Local Business, Local Peace: 
the Peacebuilding Potential of the 
Domestic Private Sector

Case study 
Philippines*

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Philippines

Business and public advocacy: cross-border trading in Tawi-Tawi, Philippines

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The following two cases highlight activities led by Philippines Business for Social Progress (PBSP), the largest corporate-led non-profit organisation in the Philippines promoting corporate social responsibility (CSR). PBSP believes that the private sector, particularly companies operating in conflict areas, should ensure that appropriate investments are poured into peace and development efforts, and that more significant contributions should be made through core business practices and policy advocacy interventions – including promoting peace and cultural diversity in the workplace. This principle defines the goals of the Business and Peace Programme, implemented by PBSP in partnership with the Prince of Wales International Business Leaders' Forum (IBLF) with funding from the British Embassy, Manila and the British Chamber of Commerce in the Philippines. Its components include research and policy advocacy, capacity building and information dissemination.

A long history of armed conflict and neglect has made it difficult to sow the seeds of peace in the southern Philippines. Poverty, political exclusion and strife have divided Mindanao into a land of plenty and a land of scarcity. While cities like Davao, General Santos and the Cagayan-Iligan Corridor have become hubs of economic bustle, areas in the Autonomous Region of Muslim Mindanao (ARMM) continue to endure a lack of access to jobs and basic services. The intermittent outbreaks of armed conflict that have plagued the ARMM for over 30 years accentuate the high correlation between lawlessness and poverty.

However, the stability of Tawi-Tawi, a province of 307 islands and islets scattered south of the Zamboanga Peninsula, provides a striking contrast with rest of the ARMM. This can be attributed to the province's seclusion from the conflict-stricken areas of the region. There are 10 island municipalities in the province whose
population is 95 percent Muslim, and 5 percent Christian or other faiths. Most of Tawi-Tawi’s resources come from the sea. It is one of the richest fishing grounds in the Philippines with shorelines suited for marine culture, particularly seaweed.

Tawi-Tawi’s geographical isolation has had negative and positive impacts on its people’s way of life. On one hand, locals cite the government’s neglect of basic but critical services to improve education, health and employment. Poverty incidence in 2000 was 75.3 percent and the average annual per capita income stood at $202. On the other, it is a ‘front door’ to ASEAN countries due to its proximity to Malaysia and Indonesia. Cross-border barter trading between Tawi-Tawi and Malaysia has taken place for centuries. At present, the government’s trade policy prevents traders from maximising the benefits that could be derived from this unique exchange. Both traders and government officials have to deal with two conflicting yet valid interests: earning a decent living, and ensuring that the legal measures on trading are observed.

Trading across the border

Tawi-Tawi traders frequent four Malaysian ports: Kudat, Labuan, Sandakan and Tawao. Sandakan is only 12 hours away by wooden boat from Bongao, Tawi-Tawi’s provincial capital, and Zamboanga City, the nearest trading centre, is 19 hours away. Travel to other ports ranges from 13 to 40 hours. However, this is hardly an issue among traders who know the rewards of cross-border trading.

Rice, sugar, flour, biscuits and palm oil, imported from Malaysia, are up to 40 percent cheaper than the prices asked in Zamboanga City for the same products. Malaysian rice is $6.43 per 25 kg sack, compared to $12.50 in Zamboanga, and sugar is only $16.60 per 50 kg sack, compared to $23.20 in Zamboanga. Even if Tawi-Tawi wholesalers add a 3 percent mark-up on these commodities, they can still be sold at a rate more affordable to the local population.

While most traders are engaged in imports, some have ventured into exports of Filipino goods, such as beauty aids. Whitening products are in demand in East Kalimantan, Indonesia. Traders embark on up to 100 hours of sea travel to deliver such items to Sulawesi. If the order is not urgent, they bring it instead to Tawao where it can be shipped to Sulawesi via commercial boat, shortening the number of days they spend at sea. Some traders transact business with Malaysians in the Tawi-Tawi municipality of the Turtle Islands to avoid custom duties. Traders ship up to 3,000 boxes ($119 per box) of products on a quarterly basis.

