or growership arrangements made between the ARBs and the investor firm has been a common problem.

The DAR-FAO study (2016) documented that from the perspective of investors, a contract duration of 15-20 years is considered necessary in order to adequately recover significant infrastructure investment costs. From a marketing and sales perspective, a three (3) to five (5) year contract should be sufficient in assuring downstream customers that the investor has a sufficient quantity of good quality product. The same duration is also considered as sufficient to recover the costs associated with the provision of technical support services. However, from the ARBs' points of view, a contract of 15-20 years binds the growers into an agreement within which prices are predetermined. This is found beneficial when market prices are low, but the exclusive nature of these growership or contract agreements prevents ARBs from transacting with other buyers offering higher prices, unless pole-vaulting is resorted to.

The same study also noted that smallholder farmers engage in growerships as these enable them to achieve higher yields, diversify into new crops and increase household income (FAO, 2016 from Bijman, 2008). As most contracts include provision of appropriate inputs and technical assistance to help farmers raise productivity and product quality, production risks are minimized. Some contracts may reduce marketing risks by providing a guaranteed market (FAO, 2016).

During the focused group discussion (FGD) conducted by the FAO AVA research team, the farmers noted that growership arrangements are the best form of AVA for CARP areas. This is because growerships provide better opportunities for farmers to participate fully in the value chain. Farmers are also trained to ensure the good quality of their produce and are therefore able to compete well in the markets (DAR-FAO, 2016). A comparison of major AVA schemes is presented in Table 1.

Lease Agreements. Based on documentation by the AVA Task Force Review (AVATAR) for Southern Mindanao, under the lease contract, the lessor or ARB who leases out his land does not have any participation in the production activity. The lessor recognizes the exclusive rights of the lessee or investor to develop, cultivate, improve, administer and manage the leased property. However, the lessor has the right to stop the operation of the lessee in the leased property at any time if said operation has become disruptive, harmful or prejudicial to the health of the community based on findings by the appropriate government authority. The lease contract specify that the lessee shall only apply generally accepted farming technologies, system, chemicals, fertilizers and other materials as stipulated in the contract.

From a regulatory point of view, lease arrangements are the less preferred arrangements by DAR and agrarian reform-oriented non-government organizations (NGOs) due to transfer of control and management of the awarded land by the investors, including former landowners. However, they are the most prevalent. Around 73% of existing AVAs are lease arrangements covering collective and individually titled awarded lands. Very low lease rentals and long duration of agreements are the main issues confronted by ARBs limiting their income-earning potential from the awarded lands. Compliance to the lease rental formula provided for in DAR AO 2, S. 2008 has been very weak. Under the DAR's A.O. No. 2, lease rental should be computed considering the annual poverty threshold in the specific province, maximum land award limit per ARB under the CARP, land amortization value per hectare and real property tax per hectare. While the lease rentals in several AVAs have been increased, the actual rates are still lower than those computed using the lease rental formula of A.O. No. 2 considering the variations in provincial income or poverty threshold levels determined by the then National Statistical Coordinations Board (NSCB) now under the Philippine Statistics Authority (PSA) .

Joint Venture Agreements (JVA) are managed by Joint Venture Corporations (JVCs) which are represented jointly by the investors and the ARBs. The equity participation of ARBs is determined by both parties or as appraised by accredited independent appraiser. Like in lease arrangements, the control and management of the land is vested on the investors during the duration of the JVA. Employed ARBs receive wages for their labor in accordance with existing labor laws, in addition to annual dividends. The low amount of dividends, long duration of the agreements and organizational dynamics in collectively titled lands are outstanding issues.

