

Amortization on Awarded Lands by Beneficiaries in the Philippines: Cost Implications of Non-payment

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INTRODUCTION

The Comprehensive Agrarian Reform Law (CARL) or Republic Act (R.A.) 6677 in Section 26 provides that the lands awarded shall be paid for by beneficiaries to the Land Bank of the Philippines (LBP) in thirty (30) annual amortizations at 6% annual interest. The payments for the first three (3) years after the award may be at reduced amounts as established by the Presidential Agrarian Reform Council (PARC). For purposes of affordability, the LBP may reduce the interest rate or reduce the principal should the scheduled annual payments after the fifth year exceed 10% of the annual gross production, and the failure to produce is not due to the beneficiary's fault.

Proposed at the Philippine Congress is House Bill 555 otherwise known as "Genuine Agrarian Reform Bill" which provides for non-payment of amortization. It espouses free land distribution at no cost to farmer beneficiaries based on social justice objectives. Under the same proposed act, amortization on lands distributed shall be written off. This include those distributed under Presidential Decree (P.D.) No. 27 covering rice and corn lands, and all other croplands distributed through R.A.6657, as amended by R.A. 9700. The farmer-beneficiaries of such lands shall be deemed their full owners upon the effectivity of the proposed act.

PAYMENTS BY BENEFICIARIES IN OTHER LAND REFORM PROGRAMS

A study on international experience on agrarian reform by Arlanza *et al.* (2006) supported by the German Technical Cooperation (GTZ), summarized the experiences of forty (40) countries (from Meliczek, 1971) which implemented land reform at different periods. Thirty-one (31) countries required beneficiary payments in their land reform programs.

The same study reported that land reform legislation in Costa Rica, Ireland, Nepal South Korea, Spain, Taiwan and South Vietnam required that total amount of the compensation was to be recovered by payments from the beneficiaries. Countries such as Bolivia, Chile (1962), Egypt, Iran and Spain were cited to have the total expenses of the reforms coming from payments by the land awardees. The payments covered mostly the compensation of original landowners, administration of the programs and infrastructure development. Beneficiaries were required to pay for the land instalments ranging from 10 to 30 years. It even reached 40 years for Egypt's 1952 reform program and Uttar Pradesh's program. In general, interest rates varied between 2% and 10%. Colombia, East Germany, Hungary, Peru and Venezuela granted a grace period of 2 to 5 years in order not to overburden the new owners. On the average, payments had to be made over 20 years.

ARB AMORTIZATION IN THE PHILIPPINES

Amortization by the agrarian reform beneficiaries (ARBs) are collected by LBP with information inputs from the Department of Agrarian Reform (DAR). Based on the End of Term Report (2016) by former DAR Secretary Virgilio R. de los Reyes, a total amount for payment by 906,997 beneficiaries amount to Php 58.617 billion (\$US 1.144 billion). This represents 84% of the total landowner (LO) compensation requirements of Php69.443 billion (\$US 1.356 billion). The difference of Php10.826 billion (\$US 211.404 million) are regular subsidies and adjustments in valuation as a result of just compensation cases decided by the legal courts. These are charged to the account of the national government (Table 1). Currently, the total amount to be amortized by ARBs is at Php58.617 billion (\$US 1.144 billion) of which Php4.669 billion (\$US 91.174 million) have already been collected leaving a balance of Php 53.948 billion (\$US 1.053 billion).

Table 1. Amount to be Paid by Agrarian Reform Beneficiaries (ARBs)

Program Type	LO Compensation (PhP millions)	Subsidy (PhP millions)	To Be Paid by ARBs (PhP millions)	No. of ARBs
hPPD27/EO228	3,263.75	291.23	2,972.52	281,797
RA 6657	54,585.63	9,237.61	45,348.02	577,710
RA 9700	11,593.76	1,297.14	10,296.62	47,490
TOTAL	69,443.14	10,825.98	58,617.16	906,997

Sources: Agrarian Accounting Office, LBP and De los Reyes (2016)

In terms of payment performance of ARBs, a total of 715,783 hectares of land awarded to 464,842 ARBs (Table 2) considered as agrarian reform receivables (ARR) amounting to Php15.658 billion (\$US 305.760 million) or 27% of total expected amortization of Php58.617 billion (\$US 1.144 billion). The other 73% or Php42.959 billion (\$US 838.879 million) is not booked as ARR and considered as Lands Purchased and Expropriated (LPEX) due to the absence of Land Distribution Information Sheets (LDIS) and/or Land Amortization Schedule (LAS).

Table 2. Payment Performance of ARBs

	Area (Hectares)	Number of ARBs
Fully paid	327,991	232,395
With payment	196,969	112,234
Without payment	190,823	120,213
Total with ARR	715,784	464,842

Sources: Agrarian Accounting Office, LBP and De los Reyes (2016)

IMPLICATIONS OF FOREGOING ARB AMORTIZATION

In terms of fiscal implications, de los Reyes (2016) further reported that if the new administration chooses to forego further collection of ARB amortization, the national government will have to spend a total amount of Php190.308 billion (\$US 3.716 billion). This represents the cost of writing off Php58.748 billion of currently uncollected ARB amortization and in addition, a total of Php131.56 billion of landowner compensation for the remaining LBP payable lands, based on estimates by LBP to complete land distribution of the remaining 526,236 hectare. Thus, a total amount of Php190.308 billion (\$US 3.716 billion) shall be spent to cover the cost of writing off booked amount for amortization by the beneficiaries of Php58.748 billion (\$US 1.147 billion) and including the value of the remaining lands for distribution of Php 131.56 billion or around \$US 2.556 billion. The same report assumed an annual average cost of distribution for the remaining 526,236 hectares amounting to Php21.93 billion (\$US 428.23 million) each year for six (6) years.

According to de los Reyes (2016), there is nothing inherently unconstitutional in foregoing the collection of ARB amortization for distributed LBP-compensable or payable lands. The estimated fiscal implication of land distribution for free can be further refined to take into consideration the cost of collection, the effect on the budget deficit and the schedule by which this cost will be absorbed by the national government, and other factors. The government can then make a decision on whether it is willing to forego the collection of ARB amortization.

CONCLUSION

Based on evidence from international experiences including that of the Philippines, amortization or repayment by the beneficiaries was necessary to cover the compensation of landowners from which the lands were acquired due to the huge cost involved in carrying out the reforms as supported by the estimated costs for the Philippines.

The proposed law containing provisions on free land distribution is still pending in congress. Any similar policy will require alternative financing schemes if the government is not ready to shoulder the entire expenses for compensating landowners affected by land acquisition.

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