Seaweed traders from Sitangkai, Tawi-Tawi’s easternmost island and the country’s largest producer of seaweed, command a higher price for their products in Tawao
and prices are at least 5 percent more than what Zamboanga buyers will offer. There is also a large processing plant in Tawao.

On average, local traders’ net profit is only 10 percent after shipping costs and duties. Still, more and more people engage in cross-border trading due to the lack of alternative sources of livelihood. At present, there are about 300 local traders in the province, mostly operating from Bongao.

**Surmounting conflicting interests**

In Tawi-Tawi cross-border trading dates back to the early 17th century. Indeed, some traders argue there was a much smoother flow of people and goods before the creation of the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA). This is ironic because the body’s objective is to ‘facilitate the free movement of people, goods and services in the region’.

Efforts are underway to simplify, if not harmonise, the Customs Immigration Quarantine Security (CIQS) rules, regulations and procedures at the EAGA level. Until CIQS policies are synchronised and institutionalised locally, traders have to put up with policies that, they say, fail to take into consideration the socio-economic context of the province as an island economy.

The import of rice from Malaysia, for example, requires a permit from the National Food Authority (NFA) in Manila. One requirement set by NFA is the presence of an Association of Rice Producers in Tawi-Tawi. Traders find it impossible to comply with this condition given the province’s remoteness. With no other option, many resort to illegal importation or smuggling. The same scenario occurs with sugar, a regulated item that requires a permit from the Sugar Regulatory Board in Manila.

Boat operators who service local traders must meet numerous requirements before they will be issued with an outgoing permit. Traders are directly affected by these restrictions because they have to pay more to ship their goods. It is common for boat owners to declare a local itinerary instead of an international route so as to escape paying clearance fees.

**Engaging business in public dialogue**

In Tawi-Tawi, the active engagement of traders in policy regarding cross-border trading illustrates how the dictates of legitimate business interests can be addressed alongside the promotion of public interest. In support of local business, PBSP
conducted a Roundtable Discussion on Cross-Border Trading in June 2005 together with the Pagtabangan BaSulTa network. Co-sponsored by the Mindanao Economic Development Council (MEDCo) and the Tawi-Tawi Chamber of Commerce and Industry, the initiative served as a venue for government and local traders to tackle problems and issues related to cross-border trading. For the first time, both parties sat together and formulated collaborative responses and courses of action to address the concerns that spark conflict. This was the initial step in a long process of reviewing and revising government policies to address the concerns of cross-border trading stakeholders.

Among the action points put forward were the following:

- In the short term: (a) lobbying to exempt local traders from securing rice/sugar importation permits given restrictions on quantity and market coverage; (b) lowering custom duties and travel taxes; and (c) continuous information-education-communication on existing trading policies.
- In the long-term: declaring the Port of Bongao an open port to encourage free trade between the Philippines, Malaysia and Indonesia. This will mean more income for cross-border trading players, as well as added revenue for the government through port charges, parking/road users’ fees and duties from products bought outside Tawi-Tawi. The move will also help the government curb smuggling in this part of the country.

This emerging agenda calls for a concerted effort by both government and local traders. On one hand, the government through MEDCo will conduct a high-level CIQS meeting to deliberate on the special case of conventional trading in Tawi-Tawi. The PBSP will monitor developments, and engage local businessmen and other stakeholders in establishing collaborative interventions. Instrumental to this will be the newly established, multi-sectoral Committee on Cross-border Trading that forms part of the Tawi-Tawi Provincial Government’s Technical Working Group.

**Creating positive societal value**

History suggests that the ARMM has been trapped in the vicious cycle of economic deprivation and conflict. This accentuates the vital role the private sector can play in contributing – directly and indirectly – to the prevention and resolution of violent conflict as it creates wealth and fosters public good. In Tawi-Tawi, local businessmen are heeding this call.

The Business and Peace Programme’s advocacy on cross-border trading shows how the business sector can engage in public policy dialogue and establish partnership
with government and civil society in pushing economic reforms that benefit all concerned stakeholders.

For more information on PBSP’s work on peace, see www.pbsp.org.ph/

Endnotes

1 The Autonomous Region in Muslim Mindanao (ARMM) is composed of the provinces of Basilan, Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi, and the Islamic city of Marawi.

