

How farmers in Compostela Valley made Agribusiness Venture Agreements work for them

The SARPHIL CARP Beneficiaries Multi-purpose Cooperative (SACARBEMCO) was in desperate straits in 2001.¹ They had just lost a labor rap filed by their members/workers.

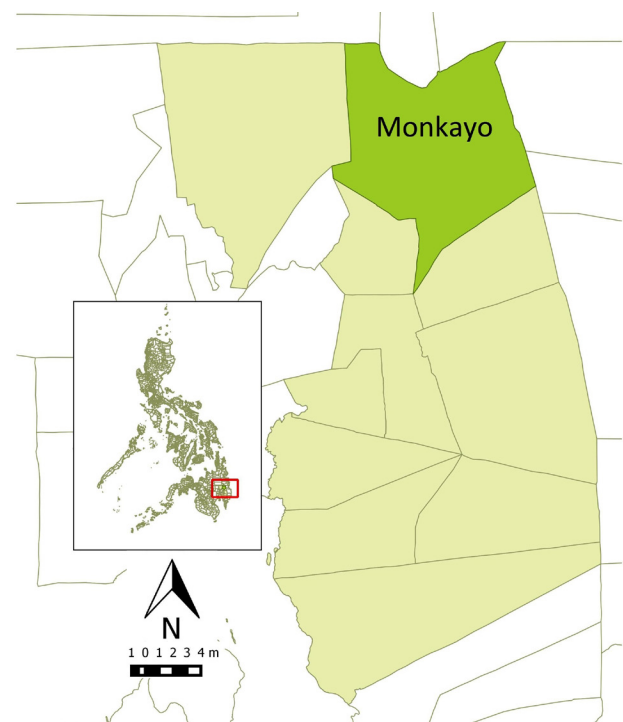
Earlier in 1997, SACARBEMCO had been enjoying high income from their 220-hectare rubber plantation, which was later on expanded to include an additional 65 hectares (ha). From their profit and with support from the Japan International Cooperation Agency (JICA), the cooperative was able to build an office and a training center with a small consumers' store.

But in 1999, the price of rubber in the global market started to decline, affecting the group's rubber trading. They could no longer provide salaries for all their workers, and had become delinquent in paying their land amortizations. One misfortune after another led to a labor case filed by its members/workers against the cooperative.

The turnaround came in 2004 when SACARBEMCO signed a 25-year tripartite agreement with Agumill Philippines, Inc. (AGPI)² and Land Bank

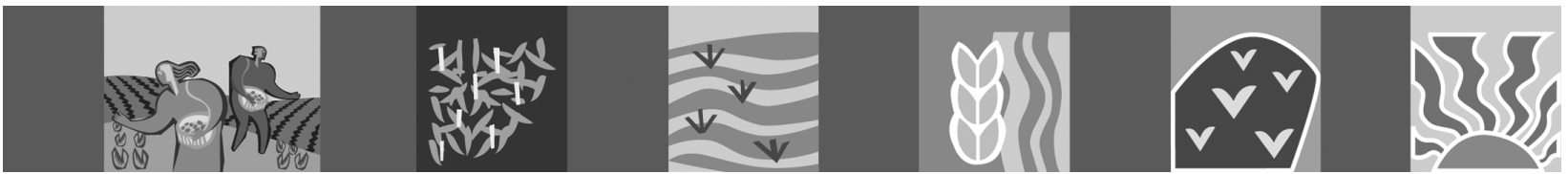
¹ SACARBEMCO is a group of 145 ARBs who, in 1996, were awarded eight collective CLOAs and one mother CLOA for 483 ha of land from the rubber plantation of Sarmiento Philippines, Inc. (SARPHIL) in Monkayo, Compostella Valley.

² AGPI is a subsidiary of Agusan Plantations Inc. (API) engaged in the processing of palm oil and other biofuels. API is a joint venture among Filipino, Singaporean, and Malaysian investors.



Map of Compostela Valley showing the town of Monkayo
Geospatial data source: GADM

Condensed from *Increasing Small Holders Income through AVA: The SARPHIL CARP Beneficiaries Multi-Purpose Cooperative [SACARBEMCO] Experience* by E. Lim and M. Catindig of The People's Campaign for Agrarian Reform Network, Ltd. - AR Now! 2013. For more details of the case, contact: arnow@phildhrra.net or magscatindig@phildhrra.net.



of the Philippines (LBP) committing to sell and deliver raw materials to AGPI. LBP would provide SACARBEMCO with a production loan, while AGPI would provide the credit endorsement and advance equity, as well as technical assistance to SACARBEMCO for seed selection, production, and marketing.

