



Republic of the Philippines
Department of Labor and Employment
National Wages and Productivity Commission
REGIONAL TRIPARTITE WAGES AND PRODUCTIVITY BOARD VI



**RTWPB VI PBP ADVISORY NO. 01
SERIES OF 2014**

**ADVISORY ON THE IMPLEMENTATION OF PRODUCTIVITY-BASED INCENTIVE SCHEME
FOR THE SUGAR INDUSTRY IN REGION VI**

Background/Rationale

The sugarcane industry contribution to the Philippine economy from incomes from raw sugar, VAT, molasses and bioethanol amounted to PHP76B annually. Direct employment was estimated at about 600,000, and 90% of farms are 10 hectares and below in area with a total of 422,384 hectares of sugarcane plantations. (Sugar Regulatory Administration)

Western Visayas accounts for more than half of the total sugar industry output. Eleven sugar mills, five refineries, and two bioethanol plants are located in the Region. Employment is composed of sugarcane farm workers, small planters/workers, Agrarian Reform Beneficiaries (ARBs), and sugar mill workers. Incomes of these workers come from wages and other forms of incentives. The welfare benefits of sugar industry workers are covered by the Sugar Amelioration Program and other statutory benefits.

At present, two wage mechanisms cover the wages of sugar industry workers. First, is the Wage Order issued by the Regional Board, that sets the minimum wage of sugar industry workers. Plantation workers minimum wage are categorized under the Agriculture Plantation and Non-Plantation category, while, sugar mill workers minimum wage rates are covered under industrial/commercial/non-agriculture category. Second, a matrix of Pakyaw Rates for specific activities in sugarcane cultivation, harvesting and loading is also issued whenever the minimum wage rates are adjusted.

Work and production cycle in the Sugar Industry is seasonal. Cultivation, Harvesting and Milling are considered seasons. Added to that is its vulnerability to economic and natural phenomena. Thus, special attention is given to augment the income of farm and mill workers and planters. In addition to the existing wage and incentives schemes aforementioned, this Advisory, is issued for workers in the sugar industry to formalize and standardize payment practices that are not covered by the wage order and the pakyaw rates and to encourage enterprises to adopt productivity improvement programs in recognition of their worker's contribution and share in the fruits of production. Considering further, that the Productivity-Based Pay schemes contained in this advisory are already implemented in some areas, the

application of these schemes in other areas covered by the sugar industry is voluntary in nature.

Priority Industry

Based on Gross Regional Domestic Product (GRDP) Percentage by Industrial Origin for the three-year period (2010-2012), Agriculture and Forestry averaged 19.9% and has the highest contribution to the GRDP. (NSCB VI). In terms of Agricultural products, Sugarcane production reached 15.4 million Metric Tons (MT) in 2011, and 14.8 million MT in 2012. (BAS VI). The Region ranked number one compared with other regions in terms of sugarcane production.

The employment situation in the region showed that the Labor Force growth rate stood at an average of 0.4% for the period 2011-2013. Employment rate and unemployment rate averaged 93.3% and 6.8% respectively. For the same period (2011-2013), employment grew by 0.3% while unemployment continued to decline by 3.6%.

Workers in the sugar industry, are distributed in two major industrial classifications. Sugarcane Plantation workers are counted under agriculture and forestry while sugar mill workers are counted under industry-manufacturing. The number of permanent farm workers needed during planting and cultivation season for an intensive non-plantation size farm (25 hectares) range from 15-20 workers. During the harvest season, the required number of workers to cut, haul and load sugarcane for an intensive non-plantation size farm range from 20-30 workers. The harvesting of an estimated yield of 1,800 tons of sugarcane for a 25-hectare farm will take about four months. An estimated 350,000 workers are directly involved in sugarcane production in Western Visayas alone, representing more than half of the total workforce engaged in sugarcane production nationwide.

Agrarian Reform Beneficiaries are now owners of about 74% of sugarcane farms that are 0.01 to 5 hectares in size. In this case, the owner of the farm is at the same time the worker. The shift from being farm workers to planter/owners has affected farm productivity since sugarcane production is a plantation crop, and productivity is higher for plantation-sized farms. Small sugarcane farms produce an average of 50 tons cane (TC)/hectare compared to big, well-managed farms that produce more than 100 TC/ha.