2 The Pagtabangan BaSulTa Engagement Process refers to the joint effort of 11 organisations to engage and support local leaders and multi-sectoral constituents in the provinces of Basilan, Sulu and Tawi-Tawi (BaSulTa). The process aimed to arrive at sustainable interventions to the problem of poverty, conflict and marginalisation in the region. Pagtabangan means ‘helping each other’.
Mindanao has been called the ‘land of promise’ – and for good reason. It has a rich cultural heritage that adds charm to its attractive eco-tourism destinations. Its fertile lands and climate are a boon to agriculture, and it is an abundant source of cheap hydroelectric power. It is also the poorest of the Philippines’ three major islands with close to half of the population earning just 4,000 pesos ($72) per month.

Among its provinces, those in the Autonomous Region of Muslim Mindanao (ARMM) register the highest poverty incidence at 62.9 percent. Only one out of 10 first-grade pupils go to high school and even less eventually go to university or train in vocational-technical schools. The region produces just 1.2 percent of the country’s college graduates. Consequently, the rate of labour-force participation is only 57.3 percent, compared to a national average of 67.3 percent.

The picture of the region painted in local and international media – especially after the kidnappings and bombings attributed to the Al Harakat Al Islamiyya or Abu Sayyaf, separatist, Islamist groups – further discourages potential investors.

It is within this context that the Mindanao Peace and Development Programme (MPDP) was launched in 2000 by Philippine Business for Social Progress (PBSP), the Philippines’ largest, non-profit, social development foundation, comprising more than 200 multinational and small to medium-sized companies.

Dubbed the ‘Catch-Up Plan for Mindanao’, the MPDP is designed to bring the living standards in the ARMM and the Special Zones of Peace and Development to the same level as the more progressive areas of Mindanao. It aims to provide assistance to more than 140,000 households and to influence key stakeholders to redirect their programmes towards creating an impact on the Human Development Index in Mindanao through increased and sustained investment in human capital and development. MPDP’s interventions include access to education, quality of education, affirmative action, health, governance and constituency building. At the core of these efforts is leadership of the business sector.

PBSP’s Business and Peace Programme (BPP) directly aims to complement this roadmap. One key area of activity focuses on strengthening the competitiveness of management practice in Muslim small and medium enterprises through mentoring and internship initiatives. Over the last four years, a Programme Advisory
Committee, composed of Muslim business leaders and academics, has provided policy direction and technical assistance.

Now in its second phase (2005-08), the BPP has scaled its activities up to broaden the private sector’s contribution to achieving long-term peace and development in the ARMM. The flagship initiative in phase two is the Young Muslim Professionals for Business and Peace (YuPPeace), an internship that provides young Muslims employed in local enterprises with the opportunity to gain three to six months of work experience in Manila-based companies.

On their return to Mindanao, interns are expected to contribute to the improvement of management practices in the companies where they work; encourage involvement in peace and development; and initiate inter-organisation communication, networking and knowledge exchange.

**The power of one**

Samirah Mala is one of the six members of the first group of YuPPeace interns selected from 40 applicants across Mindanao. Schooled at Mindanao State University, she worked as assistant operations manager for Hamsand Hardware and Construction Supply in Cotabato City.

She was assigned to Unilever Philippines, a leading manufacturer of consumer goods in the food, home and personal-care product categories. From June to December 2003, Mala worked with the Human Resource Department, spending time with the separate divisions in charge of Learning, Recruitment, Remuneration and Performance Development Plan, and the Coaching Project.

“Getting involved in the YuPPeace internship engagement is part of our diversity programme,” explained Cezar Bagadion, Unilever Philippines’ Country Learning Manager. “We’ve always tried to cast a wider net to ensure that we get the best people, qualified people from all backgrounds.”

In dealing with interns, the supervisor bears in mind each one’s development level, assigning tasks according to individual capability. “In the case of Samirah,” he said, “it was clear she had the competence to take on bigger projects so we asked her to help develop and customise a software that helps compute scores for an organisation assessment survey. She was instrumental in the completion of that important regional project.”

