THE PHILIPPINES

STUDY ON AGribusiness, Infrastructure, AND LOGISTICS FOR GROWTH IN MINDANAO

POLICY NOTE

August 2010
Acronyms Used

AFTA  ASEAN Free Trade Agreement
ASEAN  Association of South East Asian Nations
CARP  Comprehensive Agrarian Reform Program
FMR  Farm-to-Market Road
NABCOR  National Agribusiness Corporation
PHF  Post-Harvest Facility
RO-RO  Roll-On, Roll-Off
1. The World Bank has carried out a study on agribusiness, logistics, and infrastructure for growth in Mindanao. Funded by the Australian Agency for International Development, the study aimed to understand better why the Philippines, with its well-educated human capital and diverse natural resource base, significantly lags behind the rest of East Asia in per capita growth. Some rural areas with high agricultural potential, such as Mindanao and—to some extent—the Visayas, also lag behind the rest of the Philippine economy. The study sought to understand how the Philippines could improve its competitiveness in agribusiness and agriculture commodity markets, areas where Mindanao enjoys strong comparative advantages.

2. The study analyzed the constraints affecting the performance of agricultural value chains in Mindanao, particularly in terms of infrastructure and logistics. The agricultural commodities selected were corn and bananas because of their economic weight at regional and national levels. Mindanao, especially the Bukidnon plateau, is a major producer of white and yellow corn. The study focused on yellow corn, which is grown mainly for animal feed and used in milled and non-milled varieties. Mindanao is also the country’s main banana producing region, both for export and for the domestic market. Region XI (the Davao Region)\(^1\) is the leading banana producer and supplier of export-quality bananas in the country. In recent years, the Philippines has become the world’s second top exporter of Cavendish bananas\(^2\).

3. Agriculture remains an important sector of the Philippine economy. Seventy percent of the poor live in rural areas. With its high agricultural potential, Mindanao is a strategically important region. However, it is also plagued by instability and high poverty rates in some areas. The region’s economy is agro-ecologically diverse and predominantly agri-based, making it an important agro-industrial business hub for the region and for export trade.

4. **Both the banana and corn value chains offer considerable scope for contributing to future economic growth in Mindanao, provided the appropriate policies and programs are implemented.** A support program would entail a combination of policy measures and public investment, aimed at leveraging private investment, particularly in the upstream part of the value chains. There is no reason for the banana sub-sector in the Philippines, both for the export and domestic markets, not to continue growing strongly in the years ahead. Expanding markets at home and abroad and a strong comparative advantage on the world market should be the main drivers of this growth. In the case of corn, the country’s global competitiveness seems more problematic but it can be strengthened. This will allow sustaining farm incomes while reducing the cost of feeds to the fast-growing poultry and hog industries. In spite of

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\(^1\) Region XI is located in the south-eastern portion of Mindanao island. It consists of four provinces with its regional center in Davao City.

\(^2\) Cavendish banana is the export quality banana on demand internationally.
serious challenges, these two value chains do represent potentially very important sources of growth for the island and for the country.

5. **However, both sub-sectors face serious challenges in terms of their current performance and mid- to long-term viability.** Yellow corn production has been increasing, pulled by the demand for feed for the livestock and aquaculture industries but will face increasing competition from imported corn in the future due to the implementation of the ASEAN Free Trade Agreement (AFTA). The current competitiveness of yellow corn production in Mindanao is too low and productivity needs to be strengthened all along the supply chain. Cavendish banana export in Mindanao is a competitive, growing, and vibrant sub-sector but it also faces some critical issues in terms of its long-term viability and sustainability. For both value chains, the current underinvestment at farm-level and in post-harvest activities undermines their long-term viability.

6. The analysis showed that some constraints are common to the two value chains, such as:
   - Lack—or bad state of—basic infrastructure and physical linkages to market outlets;
   - Inefficient logistics and weak trade facilitation policies and management;
   - Constraints on land use resulting from the national agrarian reform program (fragmentation of land holdings, limited access to credit and finance);
   - Low farm-level productivity, due to insufficient investment at the production level and the absence of targeted technical support programs; and,
   - Broader competitiveness issues, such as the unfavorable business environment and the high level of public corruption.

