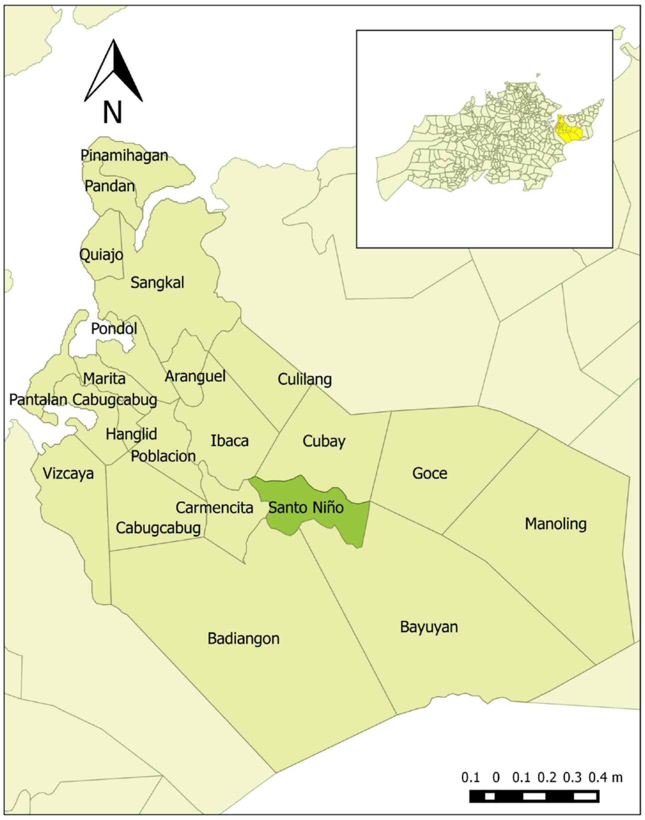
The drawbacks of leaseback agreements



Map of President Roxas, Capiz showing the community of Sto. Niño
Geospatial data source: GADM

Condensed from *Unmonitored Leaseback Arrangement Enslaves Farmers in Sto. Niño, Capiz* by Nerva, E. & delos Santos, K. of the Center for Agrarian Reform and Rural Development (CARRD), 2013. *For more details of the case, contact:* *carrdinc*@gmail.com.

In Capiz, sugarcane farming remains the main driver of the economy and the major source of employment for the locals. Despite the Philippine government's Comprehensive Agrarian Reform Program (CARP), landlord-politicians and sugar mill owners continue to have a tight grip on the industry. Sugar traders have engaged in all aspects of the industry in order to create a cartel and dictate the prices. In short, they hold a monopoly over the local sugar industry.

Sto. Niño, a small hillside community in the municipality of President Roxas in Capiz, is a typical sugarcane farming community. Prior to CARP coverage, the area used to be a hacienda, a large landed estate belonging to the Locsin-Consing Enterprises. Ramon Locsin is the biggest landowner in Capiz, owning 1,500 hectares (ha) in four barangays in President Roxas. His family holds significant political influence and connections. He was elected as municipal mayor twice while his son, Raymund, is the incumbent mayor of President Roxas.

Hacienda Sto. Niño's total farm area is 187 ha, 179 of which were covered under CARP in 1995. DAR distributed 91 ha of the sugarcane land to 58 agrarian reform beneficiaries (ARBs) under a collective Certificate of Land Ownership Award (CLOA). Land Bank of the Philippines (LBP) valuated the sugarcane portion at PhP105,836 per ha. The 58 ARBs received their CLOA in

1996. However, their installation was stalled for four years because of a lease contract between the Locsin-Consing Enterprises and Capiz Sugar Central, which claimed ownership over the standing sugarcane crops on the hacienda.

Locsin convinced the ARBs to lease back their lands to him and return as daily wage sugar workers. Majority (39) of the ARBs agreed to Locsin's proposal despite the low rent and wages offered. They entered into a lease arrangement covering 55 ha for five years wherein Locsin would pay them Php7,000 per ha annually and also employ them as laborers on the farms. Their contract has since expired. However, the arrangement still continues and no changes or increase in payments have been introduced. Aside from the annual rent and daily wages paid to the farmers, no other benefits or incentives are offered. Locsin and Capiz Sugar Central have not initiated any projects to provide essential services to the community.

The farmers were excluded from all negotiations between Capiz Sugar Central and Locsin. Thus, the contents of the contract between the two parties are unknown to them. Although the farmers wish to know the details affecting their work, the documents are not accessible and the parties involved do not entertain inquiries on the matter.

On the other hand, the remaining 19 ARBs who refused the leaseback proposal organized themselves into the Sto. Niño Agrarian Reform Beneficiaries Multipurpose Cooperative (SNARBMPC), with assistance from the Center for Agrarian Reform and Rural Development (CARRD) during the Task Force Sugarland Project in Panay Island in the late 1990s. Amidst harassment and threats from the former owner and his loyal ARBs, SNARBMPC members stayed adamant in their goal to take over their farms. The Department of Agrarian Reform (DAR) allowed SNARBMPC to withhold 36 ha of the land and ordered Ramon Locsin to pay them back a lease rental of PhP4,500/ha/year for the three previous crop years that he had hindered their installation.

