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## Case Collection on Philippines (2012)

Social Entrepreneurship in Asia: Working Paper No. 2

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## **FOREWORD**

**Swee-Sum Lam**

**Asia Centre for Social Entrepreneurship and Philanthropy, NUS Business School**

This is the second working paper in the series on Social Entrepreneurship in Asia published by the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP).

ACSEP's mission is to advance the understanding and impactful practice of social entrepreneurship and philanthropy in Asia through research and education. While Asia is rich with the practice of social entrepreneurship given the plethora of social issues and challenges facing the region, there is still catch-up to be done in the documentation of these challenges and the responses from the private, public and people sectors.

Case studies provide the platform for story-telling, analysis and theory building. Each of these applications serves a function in capacity building in the social entrepreneurship space in Asia. Story-telling inspires, engenders passion, informs of possibilities, sparks action, builds communities and facilitates information exchange for change. Iterations of analysis (and synthesis) done in the classroom among practitioners, professionals and students develop critical skills of assessment and evaluation. Academics interact with the models of social entrepreneurship which surface from data drawn from practice to build theory which again informs on practice.

This collection of cases on social entrepreneurship was borne out of a three-year partnership between the National University of Singapore Business School, the Ateneo de Manila University and Gawad Kalinga in a collaboration on curriculum development in entrepreneurship for sustainable development. On behalf of the partners, I want to thank Temasek Foundation for its generous support for this collaboration. It provides capability and capacity training in entrepreneurial skills for both for-profit and not-for-profit enterprises. This case collection stands as a testimony of the collaboration which started in 2010.

The collaboration has two dimensions.

First, it is a curriculum development programme for curriculum writers to design a cornerstone undergraduate module on entrepreneurship for sustainable development. The programme introduces a method in curriculum development which integrates multiple disciplines throughout the module. In June 2012, this module was offered in the School of Social Sciences and the John Gokongwei School of Management for the first time. This case collection was commissioned to accompany this cornerstone module on entrepreneurship for sustainable development and can be used for discussion in many of its lesson plans.

Second, it is a train-the-trainer programme for Gawad Kalinga leaders to train entrepreneurs in some 2,300 communities throughout the Philippines. The programme provides process learning for Gawad Kalinga community leaders to train entrepreneurs in their own communities. 24 Gawad Kalinga trainers and leaders were trained in May 2011. As planned, this Gawad Kalinga training program has been cascaded to their communities to build capacity, targeting to train at least 100 leaders and entrepreneurs by April 2013.

The theoretical framework for the curriculum development process has been documented in a video clip and can be viewed in YouTube [[https://www.youtube.com/watch?v=L5S8vm\\_enu0](https://www.youtube.com/watch?v=L5S8vm_enu0)].

Apart from its use in formal curriculum on entrepreneurship for sustainable development, we hope that this case collection can be inspiring reading to challenge the vision of and provoke passion in some of our aspiring entrepreneurs and social entrepreneurs. We in Asia contribute 60

percent of the world's poor. Entrepreneurship and social entrepreneurship, besides education, are some of the keys to restore dignity, alleviate poverty and create employment. Therefore, social entrepreneurs in Asia are faced with one of the widest spectrums of unmet people needs and the correspondingly open range of entrepreneurial possibilities.

I believe that one of the better ways of internalising the skill to recognise opportunities and create that value proposition is to keep looking at paradigms after paradigms, models after models. Some of these ought to be failure stories. Regrettably, there is a survivorship bias even in storytelling. Notwithstanding, the constant practice of reading such cases or stories, consciously or sub-consciously, sharpens our senses of differentiating a success potential from a failure potential. It is with this hope that ACSEP publishes its Case Collection on Philippines.

I also recognise that each Asian economy has its own trajectory in socio-economic development. Therefore, the corresponding solutions to its social issues are distinct to its context. This case collection is drawn from the Philippines. Over time, I hope that a beautiful mosaic will emerge from the myriad of entrepreneurial solutions in this collection and elsewhere for sustainable development.

# **CHAPTER 1**

## **INTRODUCTION**

**Leland Joseph R. Dela Cruz**

**Ateneo de Manila University**

Social development interventions have traditionally been associated with governmental and non-governmental organisations (NGOs). But in recent years, there has been an increasing recognition that market actors can also make significant contributions to addressing social problems beyond traditional corporate social responsibility practices, philanthropy and employee volunteerism.

Social business enterprises, in particular, have emerged as entities that could address various social problems through market-mediated interventions. These social business enterprises provide sources of income and markets for marginalised producers, provide access to basic needs, and help to address the problems associated with environmental degradation.

While there have been numerous attempts on the part of traditional social development actors to address these problems, social business enterprises present a complementary approach to dealing with these problems in a financially sustainable way.

For a country like the Philippines where various social problems associated with developments persist, finding financially sustainable solutions to these social problems is important. Given that 26.5 percent of the population, or 23.1 million Filipinos, are considered poor (National Statistical Coordination Board, n.d.), governmental resources are hardly enough to deal with the problems. While the government has put into place various programmes to address income poverty, lack of access to basic needs, and to regulate destructive environmental behaviour, its capacities are limited by significant fiscal considerations.

Non-governmental actors have also traditionally played an important role in the Philippine social development scene, leading some to call the Philippines the "NGO capital of the world." However, when the Philippines transitioned into the middle-income bracket of global classifications in the 1990s and when the Iron Curtain fell, a lot of funding for NGOs were relocated to even poorer nations and to Eastern Europe. Fiscal crises in developed countries also led to the reduction of development assistance received by the Philippine government as well as Philippine NGOs.

It is in this context that social entrepreneurship has emerged as a possible approach to dealing with social problems in a manner that pays for itself. And in recent years, the Philippine social enterprise sector has received a lot of attention from entities that recognise outstanding social business enterprises, including international organisations such as the United Nations, the Business in Development Network, and the British Council. Several conferences and symposia on social entrepreneurship have also been staged, and various social business incubators have emerged.

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The vibrancy of social business enterprises in the Philippines is propelled by various sectors. Some NGOs are turning to earned-income activities to ensure the financial sustainability of programme outcomes among marginalised communities. This includes Gawad Kalinga (GK), a Philippine NGO that seeks to end poverty for five million Filipino families by 2024. GK recently created the “Center for Social” innovations which seeks to incubate social enterprises that tap the 2,000 GK communities.

Apart from NGOs, some community organisations themselves have recognised the potential of engaging in earned-income activities. Mainstream businesses are also increasingly recognising that they can do good while continuing to do well financially. Funding organisations have recognised the increased activity in this sector and have transformed their operations to support the sector.

The academe is another sector that is poised to provide assistance to the social enterprise sector. With this in mind, Temasek Foundation supported the initiative of the National University of Singapore, the Ateneo de Manila University and GK to provide capability training in entrepreneurship for sustainable development in the Philippines. This three-year project involved the development of training modules for use in undergraduate courses as well as the training of personnel from GK.

The 10 cases found in this casebook were written to supplement the training modules that were developed as part of the project. By themselves, however, the cases can also serve as a stand-alone knowledge product that provides readers with insights regarding social business enterprises and gives readers a glimpse of the Philippine social business enterprise sector.

The 10 cases discuss 12 different social business enterprises. Most of the cases discuss one social business enterprise each but the case on Fair Trade Practices in the Philippines discusses three social business enterprises: People's Recovery Empowerment Development Assistance (PREDA) Fair Trade, Community Crafts Association of the Philippines (CCAP) and World Fair Trade Organization (WFTO) – Philippines.

The 12 social business enterprises featured here were recommended for study by Lisa Dacanay, president of the Institute for Social Entrepreneurship in Asia (ISEA) and her associate, Rosalinda Roy. The cases were written by seven case writers, and the case writing process was supervised by Lisa Dacanay. They were chosen to represent different kinds of social enterprises, engaged in different kinds of earned-income activities, and demonstrating different points regarding social entrepreneurship.

The 12 social business enterprises clearly show that social business enterprises can take various forms. Some were initiated by NGOs or foundations. These include PREDA Fair Trade which evolved out of PREDA; Rags2Riches which evolved out of the efforts of the Simbahang Lingkod ng Bayan, a Jesuit social apostolate organisation; Human Nature which tapped into the vast network of GK; the Upland Marketing Foundation, Inc. (UMFI) which started off as a committee of the Upland NGO Assistance Committee; Don Bosco which is a foundation which spawned many social enterprises; and Hapinoy which is partly owned by the Center for Agrarian and Rural Development Business Development Services (CARD-BDS).

Other social business enterprises featured in this case book were initiated by other actors. The Cambuhat River and Village Tour (CRVT) was a community-based ecotourism enterprise that

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grew out of a project of the Philippine government's department of environment and natural resources for the community's Cambuhat Enterprise Development and Fisheries Association (CEDFA). Health Plus was a product of consultations by the Philippine government's department of health with NGOs, with funding assistance from German Technical Cooperation (GTZ).

Bote Central was a bottle-making company that was transformed into a social business enterprise by the husband and wife tandem that owned the company when they decided to move into the production of civet coffee. The case of Lechon Manok ni Sr. Pedro shows that even large business entities can transform some of its operations into a social business enterprise.

The cases featured in this case book also represent a variety of earned-income activities. Some social business enterprises are involved in the sale of food and beverage products. These include PREDA Fair Trade (mangoes), Don Bosco (biodynamic agricultural products), Bote Central (coffee), Lechon Manok ni Sr. Pedro (roasted chicken) and UMFI (organic rice, muscovado and other food products). Others sell crafts (CCAP Fair Trade and PREDA Fair Trade), medicines (Health Plus), beauty products (Human Nature), products made from upcycled cloths (Rags2Riches) and even ecotourism services (CRVT).

All the social business enterprises sought to improve livelihood outcomes of the poor but some also had other bottom lines. These included Rags2Riches, Bote Central, Don Bosco, Human Nature, UMFI, PREDA Fair Trade (organic) mangoes and the CRVT. These social business enterprises considered environmental outcomes as one of their bottom lines. CRVT itself was designed to provide the local community with additional income while preserving their environment.

The decision to consider environmental outcomes affected some of their business decisions including the choice of raw materials and production processes. Rags2Riches, for example, only uses discarded scraps from factories even if this creates a supply constraint. Human Nature does not use ingredients that are harmful to the environment. Bote Central insists that communities from which they source their civet coffee beans must not cage the civets. UMFI decided to focus on food products rather than commodity-training (i.e. rattan) in order to relieve the pressure on forests. PREDA Fair Trade promotes organic farming while Don Bosco promotes biodynamic farming, or what Fernandez (2001) calls advanced organic farming. CCAP and WFTO – Philippines include environmental-friendliness in their criteria for assessing partners.

The cases are also relatively dispersed across the Philippines. Rags2Riches operates in Manila. CRVT is located in Bohol, an island in the Visayas. Don Bosco is located in Cotabato in Mindanao but has operations in other provinces. Hapinoy has headquarters in Metro Manila but operates in many provinces in Luzon Island. PREDA Fair Trade is based in Olongapo City, northwest of Manila, but assists organisations all over the country. Bote Central is based in Manila and currently partners with communities in seventeen provinces all over the country. UMFI, CCAP, Health Plus and Human Nature are also based in Metro Manila but have partners from all over the country. Lechon Manok ni Sr. Pedro was established in Cagayan de Oro in Mindanao but has branches all over the Philippines.

The cases also differ in terms of their reach. Because of the nature of their service, CRVT is essentially community-based. Lechon Manok ni Sr. Pedro is a nationwide brand. Some of the social business enterprises offer products for export. These include PREDA Fair Trade, CCAP Fair

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Trade and Rags2Riches. Bote Central, on the other hand, chose to withdraw from the export market and focused on the Philippine market.

Aside from reflecting the diversity in terms of types of social business enterprise as well as geographical location and reach, the cases were also selected to emphasise certain points regarding social business enterprises.

The case of Don Bosco, for example, demonstrates the role played by various financing sources in establishing social business enterprises. Don Bosco relied on donor funding but eventually obtained some resources through loans and in the long run, was able to plough back money from the operation of its social enterprises.

Human Nature, Rags to Riches and UMFI demonstrate various marketing principles as applied to social business enterprises. The Rags2Riches case clearly shows the importance of product development. With a little bit of product development, women who used to earn P1–2 (US\$0.02–0.05) per rug were able to earn P15–20. When well-known designers were brought in to identify alternative uses for the raw material, the revenues from Rags2Riches further increased.

The Rags2Riches case also shows how the organisation identified its target market and how this affected decisions regarding product placement. Decisions regarding distribution channels are also discussed in the UMFI and Human Nature cases. UMFI decided to distribute its products primarily through supermarkets while Human Nature decided to distribute its products through direct selling. Because of the difficulties encountered in dealing with supermarkets, UMFI later explored alternative distribution modes.

Various principles regarding social business enterprise operations can clearly be seen in the case of Lechon Manok ni Sr. Pedro. Market conditions forced this business entity to provide for its own supplies, which eventually led it to source some of its chickens from small backyard farmers. Part of the challenge of sourcing chickens from backyard farmers was the need to maintain standardised quality of products, and the case discussed the methods employed by Lechon Manok ni Sr. Pedro to ensure quality. The need to maintain standardised quality, especially when sourcing supplies from marginalised communities, is also discussed in the Bote Central and the UMFI cases.

The importance of the value chain approach is explicitly discussed in the cases of Bote Central and UMFI. The founders of Bote Central talk about their “Coffee Chain of Happiness” and the importance of adding value for producers and consumers every step of the way. Aside from selling coffee, Bote Central also provides coffee producers with roasting machines that the co-owner himself invented because he believes that roasting is the key to increasing value for the producer. The value chain approach also helps UMFI to identify critical gaps for community-based producers and helps the organisation analyse how producers can add value to its champion products — muscovado and organic rice.

The cases also show the importance of stakeholder management for social business enterprises. This is most clearly seen in the case of Hapinoy, Rags2Riches and CRVT. Hapinoy is best understood as a multi-stakeholder engagement which includes the entrepreneurs behind Hapinoy, the nanays who run the sari-sari stores, the Center for Agriculture and Rural Development (CARD) Business Development Services which provided the nanays with microfinance loans, and the various corporations from which Hapinoy sourced its materials. All

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of these players have different interests and cultures, and part of the challenge Hapinoy has to deal with is how to best relate with these various stakeholders.

The importance of stakeholders is also seen in the Rags2Riches and CRVT cases. Rags2Riches experienced early success with a little product development undertaken by volunteers but their success was multiplied when Rajo Laurel and other designers agreed to further develop their products. The CRVT was initiated as part of a national government project and involved working with the provincial and municipal governments for promotions and technical support. The local government also provided infrastructure and funding support for ecotourism. An alliance of NGOs in the province helped promote the tours, and a bank foundation helped provide organisational assistance and access to additional financing for CEDFA.

One key stakeholder for most of the cases is the marginalised community. The different organisations utilise different strategies in relating with the community. Rags2Riches, for example, included one of the nanays among its board of directors and decided to form a producers' cooperative. The Bote Central case clearly shows the key role played by intermediaries.

The various social enterprises also adopted several organisational forms. Hapinoy and Health Plus are essentially running micro-franchise operations. Hapinoy decided to create a foundation separate from its business enterprise. Don Bosco is essentially a foundation overseeing a conglomerate of social business enterprises. CEDFA is a cooperative that runs the CRVT.

The cases show that social performance measurement is one of the most underdeveloped areas in social business enterprise development. The chapter on Philippine Fair Trade practices discusses initial attempts at measuring social business enterprises using fair trade metrics. Bote Central, for example, was assessed using the fair trade metrics of WFTO – Philippines. These metrics, however, tend to measure process standards rather than outcomes. Outcome indicators tend to be primarily anecdotal or focused on single variables such as increased household incomes.

All of the cases demonstrate that social business enterprises are works-in-progress. In order to survive and prosper, they must continuously evolve. This evolution is most clearly seen in the case of Don Bosco, Bote Central and UMFI. The names of these entities reflect what they were doing before more clearly than what they are doing now. Don Bosco was named after the patron saint of the youth because it started off as an NGO that provided services to the youth. But it eventually transformed itself into an NGO that advocates biodynamic agriculture. Its advocacy eventually led it to form various social business enterprises including a marketing arm, a credit and savings corporation, retail operations and a seed bank. UMFI was initially formed to assist upland communities but the need for volume to penetrate markets led it to expand its assistance to lowland and coastal communities.

Bote Central was originally formed as a company that makes bottles in an environmentally-friendly way. (Bote is a Spanish/ Filipino word for bottle). But the couple behind Bote Central recognised a new business opportunity when they encountered vinegar made from arenga pinnata so they decided to create the Arenga Vinegar brand. A little later, while interacting with their suppliers in Cavite, a Philippine province south of Manila, they discovered civets in the

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forest and saw an opportunity to market civet coffee. Since then, their business has evolved to include other coffee varieties.

The other cases also show this kind of evolution. After working with designers like Rajo Laurel and Amina Aranaz, Rags2Riches evolved from producing foot rugs to producing bags, wine holders and other products made from upcycled cloths. UMFI and PREDA Fair Trade engaged in brief experiments with providing financing to the producers they worked with. The corporate social entrepreneurship practices of Lechon Manok ni Sr. Pedro essentially evolved as a result of problems they faced with suppliers and the need for backward integration.

Hapinoy initially thought of itself as providing business development services to sari-sari store owners and listed its value-added services to these owners as the provision of capital, capacity-building, cheaper inventories and store branding. Since then, it sees itself as network of stores for the bottom-of-the-pyramid that can serve as an outlet for commodities from local producers and community-based manufacturers, house brands that are cheaper than the brands sold by major corporations, and bottom-of-the-pyramid products such as medicines, mosquito nets and solar lamps.

The continuous evolution of the case subjects justifies the use of past tense. In some instances, they have clearly moved in a different direction since the cases were written. The editors and writers as well as the officers of the organisations that signed off of these cases can only vouch for the accuracy of the information up till the end of the research. Some significant changes might have occurred since the research was conducted. On the other hand, it should be noted that the use of the past tense does not necessarily mean that the cases have changed. It is entirely possible that the write-up still describes the current state of the social business enterprise.

To a large extent, the continuing evolution of these social business enterprises can be seen as a response to challenges that they faced. Many face the traditional challenges that all entrepreneurs have to face. This includes increased competition, as in the case of Health Plus, and the need to continuously stay in tune with market conditions.

Because they are addressing social problems, most of the social business enterprises featured here feel the need to scale up in order to deepen and widen their social impact. Rags2Riches, for example, is looking to tap into export markets and expand to more producer communities. CEDFA is looking to expand CRVT and they know that this will mean changes on their part, including the increased need for professional support.

The story of social business enterprises is of course also the story of social entrepreneurs — people who invested their time, talents, and in some cases, money to addressing social problems through earned income activities. This story is clearly seen in the case of Bote Central which traces the journey of Vie and Basil Reyes, who tried to figure out how they could best uplift small farmers while at the same time help to preserve the environment.

Most of the social enterprises presented here were formed recently but in a sense, social business enterprises are not really a new phenomenon. Two of the social business enterprises discussed here emerged in the 1970s: CCAP was established in 1973 and PREDA Fair Trade was established in 1975. But there is definitely new energy in the social business enterprise sector emanating not only from the NGO sector but also businesses and even government.

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We hope that this volume will help readers understand and appreciate this emerging sector. We also hope that this volume will lead to further development of the sector as it seeks to address various social problems.

This volume would not have been possible without the support of many people. We would like to thank the Temasek Foundation for funding the production of the case studies, the training modules, and the initial roll-out of the training — and not forgetting the team from NUS led by Prof. Lam Swee-Sum for choosing to partner with the Ateneo de Manila University for this project. Thanks also to Prof. David Seah for facilitating the module development workshops and to Mr. Gabriel Henry Jacob for overall support to this project.

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Last but not least, sincere thanks to the 12 organizations that allowed us to understand them better, do case write-ups on them and publish these in a casebook, and especially for all the good work that they do to make life better for thousands of people now and in the future.

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## CHAPTER 2

### LINKING A CHAIN OF HAPPINESS

#### THE JOURNEY OF BOTE CENTRAL

Basil described himself as “the dreamer” while he described Vie as “the reaper”. A husband and wife team, Basil and Vie Reyes established Bote Central in 2002 with a vision of cleaning and saving the environment. They hoped to do this by setting up enterprises that provide sustainable livelihoods using agroforestry-based products.

Bote Central was engaged in the coffee business, providing coffee and coffee-related products and services in the local and foreign markets. The company was a fair trade organisation accredited by the World Fair Trade Organization (WFTO) – Philippines in 2007.