7. Some constraints are specific to a sub-sector and relate to the policy and institutional dimensions of the value chain. The review of the banana export industry reveals a number of institutional, environmental, and social sustainability issues. In particular, the capacities of professional organizations should be strengthened so that they can address the structural issues confronting these industries.

8. **A comprehensive program to support these value chains and improve their performance should be implemented in Mindanao.** It should be structured around three priority areas:
   - Bridging the productivity and quality gap;
• Investing in infrastructure for improved value chain performance and linkages to markets; and,

• Improving the social and environmental sustainability of the corn and banana industries.

Bridging the Productivity and Quality Gap

9. On average, farm-level productivity is low and below regional and world standards for both crops. As shown in the detailed sub-sector analysis, average yields in the Philippines for both corn and export bananas lag well behind international benchmarks. While there are important variations in corn yields between subsistence and commercial farmers, low yields clearly hamper competitiveness, particularly for corn, and limit returns to farmers. There is a dire need for targeted efforts to raise productivity as it has direct and indirect impacts on the performance of the value chains.

10. Eventually, farmers who cannot raise their productivity should be assisted in transitioning to other more remunerative crops like fruits and vegetables. In the end, the value chains are as strong as their weakest link. For banana growers, increases in output prices have not been sufficient to compensate for the increase in the cost of production factors during the last decade. Input prices have surged and have had a doubling effect on decreasing net income. New forms of market linkages have been emerging, together with increased competition in the industry, resulting in price wars and higher prices to producers in recent years.

11. The yellow corn sub-sector will continue to be driven by the growing demand for feed from the poultry and hog industries. However, corn yields are too low on average compared to those in major competing countries. It is only by raising productivity to a minimum level of 5 tons per hectare—versus the current 2.6 tons/ha—that Mindanao’s corn can compete with imported corn. Reducing transport costs is important in achieving better competitiveness of corn cultivation in the most remote production areas.

12. Substantial improvements in the quality of grains are also required to make domestic corn more competitive and commercialization of corn more efficient. This could be achieved through incentives for the private sector to invest in larger post-harvest facilities (PHF). The proposed interventions should aim at better yields, reduction of post harvest loss, and lower transport costs for input supply and market delivery. When combined, these interventions could reduce farmers’ costs considerably.
13. **The government needs to shift its agricultural strategy toward less protective and more pro-active policies.** Agricultural policies should focus on helping farmers raise productivity and improve product quality through appropriate support programs that can make them more competitive. In addition to raising farm productivity, there are some serious challenges in terms of improving quality and post harvest handling for corn, and also in moving up the value chain through product differentiation and certification for bananas. The following policy measures and support activities should be pursued:

- Completing the process of trade liberalization in the corn sector by reducing tariffs on imports from non-ASEAN countries. This will require improving the competitiveness of corn farmers through a targeted corn sector adjustment program that both enhances productivity and facilitates transition to other crops;
- Improving available knowledge and analysis on bench-marking of corn production costs with regional competitors;
- Redefining the role of the National Agribusiness Corporation (NABCOR) in corn post-harvest operations so that it will promote private-public partnerships and attract private investment in PHF;
- Providing incentives to encourage private investment in storage and post-harvest for corn;
- Establishing and enforcing quality standards for corn;
- Designing a farm productivity enhancement and support program for corn and banana production farming systems, to be piloted first in a selected number of municipalities;
- Supporting innovations in agricultural value chain finance (tripartite financing) to improve access to capital and credit by small farmers.