Worse off

Compared to SNARBMPC members, farmers under leaseback agreements earned less income. Farmers under the individual farming management system earned more than twice those in leaseback farming. As of 2013, farmers under a leaseback agreement earned an annual income of PhP27,300 from wages in sugarcane farming alone.

Amortization payments are shared equally by the farmer and the lessee. Some of the leaseback farmers have off-farm incomes from monthly pensions (ranging from PhP1,600 to PhP3,800) or from working on other people's farms. However, not all of the farmers have other sources of income.

In contrast, SNARBMPC members earn an annual net income of PhP48,000 to Php74,000 per harvest, depending on the size of their farms. Many of them also look for additional sources of income. These include working on other farms and hog raising. Income from these ventures may range from PhP14,000 to Php24,000 per year.

However, even though farmers in individual farming earn significantly more than those in leaseback, all sugar farmers still live in absolute poverty and are in need of regular support services and subsidies from the government. In 2009, NSCB[1] pegged the annual per capita

[1] National Statistical Coordination Board (NSCB). Web Article. 22 July 2011. http://www.nscb.gov.ph/ru6/WA%20

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poverty threshold of Capiz at PhP17,306. This means that an individual must earn PhP17,306 annually to meet his basic food and non-food needs. Meanwhile, a family of five should earn a monthly income of PhP7,211, or Php86,532 per year, to stay out of poverty.

Reversal of gains in agrarian reform

One of the intended outcomes of agrarian reform is to give farmers land as a starting point to building their assets. Prior to land reform, peasants had only their labor to sell for wages.

The leaseback agreement instituted by Locsin has restricted the farmers' access to and ownership of their land. The farmers returned to their former status as daily wage sugar workers even after being given their emancipation patents or CLOA. The additional income they get from the lease rental is barely enough to cover their amortization costs.

Moreover, the leaseback agreement has stunted the development – economic and human – that the farmers would have been enjoying had they refused it. Because they are tied to the contract as laborers, they are required to plant sugar and thus cannot explore more lucrative options for their lands, such as mixed-crop farming systems.

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Creating dependency

According to law, leaseback arrangements should be the last resort, and the Provincial Agrarian Reform Coordinating Committee should approve the application only when there are no alternatives left and when amount and payment are not more burdensome to the ARB.

However, the majority of landholders are politically powerful families that hold government positions and can influence policies and decisions at the local or national level.

Leaseback arrangements perpetuate the relationship of patronage and dependence between workers and landlords. The agrarian reform goal should be toward the empowerment of farmers and should promote a shift in their political and social relations with those they formerly considered as *amo* or masters.

Supporting leaseback agreements is tantamount to preserving the impoverished state of farmers as they continue to depend on their former landowners. These landowners collect *utang na loob* (debt of gratitude) from farmers by extending them credit for food and other needs. Farmers feel grateful for this access to credit despite the usurious interest rates that the landlords charge.

Recommendations

Access to credit policy

Because the farmers are dependent on wages from their labor in the sugarlands, which are just enough to cover their family's essential needs, they have no income during the lean months of July to September. A way to help farmers improve their livelihood is by providing them access to capital through the joint Agrarian

Production Credit Program (APCP) of the DAR, the Department of Agriculture (DA), and Land Bank of the Philippines (LBP).

In tenancy arrangements, farmers are dependent on landowners for production capital needed for farm inputs and for planting each new crop cycle. But the APCP aims to offer credit assistance to qualified Agrarian Reform Beneficiaries Organizations (ARBOs) for farming and enterprise capital. Under this program, ARBs may qualify for credit assistance if they are organized into ARBOs or are members of cooperatives, rural banks, GOs, and other organizations.

The program aims to help ARBs who do not pass the requirements of LBP's credit assistance program and that of other credit-lending organizations. The APCP offers an annual interest rate of 8.5% and allows the ARBs to submit a promissory note or insurance proceeds as collateral.

However, despite the APCP's less strict requirements, many ARBs will still have difficulty accessing a loan—especially those who are in transition from tenants to ARBs. And the impact of the program has yet to be assessed, as it was just recently launched.

Evaluation of leaseback agreements/joint venture agreements

Since the implementation of CARP, the DAR has been supporting leaseback agreements. Unfortunately, the DAR's focus has been on accomplishing land acquisition and distribution, which is the main indicator of their performance. Support services for farmers after land transfer have been largely abandoned by DAR.

The DAR does not have the capacity, resources, nor the incentive to regularly monitor and evaluate leaseback agreements. Hence, it is not able to ensure that the arrangements in the contracts are beneficial to the farmers. In the case of the concerned sugarcane farmers, their working arrangement with Locsin and Capiz Sugar Central continues despite the expiration of the contract. The DAR should provide guidelines for the creation of contracts to the benefit of ARBs. Strict monitoring and evaluation of compliance with the contract terms should also be installed to prevent abuse by either party.

Adoption of crop and farming system diversification to help farmers reduce vulnerabilities (declining sugar industry, removal of tariffs, market failures)

With the pending removal of tariffs on agricultural products, including sugarcane, the government should put in place policies and programs that support local farmers. On the other hand, farmers must learn to adopt new practices and systems—such as crop and farming system diversification—to prepare for changes in the market. ■

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