#### The Social Entrepreneurs

Basil and Vie had different and even seemingly contrasting personalities. For instance, when asked how they spent their regular day as entrepreneurs, Basil replied that he spent each day with a sense of adventure — dabbling with something, toying with ideas. On the other hand, Vie said she spent her regular day implementing targets and plans. Vie recounted the story of Bote Central succinctly, without much fanfare, direct to the point, consciously omitting details to avoid ambiguity. Basil wove a narrative account, decked with inside stories and side stories; providing as much context and details as he could remember.



#### Mission Statement

- • •
- Provide sustainable livelihood using forest and agroforest products;
- Bring back respect to animals in the forests;
- Maintain the forests clean and alive;
- Assist with technological intervention for agroforest products

- Bote Central

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*This case was written by Pedro Carlos R. Baclagon under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

### The Dreamer and the Reaper



**Basil and Vie Reyes, with son Paolo (leftmost)**

Basil, "the dreamer", was the visionary, coming up with new ideas that inspired the general directions and strategies of Bote Central. He was also the designer and fabricator of innovative technologies used to realise these strategies, and to pursue these directions. Vie, "the reaper", was the manager and orchestrator, who translated Basil's visions into tactical plans. She ensured that action plans were carried out to make the innovations work, and to realise those visions.

As entrepreneurs, what bound them together was a set of values. In the course of the business, Basil and Vie disagreed and argued about approaches and strategies. But in the end, they found common ground — guided by their shared social and moral values.

They believed in and practiced fair trade. They admitted that, though they had heard about fair trade before — it was only in 2006 in one of their dealings with the Department of Trade and Industry (DTI) when they started learning what fair trade was all about. They laughed as they recounted their realisation then: "*Aba fair trade pala tayo? Sali tayo diyan!* (Oh we are a fair trade organisation?! We have to be part of this!)". When they got their fair trade accreditation, their networks of like-minded organisations expanded. They became more exposed to social development institutions like non-government organisations (NGOs). It was during their dealings with NGOs when they found out they were called social entrepreneurs. This was because Bote Central pursued "3BL", or the triple bottom lines of financial, social and environmental objectives. They were amused at the thought because they had long believed that business should not just be about profits.

They also believed that consumers, from whom they earned profits, deserved the best that their business could offer. Because of this, they placed much premium on the quality of their products and services. They valued innovations. They were constantly searching for ways to reinvent themselves and the products and the services they offered. They designed and developed technologies, and enhanced their strategies to actualise innovations. Their prime concern for product quality and innovations had been evident in the businesses they had managed even before they established Bote Central.

Though they handled different sets of stakeholders, both of them were good dealmakers and negotiators. Basil, a mountaineer, had been the one in charge of forging and nurturing relationships with community partners. On the other hand, Vie had been the one in charge of connecting with buyers and fellow fair trade advocates.

### Management and Operations Team

Basil and Vie were ably supported by a team of competent and committed workers. Their son, Paolo Reyes, was involved in the management of the company's operations and finances. His

fiancée, Rachelle Red, helped out with marketing and customer relations. Four administrative staff members and 10 production workers completed the Bote Central team. The employees shared and upheld the business principles and social values espoused by Basil and Vie.

### Bote Central's Beginnings: Bottle Recycling to Vinegar Making

Basil and Vie initially established Bote Central to engage in bottle recycling. At that time, the company developed an environment-friendly, mechanised bottle-recycling process.<sup>1</sup> Their initial quest was to professionalise the recycled bottle-washing business across the nation. This venture however did not take off as a business transaction with a big liquor company did not push through.

The couple then thought of engaging in bottling food commodities such as soy sauce, fish sauce, cooking oil and vinegar. However, they said they could not in good conscience bear to enter into this venture because they found out that these food commodities sold in the market were made of chemicals "they could not even begin to imagine giving to their children".

During one of Basil and Vie's regular trips to the countryside, they came across a vinegar peddler in Indang, Cavite. The vinegar they bought was made from the fruit of the sugar palm tree called *kaong* or *irok* (scientific name – *arenga pinnata*) sold in traditional *burnay* jars. They were pleasantly surprised at how good the vinegar tasted. With their entrepreneurial foresight, Basil and Vie went back to Indang to buy jars of vinegar from the same peddler. After spending months doing research and development on the *kaong* vinegar, Bote Central introduced Arenga Vinegar to the market.

A year after its establishment, Bote Central gained worldwide acclaim when Arenga Vinegar participated in the "Anuga Taste the Future" event at Cologne, Germany in 2003. The event was the largest food and beverage fair in the world.<sup>2</sup> The following year, Arenga Vinegar was cited as one of the best products at the Australian Fine Food fair. Bote Central's vinegar business flourished with the accolades it garnered for Arenga Vinegar's quality.

Vie noted: "When we decided to go into the vinegar business, our hopes were not entirely on the business side. We hoped to maintain clean rivers, as well as (to) save the arenga pinnata trees and the lives of those beautiful endangered animals that thrive in the *kaong* trees. Most importantly, we wanted to improve the farmers' financial well-being." With heightened awareness and financial returns, Bote Central's partner communities actively participated in the couple's conservation efforts supported by the government and non-government sectors.



<sup>1</sup> At that time, bottle recycling had been done through unsafe manual labour and without waste water treatment.

<sup>2</sup> (2011, January). Anuga. Retrieved from <http://www.anuga.com/en/anuga/home/index.php>

## Shift from Vinegar into Coffee

While doing business with the upland community in Cavite, Basil and Vie became intrigued by the palm civets that roamed in the forest. Civets, or *alamid* as they are called in Tagalog, can be found in parts of the country where forests are still lush. Though they look like cats, civets actually belong to the mongoose family. These nocturnal animals are believed to lead solitary lifestyles, except during brief mating periods. The civet population has been shrinking. They have been losing their natural habitat due to rapid denudation of forest areas in the country. In addition, people hunt them. Civet meat is a delicacy for some. The musk secreted by civets can be used in manufacturing perfume. At times they are exterminated as pests.

Aside from wild fruits in the forests, civets love eating coffee cherries. Civets have good taste. They love eating coffee cherries – but only the ripest and sweetest cherries their noses could detect. The coffee beans are swallowed, partially digested and excreted whole by civets. These beans produce the kind of coffee that coffee connoisseurs covet – the most exotic, the most expensive, and most widely-recognised as the finest coffee in the world. Civet coffee was successfully marketed by coffee makers in Indonesia and Vietnam. The coffee, known as *Kopi Luwak* in Bahasa Indonesia, was discovered during the colonial era of Indonesia. During the 17th century, the Dutch that brought coffee to Indonesia forbade local farmers from harvesting the beans in their coffee plantations. But craving for the taste of the brew, Indonesians began preparing coffee from beans they found on the forest floors (with the civet droppings) which they discovered taste even better than the coffee brewed by the colonisers.<sup>3</sup>

Upon learning about the capacity of civets to produce gourmet coffee, a thought captivated Basil and Vie: "If there's *Kopi Luwak* in Indonesia, given the same topography, why shouldn't we have it here?" The idea prompted the Reyeses to ask around. Their community partners in Indang validated that indeed civet coffee bean droppings can be found on the forest floors. Next, they talked to the elders in Cavite and Batangas who related that they had been gathering and collecting the droppings ever since they were children. The elders revealed that they roasted half of the droppings for family consumption, while the rest were mixed with other types of beans and sold to the market. To supplement what they learned from the community, they surfed the Internet and got to know more about the production and marketing of civet coffee. The more they learned about civet coffee, the more inclined they were to get into the coffee business.

Vie fondly recalled: "No one actually thought that we were going to succeed!" Cynics dissuaded them from pursuing the venture because producing civet coffee was so expensive and time-consuming. However, Basil and Vie could not resist taking on the challenge of making civet production a commercial success in the Philippines. Another driving factor had been the idea of replicating their vinegar business-cum-environmental efforts in the coffee business. Deciding to focus on their new venture, they turned over the operations of Arenga Vinegar to a local partner in Cavite. In 2004, Bote Central's Coffee Alamid became a registered trademark.

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<sup>3</sup> Wikipedia. (2011, January). Kopi luwak. Retrieved from [http://en.wikipedia.org/wiki/Kopi\\_Luwak](http://en.wikipedia.org/wiki/Kopi_Luwak)

### Production of Coffee Alomid



Civet coffee beans are produced during the coffee harvest season.<sup>4</sup> This is the time when civets love eating coffee cherries. Civets are consummate cherry pickers. They would only eat the finest coffee cherries they could find.

With their keen sense of smell, civets could pinpoint the finest, sweetest and juiciest cherries in a coffee farm. They would incessantly eat these cherries during the season until they are stuffed. After the civets had swallowed the cherries, stomach acids and enzymes would ferment the coffee beans. The civet's digestive enzymes would break down the proteins that usually gave ordinary beans the bitter taste. In the process, flavours not usually tasted from ordinary beans are released. The coffee beans are not fully digested; they are excreted whole by the civets.

Coffee farmers gather civet droppings early in the morning. The fresh ones, resembling "yellow beans in gravy", are separated from the old ones with "chalky beans". They then wash the quality beans, and have them dried under the sun for days. The washed and dried civet droppings are weighed and sold by the farmers at fair prices to Bote Central. After roasting and grinding the beans, civet coffee would be ready for brewing.

The product label describes the coffee as "exuding an almost musical, fruity aroma" when roasted, and having a "strong, sweet, dark chocolatey taste". Bote Central marks each Coffee Alomid can with an Alomid certificate of authenticity. Also as a quality assurance measure, every Coffee Alomid can has a batch code for traceability. There is a tamper-proof seal on the Coffee Alomid cap, and buyers are admonished not to accept the product if this seal is broken. A very fragrant aroma is released when the tin can is opened revealing the freshness and the genuineness of the coffee beans used.



1-kilogramme bag at  
US\$500/bag



100-grammes bottle at  
US\$50/bottle



50-grammes bottle at  
US\$25/bottle

<sup>4</sup> "In Mindanao, Arabica flower in January to May and berries are harvested in August to December. In Luzon, coffee trees bloom just after the first heavy rains in May and June. Arabica and Robusta berries are harvested in late December to March; Excelsa and Liberica later." Pinoyfarmer. (2007, July 19). Coffee farming and production. Retrieved from <http://www.agripinoy.net/coffee-farming-production.html>

### **Building Partnerships in the Communities**

With Coffee Alomid, Bote Central found itself working in different upland communities across the country – from Sagada, Mt. Province up north, to Mt. Malarayat, Batangas in southern Luzon, to Mt. Matutum, South Cotabato in Mindanao. Basil could tell colourful and extensive tales of his experiences in the upland communities – tales of how he initially established contacts and later on gained the people's trust. He explained that he got integrated in communities that are varied from place to place because Bote Central had been dealing with different indigenous peoples with distinct cultures such as the B'laan tribes in Mt. Matutum, the Mangyans in Mindoro and the Kankanaeys in Mt. Province. He claimed that the relationships he formed with the communities had transcended into business partnerships. He said he felt at home in the mountains, and the people who lived there no longer treated him like a stranger.

Notwithstanding personal relationships, Basil and Vie had impressed upon the people in the partner communities that "business is business". Bote Central had been holding their local partners responsible for ensuring the quality of the beans they were selling. The company had been paying fair price to the farmers in exchange for unadulterated civet coffee beans that had been thoroughly washed, rinsed and sun-dried. Basil said they would not hesitate to cut ties with a community partner if someone would not fulfill its end of the deal.

Vie recounted how in one community, some of the pickers tried to sell them fake droppings. In response, Bote Central returned the yields of all the farmers/pickers even if only a handful were involved in the attempted fraud. "*Trabaho lang, walang personalan* (it's just work, nothing personal)," Basil emphasised. Since then, the pickers themselves had put in place safeguards to ensure the quality and authenticity of the droppings. The system of community accountability was replicated in other areas. Community partners had become as conscientious as Bote Central when it came to quality since no one wanted to be tainted with a lifetime tag of being the 'Judas' of the community.

Aside from the authenticity and quality of the civet beans, another non-negotiable condition for Bote Central had something to do with the living conditions of the civets from where the beans had been extracted. Bote Central had not and would never buy beans from droppings of civets locked in cages. Also, neither would they buy from a managed civet farm nor have anything to do with methods involving unnatural human interventions in civet coffee production. For the couple, the best way civets could be protected was by leaving them "free, wild, and happy in their own natural habitat without disturbance in their ecosystem".<sup>5</sup> Further, the caging of civets would mean depriving a lot of farmers of income they could get from gathering civet droppings in the forests.

Bote Central's business relationships with local/community partners had evolved to adapt to the shifts in the strategies of the company. The nature of the relationship or business arrangements between Bote Central and the local/community partners had varied based on the capacities of the local/community partners, and on the situation of the coffee industry in the locality. The culture and value systems of people had likewise been important considerations in forming the

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<sup>5</sup> (2011, January). Bote Central, Inc. Retrieved from <http://www.arengga.com/>

most appropriate business arrangements. One thing these business relationships had in common was the set of principles that govern them: trust, respect, accountability and integrity.

### **Product Marketing**

Initially, the export market was the target of Coffee Alomid for practical reasons: (1) most of the coffee drinkers in the country had been strongly patronising instant coffee; (2) civet coffee was almost alien to Filipinos and because of its excrement source, getting them to try Alomid would be a challenging hurdle; and (3) the price of Coffee Alomid had been beyond the reach of ordinary coffee drinkers in the country.

It proved wise at the start because indeed there had been a robust demand for civet coffee in other countries. Bote Central was able to forge exclusive distributorships in Japan and Korea which brought them good economic returns. They could have exercised caution and opted to stick with their secure market. But Basil and Vie had other considerations.

While having an assured international market was good for the business, Basil and Vie thought that civet coffee gatherers could earn more if they could directly sell to the local market. At that time, Bote Central had simply maintained a level of supply that was enough to serve the requirements of foreign dealers. The gatherers' incomes had been limited to the provision of fresh unroasted civet beans according to demand. The couple acknowledged that their community partners would earn more if they could sell their raw coffee beans to buyers other than Bote Central. The problem however had been the capacity of local farmers to provide the level of supply demanded by the export market.

Going against traditional business logic, Basil and Vie changed their business strategy. Exclusive contracts with foreign distributors were terminated. Bote Central developed local demand for Coffee Alomid. They rationalised that "Filipino coffee drinkers ought to enjoy Coffee Alomid more than anyone else in the world". Bote Central used an online marketing approach, and provided opportunities for enterprising groups/individuals to act as civet coffee distributors and to deal directly with their community partners.

The risk paid off. The marketing strategy attracted local distributors and other small foreign distributors who gave more focus to Coffee Alomid and developed their own markets. Though the economic returns were not as good, the position of the coffee product in the market had been ensured. As more of Alomid products became available to local buyers, Bote Central gained a stronger market foothold. "We were surprised that Filipino coffee drinkers had been willing patrons of the expensive coffee," Basil said,

### **Diversifying into Mainstream Coffee**

With significant increases in incomes, Bote Central's farmer-partners found the motivation and resources to expand their coffee plantations. This was a welcome development for Basil and Vie, and they came to realise that the time was ripe for Bote Central to diversify into regular coffee. Bote Central realised that its reach (the number of potential farmer-partners) would be broadened considerably if it would venture into regular coffee. The additional coffee production of their existing partner-farmers and other coffee farmers throughout the country also needed a fair trader like Bote Central.

It was also a logical business decision for Basil and Vie. By that time, so much media attention had been given to Bote Central as makers of a unique, high quality product and champions of noble environmental and poverty alleviation causes. Consumers of Coffee Alomid and fellow fair trade advocates already presented Bote Central with a solid and loyal market base for its regular coffee.

Bote Central had been selling all commercially viable varieties of green beans and roasted beans: Arabica, Robusta, Liberica and Excelsa.<sup>6</sup> The company had been selling these varieties from different localities at the following prices<sup>7</sup>:

Variety	Price in US\$		Sources
	Green	Roasted	
Arabica	7	14	Cordillera, South Cotabato
Liberica	8	15	Mindoro, Quezon
Robusta	5	10	South Cotabato, Bukidnon, Compostela Valley
Excelsa	6	10	Mt. Banahaw



Local consumers could also avail of "18 Days Freshly Roasted"<sup>8</sup> in 100-gm packets and "Ininstant Coffee" which is ground/soluble coffee ready to drink after pouring hot water on the ground coffee through a strainer. Products could be ordered online and delivered door-to-door worldwide. The packaging includes information on the source of the coffee beans and a general description of the area with an open invitation to consumers to personally visit the community.

### Integrating a “Chain of Happiness”

Bote Central's entry into the coffee business came at a period when industry stakeholders' interest to revitalise and develop the Philippine coffee industry surged. Two years before Bote Central introduced Coffee Alomid, the National Task Force on Coffee Rehabilitation – a private sector-led group – was established to develop and promote the Philippine coffee industry. Now known as the Philippine Coffee Board, its thrust was to provide technical assistance and credit programs for coffee farms through the certification of coffee farms, millers and roasters, and

<sup>6</sup> The Philippines is one of only a few countries that had been producing all of these four varieties.

<sup>7</sup> (2011, January). Our products. Retrieved from <http://www.arengga.com/index.php/Coffee-Alamid.mpc>

<sup>8</sup> “Why 18 days? Coffee flavours and aroma start to deteriorate after two (2) weeks from date of roasting.” Reyes, Basil. (2011, January). 18 days freshly roasted. Retrieved from <http://www.arengga.com/index.php/18-days-freshly-roasted.mpc>

## LINKING A CHAIN OF HAPPINESS

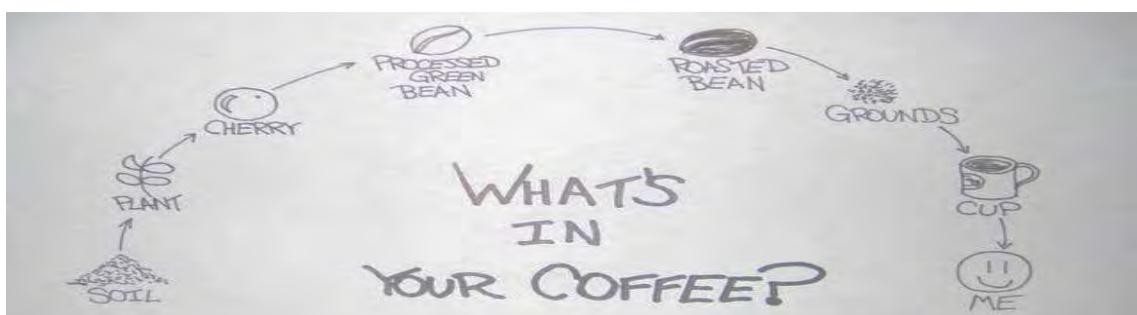
through marketing and promotion of coffee for domestic and export markets. The government launched a coffee rehabilitation program and started the implementation of "National Coffee Strategic Plan of 2006" which aims: "To make the Philippine coffee industry self-sufficient and globally competitive with a significant export market share in specialty coffee by 2015."<sup>9</sup>

There was a compelling reason for the government and private sector to be concerned. The Philippines used to be among the top five coffee exporters in the world, earning revenues up to \$140 million a year on coffee exports until the late 1980s. In 2003, the Philippines had slipped down to number 14, earning below \$500,000 (from coffee) annually. The country had lost 80,000 hectares of productive coffee farms, and many coffee farmers abandoned their plantations for more profitable crops or to take other jobs. Only about 70,000 farm workers were left then to sustain the coffee industry.<sup>10</sup>

Vie pointed out: "If we want the coffee industry to survive, we have to do something. No matter how many coffee shops you see, there was no effect on the farmers. The price being paid to the farmer was being squeezed out more and more."

As a product, coffee would go through different transformations and, as it changed form, coffee would traverse through a long line of intermediaries (local traders, exporters, international traders, roasters and retailers). Each intermediary would get a percentage of the retail price of the product. By the time coffee would reach the retail outlets, only a measly percentage of the price of coffee would go to the farmers. Basil estimated that coffee farmers had only been getting 3–6% of price per cup of gourmet coffee sold in cafes. Basil revealed that: "roasters make more money out of roasting the coffee they buy from farmers, and selling this to the end consumers. In the value chain of coffee, you earn most from roasting coffee and retailing coffee."