**Investing in Infrastructure for Improved Value Chain Performance**

14. **Infrastructure constraints in the broad sense (roads, irrigation infrastructure, land use, post-harvest facilities, and power supply) are indeed critical to improved performance of agribusiness value chains in Mindanao.** As agricultural commodities widely traded domestically and internationally, cost remains the main driver of competition for both corn and banana. Therefore, value chains need to be cost efficient at all stages. Particularly for bananas (a perishable product), logistics efficiency is critical to guarantee freshness, quality, and safety when the product reaches the final market.
15. **A farm-to-market road (FMR) rehabilitation program should be designed and implemented to improve market access for small farmers.** Performance of agricultural value chains depends first and foremost on the quality of basic communication infrastructure, primarily FMRs. Limited access to good road infrastructure has had so far important consequences in the location and spatial development of the two value chains in Mindanao. Targeted investment in rural roads rehabilitation could play a vital role in improving access to markets for farmers and in unlocking new areas with productive potential. Improving agribusiness value chain performance requires increased investment for rural road rehabilitation and maintenance. Investment should be accompanied by policy measures on contract procurement and funding for road maintenance that have been recommended already in previous studies.

16. **Inter-island shipping and export logistics need to be improved.** Both value chains are affected by sea-freight costs, although in different ways. The problems for corn are high costs, inefficiency, and poor service for inter-island logistics. These problems also affect the transport of bananas in the domestic market. The major difficulty lies in the regulated nature of the port and shipping industry. There are many private ports in the Philippines, such as those used for exporting bananas and other fruit. Most of them are small and specialized. Inter-island shipping has benefited from recent improvements like the introduction of the RO-RO (“roll-on, roll-off”) system. However, it is still constrained not only by the condition of the ports but also by the regulations that govern logistics operations.

17. **Adjustments in implementation of the Comprehensive Agrarian Reform Program (CARP) are needed to allow for more efficient land use.** Land tenure status resulting from agrarian reform has multiple implications for the two value chains. CARP was an initial opportunity for small-scale Cavendish banana growers to improve their economic situation. However, the recently completed study on land reform in the Philippines\(^3\) has shown that CARP’s overall impact on poverty has been quite low compared to initial expectations. An important implication of the small scale of farms is the limited degree of mechanization that can be used for corn cultivation. This is the case particularly for harvesting, along with the difficulty of establishing efficient markets for machinery rental. Aggregation of small farms through cooperative arrangements has also been problematic in the banana industry.

18. Specific activities to be undertaken would include:

- Conducting a feasibility study on a priority program of farm-to-market road improvement, to include mechanisms that ensure adequate funding for *barangay*\(^4\) road maintenance by local government units;

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4 The smallest administrative division in the Philippines; the native Filipino term for a village.
• Implementing the recommendations of the recent assessment of logistics performance for inter-island shipping (port management, cabotage law, RO-RO), and identifying investments that could improve access to export infrastructure by small banana producers;

• Implementing measures to complete the agrarian reform program (improving tenure security and efficiency of land markets);

• Designing and carrying out a study of the domestic market for bananas to identify the types of investment required to improve value chain performance.

**Improving the Social and Environmental Sustainability of the Corn and Banana Industries**

19. **The current lack of transparency and regulations in pricing mechanisms is a threat for the future economic and social viability of the value chains.** In the banana sub-sector, the overall organizational arrangements and types of linkages between farmers dictate the resulting prices paid to small farmers. It is in the industry’s best long-term interest to bring more transparency and provide more information on banana export prices.

20. **Environmental issues need to be addressed urgently and comprehensively.** Davao City banned aerial spraying of banana plantations in 2009. This shows the acuteness of the environmental problems and the need for both the industry stakeholders and government to come together to address them. It also points to the broader issue of widespread encroachment of banana plantations—and agriculture, in general—in urban or semi-urban areas. This encroachment exacerbates the tensions between agricultural and non-agricultural activities. It is strongly recommended that strategies be designed and implemented to raise the environmental awareness of the industry and improve its compliance with good agricultural practices. Greater compliance with these standards is required and will contribute to improving the competitiveness of the Philippine bananas.

21. **Supporting and strengthening professional organizations should be a priority.** Addressing the issues confronting the corn and banana value chains requires some form of collective action. It also requires cooperation between private actors and government in areas like environmental sustainability and the spatial redistribution of production. Strong and responsible professional organizations are needed to tackle these issues.