Mala spent half her six-month internship working with a deadline-driven team and came out of the experience with an appreciation of the value of teamwork.
Transcending cultures

A chemical engineer, Mala knows discrimination at first hand. After she earned her bachelor’s degree, she was denied a job opportunity after the operations manager did a double-take on her religion. Her case is not rare. The Philippine Human Development Report 2005 recounted the experiences of Muslims who were shut out of jobs and study opportunities, or were greeted with patronising comments that they were ‘good in spite of being Muslims’. The results of a stratified random sample survey in the report showed that 33-39 percent of Filipinos are biased against Muslims, notwithstanding the fact that only about 14 percent have had direct dealings with them.

It was with some apprehension, therefore, that Mala filled out the application form to become a YuPPeace intern, despite the encouragement of Bai Sandra Basar, her employer at Hamsand.

PBSP provides companies that participate in YuPPeace with orientation. The terms of reference for the internship clearly state that the host company must allow time and space for Muslim interns to observe their prayers and that they should be excused from work on Fridays, their holy day. “There were some adjustments to make,” Mala conceded, “such as the fact that, even if our supervisors had been briefed about Fridays being our day of worship, they would sometimes forget to give us time off for our prayers, or that during Ramadan, people would forget we are fasting and they’d offer us food.”

“The people I worked with in Unilever did not prevent me from observing my obligations as a Muslim,” she added, “but I was aware that I was working in a deadline-driven industry so I had to honour my commitment to finish whatever task has been assigned to me.”

Before the next batch of YuPPeace interns arrived, Unilever has already assigned a prayer room for Muslims. “I heard the canteen concessionaire now also serves halal food,” said Mala.

Beyond understanding cultural differences, the bigger benefit for both parties was the realisation that, given equal opportunities, Muslim professionals could perform as well as their Christian and other non-Muslim counterparts.

Return on investment

After her internship, Mala returned to Hamsand and, with Basar’s help, introduced changes to the company, conducting training programmes inspired
by what she had learned at Unilever. There was initial resistance but co-workers eventually saw the benefits of drawing up a similar system even in a small company like Hamsand.

Three months later, Mala became executive director of the Muslim Chamber of Commerce and Industry of Kutawato, Inc. (MCCIKI) in Cotabato, a move that pleased her former employer. “I think Bai Sandra Basar knew I would be able to do more at the MCCIKI because the transfer of technology would be on a larger scale,” recalled Samirah. “Instead of helping just Hamsand, I’d be able to help 64 other companies in Cotabato.”

“When I recommended Samirah for YuPPeace,” admitted Basar, “I knew I’d probably lose her afterwards, but I knew my loss would ultimately be the gain of the Muslim business community.”

Now working in a Manila-based company, Mala is still very much involved in the project she has started and dreams of going back to Mindanao to continue the work she began at MCCIKI. “What made me curious about the YuPPeace programme is what sustains my interest in doing something for my fellow Muslims, especially the young,” she said. “The idea that I can contribute to the creation of peace dividends through well-thought-out business practices and policies. It’s definitely just one of the steps toward achieving peace, but I’m fortunate to take part in it.”

Further information on PBSP’s activities is available at www.pbsp.org

Endnotes

Paglas Corporation in Mindanao: targeted investment in a conflict zone

Datu Paglas in the province of Maguindanao in the Autonomous Region of Muslim Mindanao (ARMM) has been described as a ‘miracle town’, with its economic development framework hailed by many as a model for other areas shattered by the Moro conflict. This study reviews the positive role played by the private sector in Datu Paglas and outlines some of the challenges involved.

Context

Datu Paglas is located in an area of Mindanao where some of the most intense conflicts have taken place. The town has witnessed fierce confrontations between the Philippine Armed Forces and the Moro National Liberation Front (MNLF) and Moro Islamic Liberation Front (MILF) for more than a decade. One of the root causes of the conflict is land: the Muslim population has struggled for access to land since colonisation by Christian settlers and later investment by multinational corporations. Despite the 1976 Tripoli Agreement, the conflict has ebbed and flowed, with periodic resurgences of clan feuding and terrorism up to the early 1980s. The 1980 split in the MNLF, which led to the formation of the MILF, also affected the political configuration within Datu Paglas, which lies within the MILF area of Camp Rajamuda.

