



Workers in the Philippines sort bananas. Photo: Keith Bacongco

LAND BUT NO FREEDOM

Debt, poverty and human suffering in the Philippine banana trade

Poverty is widespread among the small-scale farmers and workers who produce and process our food, in an industry worth billions of dollars. Oxfam's new campaign highlights the systemic inequality and human suffering in food supply chains – and shows how action by supermarkets, governments, small-scale farmers and workers could lead to a decent and dignified standard of living for millions of people.

This case study reveals how many banana farmers in the Philippines are being pushed deeper into poverty by the companies who buy their bananas for export. While many have gained ownership of their land through the government's land reform programme, they are now locked into contracts with banana buyers that, in Oxfam's opinion, are grossly unjust. Without action, these one-sided deals will keep banana farmers and their families in debt for generations – while company profits continue to rise.

It is one of a series of case studies to supplement the global campaign report, *Ripe for Change*, drawing attention to the plight of specific groups of small-scale farmers or workers in international food value chains and/or promoting successful alternative approaches.

1 INTRODUCTION

Bananas are among the most lucrative agricultural commodities in the Philippines. Yet many of the farmers who grow them are condemned to life-long poverty and hunger as a result of exploitative contracts with companies that export bananas. A survey conducted by Oxfam in 2017 revealed that in two of the country's largest banana-growing areas – Compostela Valley and Davao Oriental provinces in the Mindanao region – six in ten banana farmers are struggling to feed their families.¹

Under the Philippine government's land reform programme, farmers like those engaged in the banana industry should have gained control over production and access to the export market. However, without the promised capital or support to make their land productive, land titles have not yielded the intended benefits for farmers. As a result, many have been forced to sell their land or – as is the case for many banana farmers – to accept contract terms with big companies that, in Oxfam's opinion, are grossly unjust. While the banana industry prospers and company profit margins rise, farmers are being pushed deeper into debt and poverty. Without proper action from the government and the companies who buy their bananas, farmers will continue to struggle to feed themselves even as they toil to keep the banana industry going. In the Philippines, as in many other countries, people who grow food for a living are at risk of going hungry themselves.



A worker carries a bunch of Cavendish bananas on a plantation in the Philippines. Bunches often weigh over 40 kilograms. Photo: Keith Bacongco

2 THE PHILIPPINE BANANA INDUSTRY IS BOOMING – SO WHY ARE FARMERS GOING BUST?

The Philippines is the world's second largest exporter of bananas, and the only Asian country in the top four banana exporters in the world.² Banana exports peaked in 2012 at 2.6 million tonnes, making up nearly 94% of bananas traded in Asia.³ In the same year, two-thirds of bananas exported from the Philippines were shipped to Japan, China and South Korea.

Banana is the third largest food commodity in the Philippines in terms of production volume, after rice and coconut.⁴ It is considered to be the most economically important fruit crop, largely due to the fact that it is harvested all year round. The main export variety, the Cavendish banana, is grown mostly in plantations in Mindanao in southern Philippines.⁵

Under the government's agrarian reform programme, in an attempt to end historical injustices regarding land ownership, large land holdings were broken up and redistributed to the farmers who worked on them, who became known as 'agrarian reform beneficiaries' (ARBs). As part of the reform, the government promoted Agribusiness Venture Agreements (AVAs), which aimed to allow the private sector to share in providing farmers and farmer organizations with support services and access to capital. Farmers were also encouraged to form cooperatives in order to access state support.⁶ However, as the case of Mindanao's banana farmer cooperatives highlights, the promised help did not materialize – putting farmers at the mercy of unscrupulous lenders and forcing them into unequal and unfair agreements with companies and exporters.

The success of the banana industry and the wealth it generates have failed to trickle down to those who grow the bananas. Rather than seeing their incomes increase, banana farmers, and especially banana farmer cooperatives in Mindanao, have seen their debts stack up as a result of being locked into onerous AVAs with exporters and trading companies. While farmers had long dreamt of owning their land, for many the reality has been a nightmare (see Box 1).

3 GREAT DEALS FOR COMPANIES – ROTTEN DEALS FOR FARMERS

In December 2012, Typhoon Bopha (known in the Philippines as Pablo), a Category 5 super typhoon cited as the world’s deadliest storm that year, devastated the provinces of Compostela Valley and Davao Oriental in Mindanao. It was only then that the plight of the region’s banana farmers came to the attention of organizations like Oxfam, as they conducted rapid needs assessments in communities. Oxfam teams were shocked to find that many farmers were locked into oppressive contracts with companies.

