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ABOUT THE AUTHORS

NATALIE MACAWARIS

is Task Leader of the Agribusiness Linkages Program in the Philippines. Prior to joining IFC she worked as a marketing officer for an agribusiness company, an associate aquaculture officer of the Food and Agriculture Organization of the United Nations in Samoa, and a marine researcher for coastal resources management in the Philippines.

COLIN TAYLOR

is Program Manager of the Agribusiness Linkages Program in Philippines. Prior to joining IFC, he worked as an independent consultant following a career in international agribusiness companies such as Unilever, Chiquita and Geest.

CARLA ZAMORA-GALINATO

is Program Assistant of the Agribusiness Linkages Program in Philippines. Prior to joining IFC, she worked as a Senior Economic Development Specialist in the public sector focused on agribusiness development initiatives in Mindanao, Philippines.

APPROVING MANAGER**TANIA LOZANSKY**

Regional Head of Advisory, IFC Advisory Services in East Asia and the Pacific.

SmartLessons

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Sowing the Seeds of Sustainability: A Case Project with Unifrutti, IFC, and Smallholder Banana Farmers in the Philippines

Smallholder banana farmers are beginning to understand that their old farming methods are contributing to the planet's drying up or suffocating in fields of garbage. They are convinced that they have to change their ways for the good of their farms, their communities, and their children. But what really drives them to adopt new and sustainable practices? What will ensure they continue to do so?

IFC partnered with Unifrutti Philippines in 2008 to work with farmers to enable them to be certified to the international Sustainable Agriculture Network standards of the Rainforest Alliance (RA).¹ With concerted efforts from Unifrutti (the lead firm) and IFC, smallholder² farmers were trained to understand the RA standards and auditing processes, buy into the concepts of environment and social sustainability, adopt new sustainable practices, and pass the certification audit—all within 12 months.

This SmartLesson examines the difficult challenges of instituting change, as well as the necessary steps to ensure ongoing sustainability.

Background

Sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987). Environment and social (E&S) sustainability standards in agricultural development refer to farming practices designed to maintain or promote biodiversity and ecosystem integrity, and to ensure human welfare and safety. Certification gives farmers a stamp of recognition that they adhere to these sustainable practices.

The E&S standards can be imposed by governments (e.g., as a regulation or international trade requirement) or the

private markets (e.g., supermarket standards). Compliance with these standards can be strictly enforced either by the public or private sector, depending on the political landscape of a country. In the Philippines, government enforcement of E&S-related regulations is weak. Hence, certification in the agribusiness sector to E&S standards has been led by the private sector and imposed by certain overseas markets (e.g., Japan).

In the banana export industry, the exporters, large local and multinational corporations that also manage corporate plantations, are certified to several specific standards (e.g., ISO, GlobalGAP, and RA) to meet their buyers' requirements or to enhance their market position as socially responsible suppliers. These corporations have the technical resources and financial capability to readily meet any or all certification standards.

The smallholder banana growers, however,

¹ The Rainforest Alliance (www.rainforest-alliance.org) is an international environmental nongovernmental organization that promotes sustainable farming practices.

² The smallholders can be cooperatives composed of members owning 1-2 hectares (ha) each or a family-type enterprise, owning 5-25 ha and leasing up to 200 ha.