DAR in 2006 conducted a case study of a JVA between Tagdangua CARP Beneficiaries Cooperative (TCBC) composed of farmers in the former Jacobson estate, and the Mabini Industrial Tree Plantation Incorporated (MITPI). A JVC called Tagdangua Development Corporation (TAGDECOR) was established to undertake the production of Cavendish bananas for a period of twenty (20) years covering 360 hectares. TAGDECOR was 65% owned by MITPI and 35% owned by TCBC. It managed farm operations of banana production and maintained marketing linkage with Del Monte Philippines. Production increased from 2,500 to 3,800 boxes of banana per hectare per month which was 300 boxes more than the normal monthly harvest and area planted to banana further expanded. Identified contributors of success were transparency, hard work and cooperation, good management, financial support by MITPI and increased revenues due to higher dollar to peso exchange rate. A follow-up study in 2012 revealed that the JVA was terminated in 2008 when both MITPI and TCBC sold their ownership shares in TAGDECOR and lease agreement was entered into by TCBC with a new investor. The disunity among the ARB-members, the cooperative's failure to sustain its economic activities coupled with the internal conflicts among its officers, and frequent changes in its leadership were the factors considered to be contributory to the non-sustainability of the JVA.

In a management contract, the land remains under the control and possession of the ARBs. The contractor-manager assumes the tasks of production, hiring of employees, marketing and sales, for an agreed guaranteed income for the ARBs, while any excess amount is considered as contractor's profit. In a marketing contract, the investor usually acts like a broker and the ARBs and the farmers have no control over where to sell the products. As an AVA scheme, it is differentiated from marketing agreements entered into by ARB organizations (ARBOs) for fresh produce and value added-products under DAR's marketing assistance program. There is limited report and documentation on the experience on management and service contracts, with only two agreements identified involving pomelo plantations. Moreso, there is no documented experience yet involving a BOT agreement between ARBs and investors although it is provided for under DAR A.O. No. 9, Series of 2006.

On the other hand, substantial documentation and studies on growership or contract growing and lease type AVAs have been conducted indicating the advantages of the former scheme from the point of view of the government and entrepreneurship-oriented ARBs. However, said scheme was seen to be prone to investor take-over in case of non-compliance to technical standards.

Table 1. Features of major AVAs schemes based on DAR A.O. 9, S. 2006 and selected case studies

Features	AVA Scheme		
	Growership	Joint Venture Agreement (JVA) and Lease Agreement	Management Contract
Input Sharing			
Investors	Purchase of ARBs' produce at pre-agreed terms (volume, quality standard, selling price)	Production and processing capital and technology; Upgrading and operation of agricultural capital assets, infrastructure and facilities	A contractor assists in the management and operation of the farm in exchange for a fixed wage
ARBs/ARBOs	Crop cultivation and harvesting	Land, facilities and improvements Employment as workers	Crop cultivation and harvesting
Marketing	Investors market the produce	Investors market the produce	ARBs market the produce
Best Practices	Training of ARBs to ensure good quality of produce Contract review every two (2) years	Representation of ARBs in the Joint Venture Corporation (JVC)	Human Resource Development (HRD) Plan for technology transfer
Success Factors	Better participation of ARBs in the value-chain Empowered ARBs/ ARBOs	Transparency Hard work and cooperation Support of investors for technology and management capacity development of the ARBs	Limited documentation
Issues	Pole-vaulting or side-selling Transparency in price determination Standards for quality assessment	Dividend amount Lease rental amount Duration of JVA and lease Organizational dynamics within ARBOs	

Empirical evidence for productivity based on the records of cooperatives interviewed for the study conducted by Pantoja *et al.*, show that yield per hectare of banana, pineapple and sugarcane increased during the implementation of AVA and Sugarcane Block Farming (SBF), with yield records that are higher than the national figures reported by the PSA for 2015 (Table 2).

Table 2. Comparative yield of major AVA crops before and during AVA and SBF

Crop	Yield (in MT/Ha.)		
	Before AVA/SBF	During AVA/SBF	National (PSA) Data (2015)
Banana	44.4	60	20.49
Pineapple	82	98	41.12
Sugarcane	43	60-70	54.41

Source: Pantoja *et. al.*, 2017

An earlier study was conducted by Habito *et.al.*, to determine the economically viable land size for agriculture that would permit the efficient use of labor and capital resources optimizing farm production and income under varying bio-climatic and technological conditions. From information obtained from the study, Table 3 presents a comparison of costs and returns between the major AVA crops. Highest cost was needed for banana while pineapple had the higher net returns per hectare. The high cultivation and investment costs per hectare are among the reasons for long-term durations in AVAs especially those lease-type arrangements for banana and pineapple.

Table 3. Costs and Returns Estimates for Major AVA Crops, 2008, in USD per hectare ($US/Ha.)