22. Concrete interventions in this area would entail, for example:

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• Analyzing opportunities for spatial redeployment of production through planning—using existing geographic information system or GIS mapping, and incentives (public-private partnerships), particularly in conflict areas;

• Establishing and upgrading price information systems to facilitate the process of price discovery across the supply chain and across the country;

• Strengthening professional organizations in order to improve management and governance in the banana sub-sector, including setting up a price information system and organizing study tours to possible models, such as the banana industry organization in Costa-Rica;

• Assessing the social and environmental sustainability of the banana export industry and promoting certification schemes.

Cross-cutting and Overarching Issues

23. Finally, any support program for agribusiness value chains in Mindanao should also take into account the following cross-cutting issues because of their overarching importance:

• Improving the business environment, and

• Implementing non-distortive macro-economic policies, particularly those relating to foreign exchange, and monetary and credit policies.

24. **Improving the business environment for the private sector is critical in order to foster the development of agribusiness in Mindanao, as well as in the rest of the country.** Both value chains face challenges in terms of competitiveness—although on different terms—and require private investment to improve their performance locally and globally. Improving the business environment should be a priority. Unfortunately, “elite capture”\(^6\), other forms of corruption, and lack of transparency, hamper the flow of private investment. This constrains future growth in these sub-sectors as in the rest of the economy.

25. **Macro-economic policies should remain non-distortive.** The foreign exchange rate, internal inflation, and monetary policies reflected in interest rates can have a severe impact on agricultural value chain performance while being completely out of the control of stakeholders in the agribusiness sector. The national government must make sure that the overall macro-economic policy framework remains favorable and does not hinder the performance of these value chains.

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\(^6\) The phrase “elite capture” refers to the manipulation of legal, political, and regulatory institutions by the wealthy and the politically powerful for their own benefit.
ANNEX: SUMMARY OF THE CORN AND BANANA VALUE CHAIN ANALYSIS

The Yellow Corn Value Chain at a Crossroad: Opportunities and Challenges of a Competitiveness Agenda

On average, the Philippines produced 3.7 million tons of corn annually—both yellow and white—during the period 2004-2008. Similar to the trends observed at the national level, yellow corn production in Mindanao has been steadily increasing, overtaking that of white corn (Figure 1 below). Total corn demand in Mindanao has increased during the last decade by 3.5 percent per year, driven mainly by the demand of yellow corn for feed for the hog and poultry industries. In addition, Mindanao has traditionally been a net supplier of yellow corn to deficit areas in the Visayas and Luzon, where large processing capacities are located. The bulk of yellow corn trade flows in Mindanao gravitates around the cities of Cagayan de Oro in the north, General Santos City in the south, and Davao City.

With rising incomes and rapid urbanization, consumers’ preferences are shifting at an accelerated rate toward livestock products, in particular hogs and poultry. The steady increase in yellow corn production responds to the increased demand stemming mainly from livestock intensification. As a result of increased demand, the sector is now industrializing rapidly: backyard production is giving way to larger scale operations catering to the urban consumers and, in a longer term perspective, in the case of hogs, to the export market. Evidence suggests that the Philippines’ corn market is quite integrated with the world market. The implication here is that trade liberalization will have a great impact on the yellow corn supply chain. Support to corn farmers has mainly been through tariffs on corn imports, while domestic support programs have remained quite limited in scope.
Since 1980, the supply of corn worldwide has increased by more than 60 percent. The Asia-7 group of countries\(^1\) has become a major producer of corn on the world market. While most of the increase in corn production can be attributed to China, there are no clear signs of specialization between countries of the region. However, the configuration of corn trade within Asia suggests that China, in the long run, could become the main supplier of corn for importing countries in the region, including the Philippines.

The structure of protection of the corn sector across Asian countries is changing swiftly as the regional integration of agricultural markets is making progress with the implementation of the AFTA trade agreement. Nevertheless, a reduction of tariffs on corn imports from the ASEAN region is unlikely to have a major impact on Philippines border prices of corn. In the short to medium term no ASEAN country will have the capacity to expand corn production and substitute non-ASEAN imports of corn. As a result, tariffs on imports of corn from non-ASEAN countries (United States, Brazil, Argentina) will continue to influence the border price of corn.