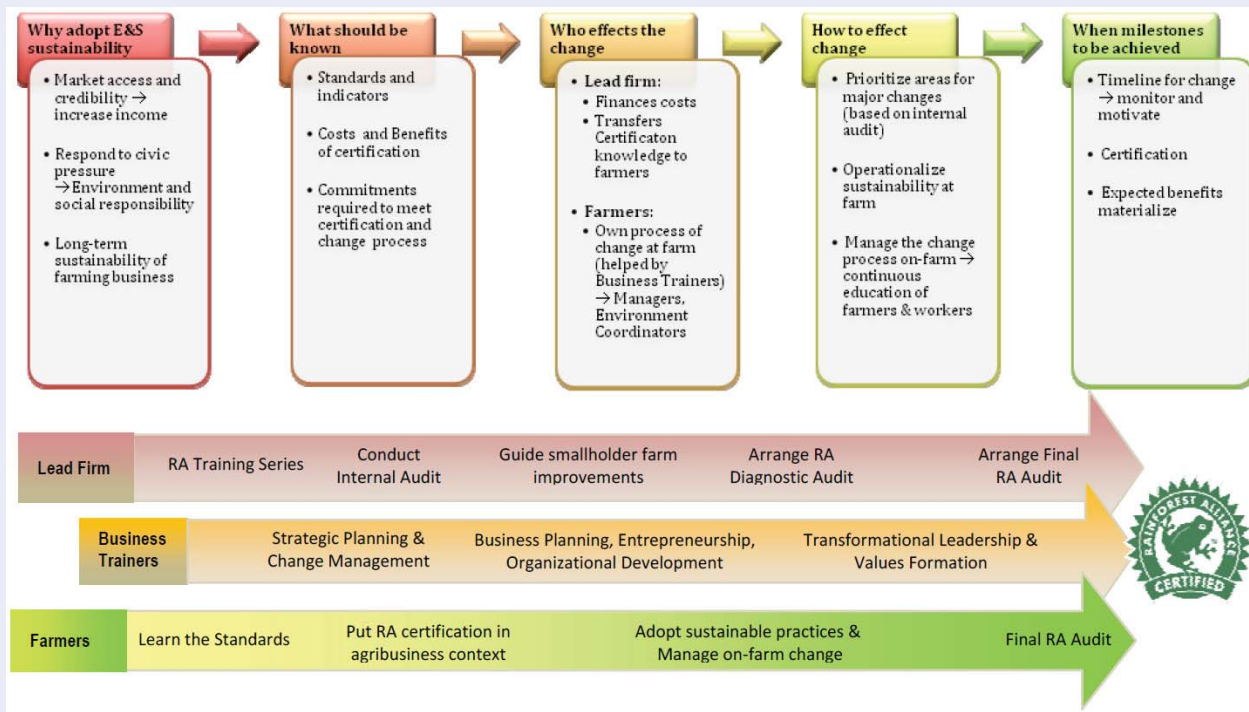


Fig. 1. The change process in adopting sustainability standards.

are not as able to comply with E&S standards as their corporate counterparts. Being on the producing end of the supply chain with little market contact, they lack knowledge of certification standards. With little policing from the government, they do not follow the local regulations on proper use of agrochemicals, waste management, or provision of minimum wages and benefits to their workers. Furthermore, they barely meet the quality standards of premium markets such as Japan because they have limited access to financing. Their produce is mainly directed to export markets that do not have stringent quality or standards requirements. With a national land reform policy turning corporate plantations over to smallholders, the exporters are increasingly reliant on smallholders to supply bananas. One such company is Unifrutti Philippines, which needed more Rainforest Alliance–certified bananas to increase their market share in the specialized highland banana premium market in Japan. To do this, they required certified bananas from their smallholders.

The project began in 2008 and ended in December 2010.

Lessons Learned

1) If you can't offer an explicit price premium for certification, think twice about doing the project.

The most important questions that the smallholders ask are: Will there be an additional increase in their price if they meet the certification standards, and what are the costs involved?

In the pilot phase of the project, certification premium was not clearly defined, and it caused a lot of discord between the farmer beneficiaries and the lead firm. Certification

costs were seen as a new additional burden on the farmers.

An added expense exacerbates the difficulty of changing behavior and mindset, given a natural inclination to resist change. While people feel good about protecting the environment, the reality is that it costs money. It is an additional burden that many people—from consumers to producers—do not willingly bear. In smallholder banana farming, profit margins are determined literally in cents; thus every penny counts.

The heaviest costs to meeting the certification standards are capital investments for farm infrastructures. Examples include: hazard-proof chemical storage and mixing areas, shower and toilet facilities for workers to remove chemical residues that may have stuck to their bodies, water recycling to conserve water, and filtering systems to remove contaminants from water coming from packing sheds before being released back into natural water bodies. These structures are typically not built on smallholder farms.

There are also the annual costs of the auditing process and of maintaining an environmental services team or person on the farm to ensure standards are maintained.

