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Unifrutti Tropical Philippines Inc.:
Planting the Seeds for Peace and Prosperity

@ Unifrutti Tropical Philippines Inc (UTPI)

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1 NO POVERTY

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Introduction

Alberto Bacani went through a baptism of fire as he took up the reins of Unifrutti Tropical Philippines Inc (UTPI), the Philippine-based banana grower and exporter, from its former CEO John Perrine. That November morning of 2019 as he made his way to inspect the wharfs at Davao City, Philippines, and observed the forklifts loaded with banana boxes, he remembered the string of events that led him in his current position.

Founded in 1992 in Mindanao, a region marred by wars between Muslim and Christian populations, UTPI was known for its sustainable practices and its inclusive business model which was based on mutually beneficial partnerships with small landowners and cooperatives. Within this model, the farmers were responsible for the production, while the company dealt with other aspects, such as logistics and marketing.

For eight years Alberto explored the company's different departments and slowly took on more responsibilities. This gave him enough time to gain the trust of the staff and build relationships both inside and outside the company. He was promoted from Vice President of Support Services, to Deputy COO, to President and COO, before taking over the President and CEO role in 2018.

Unlike the relatively stable and highly profitable periods of the past, Alberto had to deal with a number of setbacks: the financial strain brought about two successive years of losses stemming from one of the longest episodes of El Niño In 2016 and the banana oversupply worldwide in 2017 that sent banana prices crashing down, the frequent typhoons and pests plaguing the Cavendish banana export sector, the surge of foreign spot traders in the local market, the increasing competition from Latin America, and the uncertainties that go with major transitions in the ownership structure of its mother company. These challenges all combined to produce a perfect storm that could cripple even the most robust companies.

During these crises, Bacani had seen that the company's inclusive business model, where social capital played a big role, was tested. The short-term trade-off between productivity and inclusion became more salient. Partnering with small farmers was empowering for them and helped maintain peace in the region, but at the same time it left the company without any control over the production.

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This productivity challenge was even more pronounced in cases where the grower leadership also reneged on their commitments (e.g. to sell to UTPI at agreed price even if spot prices were higher) and did not demonstrate the willingness to take the necessary investments that will increase their productivity. The company is willing to exert the effort to capacitate its partners, but that effort is meaningful only with the full cooperation of the other. From a long-term perspective, having capable suppliers will deliver the higher level of productivity, which benefits everyone in the value chain. From a short-run perspective, however, a totally managed plantation where the company would have the complete control of plant care, inputs used, fruit-handling, etc., provides the best formula for increased productivity. Such trade-off between long and short-run interests now faces Alberto and his team. Ending the partnership with growers who have broken trust by not demonstrating reciprocity is not necessarily a move towards a less inclusive business model; because main currency of these relationships is trust. However, if going for a managed plantation model would mean not being able to help capacitate partner growers sufficiently, then that could be a move towards less inclusion.

Although his number one task as CEO was to protect and nurture the company's most important asset, its social capital, at present Bacani is in a position where he needs to re-evalutate the company's inclusive model and its commitment to the rural communities in the Philippines. Looking back, UTPI's inclusive business model had served a clear purpose: it broke the vicious circle of conflict and lack of investments in a turbulent region. But now that times had changed, was it perhaps the right moment to pivot to a different business model and find other ways to positively engage local communities?

Company Overview

Unifrutti Philippines was a foreign equity private sector corporation based in Mindanao in Southern Philippines (**Exhibit 1**). It was established in 1992 under the name OriBanEx (Oriental Banana Export Company) with investments principally from Chiquita Japan Bananas (Japan), De Nadai Group (Italy) and Abdullah Abbar & Ahmed Zainy Co. (Saudi Arabia). Since 2005, the company had been owned principally by the Italian De Nadai Group, and was engaged in production, processing and export trading of bananas. It was one of Philippines' biggest exporters, shipping an estimated 35 million boxes of bananas a year to Japan, South Korea, China, Iran and other countries in the Middle East.[1]

Exhibit 1: Map of Mindanao
Source: The Economist[2]

Employing about 8,500 people, UTPI was one of Unifrutti Group's largest investments around the world with roughly 8000 hectares of planted land (34% of which were fully owned and the rest were cooperatives). Besides planted land, UTPI runs its own cold storage and wharf in Davao.

UTPI had a strong corporate ethos, expressed in its mission statements, which declared a commitment to improving the quality of life of the communities with whom it worked; set a high standard of truthfulness; and committed to preserving and restoring the environment. Unifrutti operated in several provinces of Mindanao, including Davao Del Norte, Compostela Valley, Bukidnon, Lanao del Sur, and the Bangsamoro Autonomous Region of Muslim Mindanao[3].

Their inclusive business model was mainly based on joint ventures with small individual growers and cooperatives, and only a small fraction of the plantations were managed directly by UTPI. Within this model, farmers maintained the ownership of the land and control of the production, which ensured a more equitable share of profits.

The Banana Industry

The history of the banana trade had been marred by the economic, political, and ecological problems tied to its production as well as the mistreatment of workers. Although Chiquita and other companies were making efforts to improve their practices, and fair trade and organic bananas gave more options to conscious consumers, the problems in the banana industry persisted.[4]

