



Republic of the Philippines  
**DEPARTMENT OF LABOR AND EMPLOYMENT**  
**Regional Tripartite Wages and Productivity Board-XI**  
2<sup>nd</sup> Floor, R&T Yap Bldg., Bangoy-Monte Verde Sts., Davao City  
Telefax No. 224-2027; 222-4652



**ADVISORY NO. RB XI-01**

**ADVISORY ON THE IMPLEMENTATION OF PRODUCTIVITY-BASED INCENTIVE SCHEMES FOR  
THE BANANA INDUSTRY IN DAVAO REGION**

WHEREAS, pursuant to Republic Act 6727, the National Wages and Productivity Commission issued NWPC Guidelines No. 2, series of 2012 on the Implementation of the Two-Tiered Wages System (TTWS);

WHEREAS, the TTWS refers to the pay system that consists of the (1) First tier: mandatory minimum wage and the (2) Second-tier: voluntary productivity-based pay scheme and agreements between the workers and management;

WHEREAS, the First-tier is the existing minimum wage under Wage Order RB-XI-17 and the subsequent minimum wage adjustments issued by this Regional Board;

WHEREAS, this Regional Board issues this Advisory for the Voluntary Productivity-based Pay, otherwise known as the Second-Tier Pay, to guide the enterprise on a range of productivity incentives which may be the basis for employer initiatives and enterprise negotiations in Davao Region;

WHEREAS, should the Productivity Incentive Pay granted to the employee, upon the implementation of this Advisory, exceed the Thirty Thousand Pesos (Php30,000) in *de minimis* benefits, the excess amount is subject to the provisions of BIR Revenue Regulation No. 5-2011;

WHEREAS, this Regional Board considers the minimum wage structure of Davao Region in the issuance of this Advisory, consistent with the government's policy of achieving higher level of productivity to preserve and generate jobs, and to augment the income of workers by way of productivity improvement and gainsharing programs;

WHEREAS, this Regional Board conducted regional consultations on the TTWS with the banana industry players on September 30, 2013 and with other industry stakeholders on October 4, 2013;

WHEREAS, this Regional Board has resolved to initiate the TTWS in the Agribusiness sector, particularly the Cavendish Banana Industry, this being a priority industry, a top exporter and contributor to the economic output of Davao Region;

WHEREAS, the issuance of this Advisory shall not prohibit the union, if any, or diminish its right to enter into a Collective Bargaining Agreement (CBA) and/or renew the existing CBA at the time of the signing of this Advisory;

NOW, THEREFORE, by virtue of the power and authority vested to the Regional Tripartite Wages and Productivity Board-Region XI (RTWPB-XI) under Republic Act No. 6727, otherwise known as the Wage Rationalization Act, this Regional Board hereby issues this

Advisory, in accordance with the economic indicators and technical notes provided in the Annexes:

## I. Regional Economic Performance

Davao Region's economy grew at a higher growth rate than the official growth target in the Regional Development Plan. The regional economy grew at a faster pace than the region's labor force and employment. Notably, the agriculture sector contributes to regional employment substantially, showing a positive growth rate despite the effects of Typhoon Pablo in December of 2012. (Regional Economic Performance, Annex "A")

## II. The Banana Industry

This Advisory is being issued for workers and enterprises in the Cavendish banana industry, being one of the key employment generators, providing almost one-fifth of the total employment in Davao Region (Davao Region's Banana Industry, Annex "A").

Banana is a priority industry of the region, being a top export commodity and major contributor to the Gross Regional Domestic Product (GRDP).

The Cavendish Banana production has an existing industry value chain map with stakeholders engaged in various productive economic activities (Annex "B"):

1. **Pre-production** activities include Research and Development, Nursery, Farm Inputs Processing and Trading, Metal Works, Plastic/ Twine Manufacturing, Bamboo/Ipil-ipil Pole Production, Chemical Treatment and other Support Services--Infrastructure, Utilities (Water, Power and Communication), Financing, Human Resource and Technology Development.
2. **Post-production** activities include Waste Management, Packing Plant Operation, Manufacture of boxes, plastic, pallets and crates, Warehouse and Storage, Export and Trading, Flour/Feed Milling, Banana Processing, and other support activities—hauling, stevedoring, transporting, logistics.

The Banana Industry Tripartite Council (BITC) supports the industry's pursuit for competitiveness. The large banana companies have existing productivity improvement and incentive programs that can be modeled for the two-tiered wage system.

### Economic Performance, Labor Productivity and Wages

The banana industry's output, employment and labor productivity slightly declined between the years 2011 and 2012. This is attributed to three significant events: 1) the occurrence of Fusarium Wilt disease; 2) phytosanitary inspection requirements set by the China market; and 3) the devastation brought about by Typhoon Pablo in December 2012. However, this industry obtained positive average growth in output and employment over the last 5 years, albeit at a slower rate (Table 8 and 14, Annex "A").

Labor productivity in the fresh Cavendish banana production slightly declined over the past five years (2008-2012). This supports the rationale for issuing this Advisory, thereby providing the tool for wage flexibility that may encourage workers to further improve their productivity.