Since 2013, Oxfam has been supporting the work of Initiatives for Dialogue and Empowerment through Alternative Legal Services (IDEALS), a Philippine NGO, to study the AVAs between five farmer cooperatives and large traders or multinational companies (MNCs) in areas affected by Typhoon Bopha (see Table 1). IDEALS also provides legal assistance and support to enable farmers to review and renegotiate these contracts.

Table 1: AVAs assessed in the 2016 Oxfam/IDEALS study⁷

Farmer cooperative	Banana trader/multinational company
Hijo Agrarian Reform Beneficiaries Cooperative	Lapanday Foods Corporation
Davao Fruits Corporation Agrarian Reform Beneficiaries Association (DFC-ARBA)*	Sumifru Philippines, a subsidiary of Sumitomo Corporation
Dizon Farm Workers Cooperative	Marsman Drysdale Organic Farms
Checkered Farms Agrarian Reform Beneficiaries Multi-Purpose Cooperative	Standard Fruit (Philippines) Corporation
AMS Magatos Agrarian Reform Beneficiaries Multi-Purpose Cooperative	UNIFRUTTI

*Registered as DFC Banana Growers Agrarian Reform Cooperative (DFC-BGARC) on 4 September 2015⁸

The study uncovered farmers’ vulnerabilities to the AVA contract terms – which were virtually dictated by buyer-companies – and showed how stipulations in these agreements put farmers at a disadvantage. It also revealed how companies’ actions have enabled them to maximize their profits while keeping banana farmers in a perpetual state of insurmountable debt and poverty.⁹

Key findings of the review of AVAs include the following:

- 1. The contracts reveal a clear bias in favour of the buyers.** Strict language is used to describe farmers’ obligations, while provisions that involve buyers are loosely worded such that they allow various legal interpretations, usually in the buyer’s favour.
- 2. Financial control devices written into the contracts make the banana farmers completely dependent on the buyers, who have almost total**

control over the cooperatives' financial health. These include a provision which permits the buyer to impose a set price on the bananas, regardless of production costs and actual market rates; provisions allowing for unlimited increases in production costs without the farmers' approval; and contractual restrictions on property rights that prevent farmers from planting other crops for additional income.

3. **The contracts offer no effective remedy against abuses.** In one contract, the buyer has sufficient power to drive the farmer cooperative into bankruptcy.
4. **The government has failed to effectively regulate AVAs, and to empower farmers to negotiate from a position of strength.** The Department of Agrarian Reform has failed to protect the interests of farmers who entered into such agreements. It has also failed to provide legal and technical support to these farmers, most of whom lack the means to secure legal services which could protect their rights and enable them to negotiate fairer contractual terms. While the Department issued several guidelines ostensibly to regulate AVAs, the prevalence of grossly lopsided contracts strongly suggests a failure to enforce these rules.

How farmers ended up signing these one-sided contracts

As the Oxfam/IDEALS study pointed out, farmer cooperatives were not in a strong position to begin negotiating complex legal contracts, given the lack of information available to them about the different laws and relevant policies. Farmers were not aware of their rights and were not informed of the potential adverse outcomes of signing contracts with agribusinesses. According to farmers interviewed in 2013, they were relying on the 'good faith' of company representatives, with whom they had established a good rapport. Farmers were also lured by the so-called 'signing bonuses' amounting to \$200-300 – the equivalent of two to three times their monthly income – that were promised by the companies. (In truth, these bonuses are actually advance payments, which are part of the total value of the lease).

Oxfam's evidence suggests that small-scale farmers can benefit from much higher value shares when they are organized into cooperatives that can achieve economies of scale up to the point of export. However, while farmer-owned cooperatives are perhaps the best-known alternative business model for ensuring that value is shared down the chain and increasing bargaining power, to succeed they need access to capital and other support.¹⁰ The reality for the farmer cooperatives in Mindanao was that even before entering into the AVAs, many were struggling to cope with organizational, technical and financial weaknesses. The technical assistance and low-interest loans promised by law never materialized. State banks – which are supposed to enable farmers to improve production through low-interest loans¹¹ – have in reality been heavily weighted in favour of traders.

Historical injustices could not be wiped out simply by granting land titles to farmers, as is highlighted by the case of DFC-ARBA and Sumifru (Box 1).