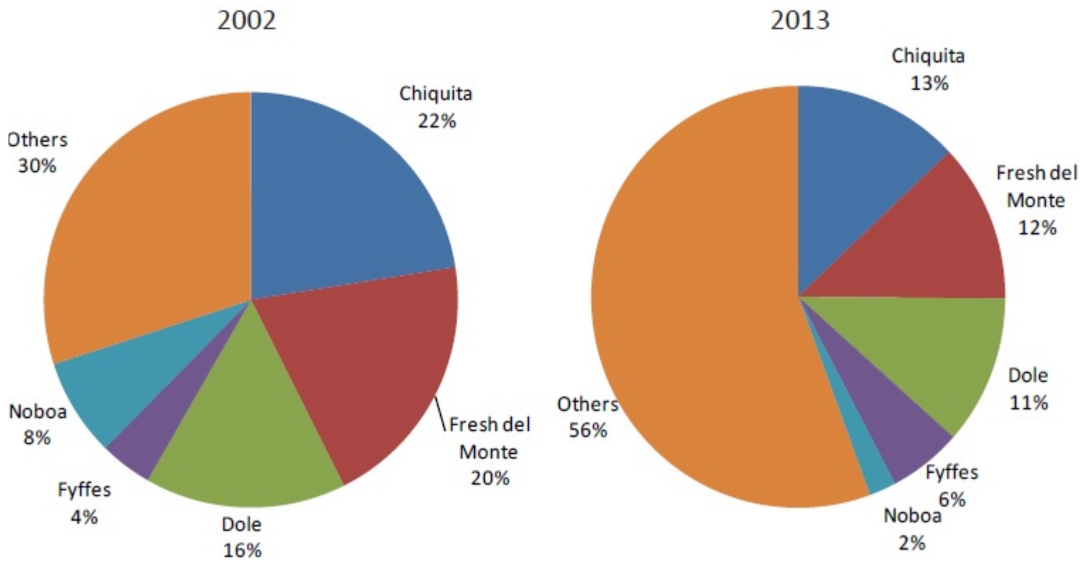
An increasingly fragmented market

Despite its oligopolistic character, the banana trade was undergoing significant changes: the scope of operations of the big multinationals was shifting away from plantation ownership and production, and more towards post-production logistics, including purchasing from producers, transportation, facilities to ripen the fruit, and marketing. Major supermarket chains in the United States and the European Union were increasingly purchasing from smaller wholesalers or directly from growers. This was facilitated by the establishment of direct container liner services from banana producing regions to the main destination markets. At the same time, there was a parallel trend towards less concentration among the exporting firms in the major banana producing countries, for example in Ecuador[5].

The global banana sector in 2019 was characterised by heightened competition to win market shares by driving down the cost of production, marketing and distribution, resulting in the dominance of just a handful of firms. The pursuit of cost efficiency meant that only large corporations achieving economies of scale could follow a strategy of cost competitiveness, higher profits and greater investments, cumulatively leading to even more scale. The pressure to pursue scale was becoming more acute due to the growing power of global buyers such as big supermarket chains.

The ensuing price wars to attract end consumers meant dwindling profit margins for producers, which in turn heightened the pressure to lower costs further upstream in the value chain. A corollary of this was the increasing power of big retailers vis-à-vis multinational producers. As a result, the market share of the five largest lead firms in global banana exports, namely, Chiquita, Del Monte, Dole, Fyffes and Noboa, dropped from around 70% in 2002 to just 44% in 2013 (**Exhibit 2**).

Exhibit 2: Market share of largest global lead firms in Banana exports, in volume



Source: FAO, 2003, 2014

There were three main factors accounting for the oligopolistic character of the banana market. First, due to the perishable nature of the product, costly investments in shipping, cold storage and distribution networks were required, constituting a barrier for new entrants in the industry. Second, most exports were destined for developed countries with strict sanitary and phytosanitary standards and demand for high quality products. The technical know-how to meet these requirements was not readily available to new players.

Finally, banana plantations often operated in countries where regulatory failures or lack of institutions to address market failures in the industry created an institutional void. This, in turn, provided opportunities especially to those with ample resources and power in the value chain. Transfer pricing, for instance, allowed companies to declare lower taxable incomes in high tax locations by building up costs (e.g. payments for intellectual property, brands, logos, marketing, insurance and finance expertise) in their subsidiaries spread in various countries. Weak enforcement of land tenure rights, and/or outright corruption, also eased the cost of land consolidation, often to the detriment of thousands of poor farmers.

Banana sector in the Philippines

Bananas were a major commercial crop in the Philippines, the world's second-leading exporter behind Ecuador. In 2018 Philippines bananas exports for all purchasing countries surged to US$1.505 billion from $1.128 billion in 2017[6]. Philippine bananas were mostly exported to Japan and China; other markets included South Korea, Iran, and Singapore.

While the number of exporting firms had increased by more than half in the period of 2008-2012 (709 firms) compared to 1991-1998 (331 firms), the share of the top three firms had increased from 48% to 51% during the same period. This made the Philippines market more concentrated compared to its closest competitor, Ecuador, where the top 10 firms were account for almost 50% of the country's total exports.
Employment practices in many banana companies in the Philippines had been the subject of criticism. Cases of labour rights violations and harassment had been reported, as well as practices of hiring workers on short-term contracts without employment benefits, such as pension and health insurance[7]. Conflicts, sometimes violent, erupted over what farmers considered onerous and highly exploitative contracts, or what firms saw as unreasonable demands by farmers and interference by external forces motivated by political aims. For example, Dole and Del Monte plantations had been attacked by the New People's Army (NPA), the armed wing of the Communist Party of the Philippines (CPP), in the last two decades.[a]

Comprehensive Agrarian Reform Programme (CARP)

In 1988 the CARP was introduced in the Philippines to address the age-old problem of landlessness in rural areas. Under the agrarian reform private and public agricultural lands were redistributed to help the beneficiaries survive as small independent farmers. As a result, many of the small-scale farmers engaged in the Cavendish banana industry became landowners approximately 10–20 years ago, receiving around one ha of land each. In most cases, lands were transferred under collective titles to newly established cooperatives of Agrarian Reform Beneficiaries (ARBs). These cooperatives became important actors in the Philippine banana industry.

To maintain the economies of scale required for the viability of the banana trade, the Filipino government encouraged the cooperatives to develop Agribusiness Venture Agreements (AVAs) with the major players in the export industry. 'Leaseback' and 'contract growing / outgrower / growership' arrangements (**Appendix A**) were the two most common agribusiness venture arrangements between ARB cooperatives and private enterprises in the banana sector in Mindanao.