Given the industry peculiarity, brought about by economic, political and social reforms, striking a balance for an equitable share in the fruits of production when yield is bountiful, and to ensure a decent standard of living during off season deserved greater attention for this industry. Sustainability of employment and productivity in sugarcane farming therefore poses a challenge as workers in the sugar industry will find themselves unemployed for an average of four months in a crop year and the social responsibility of the owner/planter to provide for the needs of his workers during off-season.

Industry Outlook

For the past three years, the country remained self-sufficient in sugar. The allocated quota for the US market had been complied with including the additional quota for the past two years. (SRA). On the other hand, in 2015, two major economic reforms are seriously considered. These are the lifting of tariff on imported sugar in 2015, and the Asean Economic Community (AEC) integration wherein the industry has to compete with its neighbours in the AEC. This year, the imposition of Value-Added Tax (VAT) on raw sugar and climate change will affect production cost.

In the Sugarcane Industry Roadmap (2011-2016), the Sugar Regulatory Administration has laid down strategies that will address these challenges and will ensure a globally-competitive sugarcane industry under a reduced-tariff regime in the year 2015 and beyond. It aims to transform the single product sugar industry to a diversified multi-product PHP100B sugar industry. In addition to the major products of sugar, sugarcane will also be used to produce bio-ethanol, special sugars, bio-plastics, bio-water, bio-fertilizer and power cogeneration.

The raw materials needed to sustain these multi-product sugarcane industry require that farm productivity increase from the current farm yield of 57 TC/ha. to 75 TC/ha., and improved sugar recovery from 1.8 Lkg bags /TC to 2.1 Lkg bags/TC. Area planted for sugarcane will also be increased from 422,384 hectares to 465,000 hectares in 2015.

In its program “Gearing Up Initiatives for AFTA 2015 and Beyond”, the SRA has identified the following strategies and interventions:

Strategies:

1. Improvement of farm productivity and sugar yield.
2. Mill rehabilitation to improve capacity utilization of sugar mills.
3. Promote the production of bio-ethanol from sugarcane, molasses and other sugarcane-based materials.
4. Selling electricity under Power Cogeneration.
5. Development of other value-added products from sugarcane.

Interventions:

1. Block Farming –consolidation of small farms into block farms (area of 30-50 hectares) to improve farm productivity and incomes of ARBs/small farmers.
2. Identification of plantation areas and increase in plantation-sized farms.
3. Farm inventory and Baseline farm mapping.
4. Research, development and extension services and establishment of Farm Services Providers.

5. Farm to Mill roads.
6. Farm Mechanization and the establishment of Farm Equipment Manufacturing Industry.
7. Irrigation and Drainage System
8. Establishment of Mill Support Industries.
9. Establishment of Sugarcane Special Economic Zones.

Certain that the systems to support the competitiveness of the industry are already in place, the Regional Board for its part held a series of consultations on September 30, 2013 in Bacolod City, and on October 3, 2013 in Iloilo City. The participants to these consultations were industry players, small farmers, ARBs, sacada manpower providers, concerned government agencies, and the academe/research organizations, etc.. The consultations were conducted to identify Productivity-Based Pay and other Incentive schemes that are already existing but were not among those activities identified in the Pakyaw Rates for the Sugar Industry; and also to propose other incentive schemes.

Recommendations

Given the performance of the sugar industry for the past three years - its peculiarities, seasonality, the industry outlook, and the output of the consultations - this Advisory recommends that companies, planters associations, independent small planters/workers, ARBs, and sugarcane workers associations consider the following productivity based pay and other incentive schemes. This is in line with the principle that pay should be adjusted with productivity growth.

With the large number of small planters/workers (ARBs) whose farm productivity is only half compared to that of well-managed plantation-sized farms, their productivity measurement will be developed as soon as they are covered by the proposed Block Farming (consolidation of small farms into plantation-sized farm under one farm management).

Measurement of Productivity improvement shall be based on the Formula/Standard for the specific productivity based pay or Incentive Scheme. District Tripartite Councils (DTCs) and millings districts are likewise encouraged to come up with other productivity measures. It is also recommended that farm productivity related to cost of production inputs shall also be used. Other productivity based pay schemes and incentives are likewise encouraged to be adopted.

The PBPs enumerated hereunder are already in existence but are not fully implemented in all milling districts. For uniformity's sake, all milling districts are encouraged to adopt the following PBPs.