The Paglas family is a powerful clan related to other politically influential clans in the area through kinship and inter-marriage, and has blood relations with the late MILF chairman, Salamat Hashim. As with other Muslim communities in Mindanao, it has been involved in longstanding feuds that periodically erupt in violence.

Datu Paglas is endowed with extensive fertile lands, but poverty is endemic due to low investment and lack of services. This has strengthened support for the rebel movement and became a major obstacle to development since business was reluctant to risk investing.

Paglas Corporation

Ibrahim ‘Toto’ Paglas III, son of the late mayor, returned to Datu Paglas in 1985 with the goal of improving stability through socio-economic development. He showed his drive by initiating an irrigation project in the town before being elected mayor in 1988. He used his influence to pacify relations between other clans and
sought to end the cycles of violence and retaliation, despite the death of several members of his own family.

**Understanding the conflict context**

Paglas recognised that the conflict has its roots in history, including colonisation and socio-economic grievances, such as a lack of access to education, loss of land titles to settler communities, horizontal inequalities and poverty. However, he also acknowledged the failure of local leaders to fulfill their responsibility to improve the lives of their people. Significantly, he challenged the assumption that investment first requires peace, proposing instead that economic development was necessary to produce peace, with the private sector directly tackling grievances and conflict issues through responsible practice.3 “There is a way to respond to legitimate grievances in a preventive, pro-active manner,” he has said. “My experience has shown that sustainable economic development can be the key to peace.”

With the signature of the Final Peace Agreement between the government and the MNLF in 1996 and an agreement to cease hostilities with the MILF the following year, the government was anxious to demonstrate the peace dividend by promoting investment. Paglas identified this as a perfect opportunity to bring about his vision of peaceful transformation.

**Consolidating investment**

He contacted ORIBANEX Holdings Corporation, a consortium of Italian, Saudi and US investors involved in the production of bananas, who were looking to expand their holdings from nearby Catholic Davao. Investors were reluctant to risk their money in the ARMM, let alone a place as notorious as Datu Paglas. But intrigued by reports of its dynamic young mayor and the quantity of land available, they visited to make a feasibility assessment. With plentiful supplies of water, an ideal climate, excellent soil and a large labour force, its potential was obvious.

Although the project gained general approval within the population, others were more cautious. A process of consultation and dialogue was therefore initiated to give people the opportunity to voice their concerns. This was an entirely new experience for Datu Paglas and a break with customary tradition in which Datu’s decisions have always had the force of law.4

After three terms as mayor, Toto Paglas stepped down to concentrate on consolidating the Paglas Corporation (PagCorp), while his backers established La
Frutera Inc. (LFI) to manage the plantation and put up the bulk of a $26 million initial investment. The Ultrex investment group in Manila took responsibility for day-to-day management of LFI, which sub-contracted the recruitment of labour, security and transport operations to PagCorp. Toto Paglas provided substantial amounts of family land and convinced neighbouring leaders and landowners to do the same.

He also used his influence to convince MILF commanders to withdraw their forces from the district. When La Frutera was first established, Hashim Salamat, MILF’s late chairman and Toto’s uncle, gave his personal guarantee that the town would be a MILF ‘no-go zone’ and that no LFI or PagCorp personnel, equipment or vehicles would be targeted. There has not been a single incident of criminal activity against the companies ever since. This is exceptional given the enormous sums invested in security by businesses operating elsewhere in the ARMM. The investors are emphatic that they pay no protection money nor make any ‘donations’ to MILF, nor has MILF attempted to solicit contributions.7

Success factors

Christian plantation workers were initially hired as trainers and supervisors, and Israeli experts were brought in to supply the technology. This created tensions with the community, but Toto gave assurances that they would be under his personal protection and located their accommodation close to his.