Challenges under the CARP

Although CARP was expected to lift farmers out of poverty by giving them ownership and thus an incentive to improve their skills and production methods, the reality was far more complex. Farmers faced a monumental challenge of collectively taking over the reins of their land, and assume tasks, such as contract negotiation and financial management, without any previous experience and with only the barest of educational preparation. Even their civil society partners such as labour union lawyers,

[a] The communist rebellion against the Government of the Philippines, taking place primarily in the Philippine countryside, is the world's oldest existing Communist insurgency.

were ill-equipped to help farmers negotiate agricultural prices and contracts, which were completely different from the collective bargaining agreements that they were more familiar with.

Farmer cooperatives also lacked the access to the appropriate technology needed for various stages of agricultural production: from planting, fruit care, pest and disease control, irrigation, all the way to harvesting, packing and transport. The ability to employ the right technology depended on a host of factors such as effective leadership, sufficient access to financing, as well as an overall good relationship with partner companies.

The Origins of UTPI

The De Nadai Group (DNG), owner of UTPI, decided to set up their own plantations in the Philippines in the early 1990s due to the unreliability of their Philippine suppliers, who were then increasingly shifting to the more lucrative Asian markets, particularly Japan. This prodded them to establish their own plantations in the Philippines to secure a stable supply for the Middle East and also to expand to Japan and benefit from this booming market themselves.

In 1992, DNG established the Oriental Banana Export Company (Oribanex, later renamed Unifrutti Philippines Inc., then finally Unifrutti Tropical Philippines Inc.), with Filipino-American John Perrine as Chairman and CEO. The company entered into joint ventures with two existing major players in the Mindanao banana export sector: Marsman-Drysdale Agri Ventures, Inc. (MDAVI) and with Lapanday Agricultural Development Corporation (LADC). A few years later, in 1996, Oribanex signed an agreement with Chiquita Brands International to enter the Japanese market under a 50-50 joint venture, creating the need for further expansion of banana production to serve this new market.

In that year, UTPI established its own banana plantation in the unlikeliest of places – the heart of the Autonomous Region in Muslim Mindanao (ARMM). Since 1968 this region had been the battleground of ongoing clashes between government military troops and Muslim rebel groups, namely, the Moro National Liberation Front (MNLF), and thereafter its break-away group the Moro Islamic Liberation Front (MILF).

The two leaders

Access to vast fertile lands, abundant water resources and cheap labour, made the ARMM an attractive location, however Perrine was extremely hesitant, finding the risk of investing deep into the heartland of Muslim insurgency to be too great. Many Christians in the Philippines grew up with a distinct fear of dealing with Muslims or the so-called 'Moros'. Perrine himself, who had grown up and lived in Mindanao for years, was no exception. The viability of the new enterprise was thus dependent upon the agreement and collaboration between two sides with deep-seated prejudices against each other.

Local leader Datu[b] brahim Pendatun 'Toto' Paglas III was a man committed to uplifting the welfare of his people. As he himself had experienced a series of personal losses due to war and clan feuds, he had realised that the cycle of violence had to end. He had always been aware and critical of the "glaring divide that separated the Muslim nobilities from the common families", and protested the "norms where the leadership of the ruling clans put their interest over the most basic concerns of those in poverty".[8] For this reason, when he became mayor of Datu Paglas at age 24 in 1988, he set out to craft a different type of leadership that aimed to serve the people instead (**Appendix B**).

He realised that peace would remain an abstract concept without development and the education of his people. His late father's dream of transforming their ravaged lands into an abundant plantation of cocoa, coffee and rubber, helped him set a concrete agenda for action[9] . With the guidance of his uncle, MILF's founding Chairman Hashim Salamat, he organised a consortium of neighbouring landowners, who together with his family, were able to consolidate a total of 1400 hectares of land ready for agricultural development. The signing of the peace agreement between the Ramos government and the MNLF in 1996 likewise provided a window of opportunity to attract private investors without the ominous threat of active armed conflict in the region.

A high-risk investment

It was against this backdrop that the decisive meeting between Datu Toto Paglas and John Perrine took place in 1996. The stakes and risks were extremely high for both sides. For Datu Toto Paglas, it was an opportunity to demonstrate that private investments can thrive in a 'non-viable' place like the ARMM, known not only for the Muslim insurgency, but for kidnappings and merciless political and tribal killings. The entry of a major business consortium would be an enormous vote of confidence that could open the door for more investments which in turn would usher in the development that can sustain the momentum for peace.

The risks, on the other hand, lied on the fact that UTPI was a multinational firm embodying Western culture and management practices. A clash of cultures and any perceived incidence of exploitation would only further reinforce deep-seated resentment and mistrust against Western and Christian domination. For UTPI, the plantation could be transformed into a battlefield once intermittent fighting exploded into an all-out offensive.

During that meeting Perrine openly expressed his reservations and admitted his prejudice against 'moros,' and the Datu, appreciating his honesty, assured him that he would fully commit to this venture and protect the company and its employees[c]. That

[b] Datu is a title which denotes the rulers of numerous indigenous peoples throughout the Philippine archipelago. It is based on the notion of a benevolent leader who is the custodian and principal promoter of the common good.

[c] Such level of honesty was risky and unusual given that the meeting took place right in the armed territory of Datu Paglas, and directed towards the Datu, whose authority in Moro culture is unquestionable. One sign of displeasure from the Datu would have instantly posed a genuine threat for his Filipino-American

openness set the tone for the relationship between the two leaders that would jointly steer the direction of La Frutera. The two men managed to earn each other's trust and the company became fully operational in 1998, becoming the first banana plantation outside of the Davao region[d]. Seven years later, in 2003, UTPI further expanded to another conflict-ridden area, this time in Bumbaran, Lanao del Sur (**Appendix C**).