Crop	Costs	Gross Returns	Net Returns
Banana	2,812	5,000	2,188
Pineapple	2,645	6,750	4,105
Sugarcane	1,803	3,348	1,545
Oil Palm	800	1,957	1,157

Source: Habito *et.al.*, 2010; Note: Philippine Peso (PhP) expressed costs converted to USD at PhP 46:1 USD

IDENTIFYING ALTERNATIVES AND THEIR POTENTIAL

There is a need for other favorable alternative arrangements that protect the property rights of ARBs and develop their entrepreneurial capacities. In a round-table discussion for AVAs conducted in 2011, Dr. Rolando Dy of the University of Asia and the Pacific (UAP) suggested models from ASEAN countries. These include the Nucleus Estate-Smallholders (NES) scheme for long-term crops such as oil palm, rubber and sugar and Develop-Manage-Transfer (DMT) where the ARBs can have full control after development phase. This can address the issue of long-term lack of control of land recipients to the land awards that is common to lease and JVA schemes of AVAs.

Dr. William Dar, Secretary of Agriculture has suggested the formation of community agriculture management companies or corporations (CAMCs) which will operate in municipalities or villages. Said CAMCs shall take part in rural production systems, engage in contractual partnerships and undertake trading of farm inputs, provision of credit, agricultural training and marketing. The CAMCs to be organized shall complement the existing rural organizations and ARBOs. CAMCs to be formed should be able to implement and expand growership arrangements that promote better participation of ARBs in the value chain. At the same time it can engage in shorter-term lease arrangements with farmer groups with improved terms and conditions on contract review, employment, capacity building and technology transfer for productivity improvement and efficient trading and marketing in order to minimize if not totally eliminate the issues encountered in existing related schemes.

Consolidation of small and medium-sized farms was also suggested. SBF has been started and supported by DA, DAR and the Sugar Regulatory Administration (SRA) as one form of consolidation where blocks of thirty (30) hectare sugarcane farms are formed to maximize mechanization and overall production efficiency. Individual ownership and control of awarded lands can be maintained through this arrangement subject to collective or consolidated production activities in the block farms. Early evidence of SBF's success in increasing yield levels per hectare was gathered by Pantoja *et. al*, in 2017 (Table 1). Widespread implementation of block farming has the potential of increasing incomes received from sugarcane farming and reducing the prevalence of lease system in sugarcane lands with low land rental rates.

CONCLUSION

In the policy context, the AVAs are recognized as one of the means to enhance and sustain agricultural productivity of awarded lands and contribute to sustainable rural development and achieving global competitiveness of Philippine agriculture.

More remains to be done beyond policies. The experiences and evidences indicate successes, limitations and constraints in the existing schemes due to internal and external factors. There is a need to further identify and promote alternative agribusiness arrangements for the ARBs. The successes achieved need to be sustained by continuously providing support services for organizational strengthening, good agricultural practices, business and contracts management, legal services and marketing and trading assistance. Service and management contracting arrangements which could have been underreported if not underexplored must also be given adequate support for them to be recognized or adopted widely by the ARBs as options to replace or combine with existing ones.

Evidence from the studies reviewed showed higher yield of major export crops (banana and pineapple) due to AVAs and of sugarcane due to block farming. The higher profitability of pineapple relative to the other crops was also shown.

From the existing and identified alternatives, growership and block farming have the potential to succeed if given appropriate and continued support from the government and private sector. Expansion of program coverage of block farming beyond sugarcane should be pursued with greater participation from private investors.

The other suggested arrangements need to be further explored and promoted by the agriculture, agrarian reform and trade departments and local governments likewise supported with appropriate policies, technologies, financing and responsible private sector investments drawing lessons from experiences the existing schemes.

Legal and technical assistance for the AVAs especially those engaged in export crops (banana, pineapple and oil palm) and other appropriate and timely support services should be ensured for the AVAs to fully contribute to sustaining productivity and profitability of awarded lands. Good agricultural practices, market-oriented value-adding activities and good business practices need to be further observed in the AVAs for them to contribute to sustainable rural development, global competitiveness of the Philippine agricultural produce and improving agricultural trade in the Asia-Pacific region.

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