Box 1: How the dream of land ownership turned into a nightmare – the case of DFC-ARBA and Sumifru

For decades, Bert and other farmers earned less than \$3 a day from their work as banana growers for the Davao Fruits Corporation. In 2007, as part of the government's agrarian reform programme, they were finally awarded titles to the small plots of lands they had been farming all their lives. They formed the Davao Fruits Corporation-Agrarian Reform Beneficiaries Association (DFC-ARBA), in the hope that by working collectively they could become more productive and have better access to the support promised by the government as part of the reform programme. However, in the absence of this support, the farmers struggled.

Bert and the other members of DFC-ARBA thought their problems were over when they entered into a 10-year contract with Sumifru Philippines to produce bananas for export. Sumifru Philippines is a subsidiary of the multinational fruits company Sumitomo Corporation, which is headquartered in Tokyo and supplies around 30% of bananas sold in Japan.¹² However, onerous provisions in the contract – which the farmers entered into without legal representation or legal advice – rapidly reduced the cooperatives' income, as its debts steadily mounted.

As a result of the deal with Sumifru, the farmers ended up paying in advance for production costs, from land preparation to maintenance and harvesting, without any kind of guarantee that they could recover their expenses. The contract also stipulates that farmers have to buy all their inputs direct from the company – including costly aerial spraying of pesticides, carried out at the company's discretion – with farmers having no say on the type and cost of inputs.

Moreover, Sumifru buys farmers' produce at a fixed price; this is not tied to current market values, but based on the quality of the fruit, which is decided by company representatives. Farmers have little understanding of quality standards and no power to challenge the classification of their produce. The contract also prohibits farmers from growing any other crop on their own land to supplement their income.

The power of big traders like Sumifru extends beyond the direct value chain, with state banks working more in the interest of companies than the farmer cooperatives they are meant to support. For example, in the wake of Typhoon Bopha, the Land Bank of the Philippines reportedly refused to give a rehabilitation loan to DFC-ARBA unless its members first signed a marketing agreement with Sumifru (in addition to their existing contract). For farmers, this was a bitter pill to swallow, but they signed anyway for lack of a better option on rehabilitating their devastated farm. The farmers have since called upon the Land Bank to renegotiate the terms of the contract due to the incredibly heavy burden it imposes, but their appeal has so far gone unheeded.

Instead of seeing their incomes grow, Bert and the other farmer members are being pushed further into debt and poverty. Meanwhile, the profits of the agribusiness companies engaged in banana trading have continued to rise.¹³

Source: Interviews with Bert and IDEALS. See: Oxfam and IDEALS. (2016). A Destiny of Debts: Unmasking the prejudicial contracts in the Philippine banana industry. Oxfam in the Philippines. Retrieved from: http://makefruitfair.org/wp-content/uploads/2017/01/Destiny-of-Debts-Policy-Brief-8_Final-1.pdf

4 WHY IT'S EVEN WORSE FOR WOMEN

Oppressive contracts are bad for all the farmers, but women within the community – who have no voice in the contract negotiations – appear to be shouldering a disproportionate burden of their impact.

In 2017, Oxfam carried out a survey of 185 women in Compostela Valley, which found that social norms that perpetuate gender expectations and gender division of labour remain prevalent. Men are seen as household heads and decision makers, while women are expected to run and manage the household and also to take the bulk of care responsibilities. With so little money coming in, women struggle to pay for essentials and other basic needs such as healthcare and education. There are few options for women to earn an income or play any other role outside the home.

Oxfam's experience has shown that cooperatives can provide valuable opportunities for women's economic empowerment, and that women-only farming groups or cooperatives are an important mechanism to improve women's share of value in the food system. However, in the case of the banana farmer cooperatives, it has been difficult for women to engage meaningfully – not least because cooperative membership was initially limited to the people named in the contracts, the vast majority of whom are men. The arrangements under AVAs thus perpetuate women's traditional lack of assets and ownership. Women are barely consulted on loans, credits and payment conditions – even though they share the eventual liabilities.

Statutory compliance has called for an increase in the number of cooperative members, paving the way for women to be included and earn an income. However, women's roles tend to be confined to secretarial or administrative tasks – in line with gender expectations – or to low-skilled work such as packaging the produce, weeding and cleaning grounds. Despite being marginalized, involvement in cooperatives has at least enabled women to develop closer relationships with other women in the community.

As the testimonies in Box 2 clearly demonstrate, women's lack of representation within cooperatives means that they have very little opportunity to negotiate and to influence decisions that could ease some of their daily workload. In this case, women's requests to install a mechanical water pump have fallen on deaf ears, perhaps because water collection is not a daily concern of the men who make the decisions.