Table 1. Productivity-Based Pay/Incentive Scheme by Activity, Amount or Rate based on Formula/Standard

| Productivity-Based Pay Incentive Scheme | Amount or Rate | Formula/Standard |
|---|--|---|
| Sugarcane Cultivation 1. Family Cluster Overseeing Incentive | PhP/ha. (target of 70 tons/ha.) | 1. <u>Number of tons harvested per hectare</u> 70 tons per hectare |
| Sugarcane Harvesting 1. Trash Incentive 2. Incentives on "Balagon" (vines) 3. "Panting" or double loading incentive 4. Trashing (Luslos) 5. Su-op Cutting 6. Labor Points Incentive | 1% trash = PhP /ton 2% trash = PhP /ton 3% trash = PhP /ton PhP/ton Negotiated Negotiated per ton PhP /ha. 10% of Net Income based on no. of days worked | 1. Use of sugarcane grab sampler at millsite to determine percentage of trash. 2. Usually practiced in upland sugarcane fields. Foremen estimated extent and density of "balagon". 3. Distance of 100 meters from roadside. 4. <u>Number of millable stalks per sq. m.</u> x 10000 sq.m Number of samples taken 5. Cutting at ground level (1 inch from ground) 6. <u>Net Income</u> Number of days worked |
| Sugarcane Milling 1. Milling Incentive 2. Productivity Incentives 3. Production Incentives (Sugar Mills) 4. Profit Sharing 5. Dividend sharing | ➤ 3% /ton milled ➤ % in excess of 70 tons/ha. Target ➤ Detailed in the sugar mills productivity Incentives Manual ➤ 3% of gross earnings ➤ % of net income for members | Sample Productivity Related Bonuses <u>1. Profit After Tax</u> = Rating % Crop Year Target Where: Rating = factor x monthly salary Ex. Superior = 2 Excellent = 1.5 Good = 1 Fair = 0.75 Poor = 0 2. Team Rating (A + B)= 100% A. Downtime Throughput Bagasse Molasses <u>Cost at Station</u> 95% B. Attendance <u>Accident</u> 5% |

Technical support

The RTWPB shall provide consulting services, especially to micro, small and medium enterprises in designing quality and productivity-improvement programs specifically on Work Improvement Measurement - Time and Motion Study (WIM-TMS) to determine the equitable pay/rate for output-based work.

Activities with time-standards or output standards related to the Sugar Industry practices that were conducted by the Regional Board through WIM-TMS and covered by Job

Orders or Piece Rate Orders issued by the DOLE Regional Director shall be made available to the industry for reference.

Capacity-building training programs such as 5S or Good Housekeeping; ISTIV modules; and Green Productivity will be advocated to mainstream and promote productivity awareness and; continue to extend assistance in the design of productivity gainsharing schemes.

APPROVED. FEBRUARY 21, 2014, ILOILO CITY, PHILIPPINES.

| EMPLOYERS' REPRESENTATIVES | WORKERS' REPRESENTATIVES | | | | |
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| <p style="text-align: center;"><i>Signed</i> LUIS R. ESTRELLA</p> <p style="text-align: center;"><i>Signed</i> JOHN PETER Z. MILLAN</p> | <p style="text-align: center;"><i>Signed</i> HERNANE P. BRAZA</p> <p style="text-align: center;"><i>Signed</i> WENNIE G. SANCHO</p> | | | | |
| GOVERNMENT REPRESENTATIVES | | | | | |
| <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none; vertical-align: top;"> <p style="text-align: center;"><i>Signed</i> RO-ANN A. BACAL Regional Director, NEDA RO 6 VICE CHAIRPERSON</p> </td> <td style="width: 50%; border: none; vertical-align: top;"> <p style="text-align: center;"><i>Signed</i> WILHELM M. MALONES OIC-Regional Director, DTI RO6 VICE CHAIRPERSON</p> </td> </tr> <tr> <td colspan="2" style="border: none; text-align: center;"> <p style="text-align: center;"><i>Signed</i> PONCIANO M. LIGUTOM Regional Director, DOLE RO6 CHAIRPERSON</p> </td> </tr> </table> | | <p style="text-align: center;"><i>Signed</i> RO-ANN A. BACAL Regional Director, NEDA RO 6 VICE CHAIRPERSON</p> | <p style="text-align: center;"><i>Signed</i> WILHELM M. MALONES OIC-Regional Director, DTI RO6 VICE CHAIRPERSON</p> | <p style="text-align: center;"><i>Signed</i> PONCIANO M. LIGUTOM Regional Director, DOLE RO6 CHAIRPERSON</p> | |
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