What had been happening in the Philippines was what some industry analysts called "The Coffee Paradox" which was characterised by the "coexistence of a coffee boom in consuming countries and a coffee crisis in producing countries".<sup>11</sup>



Source of picture: <http://coffeellama.blogspot.com/2009/01/from-soil-to-cup-whats-in-your-coffee.html>

<sup>9</sup>Maghirang, Roel G.; "Coffee Development Program", downloaded from <http://hvcc.da.gov.ph/pdf/coffeestrat.pdf> in January 2011

<sup>10</sup>Camet, T. J. (2003, Sept 7). Drink up...; perk up the coffee industry! *Manila Bulletin*. Retrieved from [http://findarticles.com/p/news-articles/manila-bulletin/mi\\_7968/is\\_2003\\_Sept\\_7/drink-perk-coffee-industry/ai\\_n33546118/](http://findarticles.com/p/news-articles/manila-bulletin/mi_7968/is_2003_Sept_7/drink-perk-coffee-industry/ai_n33546118/)

<sup>11</sup>Thompson, T. (2006, Feb 4). The dark story of poverty in your coffee cup. Seattle Post-Intelligencer. Retrieved from <http://www.seattlepi.com/default/article/The-dark-story-of-poverty-in-your-coffee-cup-1194935.php>

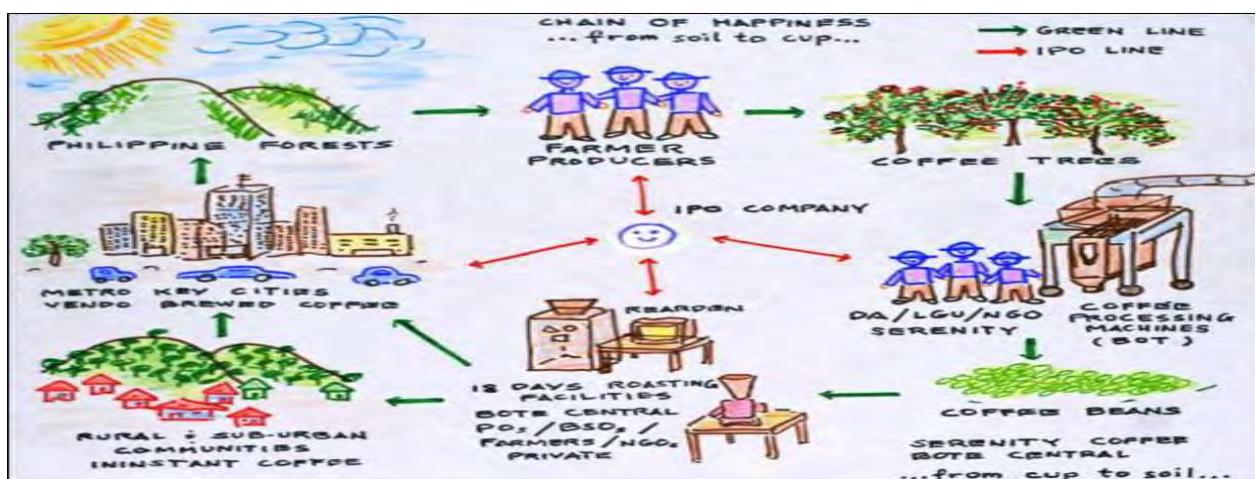
### The Bote Central Business Model

Unhappy with the situation, Bote Central again shifted gears and developed a range of coffee-related products and services guided by the business model called the “Chain of Happiness”. Bote Central designed the business model so that farmers and consumers could benefit as much as they could (i.e. “be happy”) from coffee ... from “soil to cup” and from “cup to soil”.

The “Chain of Happiness” was conceived to:

- Make the coffee farmers happy by providing them opportunities to increase their incomes from producing coffee;
- Make the consumers happy by giving them access to the finest coffee produced in the country;
- Make the coffee “chain of happiness” sustainable by protecting the forest; and
- Make the farmers and consumers co-investors of their own happiness.

The “Chain of Happiness” model was graphically illustrated by Bote Central as follows<sup>12</sup>:



#### Notes:

1. Acronyms: IPO = initial public offering; DA = Department of Agriculture; LGU = local government unit; NGO = non-government organisation; BOT = Build-Operate-Transfer; POs = peoples organisations; BSOs = business social organisations or social enterprises.
2. Serenity Coffee was a company the Reyeses put up together with a Japanese partner/investor to buy green coffee beans and export to Japan. Serenity is no longer operational. Buying of green beans is now with Bote Central.
3. Rearden was the name of the prototype roaster in Bote Central developed by Basil Reyes.
4. In the future, Bote Central plans to tap the capital market through an initial public offering (IPO). The target groups for the IPO were the coffee drinking public and the coffee farmers.

<sup>12</sup> [Chain of happiness business plan]. Retrieved December 2010, from [http://arengga.com/images/stories/coffee\\_alamid/chain\\_of\\_happiness.jpg](http://arengga.com/images/stories/coffee_alamid/chain_of_happiness.jpg)

### Coffee Roasters and Other Post-Harvest Equipment

Bote Central fabricated coffee processing equipment such as de-pulping and de-hulling machines, moisture meters and bean grinders. Aside from sparing the farmers from back-breaking labour, these machines enhanced the coffee farmers' capacity to produce better quality and larger quantities of coffee. They coordinated efforts with the Department of Agriculture and local government units and/or non-government organisations to provide partner communities greater access to these post-harvest facilities.



**Depulper**



**Dehuller**



**Moisture Meter**

"Roasting is the key to having a sustainable coffee supply chain," Basil said time and again in different interviews. Because of this, Basil invented a roasting unit called "18 Days Roaster" that could automatically do the job of a roast master. A computer program developed by Paolo, Basil and Vie's son, regulated the roaster. To use it, the roaster would simply fill the machine with the prescribed amount of beans, press the appropriate button, and wait for the coffee beans to roast. The temperature, time and all the properties needed to produce a perfect roast were computer-programmed. The Bote Central website provides the following specifications for the "18 Days Roaster":<sup>13</sup>

- Consumes 1 kwh per kilo roasted
- Approximately 6–9 minutes per batch roast of one (1) kilo
- Roasts all varieties of coffee beans: Arabica, Liberica, Robusta and Excelsa
- Roasts beans with up to 18 percent moisture content
- International roasting quality standards
- Primarily designed to roast coffee but could be reconfigured to also roast peanuts and soya.
- Dimensions: Roasting Machine- 670mm x 810mm x 1,530mm; Cooling Table - 530mm x 630mm x 845mm; Weight - 90 Kg

In addition to the original roasting unit ("Rearden") in its main office, Bote Central had deployed 14 local/community-based roasting units all over the Philippines.

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<sup>13</sup> Reyes, 18 days freshly roasted.



**Coffee Roaster**



**Coffee Grinder**

### **"18 Days Vendo" Brewed Coffee Service**

Bote Central also introduced the "18 Days Vendo" Brewed Coffee Service. Only organically grown and freshly roasted authentic Philippine coffee bought through fair trade could be produced through the vending machine. The vending machine was energy-saving because it had a "programmable sleep mode". Users could customise their drinks with the preferred amount of coffee, cream and sugar at no extra cost. As an incentive for the consumer to help save the environment, a discount was given if the consumer would use his/her own cup instead of paper cups. There was a "wireless telemetry" to inform Bote Central that maintenance services were needed. There was no need for the user to call Bote Central – the vending machine would automatically text Bote Central if there were water, coffee, ingredient requirements, or if there was a coin jam etc. The vending machine could serve regular and premium coffee (black, with cream and/or sugar); cafe latte; hot full cream milk; hot mocha; and hot chocolate.



### **Alamid Café Xpress**

This year, Bote Central started operating a specialty coffee shop that brought the products of local coffee farmers closer to the consumers through the "Alamid Café Xpress". The café was located in the R.O.X. (Recreational Outdoor eXchange) in Bonifacio Global City. With its products and advocacy pitch, Bote Central had been hoping to raise awareness among consumers about fair trade, the quality of Philippine coffee, and the need to save the forests where seeds of coffee trees had been growing. The social objective was to make Filipinos – at least coffee drinkers – think more about saving the environment, the trees and animals such as the civets that dwelled there.

### The “Chain of Happiness” at Work in South Cotabato

How the “Chain of Happiness” worked in a specific locality could be illustrated by Bote Central’s relationship with an upland community in Mt. Matutum in the province of South Cotabato.

Mt. Matutum was about 2,286 metres above sea level. Rivers, creeks, streams and underground water flowing to the plains of the provinces of South Cotabato and Sarangani, and General Santos City had their sources from the Mt. Matutum watershed. Mt. Matutum was a protected area declared under Presidential Proclamation No. 552 issued in 1995. The Mt. Matutum Protected Landscape (MMPL) covered 14 barangays and 56 sitios and puroks (a portion of a barangay or barrio) belonging to four municipalities of South Cotabato and Sarangani. Forty-one percent of the population was indigenous B’laans (a tribe of indigenous peoples). The rest were migrant settlers.<sup>14</sup>



Fred Fredeluces had established a long and strong bond with the B’laan people in Mt. Matutum.<sup>15</sup> Twenty years ago, Fred got involved in a missionary work to preach the gospel among the B’laans settling within Mt. Matutum in Barangay Kinilis, Polomolok. Fred had also been the deputy director of the Mahintana Foundation, an NGO involved in the Mt. Matutum Integrated Conservation and Area Development (MICADEV) programme.

Bote Central’s operations in South Cotabato started when Vie met Fred while attending a trade fair in 2006 in General Santos City. In their meeting, Fred became interested in the coffee business of Bote Central, while Vie became interested in Fred’s work with the B’laan communities in Mt. Matutum. Soon after, Vie and Basil hiked up Mt. Matutum in Barangay Kinilis with Fred to survey the area and to talk with the people. At first, the B’laans were cynical when the couple introduced the idea of making coffee out of civet droppings. Only 10 farmers decided to try gathering civet droppings. They were pleasantly surprised when Bote Central bought the washed and dried civet coffee beans they gathered at ₱800/kg (US\$19.60/kg) – a price much higher than the measly ₱3/kg they got when they sold raw/unprocessed coffee beans to local traders. Since then, more coffee farmers participated in the undertaking.

Fred became Bote Central’s main contact in Mt. Matutum. He had been buying beans from civet droppings from the gatherers; and had been selling them to Bote Central. Fred had also been playing the crucial role of facilitating processes to ensure that community efforts remain organised, and to continue the enhancement of the capacities of farmers in engaging in the coffee enterprise.

<sup>14</sup> Philippines-Australia Community Assistance Programme, and Australian Agency for International Development. (2001). PACAP 12: Best Practices in Community Development – Volume VI: Area-Focused Approach. Retrieved from [http://www.pacap.org.ph/media/Vol6.Area-Focus\\_Approach.pdf](http://www.pacap.org.ph/media/Vol6.Area-Focus_Approach.pdf)

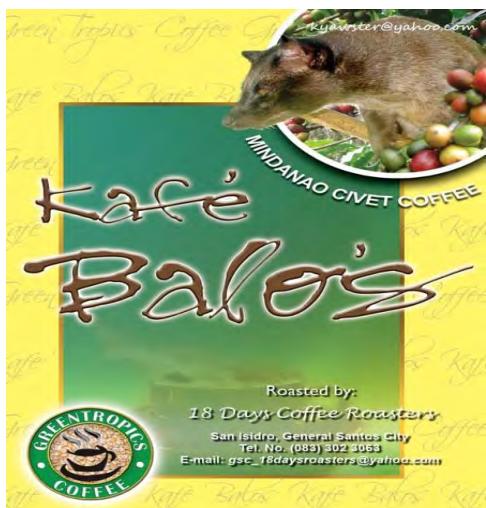
<sup>15</sup> Personal communication, January 17-18, 2011, Polomolok, South Cotabato and General Santos City.

## LINKING A CHAIN OF HAPPINESS

A year after being involved in the civet coffee business, Fred established the Greentropics Coffee Enterprise which had been selling processed Kape Balos (Mindanao civet coffee) and regular coffee in the local market. Bote Central had supplied the roasting and other equipment for Greentropics' business. The fair trade principles that governed Bote Central's relationship with the coffee producers had also been practiced by Greentropics.

The establishment of Greentropics Coffee Enterprise was in line with Bote Central's "Chain of Happiness" in two ways:

- (1) A fair trade local-based coffee enterprise further augmented and sustained the flow of income derived by the farmers from coffee; and
- (2) The local coffee enterprises also contributed to popularisation of and demand for local coffee.



Mindanao Civet Coffee



Fred Fredeluces inspecting the coffee beans delivered by farmers

## Social Enterprise Performance Measurements

### Financial Performance

Bote Central started expanding from coffee into marketing of coffee-related products and services in 2008. Gross sales in 2008 was ₱2.9 million (US\$70,000) with a modest profit of ₱60,359. The following year was a transition phase that saw the company ending 2009 with a net loss of around ₱181,226 as its gross sales dipped to ₱2 million.

In 2010, Bote Central experienced the fruits of its expansion when its gross sales reached a high of ₱8.2 million and the enterprise netted a profit of ₱2.2 million. As of the end of 2010, the total assets of Bote Central had reached ₱10.3 million – an enormous increase compared to the total value of the company's assets in 2009 (₱2.7 million) and 2008 (₱3.9 million).

<b>Indicators</b>	<b>Amount/Year (in PhP )</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Net Profit	60,358.89	(181,226.39)	2,239,135.14
Gross Sales	2,871,357.47	1,958,711.58	8,296,961.03
Total Assets	3,927,153.27	2,667,658.19	10,321,069.00

### **Adherence to Fair Trade Principles**

Bote Central went through a fair trade audit to become an accredited fair trade organisation. In the audit, Bote Central's adherence to 10 fair trade principles and standards was assessed.

#### **Summarised 10 Principles/Standards of Fair Trade<sup>16</sup>**

- 1. Creation of opportunities for economically disadvantaged producers**
- 2. Transparency in management and commercial relations and accountability in management relations**
- 3. Trading practices reflect concern for the social, economic and environmental well-being of marginalised small producers and does not maximise profit at their expense**
- 4. Payment of a fair price that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market**
- 5. Adherence to the United Nations (UN) Convention on the Rights of the Child, and national/local law on the employment of children and censure of forced labour in its workforce and/or members or homeworkers**
- 6. Non Discrimination in hiring, remuneration, access to training, promotion, termination or retirement, promotion of gender equity, and enablement of freedom of association of employees**
- 7. Provision of a safe and healthy working environment for employees and or members.**
- 8. Building of capacities of partner small producers and its own employees or members.**
- 9. Promotion of Fair Trade objectives and activities through honest advertising and marketing techniques**
- 10. Promotion of Environment protection and conservation**

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<sup>16</sup>The articulation of the above 10 principles have been summarised/paraphrased based on those of the World Fair Trade Organization. (2011, June 19). 10 principles of fair trade. Retrieved from [http://www.wfto.com/index.php?option=com\\_content&task=view&id=2&Itemid=14](http://www.wfto.com/index.php?option=com_content&task=view&id=2&Itemid=14). The complete articulation of the principles culled from the website can be found in Annex B.

## LINKING A CHAIN OF HAPPINESS

The fair audit was made using the “Principles of Fair Trade and Their Indicators” instrument developed by the Advocates for Philippine Fair Trade, Inc. (APFTI). The following were the 15 key result areas used for the fair trade audit:

1. Awareness of Fair Trade Practices
2. Fixed Wages
3. Piece or *Pakyaw* Rates
4. Benefits Legally Mandated or Per CBA Agreement (for permanent employees)
5. Cooperative Workplaces
6. Working Conditions and Safety
7. Child Labour and Gender
8. Management and Motivational Rewards
9. Provisions for the Differently Abled
10. Environment Sustainability
11. Fair Trade Pricing
12. Financial and Technical Support (for organisations receiving eternal funding)
13. Respect for Cultural Identity
14. Public Accountability
15. Voluntary Benefits Extended

Bote Central was assessed based on a total of 76 indicators that fell under the above key result areas. The audit affirmed that the company had essentially conformed to the fair trade standards.<sup>17</sup> Among the key result areas and indicators that Bote Central had notably demonstrated were:

- ❖ Awareness of Fair Trade Practices
  - Fair trade principles are included in the written and/or expressed mission, vision and values of the company.
- ❖ Environment Sustainability
  - The production process and materials used do not pollute the environment and are not hazardous.
  - Production does not involve banned natural raw materials, chemicals, endangered species, or resources.
- ❖ Fair Trade Pricing
  - There is transparency in pricing.
  - Unreasonable competition in pricing among fair trade practitioners/producers (for instance, undercutting, no invoice, etc.) is avoided.

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<sup>17</sup> The list of all indicators per key result area could be found in Annex C.

- The social premium generated from fair trade is used to improve working conditions and the community.
- ❖ Respect for Cultural Identity
  - Equal work opportunities for workers from cultural minorities.
  - Respect for cultural practices.
- ❖ Public Accountability
  - Willingness to show practices to fair trade-aligned groups.
  - Willingness to open books to authorities.

As a fair trade organisation, Bote Central was an active advocate of a “trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade”.<sup>18</sup> In summary, the fair trade audit found Bote Central’s business practices and production processes to be “contributing to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers.”<sup>19</sup>

### **Development Outcomes/Income**

The development impact of Bote Central could be seen in the lives of Bote Central’s B’laan partners in Mt. Matutum in South Cotabato. In Purok 8, Barangay Kinilis, Polomoloc, the number of pickers/gatherers had grown from 10 to 34. Because of the positive returns, coffee plantations in the area expanded from 76 to 306 hectares. Farmers had resolved to take care of the forest habitat.

Aside from civet coffee beans, partner farmers had also started to sell green Arabica coffee beans to Greentropics at ₱100/kg (US\$2.5/kg) compared to the regular buying price of ₱65/kg. Farmers not dealing with Bote Central had also indirectly benefited because the regular price of green Arabica used to be ₱10/kg in 2006. It was only when Bote Central started buying green coffee beans from Barangay Kinilis farmers at ₱80/kg that the regular price skyrocketed to ₱65/kg.

Around ₱1-1.5 million had been sold by the farmers in the community to Bote Central/Greentropics Coffee every year for the past three years. On average, a coffee farmer had earned ₱30,000-₱45,000/year for the past three years. Some had earned as much as ₱70,000-₱100,000 in a year. This was a tremendous impact since farmers got at most ₱5,000 income from coffee production before Bote Central came into the picture.

Community members articulated the following impacts of their partnership with Bote Central:<sup>20</sup>

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<sup>18</sup> Reyes, Basil. (2010, December). Fair trade. Retrieved from <http://www.arengga.com/index.php/fair-trade> mpc

<sup>19</sup> Ibid.

<sup>20</sup> Based on a Focus Group Discussion (FGD) with members of the B’laan Tribe of Purok 8, Barangay Kinilis, Polomolok, South Cotabato held on January 17, 2011. The responses were paraphrased and translated into English from the local dialect.

***"Now we can eat three square meals a day, we cannot afford this before."***

***"We now have better meals; we can now afford to have viand with rice. We used to cut sweet potatoes and yams into very tiny pieces and boil them with rice to make porridge – this would be our main meal for the day. Now we even have condiments to spice up our food."***

***"Our children can now go to school... We can now afford to buy the school supplies our children need ... like pens and notebooks."***

***"Before our children were pitiful because before they wear very worn out slippers to hike about five kilometers for 1½ hours in sloping terrain. Now it is more comfortable for them to go to school with their new slippers."***

***"Because of the income we get from coffee, the community decided to set aside funds to support the studies of deserving children. My daughter was selected and she has been studying to someday be a school teacher in the community."***

***"Now I have a motorcycle so it is easier for me to transact business."***

***"All in all there are 12 motorcycles owned by community members. Before we just ride on horses."***

***"Once, my motorcycle was used to bring a very seriously ill community member to the hospital, and because of it her life was saved. She was almost dying when we started descending from the mountain but we got to the hospital in time."***

***"We were able to repair or do some improvements in our houses".***

***"We bought mobile phones which improved our means of communication."***

***"Our family bought karaoke."***

***"We were able to buy new clothes ..."***

***"Because of coffee I was able to get married."<sup>21</sup>***

***"Because of our success, outsiders who can help the development of our community have noticed us and have provided support."***

***"We used to bring heavy loads and peddle sayote (a pear shaped vegetable) to other villages without being assured of selling them. Now people from other villages come to our purok to get sayote."***

***"We have overtaken our neighboring villages in terms of development."***

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<sup>21</sup> Though this elicited guffaws in the group, the story was true. His earnings were used as dowry.