'... in the cooperative negotiations, yes, we are members, but in terms of decision making and assigning tasks to members, we don't feel like we have a voice. Women candidates do stand [for the board], but men vote for men and we're outnumbered.'

Mary Jane, secretary at DFC-BGARC

'We've been asking for a water pump – [but] for now, we collect water in pails from the river, or we hand pump the water from the well. I really hope women will be elected on the cooperative board one day, so that needs like these are addressed.'

Member of the DFC-BGARC

Box 2: 'We don't have a voice' – the need for women's representation

Mary Jane works as a secretary at DFC-BGARC (formerly DFC-ARBA). She talks of the negative impact of being tied into the contract with Sumifru, and the limited opportunities for women in the cooperative:

'I see my role in the family as providing financial stability. I feel the pressure to keep the household going. Now my children are grown up, both myself and my husband work on the plantation. I have always dreamed of a beautiful life, where we have plenty of money and maybe even go on holiday away from here. But our situation is far from what I'd dreamed of, and I can't really see that much can change. We're tied into a contract with very low wages, and buying prices are fixed at a very low price.

As a wife and mother, I do feel like I have a voice in my household. But in the cooperative negotiations, yes, we are members, but in terms of decision making and assigning tasks to members, we don't feel like we have a voice. Women candidates do stand [for the board], but men vote for men and we're outnumbered – there are just 15 women out of 69 members. We'd prefer more representation, as there are no women on the board, so for now we're assigned to secretarial work – like documentation and keeping the books. But if there's too much work in the fields and they need more workers, sometimes we'll be brought in to clean the trees and cut down old trees.'

Mary Jane's sister, shares her frustration at women's lack of opportunities and decision making power within the cooperative, which ultimately mean that their needs aren't met:

'My biggest wish is some way that would give women a better livelihood, and something that could compensate women monetarily and redress the balance between who earns the money and who supports the family. We work very hard. We've been asking for a water pump – [but] for now, we collect water in pails from the river, or we hand pump the water from the well. I really hope women will be elected on the cooperative board one day, so that needs like these are addressed.'

Source: Oxfam interviews.

5 A GLIMMER OF HOPE?

There is increasing recognition by the government that AVAs have not benefitted the farmers they were initially meant to support. In 2014, the onerous AVAs in Mindanao were the subject of a Congressional Inquiry, which focused on the contract between the Hijo Agrarian Reform Beneficiaries Cooperative and the Lapanday Foods Corporation. The inquiry resulted in a proposed bill to regulate AVAs implemented on agrarian reform lands,¹⁴ but this has yet to be deliberated upon by relevant committees.

In June 2016, the government issued an administrative order, 'Rules on Agribusiness Venture Agreements', which aims to address loopholes in previous regulations related to AVAs. It states the intention that:

- AVAs do not jeopardize food security, but rather strengthen it.
- Investments generate desirable social and distributional impacts and do not increase vulnerability.
- Legitimate tenure rights are recognized, respected and safeguarded.
- Business enterprises act with due diligence to avoid infringing on the human rights and legitimate tenure rights of others.

However, as of July 2017, the government suspended the order subject to further review and consultation, after learning about many other onerous AVAs that have resulted in loss of land by small-scale farmers and indigenous peoples in Mindanao.¹⁵ In the meantime, farmer cooperatives are continuing with their own efforts to renegotiate their contracts or have them nullified, with the support of organizations like Oxfam, IDEALS and agrarian reform advocates.

As noted above, in the case of the DFC-BGARC cooperative, there is a growing sense of solidarity among women, and an increasing interest in women's rights. Oxfam hopes to build on this momentum, and is working with farmer members to strengthen the cooperative and increase opportunities for women's empowerment. Cooperative member Cecile Suan says:

'We're looking forward to working to understand more about how we can raise our voices and strengthen our livelihoods – using the unexportable bananas for extra income – and being able to be fully part of the negotiations where the impacts are felt heavily by us as women.'

For now, however, the enabling environment that would allow banana growers to productively farm the land they own – either as smallholder farmer or as members of a cooperative – simply does not exist. Driven by a lack of better options and opportunities, they have 'gripped the knife's edge' – *kapit sa patalim*, as Filipinos say – and entered into onerous business deals that, unchallenged, will keep them and their families in debt for generations.