The Evolution of UTPI

UTPI did not set out to be what it was in the present. Its evolution was a cumulative and circular progression of learning. Therefore, the company grew organically, undergoing transformations that successively moulded its current practices.

The decision to locate in a conflict zone was a critical trigger for UTPI to break out of the status quo. In a conflict-ridden area, the lack of trust needed to be addressed first for a market to operate. For the workers in Datu Paglas – UTPI's first plantation, La Frutera – was also the first experience of regular employment they had ever had.

As both leaders were men of faith, they favoured an attitude of understanding and patience in dealing with conflicts. At the same time, the profit imperative motivated both sides to make this a success and not give up. In an area ravaged by war, any form of coercion could trigger a new cycle of violence. For these reasons, continuous and open dialogue with the workers gradually became a standard practice, not just out of virtuousness, but as a pragmatic choice that could benefit both the community and the company. Their survival and prosperity were from now on intertwined.

Towards a cohesive corporate culture

For the leaders and management, dialogue meant being constantly vulnerable to open and painful critique. This initially met such resistance that management had to be reminded that the criticism of the rank-and-file actually ensured that the company would be true to its vision and values. In the mid-2000s, this practice was institutionalised in the form of a monthly Values Reconciliation Board. This provided a safe space, especially for rank-and-file workers to air their grievances[e] and a platform where labour rights issues could be resolved. The fact that they operated at the heartland of communist insurgency must have played a role as well. Exploitation of

visitor. Instead, his openness triggered an equally frank response from the Datu, "I will never ask for more than we have agreed. I will protect your company and your employees. I commit this to you by my blood". Balaoing-Pelkmans, E.A. (forthcoming), "Going Against the Grain: The Unifrutti Transformational Business Partnership Model". Inclusive Business Model Monograph Series, University of the Philippines Center for Integrative Development Studies.

[d] Paglas Corporation (headed by Datu Toto Paglas), leased the land and handled manpower resources, ORIBANEX (led by John Perrine) represented the main investors that infused the initial $27M investments. ULTREX, led by Senen Bacani (former Secretary of the Dept. of Agriculture) was invited as a partner to handle the day-to-day management, while Unifrutti/Chiquita International/Abbar & Zainy in Saudi Arabia took charge of the marketing and final distribution of bananas.

[e] Unifrutti has developed strict guidelines to eliminate fear of retaliation when a conflict involves a worker and someone of higher authority.

labour and environmental damage were frequently cited by the New People's Army (NPA) as motives for attacking banana and plantation operations in Mindanao.

The Values Reconciliation Board initiative underwent some teething problems when some of the issues raised were perceived by the workers as being ignored or being only partially addressed. Some workers were also wary about voicing out their complaints for fear of whatever adverse effects this might cause on their working relationships or on the evaluation reports written by their supervisors. To help rank-and-file workers overcome such fear of retaliation, their supervisors and farm managers were not allowed in the sessions, and were likewise prohibited from inquiring what kind of issues were being raised.

Open dialogue on labour welfare issues eventually evolved into a set of fair labour policies such as the company's employment regularisation policy. While in 2019 the sectoral norm was a 25%-75% ratio of regular versus contractual employment, UTPI had close to 80% of total employees on a tenured contract.

The need to maintain trust was a catalyst for moulding a coherent set of values. As early as 1999 regular values formation sessions in La Frutera were initiated, which were since then incorporated into regular working hours. One of the aims of these sessions was to explore the similarities between Islam, Christianity and the Indigenous People's traditions, as a means for the management and the workforce to align their work to the teachings of their respective tradition and to each other.

The process of building a company culture through regular values formation sessions had not been easy though. The intricate links between values and religious convictions, especially in the beginning, led discussions towards the thorny area of religious doctrines. At later stages, discussion of religious dogmas was explicitly avoided, focusing instead on common values such as love of one's neighbour and how these were put into practice in their daily lives. Other issues discussed were the contradictions that typically confront individuals, such as extra-marital affairs and those associated with male-dominated company (e.g. after work foray to the local nightclubs especially during the regular visit of representatives of foreign buyers).

Relationship with cooperatives

Another area where UTPI acquired a reputation for fair practices was in their relationship with their external growers, mostly farmer cooperatives formed by Agrarian Reform Beneficiaries (ARBs). Many of these cooperatives emerged from highly acrimonious negotiations, some even marked by violence, with multinational subsidiaries and big local companies who previously owned and managed the banana plantations.

While entering into a relationship with these cooperatives would seem risky given their initial hostility towards established corporations, UTPI realised that expanding through joint venture partnerships was a far more cost-efficient way of expansion relative to establishing their own plantations from scratch.

In order for UTPI to attract new partners, it had to offer better conditions in terms of higher prices and flexible contracts. The importance placed on the quality of relationships was then starting to play a significant role in the negotiation approach of the company. The same open manner of communication and settlement of disputes that UTPI had developed in La Frutera was applied to their new partners.

Legal contracts and trust

UTPI's dealing with legal contracts, which grew out their engagements with ARBs, also set them apart. Two sensitive aspects of a partnership between company and farmers were the price and duration of the contract, and the window of negotiation and communication while the contract was in force. Lack of renegotiation possibilities often led to violent confrontations between farmers and companies in the early 2000s.

UTPI on the other hand performed well in both aspects. They provided a beneficial deal for farmers, consistently offering a higher contracted price per box. But perhaps most importantly, they viewed contracts as providing a starting point for building long-term relationships rather than a means to lock in the farmers and exercise control. The emphasis was not so much on legality, but on the contract as 'covenant' based on mutual trust. Because of that, the terms were open for renegotiation and a review of prices was possible whenever fuel prices, exchange rates and other product inputs changed. At the same time, farmers were also open to listen, for example, about quality problems as perceived by foreign buyers.