**Pastor Lando Buan and a coffee farmer, Jesse Gan, showing a sample of dried coffee beans from civet droppings.**

Bote Central also generated intangible impacts on people's lives that transcended physical well-being. Community members in the focus group discussion testified to this:<sup>22</sup>

***"Our faith in God has been strengthened."***

***"We have experienced that God blesses those who try to be good and work hard."***

***"Our community is now more united and peaceful."***

***"We need not be ashamed of ourselves as B'laans ... We can do something to improve our wellbeing.... We have disproven the bad views of the low landers about us"***

***"There harmony in the family especially between husbands and wives because before, the lack of income opportunities produce tension among spouses"***

***"We have peace of mind ... our worries about our livelihood has greatly diminished."***

***"We have better self-esteem ... we take pride in what we achieved."***

***"I am so joyful to have witnessed the improvements in the living standards of my children and other members of the community"<sup>23</sup>***

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<sup>22</sup> Ibid.

<sup>23</sup> Quoted from an elderly woman in the community.

## LINKING A CHAIN OF HAPPINESS

As of latest count, Bote Central's work had affected the lives of at least 300 coffee farmers (about 2,000 people if their family members were to be included) in 17 provinces across the country:

<u>Luzon</u>		<u>Visayas</u>	<u>Mindanao</u>
1. Benguet	6. Quezon	1. Negros Occidental	1. Bukidnon
2. Mt. Province	7. Batangas	2. Negros Oriental	2. Compostela Valley
3. Ifugao	8. Mindoro Oriental	3. Cebu	3. South Cotabato
4. Baguio City	9. Mindoro Occidental		4. Maguindanao
5. Pampanga			5. Sulu

Bote Central did not have an established monitoring and evaluation (M&E) system to measure its aggregate impact on the natural resources and on the lives of the partner farmers. "We neither have the expertise nor the time to systematically measure these things," Basil admitted. He added that measuring of social impact was better left to institutions (NGOs, government agencies, LGUs working in the community, and academic institutions) that had the expertise and mandate to do the job.

Basil and Vie asserted though, that even with the absence of such M&E system, they could claim that Bote Central had been making an impact because they personally witnessed the changes on the lives of the coffee farmers and on the forests and mountains where they had settled. They had also observed how Bote Central had positively influenced the coffee businesses in the localities where they operated.

In its own way, Bote Central was – as Basil declared – "revolutionising the landscape of Philippine coffee industry". For the coffee-producing community partners of Bote Central, this meant a better life. As Mara Buan, the chieftain of the B'laan tribe, articulated: "**We now have high hopes and can dream of a better future.**"



**Farmer Jesse Gan holding newly gathered civet bean droppings**

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## ANNEX A

**Focus Group Discussion (FGD) with members of the B'laan Tribe  
Purok 8, Barangay Kinilis, Polomolok, South Cotabato,  
January 17, 2011**

List of Participants (M = Male and F = Female)

1. Juleta Buan – F
2. Melba Gayon – F
3. Ruben Gayon – M
4. Pamo Malumpong – M
5. Line Bayuces – F
6. Maring Buan – F
7. Nenen Buan – F
8. Andres Malumpong – M
9. Juddy Buan – F
10. Randy Malumpong – M
11. Gemma Degosman – F
12. Ramon Jambangan – M
13. Jordan Buan – M
14. Marivic Mosquera – F
15. Zaldy Mosquera – M
16. Josephine Buan – F
17. Dodong De Guzman – M
18. Marcelo Buan – M
19. Jerry Buan – M
20. Marites Buan – F
21. Mara Buan (The Chieftain) – M
22. Jesse Gan – M
23. Rolando Buan – M

## ANNEX B

### 10 Principles/Standards of Fair Trade

**Standard One:** Creating Opportunities for Economically Disadvantaged Producers

*Poverty reduction through trade forms a key part of the organisation's aims. The organisation supports marginalised small producers, whether these are independent family businesses, or grouped in associations or co-operatives. It seeks to enable them to move from income insecurity and poverty to economic self-sufficiency and ownership. The trade supports community development. The organisation has a plan of action to carry this out.*

**Standard Two:** Transparency and Accountability

*The organisation is transparent in its management and commercial relations. It is accountable to all its stakeholders and respects the sensitivity and confidentiality of commercial information supplied. The organisation finds appropriate, participatory ways to involve employees, members and producers in its decision-making processes. It ensures that relevant information is provided to all its trading partners. The communication channels are good and open at all levels of the supply chain.*

**Standard Three:** Trading Practices

*The organisation trades with concern for the social, economic and environmental well-being of marginalised small producers and does not maximise profit at their expense. It is responsible and professional in meeting its commitments in a timely manner. Suppliers respect contracts and deliver products on time and to the desired quality and specifications.*

*Fair Trade buyers, recognising the financial disadvantages producers and suppliers face, ensure orders are paid on receipt of documents and according to the attached guidelines. An interest free pre-payment of at least 50 percent is made if requested.*

*Where southern Fair Trade suppliers receive a pre-payment from buyers, they ensure that this payment is passed on to the producers or farmers who make or grow their Fair Trade products.*

*Buyers consult with suppliers before cancelling or rejecting orders. Where orders are cancelled through no fault of producers or suppliers, adequate compensation is guaranteed for work already done. Suppliers and producers consult with buyers if there is a problem with delivery, and ensure compensation is provided when delivered quantities and qualities do not match those invoiced.*

*The organisation maintains long term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of Fair Trade. It maintains effective communication with its trading partners. Parties involved in a trading relationship seek to increase the volume of the trade between them and the value and diversity of their product offer as a means of growing Fair Trade for the producers in order to increase their incomes. The organization works cooperatively with the other Fair Trade Organizations in country and avoids unfair competition. It avoids duplicating the designs of patterns of other organizations without permission.*

**Standard Four:** Payment of a Fair Price

*A fair price is one that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market. Where Fair Trade pricing structures exist, these are used as a minimum. Fair pay means provision of socially acceptable remuneration (in the local context) considered by producers themselves to be fair and which takes into account the principle of equal pay for equal work by women and men. Fair Trade marketing and importing organisations support capacity building as required to producers, to enable them to set a fair price.*

**Standard Five:** Child Labour and Forced Labour

*The organisation adheres to the UN Convention on the Rights of the Child, and national/local law on the employment of children. The organisation ensures that there is no forced labour in its workforce and / or members or homeworkers.*

*Organisations who buy Fair Trade products from producer groups either directly or through intermediaries ensure that no forced labour is used in production and the producer complies with the UN Convention on the Rights of the Child, and national/local law on the employment of children. Any involvement of children in the production of Fair Trade products (including learning a traditional art or craft) is always disclosed and monitored and does not adversely affect the children's well-being, security, educational requirements and need for play.*

**Standard Six:** Non Discrimination, Gender Equity and Freedom of Association

*The organisation does not discriminate in hiring, remuneration, access to training, promotion, termination or retirement based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, HIV/Aids status or age.*

*The organisation provides opportunities for women and men to develop their skills and actively promotes applications from women for job vacancies and for leadership positions in the organisation. The organisation takes into account the special health and safety needs of pregnant*

*women and breast-feeding mothers. Women fully participate in decisions concerning the use of benefits accruing from the production process. The organisation respects the right of all employees to form and join trade unions of their choice and to bargain collectively. Where the right to join trade unions and bargain collectively is restricted by law and/or political environment, the organisation will enable means of independent and free association and bargaining for employees. The organisation ensures that representatives of employees are not subject to discrimination in the workplace.*

*Organisations working directly with producers ensure that women are always paid for their contribution to the production process, and when women do the same work as men they are paid at the same rates as men. Organisations also seek to ensure that in production situations where women's work is valued less highly than men's work, women's work is re-valued to equalise pay rates and women are allowed to undertake work according to their capacities.*

**Standard Seven:** Working Conditions

*The organisation provides a safe and healthy working environment for employees and/or members. It complies, at a minimum, with national and local laws and ILO (International Labour Organization) conventions on health and safety.*

*Working hours and conditions for employees and/or members (and any homeworkers) comply with conditions established by national and local laws and ILO conventions.*

*Fair Trade Organisations are aware of the health and safety conditions in the producer groups they buy from. They seek, on an ongoing basis, to raise awareness of health and safety issues and improve health and safety practices in producer groups.*

**Standard Eight:** Capacity Building

*The organisation seeks to increase positive developmental impacts for small, marginalised producers through Fair Trade.*

*The organisation develops the skills and capabilities of its own employees or members. Organisations working directly with small producers develop specific activities to help these producers improve their management skills, production capabilities and access to markets – local/regional/international/Fair Trade and mainstream as appropriate. Organisations which buy Fair Trade products through Fair Trade intermediaries in the South assist these organisations to develop their capacity to support the marginalised producer groups that they work with.*

**Standard Nine:** Promotion of Fair Trade

*The organisation raises awareness of the aim of Fair Trade and of the need for greater justice in world trade through Fair Trade. It advocates for the objectives and activities of Fair Trade according to the scope of the organisation. The organisation provides its customers with information about itself, the products it markets, and the producer organisations or members that make or harvest the products. Honest advertising and marketing techniques are always used.*

**Standard Ten:** Environment

*Organisations which produce Fair Trade products maximise the use of raw materials from sustainably managed sources in their range, buying locally when possible. They use production technologies that seek to reduce energy consumption and where possible, use renewable energy technologies that minimise greenhouse gas emissions. They seek to minimise the impact of their waste stream on the environment. Fair Trade agricultural commodity producers minimise their environmental impacts, by using organic or low pesticide use production methods wherever possible.*

*Buyers and importers of Fair Trade products give priority to buying products made from raw materials that originate from sustainably managed sources, and have the least overall impact on the environment. All organisations use recycled or easily biodegradable materials for packing to the extent possible, and goods are dispatched by sea wherever possible.*

Source: World Fair Trade Organization website retrieved on April 4, 2011 from  
[http://www.wfto.com/index.php?option=com\\_content&task=view&id=2&Itemid=14](http://www.wfto.com/index.php?option=com_content&task=view&id=2&Itemid=14)

## ANNEX C

### Principles of Fair Trade and Their Indicators

KEY RESULT AREA	INDICATORS
<b><i>Awareness of Fair Trade Practices</i></b>	<ul style="list-style-type: none"> <li>➤ Copy of labour code is made available.</li> <li>➤ Orientation on employee benefits/salaries and office rules/guidelines exists.</li> <li>➤ Mechanism for complaints and grievances exists.</li> <li>➤ Mechanism for promoting fair trade practices among its employees exists.</li> </ul>
<b><i>Fixed Wages</i></b>	<ul style="list-style-type: none"> <li>➤ Wages approximate average rate for similar occupations or minimum wage, except those with exemptions (this refers to the legally mandated regional minimum wage rate).</li> <li>➤ Wages increase in line with increase in cost of basic needs.</li> <li>➤ Wages are regularly paid in full.</li> <li>➤ Wages are properly documented.</li> <li>➤ Deductions from the wages are done with the agreement of the worker.</li> <li>➤ Wages are paid in cash or in check, not in kind.</li> <li>➤ Legally mandated benefits are present and given on time.</li> <li>➤ Ample rest is ensured during working hours.</li> <li>➤ Flexible working hours.</li> </ul>
<b><i>Piece or Pakyaw Rates</i></b>	<ul style="list-style-type: none"> <li>➤ Per-piece rate approximates the average for the industry/sector within the community or the minimum wage (this refers to the legally mandated regional minimum wage rate).</li> <li>➤ Piece rates have been negotiated (this refers to the prevailing piece rate in the community/region).</li> </ul>
<b><i>Benefits Legally Mandated or Per CBA Agreement (for permanent employees)</i></b>	<ul style="list-style-type: none"> <li>➤ Vacation leave and sick leave.</li> <li>➤ Medical and/or dental benefits.</li> <li>➤ Sickness and disability benefits.</li> <li>➤ 13th-month bonus.</li> <li>➤ Retirement pay.</li> </ul>

## LINKING A CHAIN OF HAPPINESS

KEY RESULT AREA	INDICATORS
<b><i>Cooperative Workplaces</i></b>	<ul style="list-style-type: none"> <li>➤ Company conducts meetings and consultations with workers on matters concerning company policy, plans and procedures.</li> <li>➤ Workers are allowed to join associations, unions, cooperatives or similar organisations that promote their rights and welfare, as long as these organisations are not in conflict with company interests.</li> </ul> <ul style="list-style-type: none"> <li>➤ The company provides an atmosphere conducive to the social, physical, intellectual and emotional development of workers.</li> <li>➤ Workers are informed about the performance of the business and the organisation's plans.</li> </ul>
<b><i>Working Conditions and Safety</i></b>	<ul style="list-style-type: none"> <li>➤ Working hours in a workplace other than home should not exceed 40 hours a week, whatever time frame is legally mandated.</li> <li>➤ The workplace provides sufficient light, ventilation and comfort.</li> <li>➤ Trainings are conducted on potential hazards and on the safe use of equipment and materials.</li> <li>➤ Accidents are recorded; appropriate measures are taken to prevent a repetition of such accidents.</li> <li>➤ A system for the proper handling and storage of toxic or dangerous substances is in place.</li> <li>➤ The worksite and lavatories are kept clean.</li> <li>➤ The production process is not hazardous to health.</li> </ul> <ul style="list-style-type: none"> <li>➤ Safety gear, devices and accessories (for example, gloves, helmet, masks) are provided and are worn by workers.</li> <li>➤ The eating area is separate from the production area.</li> <li>➤ First-aid medicines and fire-fighting equipment are available and accessible for use.</li> <li>➤ Living quarters (if provided) are clean and comfortable.</li> <li>➤ Corporal punishment, verbal abuse and mental or physical coercion are not used as disciplinary measures.</li> <li>➤ Smoking is allowed only in designated areas.</li> </ul>

LINKING A CHAIN OF HAPPINESS

KEY RESULT AREA	INDICATORS
<b><i>Child Labor and Gender</i></b>	<ul style="list-style-type: none"> <li>➤ Child labor (14 years old and below) is not allowed.</li> <li>➤ Married women are allowed two months of paid maternity leave, and married men are allowed five working days of paid paternity leave.</li> <li>➤ There is no manifestation or record of sexual harassment inside and outside the workplace.</li> <li>➤ There is no prejudice in hiring, training or promotion.</li> </ul>
<b><i>Management and Motivational Rewards</i></b>	<ul style="list-style-type: none"> <li>➤ Recognition and incentives are given for outstanding achievements and long, quality service.</li> <li>➤ Bonuses are given for new ideas and new products.</li> <li>➤ Reasonable arrangements are made for children's care while their mothers are at work.</li> <li>➤ Programmes, activities and incentives that promote family values and participation are in place.</li> </ul>
<b><i>Provisions for the Differently Abled</i></b>	<ul style="list-style-type: none"> <li>➤ There is no prejudice against differently abled employees.</li> <li>➤ The workplace is differently-abled friendly.</li> <li>➤ Special skills training are available for differently abled personnel.</li> </ul>
<b><i>Environment Sustainability</i></b>	<ul style="list-style-type: none"> <li>➤ The production process and materials used do not pollute the environment and are not hazardous.</li> <li>➤ Production does not involve banned natural raw materials, chemicals, endangered species or resources.</li> <li>➤ The production process and sourcing of materials do not involve illegal means.</li> <li>➤ A recycling programme is in place.</li> <li>➤ Measures are in place to ensure that resources (water, energy, materials) are conserved and wastage is minimised or eliminated.</li> </ul>

KEY RESULT AREA	INDICATORS	
<b>Fair Trade Pricing</b>	<ul style="list-style-type: none"> <li>➤ There is transparency in pricing.</li> <li>➤ Unreasonable competition in pricing among fair trade practitioners/producers (for instance, undercutting, no invoice, etc.) is avoided.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The social premium generated from fair trade is used to improve working conditions and the community.</li> </ul>
<b>Financial and Technical Support (for organisations receiving eternal funding)</b>	<ul style="list-style-type: none"> <li>➤ Financial and technical capability-building measures are in place.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Plans to phase out assistance, sustainability plans and exit plans are in place.</li> </ul>
<b>Respect for Cultural Identity</b>	<ul style="list-style-type: none"> <li>➤ Equal work opportunities for workers from cultural minorities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Respect for cultural practices.</li> </ul>
<b>Public Accountability</b>	<ul style="list-style-type: none"> <li>➤ Willingness to show practices to fair-trade-aligned groups.</li> <li>➤ Willingness to open books to authorities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Taxation payment history, if applicable.</li> <li>➤ Business registration.</li> </ul>
<b>Voluntary Benefits Extended</b>	<ul style="list-style-type: none"> <li>➤ Productivity/performance bonus.</li> <li>➤ Profit sharing.</li> <li>➤ Housing benefits.</li> <li>➤ Mechanism for loans (housing, salary, emergency, etc.).</li> <li>➤ Training programme for capability building.</li> <li>➤ Nutrition Programme.</li> <li>➤ Scholarships.</li> <li>➤ Clothing allowance.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Merits/awards received by the company for community service, etc.</li> <li>➤ Reasonable arrangements for children's care while mothers are at work; working parents allowed to visit their children during breaks.</li> <li>➤ Mechanism for training and compensation of OJT (on-the-job-training) students.</li> </ul>
Source of Matrix: Dacanay, Marie Lisa M. (ed), "Measuring Social Enterprise: A Resource Book on Social Enterprise Performance Measurement"; Quezon City: Institute for Social Entrepreneurship in Asia and Oikocredit Ecumenical Development Cooperative Society U.A., c2009		

## CHAPTER 3

### THROUGH A RIVER OF HOPE

#### THE CAMBUHAT ENTERPRISE DEVELOPMENT AND FISHERIES ASSOCIATION

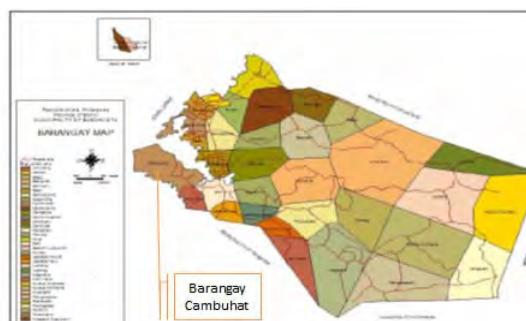
A small village in the island-province of Bohol in central Philippines gained international acclaim in April 2000 through the "Excellence in Ecotourism Awards". Organised by Conservation International, the award went to the Cambuhat Enterprise Development and Fisheries Association (CEDFA) for its Cambuhat River and Village Tour (CRVT).

Cambuhat is a barangay of the municipality of Buenavista. It is a village surrounded by lush mangrove and palm vegetations. A clear and winding river had divided the sloping landscape of the community. Cambuhat River is also a *Galing Pook* awardee in 2005 as one of the cleanest *inland* bodies of water in the country. The barangay covers a land area of around 274 hectares. As of 2007, there were 1,001 people (3 percent of the municipal population) in Cambuhat<sup>1</sup>. Most of the people had been relying on crop production and fishing as their sources of livelihood. The place is about 83 kilometres away from Tagbilaran City, Bohol's provincial capital.



**Map of Bohol Showing Location of Buenavista**

Source: Wikipedia: Ph\_Locator



**Map of Buenavista Showing Location of Cambuhat**

Source: Buenavista Comprehensive Land Use Plan 2010–2020

<sup>1</sup> Comprehensive Land Use Plan (CLUP), Municipality of Buenavista, Province of Bohol: 201–2020

*This case was written by Pedro Carlos R. Baclagon under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

## The Beginnings

The Cambuhat River and Village Tour (CRVT) managed by CEDFA was launched in 1999. CEDFA was established in 1998, as the result of a merger of a fishermen's association and a women's group organised by a local government unit (LGU). By end of 2010, CEDFA had 50 members in good standing.

The organisation was established for the purpose of facilitating the development of the barangay and promoting the sustainability of the community's natural resources. Initially, CEDFA worked towards developing and enhancing the livelihood opportunities of its members by culturing oysters and other fishery products. Eventually, CEDFA became active in natural resource management and operating the CRVT.

The decision to engage in ecotourism was made during the implementation of the Coastal Resources Management Project (CRMP). With the Department of Environment and Natural Resources (DENR) as lead implementing agency, the project focused on the resource management of the municipal waters and capacity building of LGUs which had administrative jurisdiction over municipal coastal resources.<sup>2</sup>

The project adopted the "people-centered, community-oriented and resource-based"<sup>3</sup> approach to coastal resource management. The main goal of this community-based coastal resource management or CB-CRM approach was to empower communities and build their capacities for resource management. An organisation like CEDFA was important for CB-CRM because the approach considered self-reliant organisations as the main vehicles of resource management.