The corn farm sector in Mindanao is highly fragmented, poorly organized, and characterized by a limited degree of mechanization. Production of yellow corn is intensive in terms of use of commercial inputs and hired labor, making corn farmers vulnerable to fluctuations in input prices. As shown in Table 1 below, the average yields obtained in the Philippines are significantly lower than those in neighboring countries like Thailand, Indonesia, and Vietnam. However, it is also important to factor in the wide variability in yields obtained by commercial and subsistence farmers.

Trade protection given to the sector has not resulted in widespread and systematic increases in productivity. Notwithstanding, the non-farm part of the corn value chain in Mindanao is well developed and well populated with leading international firms on both sides of the farm gate, i.e., the supply of inputs to the farmers and the utilization of corn on the demand side. In particular, the market structure appears to be quite well developed with good competition among buyers for the farmers’ corn.

Table 1

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Source: FAO.

Farm gate prices in Mindanao are well below those prevailing in Luzon, a direct conse-

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\(^1\) Asia-7 refers to China, India, Indonesia, Nepal, Philippines, Thailand, and Vietnam. These countries represent more than 90% of the total production of corn in the region.
quence of the relatively high freight rates of inter-island shipping. Delivery of corn from a farm in Mindanao to a processor in Luzon involves multiple transactions and handling. One or more wholesalers are involved in the transfer—from the mill to the retail feed dealers or directly to the hog or poultry farm. A very active and competitive network of traders moves corn along the supply chain all the way from the most remote barangays to primary processors and final users. In any case, while the trading sector is competitive, it is characterized by high costs due to poor infrastructure and transaction costs associated with the low quality of corn.

Transportation costs in the Philippines, particularly beyond the main municipal centers, are high compared with neighboring countries. The high costs are caused by poor road conditions, a limited supply of transport services, and high fuel costs. The relatively high port and shipping charges for movement of small consignments of bagged corn, often in containers, account for the higher cost of shipment to Manila. As a result, the logistics costs account for about 20 percent of the delivered cost to Cagayan de Oro, but represent about 40 percent of the delivered cost to Manila. Low quality of farm-to-market roads also affects farm gate prices and forces farmers to adopt sub-optimal post-harvest practices.

Even though they are fairly well correlated with world prices, fertilizer prices in the Philippines present some asymmetry in terms of price fluctuations. While competition among fertilizer suppliers appears quite intense, logistics and marketing costs tend to drive a wedge between fertilizer prices in Mindanao and other major regions in the Philippines. Traders also sell fertilizers to farmers on credit terms as a result of the farmers’ limited access to credit, which finally translates into higher input costs. Here, again, the resulting high transaction costs impair competitiveness of the value chain.

Post-harvest practices vary considerably along the supply chain and depend on the geographic location. Traditional shelling practices and capacity in Mindanao can differ significantly by area but are generally characterized by a low degree of capital intensity. The existing multi-purpose drying pavements in the barangays are considered to be severely insufficient during peak harvest season. This has a direct impact on the quality of corn, on its price, and, therefore, on the valorization of the product by the farmer. The limited storage capacity also explains the main problems reported by traders. These include the abrupt price fluctuations following the peak of the harvest season, which is compounded by the contemporaneous arrival of imports and the increasingly stiff competition among them.

The relatively low performance of the upstream part of the value chain—which results in low competitiveness, difficulties in aggregating supply, uncertainties on delivery and low standards in grain quality—is a threat and a challenge for the future growth of the sub-sector. This is in spite of the strong and sustained demand from the domestic feed industry. Larger processors, integrating shelling and drying activities, are slowly increasing in the region, often with public support. NABCOR’s investments in integrated PHFs are improving market access by small farmers. Yet, such investments have not attracted the attention of the private sector, to which these facilities should be turned over after a few
years of operation. This lack of interest may depend on the governance structure of these PHFs as well as on the limited financial returns due to high transaction costs and risks.