Fortunately, the lead firm, having the business imperative of sourcing certified bananas from smallholders to grow their premium highland banana market in Japan, gave the incentive of adding a price premium to meeting RA certification. This premium enabled farmers to cover the certification costs and increase their income. We learned that having a clearly defined certification premium makes farmer beneficiaries more committed to adopting sustainable practices.



Worker without protective equipment (top). Local RA auditor interviews a farm worker wearing protective gear (bottom).

2) If there is no price premium, determine if operational cost savings and intangible benefits can provide enough of a business case for farmers to adopt sustainable practices.

In the second phase of the project, the certification price premium was established only for the highland growers, who represent less than 10 percent of banana growers. To convince the majority (i.e., lowland farmers) to adopt sustainable practices without the benefit of price premiums, it is imperative that other benefits (cost savings and any increases in productivity) of sustainable practices be clearly quantified.

By working closely with the farmers, we discovered that cost savings that resulted from sustainable practices could potentially offset the costs of meeting the certification. These cost savings could be achieved by conserving and recycling water, switching from chemical to organic fertilizer,

switching from herbicide to manual weeding, and getting new earnings from sorting and selling recyclable wastes.

Clear monetary savings can hold sway in the decision of farmers to adopt sustainable practices even without the price premium. Given the dearth of data from farmers, we needed a good methodology to measure the environmental benefits (such as keeping natural water bodies clear of contaminants from farms) and social benefits (such as less health-related problems associated with farm activity) of sustainable farming. We developed an activity-based methodology to measure production costs and the impacts of sustainable practices at various stages of banana production. This can be adopted by farmers and, once applied, will help in determining further impacts of sustainability.

In addition, we recognized some intangible benefits enjoyed by RA-certified farmers. They gained increased confidence and better negotiating power with lead firms, and with banks for financing. The rigors of meeting international standards require discipline and organizational efficiency. Therefore, certified farms are perceived to be well managed and disciplined, hence sustainable businesses. Because of this, they are able to negotiate better terms not just with their contracted lead firm but potentially with other lead firms when current contract terms end and new ones are negotiated (usually every 5 years). At least one bank mentioned that farmers who attain international standards certification are more attractive clients.

Meeting the RA certification helps improve compliance with government regulations and demonstrates that the industry can be environmentally and socially responsible. The annual RA certification is the best policing method to ensure not only that farms continually implement sustainable agriculture practices, but also that they comply with agricultural rules and regulations. Furthermore, in light of the tremendous pressure applied by local environmental nongovernmental organizations (NGOs) and government units on the banana industry to mitigate the health and environmental risks brought by a perceived unsustainable farming practices such as the aerial spray³, the smallholders are now more able to show that they are cognizant of and actively mitigating these risks by being certified to the standards of an internationally renowned environmental NGO.

Finally—as proof that certification helps—when a major banana export market in the Middle East banned the entry of bananas from the Philippines (as a consequence of international trade politics), the smallholder farmers were greatly and adversely affected. Smallholders mainly send their produce to the Middle East, as they have difficulty meeting the stringent quality requirements of Japan. The RA-certified smallholder farmers, however, were not affected, because they had preferred supplier status and were able to meet Unifrutti’s requirements for the Japan market.

³ At the heart of the controversy was the aerial spray practice, which local NGOs and local government units wanted banned. Aerial spray is still, by global standards, the most cost-effective and efficient way of combating the dreaded black sigatoka (fungal) disease in banana plantations. There are mitigating practices to minimize the risk of any of aerial spray’s adverse effects on workers’ and community health.



Burning wastes on farm (top). Enforcement of rules to protect the environment (bottom).

3) Once a clear business case is established, four project elements are required for successful farmer certification: technical training on certification standards, business training, financing, and availability of local auditing capacity.

Smallholders need to understand the full implications of adopting sustainable agriculture practices: the cost and benefits of meeting certification, the resources needed, and the commitment required from them at the beginning and throughout the change process (Fig.1).