As a result of this contract growing arrangement, SACARBEMCO has been able to regularly pay its land amortizations. Its workers/members now also enjoy a higher agricultural wage at PhP295/day against the minimum wage of PhP256/day, in addition to higher dividends from the cooperative's profit.

From their income in this venture, SACARBEMCO has been able to recover from its previous losses and diversify its activities to include, among others, lending services, carabao dispersal, cacao production, trucking services, and hollow block making, as well as operating a piggery, fish pond, consumer store, and hardware store.

As for the payment scheme, AGPI directly deposits its payments to LBP in behalf of SACARBEMCO. A big percentage of SACARBEMCO's profit is used to pay their production loan, a certain portion goes to the cooperative's general reserve fund, and 10% goes to the members' capital build-up.

Factors for success

Unlike the leaseback agreement that the Hijo Agrarian Reform Beneficiaries Cooperative (HARBCO) entered into with Hijo Plantation, Inc./Lapanday Foods Corporation (HPI/LAPANDAY), the contract agreement of SACARBEMCO and AGPI follows no fixed buying price and volume requirements. SACARBEMCO is only required to deliver sorted raw products based on AGPI's standards. Rejected products will be returned to

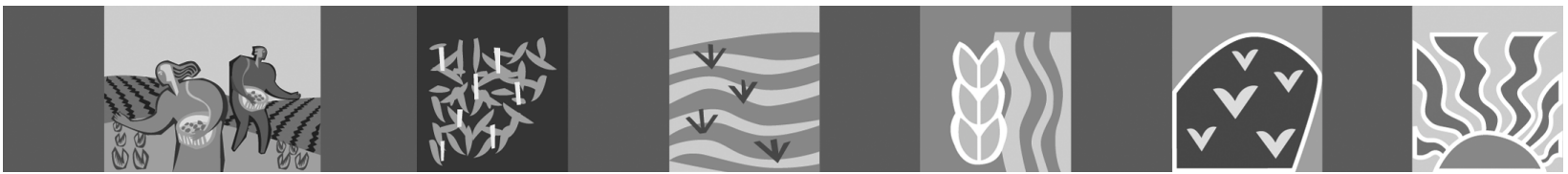
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SACARBEMCO without deducting any cost from its income. Only those items that pass AGPI's standards will be bought at the prevailing dollar price on export. The agreement also does not prevent SACARBEMCO from intercropping or diversifying, giving the cooperative opportunities for other farm-based livelihoods.

In contrast, HARBCO's leaseback agreement transferred not just the marketing rights but, more significantly, the ARBs/landowners' property rights to the investor. It considered the ARBs/landowners' rights to land as a 'commodity' which could be easily transferred or assigned from one investor to another.

SACARBEMCO officials revealed that they have been offered leaseback agreements by several investors but have refused them. They know that such arrangements will only provide them short-term income and will deprive them of regular household income.

Although SACARBEMCO's agreement also had no formal approval and/or endorsement from PARCOM, it was reviewed and formulated with the assistance of the Provincial Agrarian Reform Office (PARO), the Municipal Agrarian Reform Office (MARO), and the Philippine Partnership for



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the Development of Human Resources in Rural Areas (PhilDHRRA), with the view of negotiating better terms for the cooperative’s members.

Also crucial to SACARBEMCO’s success is the regular technical assistance provided by the Department of Agrarian Reform (DAR) and involved NGOs. Unlike in HARBCO’s case, SACARBEMCO’s members were given training on production enterprise, alternative livelihoods, organization management, and others, thereby strengthening their bargaining power.

It has also helped that SACARBEMCO joins the regular AGPI growers meetings where they can negotiate for better terms with the investor. AGPI also provides weather bulletin forecasts to its growers to prevent losses or rejects due to force majeure.

Further, the decision of some former STARPHIL (landowner) staff to join SACARBEMCO has proven advantageous to the cooperative. The technical knowledge and management skills of these new members have been harnessed in favor of the cooperative.