Large scale shelling facilities pay more attention to quality and cater to higher end corn users. Both corn millers, who process grains into grits, and feed millers, who convert corn into animal feed, are segments of the corn value chain that are quite diversified in terms of the type of end users, even though capacity seems to be quite concentrated among a few players. The instability, unpredictable availability, and poor quality of corn supply are increasingly pushing millers and integrators toward managing their inventories through the importation of corn. While grade standards for corn have been developed by the Bureau of Agricultural and Fisheries Product Standards, their use is sporadic, limiting the emergence of a more transparent price discovery process. This may depend on the general low quality of corn that leaves the production areas. It may also depend on the fact that public consultation with key stakeholders before the issuance of such standards has been minimal.

To identify key areas for policy interventions that would help increase the competitiveness of corn in Mindanao in the context of the implementation of the AFTA agreements, six simulations were carried out based on field data on the cost structure along the supply chain. The results of the sensitivity analysis of the yellow corn value chain show that if corn productivity was increased to a minimum yield level of 5 tons per hectare, Mindanao could compete with imported corn. Reduction in transport costs is also critical in improving the competitiveness of corn in the more remote production areas. In addition, substantial improvements in the quality of grains should be sought through investment in PHFs in order to enhance the efficiency of the value chain. This could be done through incentives for private sector investment in larger PHFs and clarifications in public sector interventions.

The Export Banana Value Chain: Moving from Comparative to Competitive Advantage

The Philippines is one of the major producers and exporters of sweet bananas in the world. Total production of bananas was estimated to be around 8.7 million tons in 2008, with exports of around 2.5 million tons. The demand for bananas has been growing fast in both the domestic and export markets. Total marketed volumes have increased at an annual average rate of 11-12 percent during the last few years. Some of the key drivers of this demand include: growing population, rising incomes, increased consumer preference toward healthy food and fresh fruits, development of new markets and improved competitiveness in terms of quality and price.

Within this overall growth pattern, it is interesting to note that domestic demand has actually been strongest and growing faster than exports. On a volume basis, Cavendish bananas and local bananas accounted roughly for 30 percent and 70 percent, respectively, of Philippine marketed production during the period 2004-2008. The two types of bananas are in demand in two different markets, and are produced in different geographic
locations in Mindanao due to various historical and agro-ecological reasons.

The position of the Philippine Cavendish industry today is competitive. The country now ranks second in the world market with a solid growth record and a highly regarded export quality product. The banana export industry has been expanding at a sustained rate in the past twenty years, and growth has accelerated to nearly 8 percent per year during the period 2004-2008. Exports reached 195 million boxes in 2008. Cavendish banana production and export are concentrated in Mindanao, mainly because of the island’s natural comparative advantage: fertile soil, mild climate, diverse terrain, and typhoon-free area. Bananas account for about 75 percent of the total agricultural exports of the region. They contribute significantly to the country’s economy and foreign exchange earnings, and significantly to those of the island and of Region XI.

The industry has undergone considerable transformation over the last 30 years. Historically, it had an oligopsonistic structure with a limited number of exporters, mostly multinational companies producing, conditioning, and exporting the fruit. With the implementation of CARP, the industry had to adjust and rely more on small producers. Small scale growers participate in the industry primarily by supplying the fruit to the exporters. Today, the relations between producers and exporters are fairly complex. Nevertheless, the supply linkages can be categorized into two main types:

- Growership model, where the buyer outsources production through cooperatives, individual growers or corporate-managed farms, and
- Lease arrangement, where the buyer rents the land and manages the production process.

The average farm size has declined as a result of CARP implementation in the 1990s. The various arrangements between growers and exporters have tried to make up for the fragmentation of land ownership induced by CARP. While the banana export business remains quite concentrated—five multi-national companies account for 90% of exports—competition has increased in recent years with the emerging role of consolidators or integrators.