Environmental practices

Before its vision was crystalised in 2004, UTPI went through a process of transformation with regard to its environmental practices: from mere reaction to external circumstance to fully embracing their role as 'stewards' of the environment.

La Frutera was located in close proximity to two rivers, Alip and Buluan, that were important for the people of Datu Paglas as many of them earned their livelihood through fishing. Therefore, the risk of the plantation causing harm if chemicals were to be used was imminent. In addition to that, local norms dictated that if someone in the community would get sick and die, and this would somehow be attributed to the plantation operations, then it would be considered a blood death that had to be avenged. The solution that the company came up with was to build a water reservoir with Tilapia fish that would serve as a gauge for the water quality. Furthermore, they had to find alternatives to herbicides or any other toxic chemicals for plant care.

Although UTPI had already started implementing high environmental standards in their La Frutera farms, they had to raise the bar even further and acquire the Rainforest Alliance certification, otherwise the fruits could not be sold in the premium Japanese market. The company met a host of difficulties which even led to a sharp fall in the performance of a number of farms. The biggest issue was the lack of technical assistance in addressing the demands of the Rainforest external auditors. UTPI's local managers faced enormous pressure because failure to pass the audit meant that the auditors would have to return, with all the costs (plane fare and auditors fees) being shouldered by UTPI.

In 2003 two UTPI plantations were certified and by 2019 all banana farms directly managed by UTPI were Rainforest Alliance certified. Since 2005 UTPI had been ISO 14001 certified. This entailed compliance with environmental standards such as the curtailment of the use of toxic chemicals, the control of pollution, and the protection of the health and safety of workers. The company's 'crown jewel' in terms of environmental sustainability and community relations (with both IP and Christians) was its managed plantation, the Mt. Kitanglad Agri-Ventures Inc. (MKAVI-1). This was the subject of a still on-going action research.

Articulating a clear vision

In the company headquarters in Davao as well as in its other plantations, the decision to introduce regular values formation arose from the need to attain coherence between practice and the values or principles that the company's leadership was beginning to aspire for. This had been one of the recurring concerns of the company, which eventually led to the decision to explicitly define its vision and core values.

For these reasons, in 2004, the leaders of UTPI came together to crystallise and articulate their vision for the company based on the twin goals of profitability and sustainability that had emerged as the company's defining characteristics (**Appendix D**). In the early version of La Frutera's mission, the emphasis on "promoting employees and community well-being as well as regional peace and prosperity" was explicitly made. For UTPI, the vision of business as a precursor of peace motivated not only the drive for profitability and expansion but also the advocacy for more companies to consider investing in Mindanao. As John Perrine himself said, "we cannot build peace alone".[10] However, the actualisation of their vision was a gradual and difficult process that required consistent and intensive communication within the company and with its external growers.

UTPI's Business Model

UTPI was engaged in different business agreements in several provinces of Mindanao. These included leasing land from local smallholders to run their own farm under direct company management (total area 1,340 ha) or under joint ventures with other corporate farms (total area 2,451 ha). The company had also entered into different sets of growership contracts. These consisted of contracts with individual smallholder farmers who farm from as little as 1-2 ha, as well as with small corporate farms of up to 30 ha (total area committed to UTPI was 1,969 ha); and also contracts with cooperatives made up of smallholders who have obtained their land under the Comprehensive Agrarian Reform Programme (total area 1,732 ha)[11].

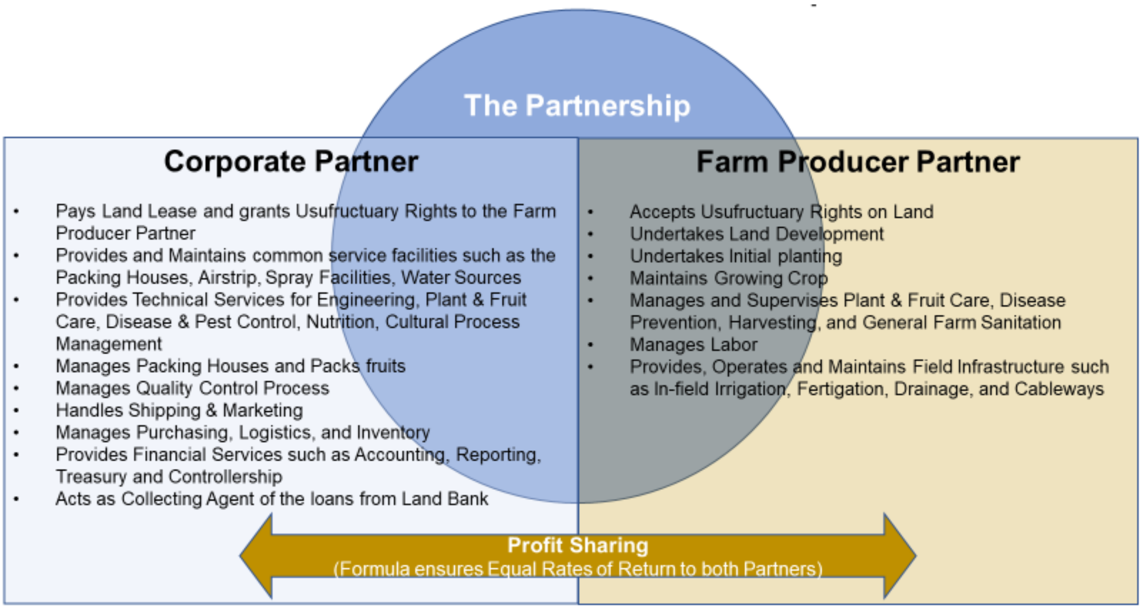
In 2003 UTPI began its expansion in Mindanao by entering into new partnership with Agrarian Reform Beneficiaries (ARBs) cooperatives and other individual small growers. This had become the main way of entry and expansion under the CARP.