Through its new campaign, Oxfam is calling for an end to human suffering in food supply chains, and promoting alternative business models that give the people behind the products a fair share of the value. To find out more about the campaign, and to read the full set of recommendations, see [Ripe for Change](#).

NOTES

- 1 Data from a Household Food Insecurity Access Scale survey conducted by Oxfam in 2017. See methodology note for more information: R. Willoughby and T. Gore. (2018). Ripe for Change: Methodology note. Nairobi: Oxfam. Retrieved from: <https://doi.org/10.21201/2018.263>
- 2 Food and Agriculture Organization of the United Nations (FAO). (2014). Banana Market Review and Banana Statistics 2012-2013. Rome: FAO. Retrieved from: <http://www.fao.org/docrep/019/i3627e/i3627e.pdf>
- 3 Ibid.
- 4 Philippine Statistics Authority (PSA). (2016). Selected Statistics on Agriculture 2016. Retrieved from: <https://psa.gov.ph/sites/default/files/Selected%20Statistics%20on%20Agriculture%202016.pdf>
- 5 See: Bureau of Agricultural Statistics, as cited in Buguis. (2014). Value chain analysis and competitiveness strategy: Fresh Cavendish bananas in Maguindanao. Retrieved from: [http://drive.daprdp.net/iplan/vca/VCA%20of%20Cavendish%20Banana%20\(Maguindanao\).pdf](http://drive.daprdp.net/iplan/vca/VCA%20of%20Cavendish%20Banana%20(Maguindanao).pdf)
- 6 Under Republic Act 9520, or the Philippine Cooperative Code of 2008, cooperatives are afforded numerous benefits including exemptions from 'any taxes and fees imposed under the internal revenue laws and other tax laws', with certain exceptions. They are also meant to enjoy preferential rights to supply government institutions and agencies, and preferential treatment in the allocation of agricultural inputs and tools. Cooperatives are entitled to loans and other support from the Development Bank of the Philippines and the Land Bank of the Philippines. See: V.G.J. Patac. (2015). The cooperative: So much potential. Accessed at: <http://www.acralaw.com/publications/cooperative-so-much-potential>
- 7 Oxfam and IDEALS. (2016). A Destiny of Debts: Unmasking the prejudicial contracts in the Philippine banana industry. *Oxfam in the Philippines*. Retrieved from: http://makefruitfair.org/wp-content/uploads/2017/01/Destiny-of-Debts-Policy-Brief-8_Final-1.pdf
- 8 Farmers who were under contract with the Davao Fruits Corporation first registered as an association (DFC-ARBA) rather than a cooperative, because members did not fully understand the benefits of forming a cooperative. Acting on the advice of IDEALS, they registered as a cooperative in 2015, changing their name to DFC-Banana Growers Agrarian Reform Cooperative (DFC-BGARC).
- 9 Oxfam. (2016). A Destiny of Debts. Op. cit.
- 10 Oxfam's experience has shown the potential of cooperatives to lift small-scale farmers and producers out of poverty, and to empower women. There are, of course, many examples of cooperatives failing or being ineffective due to poor infrastructure, poor management, over-dependence on government or NGOs, dormant membership and an absence of professionals in skilled roles.
- 11 Policies including the Republic Act 10000 and DAR administrative order no. 2, series of 2009 are supposed to support farmers, especially agrarian reform beneficiaries (ARBs) to access loans and credit to help them improve production on their lands. However, agribusiness companies take advantage of loopholes and weak enforcement of the law to increase their advantage over farmers and ARBs.
- 12 According to Sumitomo Corporation website (2013, June). Retrieved from: <http://www.sumitomocorp.co.jp/english/business/article/id=26869>
- 13 The volume of bananas traded has increased by over 40% in 2016 compared to the previous year. See: D. Santiago. (2017, 12 August). Philippines Bananas Exports by Country. Retrieved from: <http://www.philippinesaroundtheworld.com/philippines-bananas-exports-by-country/>
- 14 House Bill No. 5161, 'An Act Regulating the Establishment and Implementation of Agribusiness Venture Agreements (AVAs) in Agrarian Reform Lands' filed in the 16th Congress of the Republic of the Philippines, re-filed as House Bill No. 5085 in the 17th Congress.
- 15 Department of Agrarian Reform. Retrieved from: <http://www.dar.gov.ph/secretary-rafael-mariano/142-news-about-the-secretary/2197-dar-to-probe-business-venture-arrangements-entered-into-by-mindanaoan-farmers-tribal-folks>

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For further information on the issues raised in this paper please email PMiranda@Oxfam.org.uk

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