Increasing the technical knowledge, business management skills, and financial resources of smallholders is crucial to meeting sustainability standards. Farmers lack access to financing for capital investments, knowledge of sustainability standards, and the organizational capacity to institute reforms in farm operations. In this project, the lead firm providing the finances for farm improvements and the training in RA standards and certification process addressed these challenges. IFC provided the business management skills training that helped farmers embed the principles of sustainability into their daily farming operations (Fig. 2).

The lead firm, Unifrutti, having the internal knowledge of the standards and the technical processes needed to meet them, mobilized their environmental services unit to train farmers on awareness, documentations, and audit process of RA certification; conduct tours to RA-certified corporate farms to gather ideas on practical ways to meet standards requirements; conduct internal audits to determine critical areas for change and guide farmers in implementation; and arrange the auditing process with RA.

The business training improved the farmers' skills in agribusiness management and organizational development. It helped them to better manage the process of complying with the standards and motivating their workers and fellow cooperative members to embrace the new sustainable ways of farming.

Business training modules such as: "Change Management and Strategic Planning," "Transformational Leadership and Values Formation," and "Business Planning and Entrepreneurship" gave farmers the tools to understand why and how to adapt to a changing world that requires more care for the environment. To ensure that farmers continue to receive this type of training, trainers of a local business training service provider were trained to use these modules. The service provider chosen was one that has been providing annual training to farmers and cooperatives during the last decade.

A DVD featuring the practical steps to sustainable agriculture practices under the RA principles was useful to farmers at RA-certified farms and to other smallholders seeking to understand sustainable practices. It featured the actual experiences of farmers who had adopted sustainability and met RA certification in the project. Produced mainly in the local language, the DVD can be an effective and inexpensive learning tool that farmers can readily understand and use at their farms to motivate co-workers.

Finally, three Filipinos were trained to become RA auditors. Prior to the project, RA auditors were flown in from the United States or South America to conduct audits (usually in Unifrutti corporate plantations). The local RA auditors ensure that the auditing—and if necessary, re-auditing—

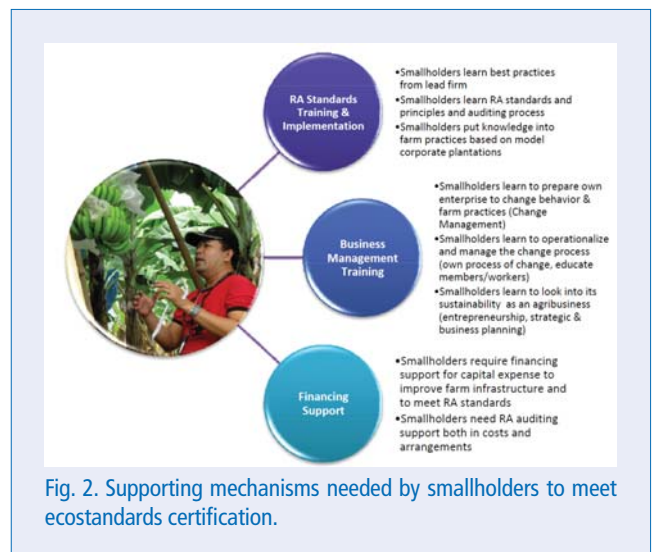


Fig. 2. Supporting mechanisms needed by smallholders to meet ecostandards certification.



Wastes discharged directly into natural canals (top). Proper wastewater management and treatment areas (middle, bottom).



Improper storage of agrochemicals (top). Proper chemical storage and mixing area (bottom).

vital, but it is only the first step. A sound business case and clear quantifiable benefits for adopting sustainable agricultural practices are the key factors in getting farmers to change their behavior. Support services that enable access to finance and that provide ongoing training and education are critical to maintaining sustainable practices.

process can be quickly arranged, bring the audit expenses relatively lower, and make farmers more comfortable in interacting with them during the auditing process.

The smallholders have acknowledged that without the significant support provided by the lead firm and the business trainers in guiding them through the certification process, it would have taken them much longer, if ever, to achieve the sustainability standards.

Conclusion

The Unifrutti, IFC, and Smallholders Banana Farmers Project in the Philippines provide key lessons on how to institute change and increase sustainability. Changing mindsets is



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