That was why in Cambuhat, the coastal resource management (CRM) agenda was formulated and implemented through CEDFA. Though gains were broadened through partnerships and co-management schemes, the welfare and best interest of the community remained to be the primary consideration in the CB-CRM approach. After a series of community awareness sessions and participatory research activities, it was decided that CRM efforts be focused on the rehabilitation of the Cambuhat river.

The CB-CRM approach had advocated that rehabilitation and conservation of coastal resources should be supplemented by livelihood activities. The purpose of livelihood development was "to reduce harvest pressure while the resource base is being allowed to regenerate".<sup>4</sup> Enterprise development was adopted as the "entry strategy" in Cambuhat to gain support from the local government and the community in adopting CRM.<sup>5</sup>

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<sup>2</sup>Department of Environment and Natural Resources – Philippines and United States Agency for International Development. (2000). CRMP in Mid-Stream: On Course to a Threshold of Sustained Coastal Management in the Philippines. Special Mid-term Report (1996–1999). Coastal Resource Management Project, Cebu City, Philippines. Retrieved from [http://www.oneocean.org/download/db\\_files/crmp\\_in\\_midstream.pdf](http://www.oneocean.org/download/db_files/crmp_in_midstream.pdf)

<sup>3</sup> Ferrer, E. M., & Nozawa, C. C., Community-Based Coastal Resources Management in the Philippines: Key Concepts, Methods and Lessons Learned. Retrieved from <http://idlbnc.idrc.ca/dspace/bitstream/10625/33448/1/121922.pdf>

<sup>4</sup> Ferrer & Nozawa, op. cit.

<sup>5</sup> Flores, M. M. (2002, May 2). Ecotourism Enterprise Development: Coastal Resource Management. Terminal Report submitted to the Coastal Resource Management Project of the Department of Environment and Natural Resources supported by the United States Agency for International Development. Retrieved from [http://pdf.usaid.gov/pdf\\_docs/PNACQ502.pdf](http://pdf.usaid.gov/pdf_docs/PNACQ502.pdf)

## THROUGH A RIVER OF HOPE

In 1999, the CRMP staff and the municipal government provided training on how to grow *tagimtim* (oyster). This was a strategic move for the project since oyster farming was an enterprise that the community members had already been familiar with. The livelihood earned income within a year from start-up – even with limited capital. Another important impact was the community's increased appreciation of the value of the river, estuary and mangrove resources.

The project also provided support to village crafts. This move was within the framework of the CB-CRM approach. It sought to reduce dependence of fishing families on marine extraction activities by promoting alternative land-based livelihood.

The Cambuhat River and Village Tour (CRVT) enterprise, which was also launched that year (1999), complemented and linked the environmental management and the livelihood development efforts. CEDFA developed the ecotourism enterprise development and management plan. The enterprise plan laid down the legal framework for the management of the area; the development of sustainable products and services; and the guidelines that should be followed by the users.

### **The Product/Service**

The CVRT was a demonstration of the community's relationship with its natural resources. It featured a 30-minute paddle ride on outrigger boats of the fishers. The ride started at the CVRT receiving station in Barangay Daet. The boat ride featured a full view of the estuarine vegetation cover of mangroves and various species of tropical palms and vines unique to the river's habitat. Amidst this lush vegetation, the paddler explained to interested tourists the importance of the ecosystem and how the community had been conserving and managing them.

**The Receiving Station in Barangay Daet**

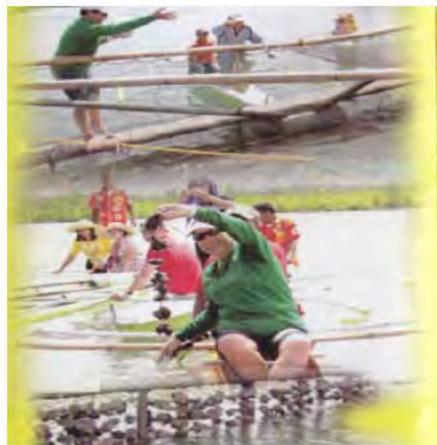


**A View from the Paddle Boat**



*(Photos: May Blanco, January 10, 2011)*

The tour also included an exposure to mariculture industries (oyster and milkfish). Tourists were given an orientation on how oysters were grown using the raft method along the river and how the milkfish (*bangus*) were cultured in pens. To make the learning experiential, guests could try harvesting oysters and feeding milkfish.



**Mariculture Along Cambuhat River**

The boat ride ended in a small visitors' center on the bank of the river where a hearty meal of oysters and other seafood was served to the guests. After taking their meal, guests were entertained by a cultural show featuring musical numbers from the women of CEDFA. The whole production (script for the show, lyrics of the songs and choreography of the dances) were produced through the collective efforts of the women of CEDFA.

At the visitor center, tourists could buy a variety of handicrafts and delicacies produced in the community. Guests also better appreciated these products after their short tour up the village where they witnessed the skills and artistry of the community members, and the patient labour they exerted in making them.



**Meal for the Guests**



**Cultural Show**



**Village Products**



**Making landang or sago (palm flour) out of buri**



**Turning shoots of buri palm into fine fiber (raffia)**

Photos: CVRT Brochure

## The Management

The highest decision-making body of CEDFA was the General Assembly. To oversee CEDFA operations, the General Assembly had been electing nine members of the board of trustees (BOT) from among which the president, vice president, secretary, treasurer, auditor, and public relations officer (PRO) would be elected.

The board members had been meeting monthly (every first Friday) to discuss committee reports and financial reports, and to coordinate the activities for the rest of the month. There would be special meetings if there were urgent concerns that needed to be addressed before the regular meeting (e.g., if there were booked tours). Issues that had profound implications on the whole organisation (e.g., issues related to CEDFA's general directions or amendments in by-laws) were elevated to the General Assembly. Decisions had been arrived at through consensus-building participative processes.

The BOT of CEDFA had been directly supervising the ecotourism enterprise. The leaders of the association had not been receiving monetary compensation for their services. There was a time when each board member used to receive honoraria of P50/member/meeting but they stopped the practice to avoid 'intrigue'. Because of the load of work related to enterprise development, CEDFA appointed Mardonio (Dodong) Aparece as business manager. As such, he had performed staff functions by coordinating the work of the paddlers, tour guides, caterers/servers and cultural groups. Like the board members, the appointed business manager also worked on a voluntary basis. He said he himself declined to receive remuneration for his work to "set an example of commitment"<sup>6</sup>.

Committees were formed to take charge of different tasks. The paddlers were mostly men who also functioned as river tour guides. The women were responsible for the catering, cultural presentation and village tour. The policy in deploying CEDFA members was to assign a paddler, a cook and a server for every two guests. For small groups of tourists, the cultural show was optional and not included in the package.

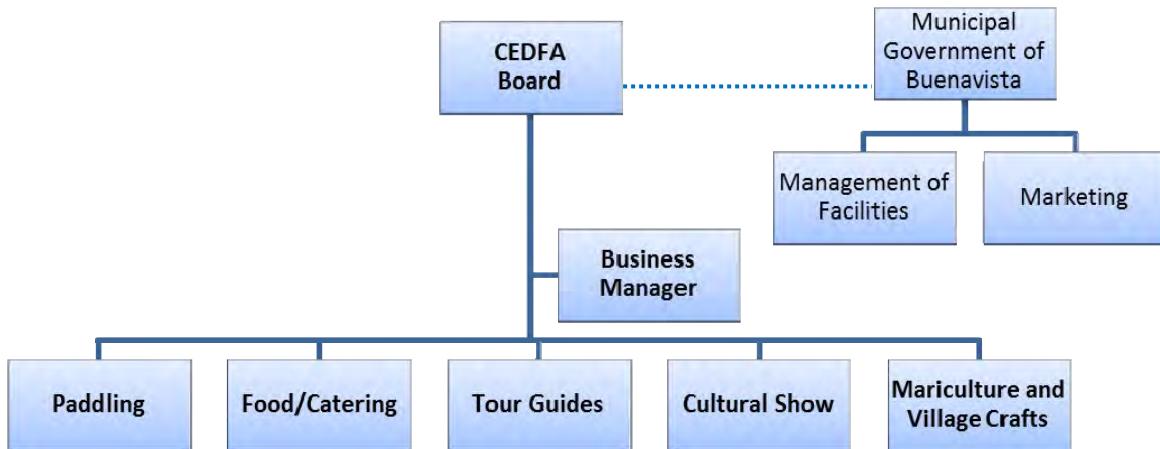
Tourist facilities and amenities were provided by the municipal government of Buenavista. The receiving center in Barangay Daet along the highway where guests started their paddle boat ride; the visitors center at the Togbongan on the other end; and the new business center near the bridge were built with funds mobilised by the municipal government. The amenities (e.g., toilets) and furnishings, including the convenience stores in the physical structures, were also made possible through the support of the municipal government. The LGU of Buenavista had been shouldering the costs related to the upkeep of the facilities such as cleaning, doing maintenance repairs, running the utilities (water and electricity), replenishing stocks for the convenience stores, and paying the compensation for the requisite labour for these tasks.

The LGU had been getting 15 percent of the tour fees to recoup its investments and defray maintenance and operating expenses. The LGU had also been actively marketing the tour to generate more income and to promote the tourism industry in the municipality as a whole.

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<sup>6</sup> Personal communication, January 10, 2011, by May Blanco and Peddie Baclagon at the visitors center, Cambuhat River and village tour.

The management set-up for the CRVT could be illustrated as follows:



## The Market

The tour fee charged by CEDFA basically covered the cost of the food served plus a fixed ₱200 (US\$4.9) mark-up. Since it was cheaper to prepare food for more people than to prepare for a few, the tour fee was based on the size of the group. CEDFA had been charging ₱550/head for groups with more than 10 members; ₱650/head for groups with less than 10 members.

In its early stages, the tour targeted non-government organisations (NGOs) and government departments in the country. These groups were seen as more open to the experience that the tour offers, primarily because these groups had been perceived as sympathetic to the environmental and community development causes that the tour had been advocating.

Foreign tourists started coming to Cambuhat after CRVT was acclaimed as a "Highly Recommended" ecotourism site in the 2000 "Excellence in Ecotourism Awards" by Conservation International. Among the *suki* (regular customers) were those from James Madison University in West Virginia, United States who came every year with about 14–20 participants. A growing market segment was the groups of universities offering courses on Hotel and Restaurant Management (HRM). The tour had attracted schools even in Manila, such as the Holy Spirit College, so that their HRM students could be exposed to community-based ecotourism.

There had also been an increasing trend in the number of local *bakasyunistas* (vacationers). Lately, there had been more walk-ins than booked guests. Locals had flocked the site on weekends, especially during summers.

## Tour Promotions

The LGU of Buenavista launched a website (<http://www.cambuhatbuenavista.com/>) solely dedicated to promote CRVT. Tour agencies and civil society organisations engaged in ecotourism included the tour as a recommended tourism destination in Bohol.

The Bohol Alliance of Non-Government Organizations (BANGON), which started an ecological-cultural tourism programme, also promoted the CRVT. The Internet contained a number of feature articles and technical write-ups that could generate interest in Cambuhat. Other than the Internet, CRVT was promoted through the Municipal Tourism Office of Buenavista, where brochures and

other information about the Cambuhat ecotour could be obtained. The provincial government had likewise recommended CRVT as an alternative tourist destination for those who had been to the popular tourism sites in Bohol.

During its early years, CVRT was also featured in newspapers, magazines and even on television.

Although CEDFA did not possess the facilities to publicly advertise CRVT, its business manager, Dodong Aperece, qualified that the community members had been performing important functions needed in marketing the tour. They had ensured guests got the same quality treatment no matter where they come from ("foreigner or local"). The paddlers had always been ready to orient their boat passengers about the river ecosystem and the livelihood that the families get from the river. They had made sure their passengers get in and out of the boat safely (a paddler expressed that his worst fear was that the boat would capsize). In short, CEDFA had ensured the consistency of the quality of every component of the tour package: the food (one of the main attractions), services and cultural presentations. CEDFA members had been working together to preserve the beauty and cleanliness of the river and its surroundings and had been viably managing the livelihood (crafts, oyster and milkfish) being showcased in the tour. Dodong opined that the tourists who enjoyed the tour could become effective marketing tour agents when they got back to their respective communities.

### **Tour Patronage**

When the enterprise was still being piloted, member-operators of the Bohol Federation of Travel Tour Operators agreed to include the site in their tour packages. Travel Village, Inc. used to sell it and even brought the famous broadcast journalist, Cheche Lazaro, to the place. However, the support of the private sector eventually waned because they had not been earning from the tour. The number of tourists had not been large compared to the other destinations in Bohol. Now Cambuhat was only an 'option' after the Day One Tour, "*kung wa na gyu'y lain*" (if there is nothing else) when the tourist asked for more. It was not the distance that had discouraged visitors because tour operators also sold Extreme Adventure Tour in Danao which was also about two hours from Tagbilaran.

CEDFA and the LGU should work out a system to keep track of tourist arrivals and gather information that could be used in devising marketing strategies. A tracking system was installed in 2009 by the Municipal Ecotourism Officer (MTO) Annaliza Chua. The system monitored the tourist arrivals according to month, gender, the place of origin of the batches of tourists, and the purpose of the tour.

## THROUGH A RIVER OF HOPE

The data provided by Annaliza Chua yielded the following results:

Total Tourist Arrivals	541	
Number of Tours Organised	37	
Gender	Male Tourists	54% (290)
	Female Tourists	46% (251)
Purpose	Study Tour/Cross Visit	53% (286)
	Fun/Leisure	27% (148)
	Sports (Kayaking)	18% (100)
	Business	1% (7)
Period/Month	1 <sup>st</sup> Qtr (Jan-Mar)	19% (105)
	2 <sup>nd</sup> Qtr (Apr-Jun)	26% (138)
	3 <sup>rd</sup> Qtr (Jul-Sep)	25% (133)
	4 <sup>th</sup> Qtr (Oct-Dec)	30% (165)
	December	25% = 137
	September	21% = 116
Place of Origin of Tour Batches	Local = 90% (485)	
	- Cebu City	14% (76)
	- Manila	12% (65)
	- Bohol	10% (53)
	Foreign = 10% (56)	
	- U.S.	3% (16)
	- Japan	3% (14)
Most Number of Tourists per Batch	100 tourists composed of local tourists from different parts of the country for kayaking sport held in December.	

The 541 tourist arrivals in 2009 had been the highest recorded by CRVT. This figure was 75 percent higher than the 308 tourist arrivals registered in 2008. It was also 42 percent higher than the previous record of 380 tourist arrivals registered in 2007.

Local dynamics affected the marketing of CRVT and the management of its facilities. The momentum reached in 2009 was lost in 2010. The tourism business in Cambuhat was adversely affected during the election campaign period. Annaliza Chua was replaced as MTO when the late Mayor-elect Robert T. Celosia assumed office in June 2010. While the new MTO was still adjusting to the job, Mayor Celosia passed away in October 2010. Ms. Chua was reinstated as MTO when Vice Mayor Ronald Lowell Tirol assumed the local executive post.

## The Partners and CRVT Influence

When the Coastal Resource Management Project (CRMP) by DENR was completed and its project team phased out, three local institutions stepped up to continue supporting CEDFA's CRVT enterprise. The key partners that had been instrumental in strengthening the organisation had been the municipal government of Buenavista, the First Consolidated Bank Foundation, Inc., and the Bohol provincial government. What should be noted about CEDFA's relationship with these institutions was that these relationships had been mutually beneficial. CEDFA's community development aspirations had been bolstered by these partner institutions; in return, the experience in working with CEDFA had transformed the life and work of these institutions.

### Municipal Government of Buenavista

The LGU of Buenavista had been the main partner in the implementation of the CRVT. With the partnership dated back as far as the late 1990s, the Buenavista's Municipal Planning and Development Coordinator (MPDC) Efren Logroño recalled that the LGU had initiated the *talaba* culture for the farmer-fishers in Cambuhat even before CEDFA was formally established as an organisation.<sup>7</sup> In 1998, he was approached by Maria Monina ("Moette") M. Flores, the enterprise development specialist of DENR-CRMP who solicited support for the programme. When the enterprises to be implemented in the community had been identified, he worked with the municipal agricultural officer (MAO) in providing assistance to CEDFA to reintroduce oyster production. Later, he facilitated the integration of the ecotourism development plan formulated by Cambuhat in the five-year coastal management plan prepared then for the whole municipality.

The municipal government of Buenavista had now been providing technical, financial and other logistical support to CEDFA – managing the tourist facilities and helping in the promotion and marketing of the tour. In return, the LGU had been receiving 15 percent of the income earned by CRVT.

The 2010–2020 Comprehensive Land Use Plan (CLUP) of Buenavista stated that the municipality's development vision based on the multi-stakeholder consultations was as follows:

***"The people of Buenavista have a common aspiration to become the centre of ecotourism and agro-commercial development in central Visayas, a peaceful and progressive community with well-developed infrastructure and balanced natural environment sustained by empowered, God-fearing, and self-reliant citizenry, and managed by committed, competent and gender-responsive leadership."***

The vision statement was a testament of how much the Cambuhat ecotourism enterprise had influenced the municipality. The MPDC acknowledged that the CRVT changed the way the LGU viewed 'tourism'. Because of what they learned from Cambuhat, the municipality had appreciated

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<sup>7</sup> Personal communication, January 27, 2011, by May Blanco at the Municipal Planning and Development Office, Buenavista.

the value of ecotourism and the development benefits it could bring to the environment and the people. This appreciation had been backed up by actions.

Buenavista established a council to oversee the town's tourism industry – this was called the Municipal Ecotourism Council rather than the usual sobriquet, Municipal Tourism Council. Since 2007, the LGU's assistance to CEDFA had been through its annual investment programme and work and financial plan.

Apart from the infrastructure, the municipal government had allocated funds for ecotourism operations and management for staff, office, communications and promotions and marketing (through leaflets, signage and the Internet). Almost ₱500,000 (US\$12,292.6) had been allocated every year – a substantial amount for a 5<sup>th</sup> class municipality.

In addition to its own funds, Buenavista accessed loans from the Department of Finance (DOF) – Municipal Development Fund Office so that existing support facilities at the tourism site could be further improved and tour operations could have some logistical support that would make the trip more convenient to the guests. The vision of Buenavista was to expand ecotourism benefits emanating from CRVT to nearby barangays.

The LGU learned from the participatory project management of CEDFA. The MPDC asserted that the participatory approach had now been imbibed by the LGU in developing its community-based projects. The organisational dynamics of CEDFA had been the LGU's standard of an empowered people's organisation.

Cambuhat became recognised as the oyster center of Bohol and this could be attributed to the success of CEDFA members in oyster farming. Since the CVRT started, the LGU had included oyster farming among its priorities and had allocated funds for this purpose. The LGU had long believed in the potential of oyster culture in their municipality that it had introduced years before. It thus pleased the MPDC that the industry was reintroduced and had been sustained.

#### **First Consolidated Bank Foundation, Inc. (FCBFI)**

As the corporate social development arm of the First Consolidated Bank, Inc., the FCBFI's mission was "to alleviate the living condition of targeted poverty groups through holistic and sustainable development approach".<sup>8</sup> Ellen Gallares was then the social development manager of FCBFI when she was tapped by Monette Flores to be the business development manager of the CRM operations in Cambuhat.

Ellen's task was to set up business systems and structures, and to facilitate the organisational development of CEDFA.<sup>9</sup> The work also included doing the groundwork for the registration of CEDFA with the Department of Labor and Employment (DOLE), and the opening of a bank account for the proceeds of its then mariculture (oyster) livelihood project.

FCBFI secured additional resources to assist CEDFA and barangay Cambuhat in general when it was able to access funds from CIDA to complement community development work already initiated in the barangay. CEDFA was able to obtain support for its livelihood activities from agencies such as

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<sup>8</sup> (2007). History. In *FCC Foundation, Inc.* Retrieved from <http://www.fcbfoundation.org/history.php>

<sup>9</sup> Personal communication, January 10, 2011, by May Blanco at Bo's Coffee, Plaza Rizal, Tagbilaran City.

the Fiber Industry Development Authority (FIDA), the Department of Science and Technology (DOST) and the DOLE through the linkage building efforts of FCBFI.

CEDFA started out with 38 members but this number increased to 100 when FCBFI introduced the microcredit scheme. The number dwindled after the loan facility closed. Many were not able to pay their loans after using them for non-income generating purposes like home improvements. This was a learning experience for FCBFI and its approach in providing microfinance services.