### The Supply of Cavendish Bananas

Davao Region has been consistently the number one producer of bananas in the Philippines, producing almost half of the country's total production for all varieties, and more than half of national production for Cavendish bananas (Figures 3 and 4, Annex A). In Mindanao, Davao Region accounts for more than half of the total Cavendish banana production (Figure 6). Fresh Cavendish bananas are produced for export in plantation scale and continues to be a top export commodity (Table 11 and Figure 7), and its volume of production obtained a positive average growth over the last 5 years as mentioned above. Labor productivity slightly declined over the past five years, justifying the need for some intervention in productivity improvement such as a productivity-based pay.

### The Demand for Cavendish Bananas

The demand for Cavendish bananas is demonstrated in the number of boxes shipped to different countries of the world (Table 12 and 13). The top five destinations for Cavendish bananas are Japan, China, South Korea, Iran and Saudi Arabia. Although there has been a decline in the shipment volume to these 5 countries between the first semesters of 2012 and 2013, the whole year figures will have to be obtained for better annual comparison. New markets were added in 2012, contributing 0.25% to the total demand. These new destinations are Pakistan, Belarus, Bulgaria, Mongolia, Netherlands, Ukraine, Syria and Germany. Increasing trend in demand has been noted between 2008 and 2012 in countries like South Korea, Saudi Arabia, Kuwait, New Zealand, Russia, Singapore, Hongkong, Bahrain, Egypt and Malaysia (Table 12).

### **III. Outlook in the Banana Industry**

According to the Bangko Sentral ng Pilipinas (BSP), the outlook for Davao Region's Banana Industry remains favorable despite the problems that continue to threaten the growth of the industry. The industry players are optimistic of the banana's sustainability in business.

Cavendish volume of production obtained a positive average growth over the last 5 years and expansion is still on-going according to the producers.

Banana continues to be a top export of Davao Region and of the country as well. From a 23-country shipment destination in 2008, Cavendish Bananas are now shipped to 29 different countries. According to Stephen Antigo, Executive Director of the Pilipino Banana Growers and Exporters Association (PBGEA), if the Cavendish Banana producers will altogether recover from the effects of Typhoon Pablo and banana diseases, an excess supply is expected by the third quarter of 2014. He said that they are expecting a 7% decline in the demand for fresh Cavendish bananas by 2014. This signals that the search for new markets is in order. The new target markets are the United States of America and Europe. Countries that have improving economies like Russia, Kazakhstan and Kurdistan are also prospective markets. Some Middle East businessmen come to Mindanao to bring bananas to their countries and export these to Iran. This system may fill in the gap resulting from the Iran-Philippines export business problem.

The local government units are committed to maintaining the industry's sustainable development. A strong policy support is required in the strengthening of the banana cluster. A productivity-based pay scheme is a tool for wage flexibility and work incentive to encourage greater productivity among the workers in the industry.

#### **IV. Recommendations**

A productivity-based pay scheme is hereby recommended to encourage efficiency and promote greater productivity among employees. This is in consideration of the positive outlook of the key industry players about the banana industry, the positive growth in the industry's output, employment and wages over the past five years. Considering that there has been a 0.80% average increase in demand for Cavendish bananas over the past five years, with the prospects of new markets for the industry, the enterprise may start with a 1% increase in productivity based incentives. This is in line with the principle of gainsharing in which companies with better economic performance and productivity gains can give greater percentage increase in incentives.

The Board, further, encourages workers and management to discuss this recommendation, examine their respective conditions and agree to jointly develop and implement a productivity incentives program. Relative to this, companies are encouraged to:

- I. Create or tap existing labor management structures/committees to design and implement a productivity incentives program indicating coverage, performance or standards and targets, productivity program, sharing scheme and frequency of sharing, among others.
- II. Upgrade or adopt new technologies and innovation in their work processes, with management spearheading the productivity drive and workers supporting improvements in work processes.
- III. Share the gains from productivity improvement with their workers.

#### **V. Technical Support**

- I. The Regional Tripartite Wages and Productivity Board – Region XI (RTWPB-XI) shall recommend and facilitate the conduct of capacity building and consulting services, especially to micro, small and medium enterprises in designing quality and productivity improvement programs and gainsharing schemes through:
  - 5.1.1. Productivity training programs such as the 5S or Good Housekeeping; ISTIV modules for good agricultural practices; and Green Productivity;
  - 5.1.2. Work Improvement Measurement Studies (Time and Motion Studies)

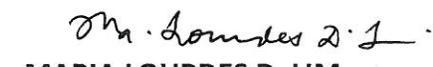
**VI. Monitoring and Assessment**

This Regional Board shall monitor and assess the implementation of the TTWS. The RTWPB-XI shall formulate monitoring and evaluation mechanisms for the TTWS.

Approved, this 18<sup>th</sup> day of November 2013, in Davao City, Philippines.

  
**JOFFREY M. SUYAO**  
DOLE-XI Regional Director  
Board Chairman

  
**MARIZON S. LORETO**  
DTI-XI Regional Director  
Vice-Chairman

  
**MARIA LOURDES D. LIM**  
NEDA-XI Regional Director  
Vice-Chairman

  
**JORGE G. ALEGARBES**  
Labor Representative  
Member

  
**VIRGINIA T. CAMUS**  
Labor Representative  
Member

  
**RULFO V. ASIS**  
Management Representative  
Member

  
**BIENVENIDO D. CARIAGA**  
Management Representative  
Member

ANNEX A – TECHNICAL NOTES  
ANNEX B – VALUE CHAIN MAP OF THE BANANA INDUSTRY