Recommendations

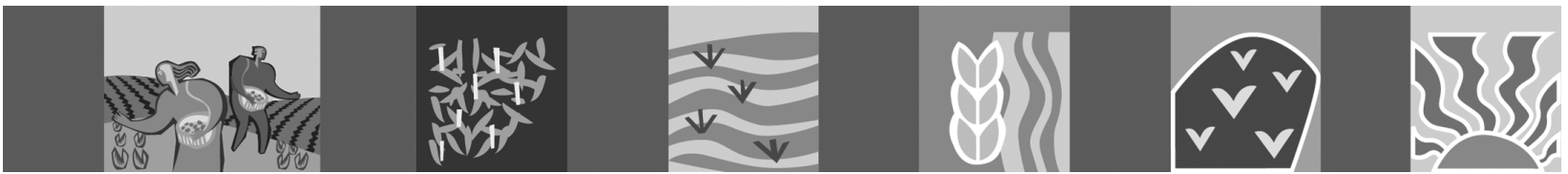
While this case study presents this type of contract growing as advantageous to the ARBs,

it does not in any way present or suggest that biofuel production is a better option than food production.

In general, Agribusiness Venture Agreements (AVA) exist to promote “productive and collaborative ventures between the private sector and the ARBs” (AO 9, 2006) to be able to transform the ARBs into farmer-entrepreneurs and maximize distributed agrarian lands. AVAs, then, should not be a deterrent to the ARBs’ right to lands but should, in fact, provide incentives for them to develop their lands and improve their production.

To prevent lopsided situations, such as that of HARBCO, from occurring—in which the contract agreement is not economically viable for the ARBs, violates their welfare and rights to land, and was not approved by the Undersecretary of the DAR’s Policy Planning and Legal Affairs Office (PPLAO), the following amendments to DAR Administrative Order 09-06 are proposed:

- a. Adopt or subscribe to the Committee on World Food Security (CFS) Voluntary Guidelines, especially on promoting tenure security of small holders and food security of the host country;
- b. Require free, prior, and informed consent (FPIC) of the ARBs or a multi-stakeholder consultation prior to approval of an AVA;
- c. Remove Section 5.2.10 and refine Section 5.3 to ensure that the ARBs will not be divested of their lands during the effectivity of the AVA;
- d. Include provisions on penalties and incentives for ARBs and investors;
- e. Require review and approval by the DAR/ Presidential Agrarian Reform Council (PARC)/PARC Excom (PARCOM) of



- contracts/agreements, regardless of size and type;
 - f. Include 'safety net' provisions in the contract/agreement such as price monitoring, transparency in financial documents, etc.; and,
 - g. Establish a registry of such agreements/contracts for monitoring and evaluation.
- e. Setting a transparent mechanism or coordination between the cooperative and the investor;
3. Develop a government program that would capacitate ARB organizations/cooperatives to assess the operational, financial, and legal implications, as well as the viability, of proposals/contracts that are offered them. ■

Based on the experience of SACARBEMCO, the following are also recommended:

1. For the DAR, in coordination with other agencies (e.g., the Department of Trade and Industry, the Department of Labor and Employment, the Department of Agriculture), to review and evaluate all existing AVAs and to declare all existing contracts, based on AO 9, as null and void if they have not been approved or signed appropriately and have been proven to have violated the ARBs' rights;
2. Enact a policy or law that would regulate AVAs or land investments between agribusiness corporations and ARB organizations/cooperatives, by specifically:
 - a. Allowing ARBs to diversify their farm/production and income hence providing them with better buying power to secure food and other needs of their families;
 - b. Preventing displacement of ARBs from their lands and sparing them the pressure to sell or lease their lands;
 - c. Protecting the rights of small holders and farm workers;
 - d. Providing ARBs with access to formal credit, new technologies, and markets;

References:

- AO 9 Series of 2006. *Revised rules and regulations governing Agribusiness Venture Arrangements (AVAs) in agrarian reform areas*. December 8, 2006.
- Increasing Small Holders Income through AVA: The SARPHIL CARP Beneficiaries Multi-Purpose Cooperative (SACARBEMCO) Experience. (2013, February 12). [Focus Group]. SACARBEMCO Office. Participants: members, officers, and staff of SACARBEMCO.
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- SACARBEMCO Management. (2013, February 12). [Key Informant Interview]. SACARBEMCO Office.

For the complete list of references, please contact the author of this case as indicated at the beginning of the article.