By 2006, FCBFI's active engagement in the barangay was phased out though the foundation still kept itself abreast with the developments of CEDFA.

Ellen acknowledged that FCBFI's vision, mission and goals found fulfillment in their Cambuhat experience. FCBFI was established in 1988 as a social credit institution and its work in Cambuhat was the foundation's first foray into community service and environmental protection together with its usual microfinance services. Cambuhat was FCBFI's learning ground that improved the design of its microfinance services; and provided a model for the community development processes related to enterprise development and environmental management.

The CEDFA experience influenced them to include social and environmental impact indicators in their monitoring and evaluation, in addition to their usual microfinance indicators. While their competency and main service had been the administration of a microfinance scheme, they sought to develop internal capacities in community organising and environmental protection as these problems needed to be given equal attention in marginalised communities (not just access to capital for livelihood).

What they learned regarding the introduction of microfinance programme in Cambuhat expanded FCBFI's financial services to include services catered to the emergency needs of borrowers. It was through CRVT that FCBFI realised that community-based enterprises should not merely focus on making itself economically viable but also should equally pursue social and environmental gains.

Its experience with CEDFA had made FCBFI a resource institution for the development of the provincial tourism programme.

### **Provincial Government**

The Bohol Investment Promotion Center (BIPC) under the Office of the Governor provided technical inputs on the design of CRVT and gave suggestions on how the enterprise could be mainstreamed in the tourism market. The Bohol Tourism Office had been promoting and marketing CRVT through collaterals like videos, brochures and PowerPoint presentations to officials guests and in tourism and other development forums.

In 2004, Bohol's Ecotourism Development Program was recognised as among the Top 10 Outstanding Programs in Local Governance by the *Galing Pook* Foundation. The CRVT was included by the BTO as one of the five model community-based projects for ecotourism under this programme. Josephine ('Jo') Remolador Cabarrus, the officer-in-charge (OIC) of the BTO related that that ecotourism became a banner programme in Buenavista after the recognition of Cambuhat in the *Galing Pook* Awards.<sup>10</sup>

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<sup>10</sup> Personal communication, January 24, 2011, by May Blanco at the Bohol Tourism Office, Provincial Government Center, Tagbilaran City.

Each office in the provincial government had been mandated to contribute to the poverty alleviation efforts in Bohol. Since Cambuhat was one of the first ecotour areas, BTO's experiences with CEDFA served as a guide on how BTO could assist other communities. The empowerment of the people's organisation as witnessed in the Cambuhat community had prompted BTO to embrace participatory processes in its community-based engagements.

## The Impact on the Community

The distinct characteristic of the case of CRVT as a social enterprise was that its primary stakeholders were its members. This enterprise though, had not only generated significant impact on the personal lives of the CEDFA members and their families, it had also brought benefits to the larger community.

In summary, CRVT had achieved the following impact:

- ***Increased income***
- ***Healthier river ecosystem and environment***
- ***Community empowerment***
- ***Women's participation and development***

### **Increased Income**

The CRVT provided economic benefits to the managers of river and its resources. Excluding the 15 percent share of the fees collected by the municipality, CEDFA collected ₱311,850 from the enterprise in 2009. The net profit of CEDFA in the same year was ₱108,200 of which 20 percent was distributed to members in good standing as dividends while 80 percent were retained earnings of the association. For every tour fee paid by a CRVT guest, three CEDFA members involved in the tour service got ₱50 each. A CEDFA member that got to serve in all the tours in 2009 received a compensation of ₱27,000. Income was also earned by the women who participated in the cultural shows.

Growth in the oyster culture industry had been brought about by the river conservation and management efforts related to CRVT. It generated an annual net income of ₱30,000 per family. CRVT had correspondingly increased sales of the handicrafts. These additional incomes had been substantial considering that majority of the families in Buenavista had earned an average income about ₱40,000 per year.<sup>11</sup>

### **Healthier river ecosystem and environment**

CRVT had not just been about increasing the incomes of the families of CEDFA members. For CEDFA, the impact of CRVT on the natural resources had been as important as its economic impact.

*Cambuhat river had become alive and clean.* In 2005, Cambuhat was recognised as one of the cleanest inland bodies of water in the country. CEDFA members had regularly conducted river clean-up. The people veered away from activities that had adverse effects on the river such as building of houses and pig pens near the river banks, disposing garbage, and other wastes into the river, etc.

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<sup>11</sup> 2010–2020 Comprehensive Land Use Plan of Buenavista

*Fish and other marine/estuarine resources had increased.* Oyster farming had survived after all these years because of the cleanliness of the river. In Bohol, oysters were growing well only in Cambuhat. CEDFA members had been conscious of the carrying capacity of the river so they had not overloaded it with oyster farms.

Local ordinances were passed to protect the river ecosystem – illegal fishing and cutting mangroves had been considerably curbed. People's participation and commitment to resource management had been evidently significant.

The landscape of Cambuhat had become cleaner and more beautiful. Community residents had been cleaning and sprucing up their houses and yards more frequently. It had a lot to do with the pride among the people who did not want to be embarrassed when *bisitas* (visitors) passed by their neighborhood. As a result, their small houses had become cleaner; curtains had been put up; their yards were beautified with flowers and vegetable gardens; and – even if they did not have brand new clothes – people were better groomed.

### **Community Empowerment**

Community empowerment had been defined as "a process where people worked together to make change happen in their communities by having more power and influence over what matters to them."<sup>12</sup> CEDFA had manifested the features described in the above concept of empowerment.

*Community members had found confidence in their organisation's collective strength.* The community had been liberated from a fatalistic view of life; members had become confident that they could capably sustain what they had achieved through the ecotourism enterprise and their river conservation efforts. Their organisation and their programmes had been managed within the tenets of participatory leadership and management principles. CEDFA had structures and processes that had been empowering for the members.

While CEDFA had admittedly experienced wrangling among members in the past, members had worked out their differences to cooperate and work together. They had done it because "*may pinagsamahan*" (they had gone through a common experience); they had been through the organisation's ups and downs. Surmounting these challenges had made them more cohesive as a team. The members had likewise been united in their commitment to preserve the Cambuhat river and its resources. With CEDFA, they had the collective capacity to act on this commitment.

*CEDFA members felt they had greater capacity to overcome personal constraints and to learn from experiences.* CEDFA members recalled how they doubted their capacity to handle the ecotour ("*di makamao*") but found the courage to plunge into it ("*ngano man diay?*" – why not?). When CRVT was still in its inception phase, members were wary of talking to well-educated and foreign, English-speaking tourists. But now they had overcome their timidity and could casually articulate their views and talk about Cambuhat's environment and their culture. They had learned so much from the tours they handled.

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<sup>12</sup> Chanan, G. (2009, June). Valuing Community Empowerment: Making the business case. Retrieved from [http://www.pacesempowerment.co.uk/pacesempowerment/Publications\\_files/VALUING%20COMMUNITY%20EMPOWERMENT%20published%20version.pdf](http://www.pacesempowerment.co.uk/pacesempowerment/Publications_files/VALUING%20COMMUNITY%20EMPOWERMENT%20published%20version.pdf)

Assessments of the tours they had run had taught them how they could better handle the next tour. Conversations with tourists had broadened their perspectives about life and the world around them.

*CEDFA members also felt they had greater capacity to manage relationships with and influence stakeholders.* CEDFA could independently interact and negotiate with stakeholders whether they be government officials/personnel, NGO workers, academicians, business people, and local or foreign tourists. A far-reaching impact of CVRT as already discussed had been the extent to which it had influenced the partners of CEDFA. The municipal government made ecotourism its main development thrust and poured and mobilised resources to pursue the industry's development. FCBFI learned valuable lessons as a social change agent and adopted a more integrated package of community development services. The Bohol Tourism Office found a model that could be used as a guide in assisting community-based tourism efforts.

### **Women's participation and development**

Mass tourism had been criticised for its adverse effects on communities living in tourist destinations. The commodification of women was one of them. The women of CEDFA had related that their participation in the ecotour enterprise had been an empowering experience.

The fervor of women of CEDFA was crucial in making the ecotourism project took off as an enterprise. The women vigorously pursued the idea of establishing an ecotourism venture because of its envisioned support to the existing livelihood activities in the community.

*Women had greater participation in economic activities.* A majority of the women had been engaged in raffia loom-weaving and fashioned brooms, doormats, grass skirts and other products from different parts of the buri palm tree. Since oyster culture was a family-based enterprise, the women had been making significant contributions to the industry.

Women had been involved in boring holes and attaching oyster shells into strings before the men placed the shells in oyster beds. Women had also played an important role in preparing and marketing the bottled salted oysters to ecotour guests and neighboring towns.

The women had actively done their part in addressing environmental concerns: beautifying the community by tidying their homes and premises and planting flowers in their yard, taking the lead in doing eco-friendly waste disposal practices, communicating environment and natural resource issues to other members of the barangay, reporting illegal fishing and illegal cutting of mangroves to the proper authorities, and helping out in the river clean-up. They mentioned that they had been involved in the planting of mangroves along the river and had expressed commitment to help in preserving them.

*Women had greater participation in CEDFA decision-making.* Leadership positions in CEDFA had been traditionally dominated by men. In the present structure, men held the top positions; there were only two women elected in the board of trustees. It was pointed out though that this was already an improvement because all board members used to be men.

The democratic and participatory governance systems of CEDFA, coupled with the strong recognition of the critical role of the women in the association, had given the women the courage to freely articulate their views about organisational affairs. The women had not only been actively

attending meetings, they had also been contributing valuable inputs to the directions and actions of the organisation.

This was specifically true in CRVT in which the women came up with recommendations on the directions and rules for participating in the ecotour. The women performed several functions – purchasing supplies, cooking, making physical arrangements, guiding tours, staging cultural presentations, demonstrating crafts and managing finances.

*Women were given opportunities to realise their creative potentials.* The cultural presentation featured in the tour was a product of the women's creativity and zeal. The women thought of the *saguran* (woven raffia) dance to demonstrate the process of producing the *saguran* from buri leaves and the *landang* (small brown sticky balls like small sago) from the buri pith.<sup>13</sup> The women thought of the whole script/show: the lyrics and music of the song, the choreography of the dance, and the requisite props and costumes.

## The Future

With the priority given by the Municipality of Buenavista to ecotourism, and the resources it had mobilised to carry out this thrust, the way CRVT had been running its business was about to change. CEDFA faced the challenges of scaling up while being true to its commitment to ecotourism. It needed to simultaneously ensure environmental conservation, improvement of well-being of the community, and economic viability.

### Scaling Up

The construction of the Buenavista Ecotourism Business Center was about to be completed. The new structure was part of the scaling up of ecotourism efforts of the municipality which had declared barangays Cambuhat, Cangawa, Bugaong and Daet (CACABUDA) a Special Management Zone.

The new centre would have a function hall, comfort and shower rooms, dormitory for lodging, and a view deck. It would also have a booking office equipped with a fax machine and computers. A space would be provided to display and sell products, not only of CEDFA, but also of barangays within the CACABUDA Special Management Zone.<sup>14</sup>

Other improvements included renovation of the docking area and the visitors' stopover centre. New non-motorised boats had been fabricated. The additional boats were bigger than the ones being used by the paddlers so that relatively heftier and taller foreigners would not be cramped. There was also a plan to procure a 30-seating capacity motorised boat equipped with life jackets.

### Possible Changes within CEDFA

On the part of CEDFA, these developments were welcomed because such changes would allow them to handle bigger groups, earn more income, and make the enterprise more sustainable.

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<sup>13</sup>Landang was culturally important to the people of Cambuhat as they survived on land and during droughts before; it was also usually mixed with binignit (ginataan) and other desserts. The women dancers and props people also wear saguran clothes for their costumes.

<sup>14</sup> (n.d.). The Buenavista Ecotourism Project. This was a proposal developed in 2010.

CEDFA acknowledged that they needed to further capacitate themselves in business management to march in step with the upscaling of operations. Dodong Aparece specifically mentioned the need to be better adept in financial management because the upscaling would increase the volume of financial transactions and make fund management more complex.

Although ecotour management systems had already been in place, they needed to be reviewed. CEDFA also felt the need to further enhance its tour package. For instance, new choreography could be made in the cultural presentation or different forms of cultural numbers could be developed for returning guests who had previously seen the show. Other administrative and service delivery systems would certainly have to be retooled to adapt to the changing demands of CRVT.

CEDFA also recognised the need to be more proactive in marketing the CRVT. Leaders and members had been thinking of once again inviting tour operators to see the improvements made in the site. They thought of having new uniforms and costumes as they believed that these propped up the impressions of tourists about them. Creative ways of promoting the tour marketing given their resources also had to be devised.

When asked about the areas that CEDFA could improve on, Jo Cabarrus of the Bohol Tourism Office (BTO) suggested that CEDFA ought to be more business-oriented in running the enterprise. For instance, they could explore hiring a professional business manager with ample experience in overseeing a tourism enterprise.

Ellen Gallares, the former social development manager of FCBFI recommended that CEDFA should give attention to developing second-liners to support the present crop of officers and to be ready to assume leadership positions if needed. She noted that there had been little infusion of new and younger members in board of trustees of CEDFA.

CEDFA members emphasised though that they wanted to maintain the type of tourists that had been availing of the tour package. CVRT, the officers maintained, was not established for tourists who wanted wild frolicsome fun. Candidly, they said they would not have young sexy dancers in exchange for their mature – some even toothless – but talented cultural dancers. They pointed out that CVRT was for tourists who preferred the quiet, serene happiness that the natural beauty of the river and their indigenous village life could bring.

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## ANNEX A

### ***Focus Group Discussion (FGD) with Officers and Members of the Cambuhat Enterprise Development Fishermen Association (CEDFA)***

***January 10, 2011***

#### List of Participants

1. Irenia Añasco, Member (chief cook), since 2004
2. Nazarito Centillas, PRO, since 1999
3. Geraldo Mañacay, Member (paddler), since 2004
4. Quillano Aparece, Vice President, since 2003 (became president in 2005–07)
5. Gregorio Añasco, Member (paddler), since 2000
6. Segundo Aparece, President, since 1998
7. Maria Jean Cepedoza, Secretary (tour guide), since 2000
8. Cirila Aparece, Member (server), since 2001
9. Juanita Ligtas, Treasurer (server), since 2002
10. Genie Auguis, Member (server), since 2000
11. Judith Torregosa, Member, since 1999
12. Cresen Aparece, Member (dancer, singer, server, tour guide), since 2000
13. Emilio Aparece, Member (paddler), since 2000
14. Mardonio 'Dodong' Aparece, Business Manager

## CHAPTER 4

# THE DON BOSCO FOUNDATION<sup>1</sup> FOR SUSTAINABLE DEVELOPMENT, INC.: BIODYNAMIC AGRICULTURE FOR CHANGE

*Biodynamics is a science of life forces, a recognition of the basic principles at work in nature, and an approach to agriculture that takes these principles into account to bring about balance and healing. As such, biodynamics is an ongoing path of knowledge rather than an assemblage of methods and techniques. Steiner's concerns include that of food. He contends that food produced by chemical means was being depleted of a "life force" needed for the continued evolution of humanity.* (Fernandez, P.G., 2001)

Like most non-government organisations (NGOs), the Don Bosco Foundation for Sustainable Development (DBFSDI) depended on outside donors for the funding of its different programmes and services. Its programmes and services were identified by its choice of sector to serve, its analysis of the situation, and its preferred methodologies.

In the process of servicing the agricultural sector and practicing organic farming, it went beyond and fully embraced the anthroposophic philosophy (science of the spirit) of Rudolf Steiner. In agriculture, this anthroposophic philosophy is better known as "biodynamic agriculture". Biodynamics comes from the Latin word "bios" for life and "dynamics" or "dynamic" for force. P. G. Fernandez of the University of the Philippines in Los Baños defined biodynamic agriculture as an "advanced organic farming system that is gaining increased attention for its emphasis on food quality and soil health." (Fernandez, P.G., 2001)

Becoming fully convinced that biodynamic agriculture was the answer to the woes of the farmers and the farming communities including the youth, Don Bosco took on the challenge and carried the torch of biodynamic agriculture. In the words of Betsy Gamela, "in biodynamic agriculture, the foundation felt a cause deeper than social activism". (Gamela, 2011).

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<sup>1</sup>In the Catholic Church doctrine, St. John Bosco or Don Bosco is the patron saint of the youth.

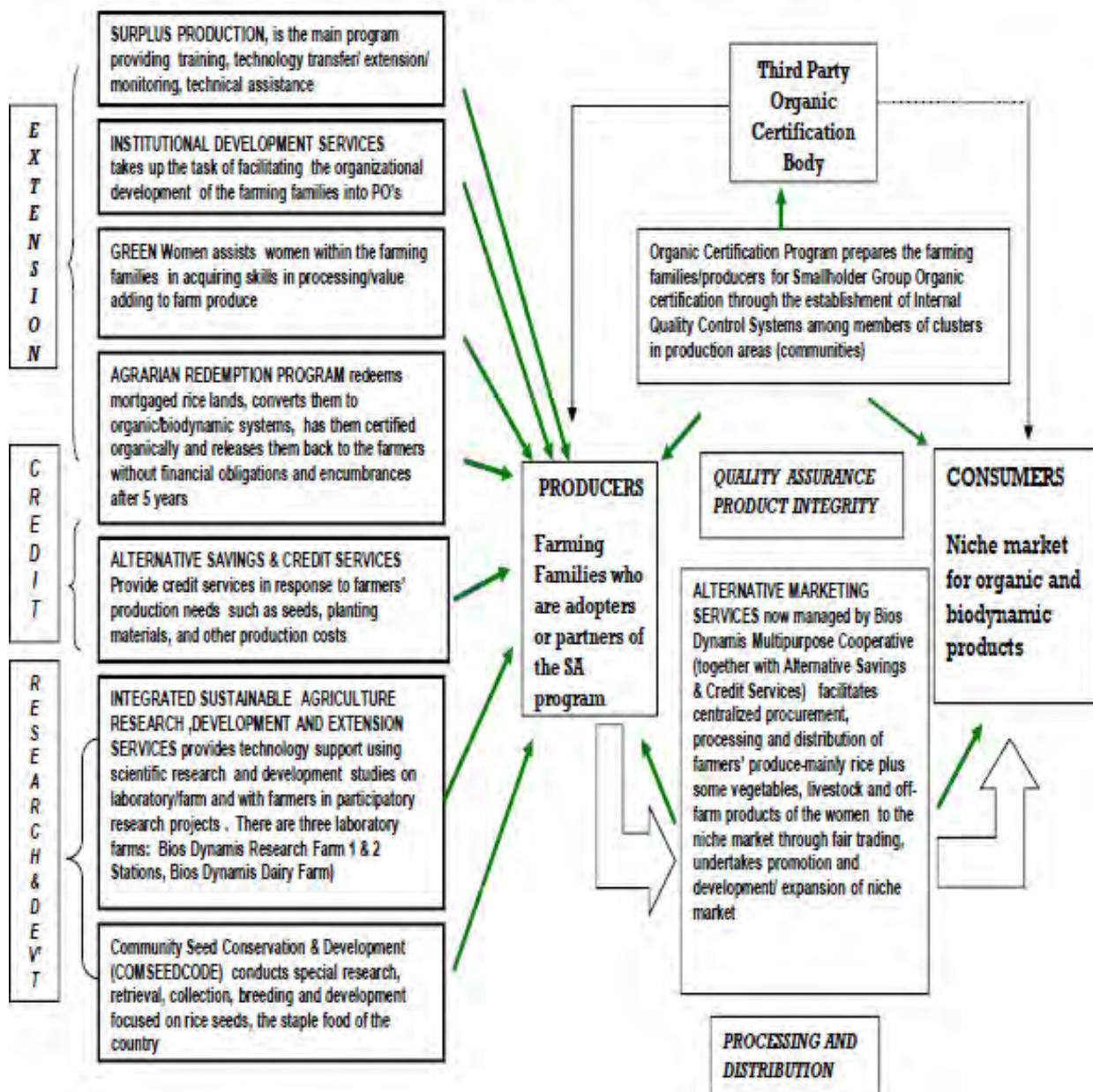
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*This case was written by Lourdes Marina P. Padilla under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

The evolution of DBFSDI's programmes and services came not just as responses to the concrete problems of rural poverty affecting farming families, communities and the youth, but as creative and necessary steps in building the social and business infrastructure for biodynamic agriculture. Because biodynamic agriculture was not the dominant mainstream practice, rolling it out could not be confined to just production. It was an alternative system and as such, its implementation had to likewise be systemic. Hence, the Don Bosco programme came to cover production and marketing — from seeds to shelves, creating both products and markets.