The relationship between a multinational company and a poor farming community is inherently imbued with all sorts of asymmetries (e.g. information, capabilities, assets) which often translate into an imbalance of power. The owner of capital also takes on the management of labour, especially when the capabilities of the farmers are weak. This translates into an even greater share of value received by the company that earns both from the returns to capital and the management of labour and land.

Usually, power asymmetries and the perceived unequal distribution of rewards resulted in conflicts which compromised the viability of the value chain. Unlike its competitors though, UTPI was never been attacked or sabotaged by any of the parties involved in the conflict in Mindanao.

The company named their business model transformational partnership (**Exhibit 3**), as opposed to the common notion of a transactional buyer-seller relationship. The emphasis was placed on partnership as a genuine relationship based on transparency and truthfulness. It was based on the idea that, given the appropriate support, the communities would be able to efficiently supervise the plantations themselves, allowing for an equitable sharing of profits. Greater smallholder capabilities and productivity would eventually translate to lower cost of monitoring and greater benefits in terms of security and reliability of supply. And indeed, UTPI's investment in social capital had proven to be the most effective security measure of all.

Exhibit 3: Transformational Business Partnership Model



Source: Balaoing-Pelkmans, E.A.

For their business model to succeed, a clear division of labour between the company and the farmers was paramount. The company should focus on what it was good at, namely the provision and development of technology, quality control and marketing, and the cooperatives and local community leaders should take on the task of land consolidation and development, as well as human resource management.

Another defining aspect was the willingness prioritise harmonious relationships with the community and the hard-earned trust over short-term gains. One instance where this became evident, was the trade-off that UTPI chose to make by transferring the management of the plantation in Compostela Valley to the Tagnanan CARP beneficiaries cooperative (TCBC). Keeping with the spirit of agrarian reform, which was to give farmers full control of their lands, the company agreed to the transfer even though one could observe that the productivity of the plantation was higher under the full control of the company. In an act of recognition of UTPI's practices, the cooperative adopted the weekly formation sessions and their mission statement explicitly placed their stakeholders' welfare front and centre.

The Transformational Business Partnership (TBP) model evolved as UTPI strove to address the problems encountered by their smallholder and farmer-cooperatives farmers engaged in small-scale agriculture. The company and farmers shared a common interest to raise productivity and quality, and therefore needed to act as a collective or partners, especially when faced with adversities. Even more so as farmers lacked in essential skills to run an enterprise. For UTPI, it was therefore crucial that relationships with farmer growers and cooperatives transcended the usual buyer-producer or transactional relationship.

The inclusive business model of UTPI progressively evolved also due to the reciprocity of its partners. There were occasions when the partner cooperatives had to trade off higher short-term returns to address the immediate need of UTPI and its foreign partners. In the aftermath of the worst El Niño in history (2015-2016), followed by La Niña and Black Sigatoka[12] disease, the fall in farm productivity tested UTPI's inclusive business model. This situation was particularly problematic for growers such as TCBC, which produced premium bananas to the highly demanding Japanese market. The black Sigatoka disease meant that bananas would ripen prematurely when they reached the end market. Stopping the production of cluster packs was not an option; this would lead to a loss in market shares as foreign buyers would find alternative suppliers.

The solution entailed sacrifices for both company and growers. UTPI brought in more technicians at extra cost, while the TCBC farmers had to agree to harvest the banana at a younger age to arrest the ripening process, and earn less due to the reduction in the weight of the fruits. This whole process required teamwork, because even growers who might be less affected by the disease or unconvinced by the gravity of the problems had to bring down the age of the harvest. UTPI, in turn, took the initiative of offering an El Nino adjustment price, adding $0.25 per box to the agreed price. Even when the El Nino has passed the adjusted price remained.

Socio-economic Impact

UTPI's plantations gave a demographic boost in the communities where they operated, due to the inward migration people, and/or the return of those who previously left their region in search of work elsewhere.

Regarding their economic situation, Datu Paglas and Amai Manabilang were both 6th class municipalities (i.e., the lowest income category) before the establishment of

UTPI plantations within their jurisdictions. Datu Paglas, moved to being a 4th class in 2008, while Bumbaran, jumped to a 3rd class during the same period (**Appendix E**).

Mindanao, with its abundant fertile land and ideal agricultural climate, generated over 40% of the country's food requirements[13], yet, it was home to the country's poorest provinces. While the national average number of households living under the poverty threshold had significantly fallen from 29.7% in 1991 to 16.1% in 2018[14], the poverty incidence in the Autonomous Region in Muslim Mindanao (ARMM) had instead doubled, from 26.9% to 55.4% (68% in Lanao del Sur) during the same period.

Present Challenges

Although UTPI's inclusive business model had helped maintain peace and brought economic development in the region, at the same time it had weakened UTPI's position – they had no control over the production which were in the hands of ever more powerful growers. Alberto Bacani stood at a crossroad where difficult choices on the future course of the company had to be made.

Dependence on external growers was now felt as a source of vulnerability for the company. In the past this was seen as an optimal investment strategy as new suppliers could be tapped without incurring the high costs of establishing one's own plantation. As new foreign buyers who offered higher spot prices entered the market, the power shifted to growers who could now sell their product to the higher bidder. Considering that spot prices at times reached more than three times the contracted price, such a gap could test and break even the strongest partnerships. And often it did, as growers resorted to 'pole-vaulting', the trading of bananas outside of the usual farmer-exporter contracts. In addition to that, 80% of UTPI's exports were sourced from external growers, which further amplified the growers' power in the value chain.

For this reason, the long-term strategy of the company was shifting towards developing and managing its own plantations. On the one hand, this would impact the relationships built with external growers throughout the years. On the other hand, if this increased the productivity, then the whole sector would benefit in the long-run. Better performance of each individual player in the industry, companies or independent growers, would translate into greater competitiveness for the entire Philippine banana sector.