The Philippine banana export industry enjoys a very strong comparative advantage due to both the excellent agro-climatic conditions for banana cultivation in Mindanao and its proximity to the large and growing markets of Asia and the Middle-East. Nevertheless yields and on-farm productivity remain low on average and well below that of the country’s main world competitors (Figure 2). The ability of the industry to respond to market demand has improved in recent years, translating in strong growth. The main export markets for Philippine bananas are Japan, Korea, China, and the Middle-East. However, competition remains strong in the global and regional markets and Philippine exporters perceive a competitive threat to their market position. The risks are real, while not

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2 A box contains 13 kilograms of fruit.
3 A market situation in which each of a few buyers exerts a disproportionate influence on the market.
immediate, and point to the need for the industry to develop a competitive edge in these markets.

Figure 2
Average banana yields, main exporters (tons/ha), 2008.

Incomes at farm level depend primarily on the average yield, which is estimated to be no more than 3,500 boxes per hectare and per year, well below the world standard of 4,500 to 5,000 boxes per hectare. This corresponds to an average of around 43-45 tons of exportable fruit per hectare. Smaller growers tend to have lower productivity levels than corporate growers. The export price has been at an average of US$240 FOB per ton during 2004-2008, while the price paid to growers has gone up in recent years due to increased competition between buyers.

However, production costs have also been on a steep rise due to exchange rate fluctuations and to the surge in the prices of agro-chemical inputs. Productivity gains are therefore critical to offset input cost increases. In 2008, the net income of small banana growers could be estimated between US$1,000 and US$1,400/ha/yr for those farmers who were able to achieve a good productivity level (4,000 boxes/ha). However, those who had yields of 3,500 boxes/ha or below—the case of a majority of small farmers—barely broke even.

As demonstrated by its strong growth and its ability to gain market share in recent years, the Philippine banana export industry is competitive. Its performance compares favorably with Ecuador, the world leader. A Strengths-Weaknesses-Opportunities-Threats analysis reveals the strengths of the Philippine banana industry compared with that of Ecuador, while both countries exhibit similar weaknesses at the small holder level. Lack of access to finance and credit for farm development, expansion and improvements is a common problem. The major drivers of competitiveness in the industry worldwide are cost, consistency of supply, quality, and safety. Since bananas are a perishable product, availability of an efficient and reliable logistics chain to guarantee just-in-time and just-in-shape delivery is mandatory.

As reported by grower surveys, small holder production is affected by three major types of constraints: (i) availability and quality of infrastructure; (ii) consequences of CARP on
land use and productivity and, indirectly, on access to credit; and, (iii) limited capacity for on-farm and post-harvest investments, feeding in turn a vicious circle of low productivity.

- Good transport infrastructure and efficient logistics are the first factors of competitiveness in the industry. The primary constraint, particularly for small holders, is therefore the farm-to-market infrastructure;

- Second, implementation of CARP has led to a fragmentation of land holdings, resulting in difficulties in guaranteeing credit, and to an inexistent and inefficient land market. In the post-CARP context, land availability and land tenure status remain major issues. This affects land productivity by limiting economies of scale;

- Third, low productivity and declining profitability of banana production at farm-level tend to reduce investment capacity, while management capacities remain weak in the absence of technical support systems and services.

The banana industry also faces challenges in terms of its social and environmental sustainability, calling for policing, economic management, and regulation. While the regulatory framework of the banana industry has recently improved in the Philippines, the current aerial spray ban in Davao is creating serious problems for producers and exporters. Finally, some factors in the general business and macro-environment such as the foreign exchange rate and the interest rates can have a potentially critical impact on the sub-sector.

Export of Cavendish banana in Mindanao is a growing and vibrant sub-sector. However, it is facing some very serious challenges ahead, as mentioned above. Key issues for the long-term viability and sustainability of the industry have to be addressed. They call for some form of collective action in the form of adequate policies and investments, particularly in infrastructure. The current level of underinvestment at farm level and in post-harvest activities undermines the long-term viability of the industry. Competitiveness improvement and small holder inclusion are closely related objectives. Government’s funding should be targeted at solving key bottlenecks in areas such as transport, infrastructure, land and credit availability, productivity and quality enhancement, geographical distribution, and environmental sustainability. Policy reforms, institutional support and capacity-building, including in sector governance and regulation, are also required.