In order to sustain biodynamic agriculture, DBFSDI went beyond its NGO programmes and established independent marketing, credit and retail enterprises.

### Don Bosco Foundation for Sustainable Development, Inc. Flow of Programs and Projects from Seeds to Shelves



## **Searching for Self: DBFSDI's Pre-Biodynamic Agriculture Years (1985 – 1994)**

DBFSDI was registered in July 1994. However, its roots could be traced back to the Kidapawan Diocesan Youth Program which started in 1985. This programme became the Don Bosco Diocesan Youth Center, Inc. in 1988. Its main office address was at 200 Batasan Hills, Batasan, Makilala, Cotabato.

From its youth orientation, DBFSDI changed its sectoral focus to farmers and farming communities, and its services and programmes became geared towards organic farming. It eventually became known as a pioneer and lead institution for biodynamic agriculture. Biodynamic agriculture was its main vehicle to achieve sustainable agriculture and sustainable development.

In 1988, the Don Bosco Diocesan Youth Center began its first project – a demonstration farm on sustainable organic farming on donated land in Batasan, Makilala, Cotabato. Seed money of ₱50,000 (US\$1229.3) from Bishop Didi financed the farm house, mini-forest, the contouring of the land following the Sloping Agriculture Land Technology (SALT), perimeter fencing and goat barn. The goats came from Congressman Andolana. Youth volunteers from the different parishes implemented the project.

In 1990, the demonstration farm was further developed with a funding grant from Hilfswerk der Evangelischen Kirchen Schweiz (HEKS) of Switzerland. This Protestant organisation was Don Bosco's first funding donor. In 1991, Don Bosco received a 2-year grant from Misereor of Germany. In 1993, with funding from Conferenza Episcopale Italiana, another demonstration farm was established in Amas, Kidapawan, an arid and warmer place. These model farms showcased the viability of sustainable agricultural systems in different settings and conditions of soil, terrain, erosion, irrigation and water supply.

Expanding and sharing the experiences in organic agriculture became Don Bosco's next venture. Don Bosco prepared its own staff and coordinators in agricultural extension. From April 1993 to March 1997, Dreikönigsaktion der Katholischen Jungchar Österreichs (DKA) of Austria assisted in the integrated programme for the rural communities. Demonstration farms, seedbanking, agroforestry models of soil and water conservation were integrated with research, testing and development, training and extension and income generating projects (IGPs), and the youth camp.

## **Embracing and Expanding Biodynamic Agriculture (1995–2003)**

In 1995, after two years experience with organic farming and some soul searching, Don Bosco fully adopted biodynamic agriculture and not just organic farming as its philosophy and model.

In 1997, after the first 4-year partnership with DKA as Don Bosco's funding partner, and after only two years of biodynamic farming, increased yield, better crop quality and improved soil were already observed by Don Bosco's 163 farming family partners which covered 64 hectares with 427 project installations in more than 20 communities. The European Commission (EC) was

## THE DON BOSCO FOUNDATION FOR SUSTAINABLE DEVELOPMENT, INC.: BIODYNAMIC AGRICULTURE FOR CHANGE

tapped to boost the DKA assistance, and Don Bosco reached more areas and expanded its biodynamic farming services.

The timeframe set for Phase I of the "Integrated Extension Program On Sustainable Agriculture" with EC and DKA was 1997 to 2000. Added to the previous project components were the food production center and technoseedbanks, alternative credit and marketing services, community-based Plant Genetic Resource (PGR) gene banking, and rice seed conservation and development. The project provided for full-time administrative and finance staff and paved the way for more professional management.

More farmers felt the positive impacts of biodynamic agriculture. More farming communities shifted from chemical-dependent conventional farming system to biodynamic sustainable agriculture. By 2000, Don Bosco had more than 1,300 farming families as partners and adopters/beneficiaries, and many more wanted to be part of the programme.

Meanwhile, the farmers, farming communities and demonstration farms already produced biodynamic rice, vegetables, fruits and rootcrops. Don Bosco realised that if these were sold in the usual outlets and stores alongside conventionally grown agricultural products, its added value of quality and health would be lost. Hence in 1998 Don Bosco established the first Don Bosco Health Foods Center in Makilala, North Cotabato.

After the success of Phase I, EC and DKA went on to Phase II(2000–2003). In this phase, the original components of Phase I were strengthened. The PGR Community-Based Gene-banking, Conservation and Development Program established a farm-cum-breeding station in Buayan, Mlang, Cotabato. Work was done on the retrieval, collection, improvement and conservation of rice genetic resources. The Alternative Credit Services(ACS) was infused with additional revolving capital for new services and was separated from marketing services. Separated from credit services, the Alternative Marketing Services(AMS) helped facilitate fair trade for the produce of farmer-partners. The Youth Camp and Catering Services became a fully self-reliant, self-financed component of the project.

Added to the original components were four resource desks on women, peasant, youth and training. The Women's Resource Desk had women engaged in biodynamic agriculture and micro-enterprise/micro-industry skills development with reproductive health, alternative holistic medicine and responsible parenthood. The Peasant Resource Desk applied sustainable alternative production systems such as Biodynamic Agriculture, Korean Natural Farming, and Japanese Kyusei Nature Farming system. The Youth Resource Desk launched environmental education campaigns, drug abuse prevention education campaigns and the establishment of alternative micro-enterprises. Support for all these initiatives came from the Training Resource Desk.

April 2003 saw the end of a very successful Phase II. Exceeding its targets, Don Bosco finished the project term with 2,629 farmer-partners from more than 80 extension impact communities covering 2,527.2 hectares and with 11,633 active project installations. Don Bosco also was engaged in a partnership with DAR-UNDP SARDIC during this period.

## **Donor Fund Reduction Giving Rise to Financially Independent Programmes(2003–2004)**

In the meantime, changes happened within the EC which required two partners for projects worth more than €1 million (US\$1.32 million). Don Bosco looked for another European funding donor to partner with DKA, but found none because of the security situation in Mindanao.

With only support from DKA, Don Bosco stopped its non-earning programmes and strengthened efforts to achieve financial autonomy for both the AMS and the Alternative Credit and Savings Services (ACSS). Aside from lack of experience in this specific line of work, Don Bosco grappled with very limited capital, lack of personnel, equipment and basic facilities such as storage facilities, a dryer and a rice mill, and a lack of trucks.

But Don Bosco persisted as these services were badly needed not only because of the phenomenal increase in the biodynamic farming communities but more so because of the increasing biodynamic agricultural production volume.

Alternative Credit Services (ACS) expanded and became Alternative Credit and Savings Services (ACSS). The savings and lending windows were opened and serviced farmers shifted to biodynamic and diversified farming systems. Because the AMS still had no funding, several options were considered including the closure of the programme. However, this option defeated the whole purpose, advocacy and design of Don Bosco on biodynamic agriculture. Other options were to find a Sustainable Development investor or turn AMS into a cooperative or a stock corporation, or submit project proposals for a grain complex to interested funding agencies. A fundraising campaign yielded only ₱200,000(US\$4917) which was just not enough. Don Bosco's readiness to turn itself into a cooperative or corporation with the farmers also just was not there.

At the same time, Don Bosco faced another challenge to its biodynamic farms as Dole-Stanfilco wanted to expand its banana plantation adjacent to Don Bosco's physical base in Batasan, Makilala. The practice of pesticide and aerial spraying posed a serious environmental threat. Upon learning about this grim prospect, DKA of Austria urged Don Bosco to buy the estate to ensure that the Don Bosco centre and the community will not be engulfed in toxic pesticide drift. With DKA's permission, it diverted its approved marketing procurement funds of €100,000 or ₱6.7 million for this purpose.

Despite the shift, Don Bosco persisted with the AMS and got a ₱1.5 million (US\$40,000) character loan from Lifebank – Iloilo. Operating without any outside funding support and with only ₱1.7 million capital, two buying stations, one central product outlet and 10 personnel, the AMS went a little beyond break even after a year.

The 2003–2004 funding crisis paved the way for initial achievements in financial sustainability. Both AMS and ACSS began to stand on their own. The Don Bosco Biodynamis Health Foods Center was transferred to Kidapawan City. Albeit unplanned, a new income-generating venture started. The partnership with the EU funded Support to Agrarian Reform in Central Mindanao (STAR-CM) earned money for Don Bosco as it was tapped to provide trainings in biodynamic agriculture.

## **Strengthening Existing Programmes and Opening New Biodynamic Agriculture Initiatives (2005–2008)**

In January 2005, a partnership between DKA, the Austrian Development Aid (ADA) and Don Bosco commenced with the project, “Integrated Sustainable Agriculture Development Initiatives”. Although with a reduced budget of only €500,000 (US\$658,950), the project components evolved based on the needs of the communities.

The Sustainable Agriculture Productivity Development (SAPD) component responded to the need for area expansion of biodynamic agriculture in the provinces of North Cotabato, Davao del Sur and South Cotabato. Converted lands covered 3,000 hectares with more than 3,000 farmer-adopters. The Institutional Development Support (IDS) took care of organising these farmers into over 40 viable and empowered people’s organisations. Under IDS was the Policy Advocacy & Networking unit incharge of policies and legislation, networking and alliance building. Women & Micro-Enterprise Development (WMED) honed the skills of women for home-based micro-industries and ensured gender education in all trainings and extension work.

The Integrated Sustainable Agriculture Research & Development (ISARD) component managed a 21-hectare farm for research and development of sustainable agriculture and off-farm technologies. The farm was partly self-financed by the crops, livestock and dairy produced. The Plant Genetic Resources Conservation & Development (PGRCD) focused on the collection, retrieval, study, characterisation, breeding and improvement of traditional rice varieties, and the training of the farmer-breeders. Also developed was a rice gene bank station with a collection of rice cultivars, newly developed breeds already mass produced by the farmers as well as other rice variety lines still under study.

Market Access, Research & Quality Control Services (MARQCS) centered on Organic Certification and Internal Quality Control Systems (IQCS) in all production areas. External inspectors and certifiers regularly examined the biodynamic farms by groups and assessed their IQCS. The IQCS cluster of farmers became the vehicle for recruitment and expansion, extension, and training.

## **Combining Donor Funds with Financing Instruments (2008–2010)**

### **Donor Funded Programmes**

Since 2008, Don Bosco witnessed new programmes being funded by both old and new funding agencies. The different projects and programmes continued.

DKA’s grant for the ‘Integrated Sustainable Agriculture Research & Development’ (ISARDES) fortified the organic certification programme and other institutional development activities. The “Bangsa Moro Peace and Sustainability Development” project further strengthened services to the indigenous peoples particularly the Muslims and the upland tribes.

Don Bosco found new funding partners. The project of the “GREEN Women” supported by KFB-Austria added semi-processing to the farm produce e.g. the production of health supplements and healthy snacks, and scaled them up into viable micro-enterprises. The Community Seeds Conservation and Development (COMSEEDCODE) programme was started in partnership with Broederlijk Delen, another European funding agency. The programme sought the *“empowerment of organic, indigenous and biodynamic farmers in the political economy of seeds research,*

*conservation, production, distribution, and continuing development and evolution of seeds as self-sustaining enterprise.”*(DBFSDI COMSEEDCODE ppt, undated)

After barely two years, the programme covered 35 communities in 8 municipalities in 3 provinces. Twelve community seedbanks were established and 485 varieties of seeds were collected consisting of 194 lowland and 291 upland varieties. One hundred and eight varieties were taste-tested. Farmer field schools were conducted in 13 sites and 259 farmers graduated from season long trainings. The programme developed 164 lead farmers composed of 19 farmer-breeders, 47 selectors, 164 curators, 259 seed researchers and 97 producers.

### **The Evolution of the NGO Programmes into Social Enterprises**

As business improved, capitalisation requirements also grew. Hence, Don Bosco engaged other financing institutions. Likewise, new openings for institutional income generation arose.

The AMS survived and even made a little profit with some help. MIVA, an Austrian donor agency, gave the AMS a hauling truck. The Philippines Development Assistance Program (PDAP) approved an initial loan request for ₱1 million (US\$20,000) to be paid to the bank as down payment for the foreclosed facility of the current rice mill with dryer and warehouse while its long-time partner, DKA of Austria, provided ₱6.7 million for the purchase of the rice mill and part of its repair. PDAP has also helped to rehabilitate the rice mill, made it operational and earned income to pay for the amortisation of the loans incurred to better improve the Grains Center facility. Loan assistance was provided by the Federation of People’s Sustainable Development Cooperatives (FPSDC) and some friends. Apart from these, FPSDC and Land Bank opened credit lines of up to ₱14 million and ₱28 million respectively.

To be further financially viable, Don Bosco allocated a portion of its grains complex to service and mill rice from conventional farmers. However, it ensured that this part of the complex was completely separated from the biodynamic rice area and that no contamination took place.

ASCS opened new credit windows and expanded its client base. Apart from farmers, especially those shifting to biodynamic agriculture, microfinance and lending services were extended to employees with regular incomes as well as small businesses. These shorter-term loans balanced out the longer-term production loans. Interest rates were set below the prevailing market rates. Land Bank opened a credit line and infused capital.

The Youth Camp and Training Center remained self-reliant. It funded its own facility requirements including repairs. Excess revenues supported the needs of other unfunded programmes. The only issue that remained was that the property was still owned by the Diocese of Kidapawan, and not DBFSDI. While this insecurity of land ownership lingered, it posed no immediate problem as the Diocese of Kidapawan was letting DBFSDI use the land the way it wanted.

Developed under the ISARD programme, a Dairy Farm was established with assistance from the National Dairy Authority. Don Bosco availed of a loan for 10 pregnant Holstein-Frisian cows as well as one bull. The dairy farm lived on the small income from the farm. Because milk was an important ingredient for biodynamic fertilizers, its service and potential for income generation remained great.

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Trainings on Biodynamic Agriculture became opportunities for both advocacy promotion and income generation. Because of the success of the biodynamic farming systems and methods introduced to the farmers in Cotabato province, there was a greater awareness of the name of Don Bosco and the work it did among the farmers. This triggered the interest of NGOs and other civil society organisations, churches, provincial and municipal Local Government Units (LGUs), academe, research institutions, and foreign-funded national programmes operating in Mindanao. From all over Mindanao, they visited the ISARD farms, the PGR seed bank, the farmer-partners' farms, product outlets, community-based initiatives in livelihood, etc.

Don Bosco became the centre of learning for biodynamic sustainable agriculture in Mindanao if not for the whole of the Philippines. Funding partners such as the Catholic Relief Services requested trainings in biodynamic farming for their partner-NGOs from all over Mindanao. Other provinces including Davao del Sur, South Cotabato, Sultan Kudarat and Compostela Valley, and municipal governments participated in trainings on biodynamic sustainable agriculture. They proposed ground-level partnerships. Municipal legislative councils, staff of various offices of the Municipal Agriculturists and at least two municipal mayors underwent training. From South Cotabato province, all the municipal agriculturists and some provincial agriculture office staff were sent for training in Don Bosco. In at least three municipalities, sustainable agriculture became part of the executive agenda and flagship programme of the local governments. Clients in training even included those from Visayas and Luzon.

Started in September 2009, the Agrarian Redemption Program became the newest business-service venture of Don Bosco. In March, 2011, Oikocredit infused additional capital into the programme.

### **Organisational and Enterprise Modeling**

Don Bosco innovated its services and made them more responsive and relevant to the specific conditions of the farmers. Community assets and gaps, opportunities and threats were studied and assessed. Viable enterprises were generated. In addition, organisations were restructured and new enterprise models were adopted.

### **Agrarian Redemption Program**

The Philippines rural scene was replete with indigenous practices on land mortgaging. These practices stemmed from the lack of credit facilities and support services for the farmers.

Don Bosco adopted the traditional land mortgage practice but improved it in favour of the farmers. The main difference was that in traditional practice, the mortgaged land did not get redeemed until the mortgage amount was fully paid. Sometimes, the farmer had no other recourse but to sell the land.

In Don Bosco's agrarian redemption programme, Don Bosco redeemed the mortgaged rice lands of farmers for ₱150,000 (US\$3,687.8) per hectare. The mortgage was for a period of six years. In case of crop failure i.e. harvest below 40 bags per hectare, an additional term of one cropping was added. Don Bosco managed the farm and shouldered all the expenses such as seeds, farm implements and other farm inputs. Don Bosco gave the farmer-mortgagor the right of first refusal to become the caretaker or "maintainer". The maintainer took care of minor work such as

water management and application of organic/biodynamic inputs. If he engaged in heavy farm work, he got paid the corresponding labour fee. After six years and if the farmer did not violate any of the terms set by Don Bosco, and both parties no longer renewed the contract, the farmer would be freed of the mortgage. He would be no longer obligated to return the amount paid by Don Bosco for the mortgage.

As maintainers, the farmers abided with the specifications regarding management and operation of the farm set by Don Bosco and received their share of 15 percent of the gross proceeds/harvest for every cropping season. They helped in the production of biodynamic/organic grains and ensured the integrity and quality of the organic/biodynamic grains planted in their farms. They strictly followed the protocols given by the Don Bosco community development facilitator. Violation of the terms became grounds for the cancellation/revocation of the contract and for the farmer to return the ₱150,000 per hectare mortgage fee.

The farmers were directly supervised by Don Bosco's Community Development Facilitators who served as technical advisory and monitoring teams. Don Bosco provided the farmers with training and other related activities regarding biodynamic/organic management. The foundation also extended support by way of Internal Quality Control System installation and implementation, and later accepted the duly-certified biodynamic/organic products sold.

This improved version of a traditional practice of land mortgaging could be a model for community development, community mortgaging and even agrarian reform. It broke the stranglehold of traders and loan sharks on the poor farmers, guaranteed the return of the land to the farmer, and upgraded agricultural technology. It effectively promoted and sustained biodynamic farming in the field and ensured the link to the Don Bosco health foods market.

#### **Internal Quality Control Systems (IQCS)**

Programme and project sustainability was a big social development question. Organisational and economic viability was necessary to ensure that the efforts that were started did endure.

For biodynamic farming, Don Bosco put another factor into the equation – quality control and organic certification. The marketability and effectiveness of a biodynamic organic product rested on it being genuine and true. With the expanding reach of organic products, there was a need for mechanisms of guarantee and safety. To realise this objective, Don Bosco coordinated with the German and Philippine organic certifying bodies.

The Market Access, Research & Quality Control Services (MARQCS) division sought the acquisition of organic certification by a certifying body outside of Don Bosco through a group certification process. Farmers were organised by clusters as Internal Quality Control Systems (IQCS) teams. These teams regularly inspected the farms, performed internal quality checks and control, and attested to the quality and purity of the produce as well as the authenticity of the production system. External inspectors and certifiers then evaluated the work of the IQCS and inspected the farms.

This mechanism of internal control and self-regulation with an external certifying body ensured the continuity of the market, with or without Don Bosco. On their own, farmers were empowered to deal with the market. This relationship with the market sustained the quality of

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production systems and quality of produce, and ultimately the project and biodynamic agriculture itself.

The IQCS became responsible for the recruitment and expansion, farmer-to-farmer extension, and training of other farmers within the neighborhood of the clusters. A certified organic farm required buffer zones from conventional chemical-dependent farms and the best buffer zone was a neighbor who also practiced the same organic/biodynamic farm production system. This proved to be the best motivation for farmers to do extension work and convert their neighbors. This also effectively ensured the continuity of the project.