Moreover, in the past 4-5 years UTPI had progressively adopted a more sector-wide perspective: it became increasingly involved in the Filipino Banana Growers and Exporters Association and Alberto Bacani became Chairman of the Board. The rising competition by Ecuador and Colombia in the Asian markets, as well as the acknowledgement of the common needs of the sector (e.g. advocacy for enabling government policies), were important factors in this shift.

Lastly, UTPI had recently launched a new approach to Corporate Socual Responsibility (CSR), which was driven by a longer-run vision. For the past ten years, the CSR projects were demand-driven, i.e. defined by the requests of the communities where the company operated. The new CSR programme, was targeted to poverty alleviation, starting from the direct surroundings of the company. For this the company would put its key strength in training and skills building at the disposal of the communities.

How could UTPI launch into the future while continuing protecting its most valuable asset, their social capital which allowed for their success and the replicability of their inclusive business model in the region? How could they decrease their dependence on external growers without severing the ties with communities that took years to cultivate? Could they stay true to their values? Their inclusive business model had brought them so far, but could it give them resilience in the changing context of the company and sector, and in times of crises to come?

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Appendix A: Types of Agribusiness Venture Agreements (AVAs)

In leaseback, the land is leased to the former owners who resume management of the farms and employ workers in the same centralised plantation model as prior to the land reform. In this arrangement, farmers retain ownership of the land and receive an annual rent, but do not control the development of the farm. In most cases, beneficiaries have been recruited to work as paid contractual workers. In only one leaseback case, in addition to rent and wages these 'owner-workers' also receive production incentives, quality incentives, credit assistance, etc.

In growership contracts, cooperatives run the management of the farm based either on collective or individual farming systems, and make collective supply arrangements with the export corporations, who may be their former employers. The duration of outgrower agreements in Davao del Norte ranges from 5 years to 40 years, although the contracts are open-ended and binding until the loan is fully repaid.

Source FAO, 2015

Photo credits:
Bae Lydia Eclar Manabilang
taken in August 2018

Appendix B: UTPI's Past and Present Leadership

Datu Toto Paglas III, businessman and mayor, manager of La Frutera plantation (deceased)

John Perrine, former Chairman & CEO, Unifrutti

Alberto Bacani, current President and CEO, Unifrutti

Appendix C: Milestones of UTPI

1992
De Nadai family establishes **Unifrutti Philippines** with **John Perrine** as Chairman & CEO. Starts first banana plantation project in Davao.

1997
Unifrutti establishes first banana plantation, **La Frutera**, in Muslim Mindanao with **Mayor Datu Toto Paglas** as partner.

1999
Establishes **MKAVI-1** plantation in the indigeneous Peoples community in Lantapan, Bukidnon.

2003
Establishes **MKAVI-2** plantation, in Bumbaran, Lanao del Sur

2004
Buys Nova Vista joint venture banana farm and Lapanday – both located in the town of Mabini, **Compostela Valley** Province.

2005
De Nadai Group aquires 50% of **Chiquita Japan Inc.** And establishes its own 25US$ million port facility in Davao.

2007
Conflict with Saudi Arabian investors Abbar & Zainy, loss of Saudi consumers. In-fighting begins in De Nadai family.

2009
Transfer of management of the plantation in **Compostela Valley** to the Tagnanan CARP Beneficiaries Cooperative (TCBC)

2012
Typhoon Pablo. Unifrutti enters in a tipartite agreement with the Land Bank of the Philippines and a partner cooperative to rehabilitate farms destroyed by the storm and the **Sigatoka disease.**

2016
El Niño hits the Philippines

2017
The in-fighting ends as the 2nd generation of De Nadai stakeholders **retire** and turn over the control of the company to the 3rd generation of De Nadai.

2018
Alberto Bacani becomes Chairman & CEO. The Development Bank of the Philippines approves loan for planned 700-hectare plantation.

Appendix D: UTPI's Vision, Mission and Core Values (version 2016)

Vision

- We are stewards of God, involved in efficiently producing quality fresh fruits and vegetables;
- We share the fruits of our lands with our communities and stakeholders;
- We provide a better quality of life;
- We contribute to the peace and development of our brother Muslims, Indigenous Peoples and Christians in Mindanao;
- We preserve and restore the environment.