While Muslims were principally trained by Christians, the plantation now employs Muslim supervisors and a former MILF combatant is the most senior supervisor.8

As a result Christians and Muslims are more integrated in the workplace and the wider community. In the words of one Christian trainer: “Today, Muslims and Christians work peacefully together. Christians are no longer viewed as superiors or more specialised than Muslim employees. The company organises regular workshops to increase understanding between the two cultures. Religious leaders from both sides give seminars on Islam and Christianity. Christian workers avoid eating pork in front of their Muslim colleagues.”9 The LFI Community Relations Unit conducts seminars and workshops on cultural and religious sensitivity.10

PagCorp aims to tackle local grievances and spread the benefits of the investment equally by employing at least one member from each family, including those of former rebels. Three guiding principles were adopted in the company’s business plan:11
To protect the environment at any cost because this is all we have for the next generation
Not to abuse workers, to protect their rights and look after their welfare and safety
To provide education for the children.

In 2000, La Frutera set up the La Frutera Community Development Foundation to design and implement community development projects, principally by providing training and education to improve livelihoods.\(^1\)

**The impacts of LFI investment**

The plantation is now one of the most profitable in the Philippines. In its first six years, production climbed to 10 million tonnes of bananas a year, much of it exported, generating annual revenues of around $15 million. By 2002, La Frutera employed directly and indirectly 2,000 local workers, 85 percent of them Muslims, on 1,300 hectares. According to Toto Paglas, the company injects at least $400,000 dollars into the local economy every month through salaries.\(^\text{13}\) Since its inception, the town has seen large increases in employment and income levels. The experiment generated confidence that business could be conducted successfully in the ARMM and the original investors have committed up to $50 million to expand operations by 2,300 hectares.\(^\text{14}\)

The municipality is no longer a haven for crime. According to the Philippine National Police, crime rates have fallen dramatically in the past three years.\(^\text{15}\) When hostilities between government forces and the MILF resumed in early 2000, former combatants employed by the company did not join in – with the consent of the MILF leadership.

With increased revenue from taxes, the town has built more schools and invested in health services, with school attendance by both Muslim and Christian children increasing considerably. The LFI has also been awarded certification by the Rainforest Alliance, a global body that monitors the social and environmental impacts of the banana industry.

Investment has extended beyond the immediate environment of the plantation. In 1998, the Paglas Rural Bank (PRB) was established with a loan portfolio of around $150,000, provided by the Central Bank and Land Bank. The PRB seeks to promote small businesses and has helped to start over 50 small enterprises. It has more than 3,000 customers, and sees a 90 percent repayment rate on commercial and private loans. The majority of its customers have never held bank accounts, as their plantation salaries were the first regular income they have had.\(^\text{16}\)
Challenges

While the Paglas case is an important example of the dividends that peace can bring and an incentive that business is possible before a formal peace is signed, it has its own share of challenges.

Some community members have said that more needs to be done to ensure the benefits are spread as broadly as possible. There have been allegations that local officials spend more on expensive vehicles, than local development. Concerns have been raised about salary issues, delayed payments and Muslim applicants’ access to jobs in the administration; the absence of unions has also been criticized in the past. Local landowners in turn have expressed concerns about their lease contracts with LFI.

The case also highlights the proximity of political, economic and military elites with, in the case of Datu Paglas, the leadership of both vested in a single family. While in Datu Paglas one individual used the potential offered by his position to effect positive change, elsewhere such quasi-feudal social structures can also be a factor that contributes to tensions, rather than defusing them. Toto Paglas’ reforming instincts were only made possible by his uniquely advantaged position. The same concentration of power and wealth could intensify conflict in parallel situations.

In spite of these reservations, the transformation of Datu Paglas from a locus of conflict to one of relative stability and prosperity highlights the strategic role that the private sector can play in peace and development efforts.

This case is based on the studies cited below. For more information see www.datupaglas.com and www.pbsp.org.ph
Endnotes

3 Speech by Toto Paglas at the CFR conference ‘Preventive Action: Responding to the Grievances of Muslims in the Philippines’ at www.asiasource.org/asip/preventive.cfm
4 Ibid.
5 Datu is the title given to traditional chieftains in the region.
7 Honculada op. cit.
8 Fletcher, Grace and Ganchero op. cit.
9 Ibid.
10 Honculada op. cit.
11 Speech by Toto Paglas op. cit.
13 Speech by Toto Paglas op. cit.
14 Ibid.
15 Fletcher, Grace and Ganchero op. cit.
16 Ibid.
17 Conception et al. op.cit.
18 Nuguid-Anden op.cit.
19 Ibid.