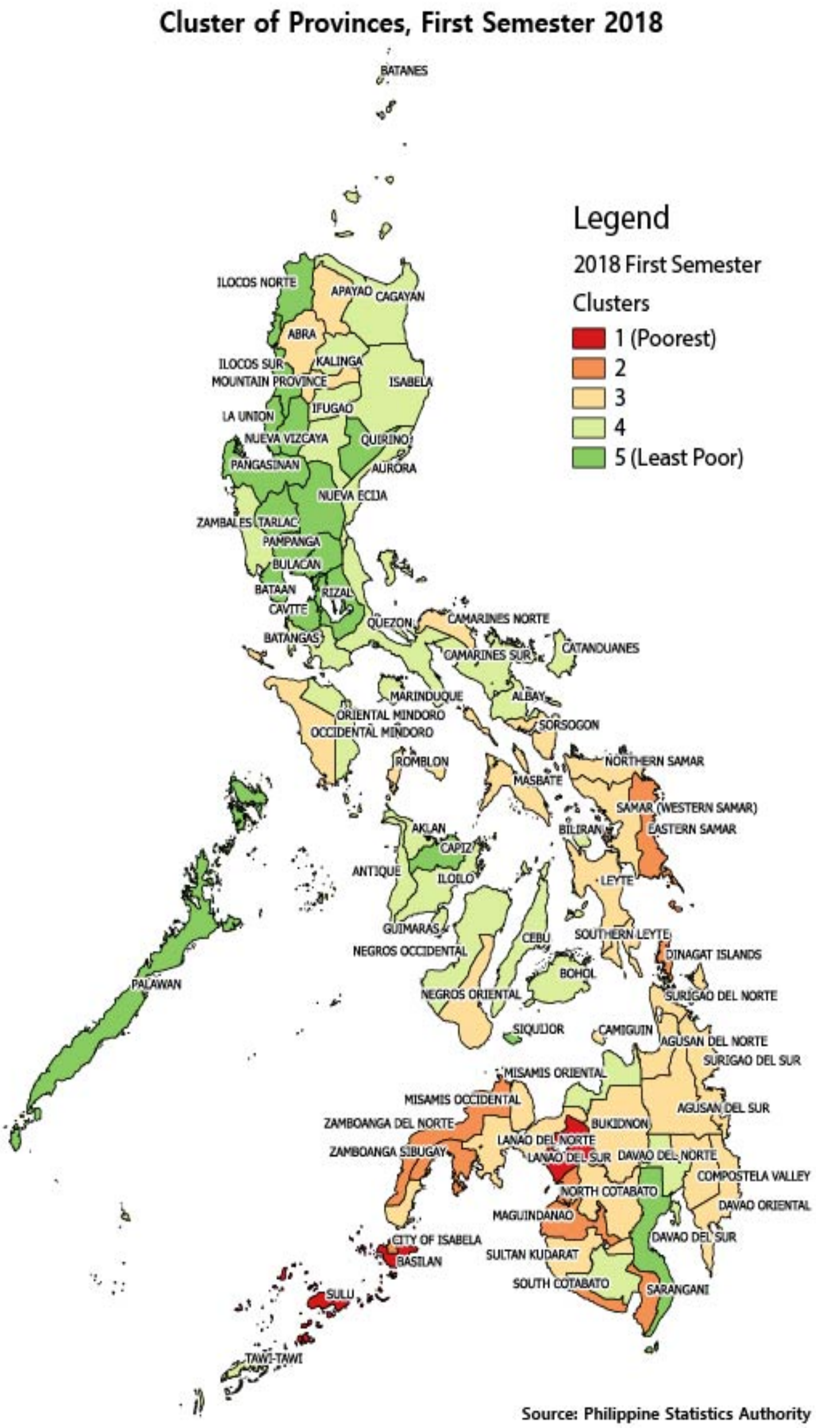
Mission and Core Values

- We are a God-centered organisation, united as One Family.
- We uphold God's values of Love, Truthfulness, Trustworthiness, Discipline and Perseverance;
- We want to be the preferred supplier of the best quality fruits and vegetables to the markets that we serve, adding value to our customers at a reasonable cost.
- We are committed to improve the quality of life of our brother Muslims, Indigenous Peoples and Christians by pursuing agricultural activities in our lowland and highland farmers;
- We will expand our investment presence in Bangsamoro, Mindanao to support our country's aspiration for lasting peace through economic development;
- We will safeguard the interest of our shareholders by providing fair returns for their investment;
- We will preserve and restore our environment by implementing reforestation and other enhancement measures to maintain the ideal micro-climates conducive for sustainable agricultural production.

Source: UNILife, Vol 1., Issue no. 3, Oct – Dec. 2016.

Appendix E: Administrative Divisions of the Philippines

Map of the Philippines showing the location of all the regions and provinces



Source: By HueMan1 based on seav's Ph regions and provinces.png and Felipe Aira's File:PhlMapCit.svg,GFDL, https://commons.wikimedia.org/w/index.php?curid=80077790

Notes:

The Philippines has four levels of administrative divisions:

1. Regions (rehiyon), comprises provinces and independent cities/municipality. Of the 17 regions, only one – the Bangsamoro Autonomous Region in Muslim Mindanao – has an elected government to which the central government has devolved competencies.
2. Provinces (lalawigan) and independent cities (lungsod) and one Metro Manila municipality (Pateros).
3. Component cities (lungsod) and regular municipalities (bayan) within a province.
4. Barangays (formerly known as barrio) within a city or municipality

Municipalities are divided into income classes according to their average annual income during the previous four calendar years:

Class	Average annual income (₱)
First	At least 55,000,000
Second	45,000,000 – 54,999,999
Third	35,000,000 – 44,999,999
Fourth	25,000,000 – 34,999,999
Fifth	15,000,000 – 24,999,999
Sixth	At most 14,999,999

Endnotes

[1] FAO.(2015).Gender Opportunities and Constraints in Inclusive Business Models-The Case Study of Unifrutti in Mindanao, Philippines, by LeonardRebeca, Osorio Martha and Menguita-Feranil Mary Luz.Rome, Italy.

[2] https://oxfamblogs.org/fp2p/is-a-progressive-islamic-revolution-happening-in-the-philippines- impressions-from-mindanao/

[3] Ibid.

[4] The controversies surrounding the banana trade are well-documented, as an indication see Chapman, P. (2007).Bananas: How the United Fruit Company Shaped the World. Canongate Books Ltd., and Cohen, R. (2009). Global issues for breakfast: the banana industry and its problems FAQ. https://www.scq.ubc.ca/global-issues-for-breakfast-the-banana-industry-and-its-problems-faq-cohen-mix/

[5] http://www.fao.org/news/story/en/item/224807/icode/

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[10] Cited in Balaoing-Pelkmans, E.A. (forthcoming), "Going Against the Grain: The Unifrutti Transformational Business Partnership Model". Inclusive Business Model Monograph Series, University of the Philippines Center for Integrative Development Studies.

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[12] Black Sigatoka causes significant reductions in leaf area, yield losses of 50% or more, and premature ripening, a serious defect in exported fruit.

[13] OECD, 2014. Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle Income Trap, p.198, http://dx.doi.org/10.1787/saeo-2014-en.

[14] http://www.psa.gov.ph/poverty-press-releases/nid/138411