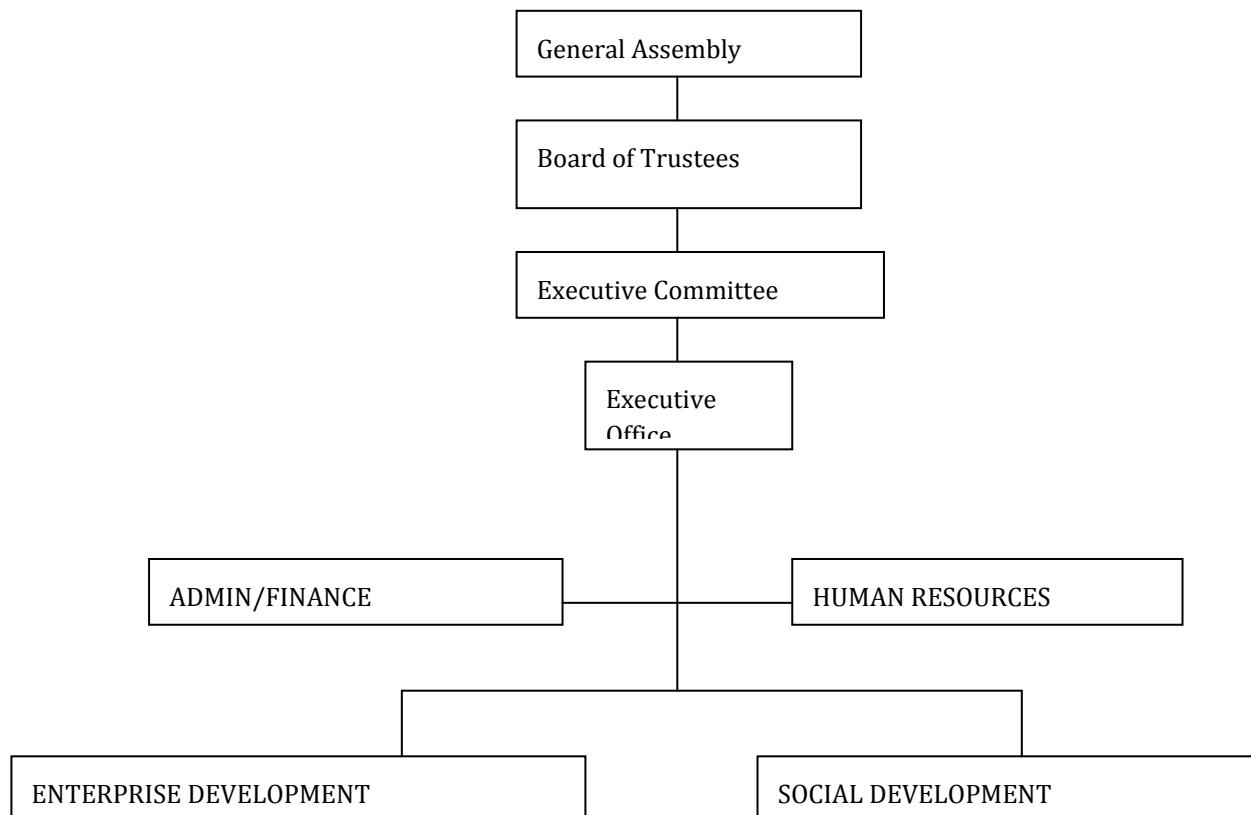
### **Appropriateness of Organisational Structure**

Don Bosco's organisational structure was very simple but quite distinct when compared to most other NGOs and foundations. Most NGOs and foundations had a distinct and separate group of people for the board of trustees and the executive committee. The governance function was clearly differentiated from the management function. Often, the board of directors was composed of prominent people who lent their name and resources to the organisation. They took care of the policy and long-term directions and did not involve themselves in day-to-day management. They met once, twice or four times a year.

This was not the same with Don Bosco. In the Don Bosco Foundation for Sustainable Development, the board of trustees had the composition as the executive committee.

The structure worked, and the foundation did not have a problem with it. It made decision making on both policy and day-to-day operations easier and faster. This distinct feature was an important factor accounting for how Don Bosco had been able to easily shift its NGO programmes and services to social enterprises.

### **DBFSDI ORGANISATIONAL STRUCTURE**



## Impacts of Biodynamic Agriculture on the Farmers and their Communities

As Don Bosco went into enterprise development as a progression of its work with farmers, its partner farmers and their organisations subsequently also ran their own businesses. Benefits received were all encompassing and sustainable.

### **Biodynamic Agriculture Rice Farmers**

#### **✓ Increased Net Income from Savings in Inputs and Time**

Any change would bring about anxiety. The same was true with the shift from conventional farming using chemical and synthetic fertilizers and pesticides to biodynamic agriculture with zero chemical inputs.

Discussions with farmers and visits to the biodynamic farms revealed the happiness and deep appreciation of the farmers who took the plunge and became full converts of biodynamic agriculture. They declared that there was no turning back.

Farmers belied the perception that organic agriculture gave lower yields. They laughed at the notion that sustainable agriculture was more time consuming and labour intensive. The farmers contended that with biodynamic agriculture, it was “menos gastos, menos trabaho.” (FGD with Farmer-Partners of the Agrarian Redemption Programme, 2011). They argued that the harvest was just about the same as the yield of conventional farmers but they earned more because they spent much less in terms of agricultural inputs. They earned from their savings. They also said that because less labour was required, they actually earned more as they used their time for other productive endeavours.

According to the farmers, expenses for one hectare of rice land in conventional farming totaled about ₦15,000–20,000 (US\$368–492) while in biodynamic agriculture, farmers only spent about ₦9,000. Both types of farmers utilised the same amount of about ₦7,000 for land preparation and transplanting. However, biodynamic farmers only paid about ₦2,000 for inputs until harvest while conventional farmers shelled out a minimum of ₦5,000. Many other conventional farmers spent more on added sprays, fertilizers, pesticides and herbicides.

In terms of time, conventional farmers sprayed their fields about 10 times in a cropping season while biodynamic farmers only did it twice. Chemical users worked on their farms three times a week compared to biodynamic farmers who only worked on their farms once a week. And on blackdays as prescribed in their biodynamic agricultural calendars, they did not work in the fields at all.

Biodynamic farmers said that when they were still practicing chemical farming, they were always tired, not knowing when to rest and always worrying about the pests and how to increase their harvest. Now with biodynamic farming they had extra time, and were able to help with house chores, gardening; do some vending; work for others; and perform odd jobs. One of them even worked as a collector for the National Irrigation Administration.

The increased earnings from savings and less time spent on the farm had a positive impact on the biodynamic farmers and their families. They had escaped the clutches of traders and loan sharks who controlled the chemical inputs and subsequently, their harvest. They sent their children through college. One of them even bought two stationary motor threshers and a

kuliglig. Another diversified his farm and added some fruits and vegetables. Still another grew fresh water fish in the rice paddies (*palay-isdaan*).

With biodynamic farming, farmers noticed that their land was enriched. The soil was no longer acidic, was darker in color, and produced deeper mud. The improved soil quality made the biodynamic farms more resistant to drought. Because it had higher water retention, the soil did not dry or crack easily and when it did, the cracks were not that big.

Annex 3 shows comparative production data for rice and shows the differences in terms of net income per hectare, tons per hectare, production cost per hectare, land efficiency ratio or bags per hectare, and percentage return on investment as a result of the shift from conventional chemical farming to biodynamic agriculture.

### **Improved Health**

Aside from increased net income, farmers said that they and their families enjoyed better health. This was achieved because they were no longer exposed to harmful chemicals when they tended their fields. The food they ate was also chemical free. They no longer experienced dizziness and headaches. They argued that they could even drink some of the biodynamic preparations e.g. the milk and honey fertilizer preparation. A big health booster was that they no longer worried about where to get the money to buy their chemical inputs or their medicines.

#### **✓ General Well-being and Happiness**

General well-being brought about by a change towards a more positive outlook in life was another big boon cited by the farmers. The difference in approach was not just in farming but also in terms of interpersonal relations and in spirituality. They gained additional knowledge through trainings about farming techniques, the environment, cosmic forces, working with nature spirits and seeing the divine in nature and people.

The knowledge and values education resulted in better relationships between husbands and wives who worked closer together. And their children involved themselves more in farming activities. In biodynamic agriculture, it was forbidden for married couples to go to the farm when they were angry at each other. The children helped in the formulation and application of the organic sprays and fertilizers.

The relations with the neighbors likewise improved. Their neighbors no longer ridiculed their practices, including that of talking to the plant and the pests. The neighbors consulted and asked them for advice. They followed the biodynamic farmers as to the timing of farm activities in accordance with the biodynamic agricultural calendar.

The biodynamic farmers were proud and no longer ashamed. After their training in biodynamic agriculture, they recalled and found meaning in the practices of their parents and ancestors. For them, biodynamic agriculture gave substance and provided explanations to indigenous knowledge, and gave life to folk spirituality. In a sense, it removed the dichotomy of matter and spirit (the named and the unnamed) and made them to feel whole. The farmers received positive energies from the universe, from nature and from each other.

### **Non-Rice Micro-enterprises**

For non-rice areas, Don Bosco started micro-enterprises, especially for women. These enterprises produced and supplied the Don Bosco Biodynamis Health Foods Center with health supplements, processed foods, and fruits and vegetables.

While most of the health supplement micro-enterprises were run by the women, both men and women earned because sometimes the men would do the gardening and the women would cook the raw materials. The growing of the plants and the cooking followed biodynamic procedures and standards.

For the Sustainable Biodynamic Farmers Association of Sagkungan, Inc. (SUBFASI) which produced tea and capsules from turmeric, lemon grass and sambong leaves, the women earned an additional ₱1,800–4,000 (US\$44–98) a month. On average, they earned ₱2,500 a month.

For 100 kg of turmeric tea worth ₱15,000, 30 percent was divided by the number of women processors or the cooks and packers. The remaining 70 percent went to the cost of raw materials, and with farm labour at ₱120 per day, the balance was the profit. Land share was pegged at 15 percent of the net income. The profit was plowed back to the organisation as working capital. Cooking was not done daily as there were rest days or black days based on the biodynamic calendar. Like the biodynamic rice farmers, the women used the black days for house chores or to work in other fields.

The cooperative members became proud, happy and of course, healthier. Their knowledge on health and medicines as well as their biodynamic lifestyle strengthened their minds and bodies. They used to be seasonal workers in sugarcane plantations, but now they had regular jobs with the businesses of their cooperatives. They were able to buy rice by the sack and had viands for their meals. Stores opened credit lines for them. But there was no more need to borrow and even if they did, they were able to pay immediately. They had electricity and home appliances installed in their houses. Their kids finished college or vocational courses. Some even bought land.

The women laughingly narrated how some of their simple whims had come true. In the past, those who went to town did the marketing for everyone else so as to save on transportation money. Anyway, purchases were minimal in terms of both volume and variety. With their business of producing organic health supplements, they went to town together, shopped and ate in fancier restaurants. They called it “community dating.” Villagers went to town more often and hence more tricycles plied routes in their village.

Many of these micro-enterprises had diversified their product lines to additional herbal health products or food items like peanut rolls and peanut candies. They also sold anthroposophic medications. They expanded to other product lines like tamarind as these abounded in their area. For them, more product lines translated to more work, more people employed and more income.

The organisation had come a long way. All debts were paid and they had a good cash flow from their revolving capital and profits. From ₱16,000 (US\$393) borrowed from Don Bosco in 2006, their working capital in 2010 grew to ₱1.3 million. The cooperative had its own office-cum-store with a processing centre at the back. They had a herbal garden and were no longer depended on

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the wild for supply. A bigger and much improved processing centre following the guidelines set by the government's Bureau of Food and Drugs (BFAD) was constructed in an adjacent lot. Government agencies such as the Department of Trade and Industry (DTI) and the municipal government took notice and gave assistance. The organisation was full of pride in the fact that they were able to sponsor their own activities without support from Don Bosco. Don Bosco used to host them, but after a while, they found themselves hosting Don Bosco. Best of all, they sustained employment in the village.

The micro-enterprises stood on their own, with guidance and inspiration from God and their determination to help the people.

### **Biodynamic Agriculture: Propelling the Rise of the Don Bosco Social Enterprises**

As an alternative system, Don Bosco's philosophy in business also had an added dimension. Don Bosco's social enterprises subscribed to the triple bottom line of people, profits and Mother Earth. As an NGO, Don Bosco believed in the principle of righteous wealth and that the way out of poverty was not just for Filipino individuals and families but also for the Philippine NGOs. (Gamela, 2011)

As Don Bosco went about its training and extension work, it realised that facilitating education and technology transfer for sustainable agriculture were not enough. There were basic requirements which were often not in their budget or programme.

Seeds, seedlings, livestock, farm equipment plus post-harvest facilities and machinery were needed by the farmers. But these were controlled by the traders and the local elite. Even as the farmers' production quality and levels increased, they were still forced to sell low. An alternative credit and marketing facility was needed so that the farmers would be freed from loan sharks and usurers and not be forced to sell their lands to these unscrupulous business people. Likewise, without credit and marketing support, it became very difficult for the farmers to convert their farms to biodynamic agriculture from conventional farming as doing so would cut them from the support of the traders to whom they were heavily indebted. Hence, ACSS was created.

With Don Bosco having firmly established the efficacy and efficiency of biodynamic farming, the ecological soundness and economic viability of this practice was no longer the issue. The question was "how to advance the level of success from the production system to the level of processing, distribution and marketing". (Gamela, 2011).

The AMS became an important ingredient in establishing the credibility of biodynamic/organic agricultural production to the public. The only evidence that the system worked was the production of something which ordinary people bought and ate. But it was imperative that these biodynamic products and their properties were made distinct from the conventional chemically-produced rice and other agricultural products.

Through the Bios Dynamis Multi-Purpose Cooperative, Don Bosco operated a grains center with a rice mill, a drying and storage building and hauler trucks. The facility had its own revolving fund and procurement capital. Don Bosco also established the Bios Dynamis Health Foods Center.

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This became a health foods chain with eight branches all over Mindanao. These health foods outlets served the niche markets and were Don Bosco's best tools for advocacy and credibility. Because of this, Don Bosco has reportedly attained a 53 percent share of the organic rice market in Mindanao.

Found in the health food outlets were other agricultural products which utilised the principles and methodologies of biodynamic agriculture. These included dairy products from the dairy farm, organic farm inputs, fruit juice, organic vegetables and fruits as well as tea and capsules from lemon grass, turmeric, sambong, heraluba, and other medicinal herbs. Don Bosco improved production and marketing of these other agricultural products through the organisation of the rural folk, mostly women, into micro-enterprises of biodynamic health supplements.

Another business of Don Bosco was its training centre operations also known as the youth camp. Different offices and organisations used the facilities for their workshops, seminars and retreats, not to mention the trainings on biodynamic agriculture. Although not among the original plans of Don Bosco, the organisation earned as a resource and training service provider for biodynamic agriculture.

To complete the value chain, as well as the equation from seeds to shelves, the COMSEEDCODE programme developed itself into a sustainable enterprise that responded to the need for quality and organically certified seeds in support of the biodynamic and organic farmers. The end goal was for the farming communities to equitably share the benefits from the common patrimony of seeds. It was foreseen that this biodynamic seed enterprise will develop an organically certified seed industry within the sustainable agriculture movement and will be made available publicly even outside of Don Bosco's coverage. It was also anticipated that this social enterprise would be run by an organisation of seed breeders, curators and producers.

To sum it up, Don Bosco used all legal means possible to push for the realisation and expansion of biodynamic agriculture. To start off new stages or product lines in the value chain, it opened a programme in the NGO and submitted project proposals for funding. While the programme was being funded by the donors, it accumulated experiences and put the necessary infrastructure in place, including capitalisation. This paved the way for the birth of a new social enterprise. Where donor funds were lacking or even absent, Don Bosco borrowed or campaigned for support from groups and individuals, government and other financing organisations. It also channeled some funds from the ventures that were already earning money to the still struggling enterprises.

### **Challenges to Don Bosco's Biodynamic Agriculture**

The journey had been at the very least exciting. What started off as a youth programme was transformed into a system to support biodynamic agriculture. Then began the spiritual journey in the farms and the physical application of this spiritual path. In biodynamics, this pertained to the science and oneness of the universe.

It was not easy. Don Bosco's vision, mission, goals and strategies (VMGS) were difficult to articulate. People did not understand. The Catholic institutional church was not fully accepting biodynamic agriculture. The rebels distrusted them as an organisation. The government hardly

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noticed them. There was competition from nearby NGOs doing organic farming also but using different approaches. And Don Bosco did not like to make unnecessary enemies. Nor did it want to be labeled or mislabeled.

Don Bosco quietly and persistently persevered. For each member of management and staff, the organisational journey became deep and personal. They saw that behind it all was a spirituality that they shared. This conviction and commitment was what they passed on to their farmer-partners. This awakening was what they shared with other agricultural groups and agencies. This advocacy was what they promoted to the public.

Don Bosco felt that it was tiring to keep asking for funds from the funding agencies. Besides, there was a big probability that donor fatigue might set in or changes in policies might affect the financial support as in the case of EC support. Mendicancy was not a good way of life. But outside support was still necessary and important.

Don Bosco balanced its dual character as a foundation and a social enterprise and made the best of both worlds. Everyone was happy. The donors saw results, impacts and sustainability; new projects arose in response to evolved needs; programmes were adequately prepared before they were weaned to stand on their own; more farming communities were covered; more products were developed; and more social enterprises were established and maintained.

As a foundation and a social enterprise, Don Bosco achieved the balance of the spiritual and the material; services and sustainability; and business and social responsibility.

Don Bosco summed up their evolution in the following manner:

*Without planning to, we have taken on the cudgels of spreading sustainable biodynamic agriculture not only in Mindanao but throughout the country... We have an edge over the others because we have the ground level experience and the numbers to back up our claims about the effectiveness and efficiency of sustainable biodynamic agriculture system...*

Hurdles came but grace flowed and the path was lighted. When the donor funding level went down, biodynamic rice production increased. There was a strong need for the AMS, and financial self-reliance as an agenda became all the more pronounced. According to Betsy Gamela, Don Bosco's vibrant executive director, "social enterprise became the light at the end of the tunnel and financial independence was like a breath of freedom from donor dependency". (Gamela, 2011).

### **DBFSDI Perspectives for Scaling Up**

*But more important and more directly effective for us are partnerships with the local government units right on the ground level where we are able to transfer the skills, the commitment and the technical capability on the applied science of biodynamics to government agriculture and food technicians...*

*The success of such partnerships on the ground can be the basis for transforming State policies and legislative support in favor of sustainable agriculture. The ultimate dream of all NGO's is for this to happen. But this will require producing the critical mass of people who do successful SA to arrive at the tipping point that will transform what is currently alternative to become mainstream...*

*An NGO or civil society organisation's capability or project cannot embrace a whole province or region, much less a whole country. It is there to show to the other stakeholders "a third way," an "alternative way" hoping that they will see it as ultimately the "right way" and adopt it as a policy and programme. In so doing, the alternative becomes the mainstream. And so, the direct investment in one area creates ripples if not waves throughout a country when it finally becomes a mainstream policy, begins the process of transformation. This is the dream of Don Bosco for the future, that it can truly live as salt and light for the country's agriculture, that it becomes a true leavening for the lives of the people, especially the rural disadvantaged poor. (Evolution of Don Bosco Foundation for Sustainable Development, Inc.: Brief History Of Development Partnerships, Current Updates & Direction For The Future, p.23-24).*

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## ANNEX 1

### **Participants in the Focus Group Discussions (FGD) conducted regarding “Don Bosco Foundation For Sustainable Development, Inc.”**

#### **Focus Group Discussion (FGD) with Bios Dynamis Community Seedbank Staff**

**Sitio Pangcog, Buanyan, Mlang, Cotabato**

**January 24, 2011**

Name	Sex	Position
Abian, Gilda G.	F	Team Leader
Billena, Flora May A.	F	Researcher
Billena, Jeorge G.	M	Seed Extension Staff
Dela Cruz, Julyan D.	F	IDS
Mojana, Ruby Ann M.	F	Researcher
Serencio, Antonio R. Jr.	M	Seed Extension Staff
Serencio, Carlito R.	M	Residential Farmer

#### **Focus Group Discussion (FGD) with the Managers of the Agrarian Redemption Program**

**Magsaysay St., Mlang, Cotabato**

**January 24, 2011**

Name	Sex	Position
Gran, Cesar O.	M	Asst. Manageer, Biodynamis MPC
Bello, Billy	M	Credit Manager
Alolosan, Mario	M	Supervisor, Agrarian Redemption Program

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**Focus Group Discussion (FGD) with Farmer-Partners of the Agrarian Redemption Program**

**Magsaysay St., Mlang, Cotabato**

**January 25, 2011**

Name	Sex	Position
Borgonia, Nelly O.	F	Member
Espartero, Rodnie	M	Member
Forton, James	M	Member
Gajes, Pedro	M	Member
Hosalla, Rick J.	M	Member
Laab, Dandy P.	M	Member
Oriel, Eresto T.	M	Member
Porras, Luzviminda	F	Member
Reusora, Rosalia P.	F	Member
Valenzuela, Antonio	M	Member
Valiente, Roldan	M	Member

**Focus Group Discussion (FGD) with the Board of Directors of the**

**Sustainable Biodynamic Farmers Association of Sagkungan, Inc. (SUBFASI)**

**Purok 3, Sagkungan, Pres. Roxas, Cotabato**

**January 26, 2011**

Name	Sex	Position
Posas, Pedro F.	M	BOD Chairperson
Exim, Leonidas P.	F	BOD Member
Lasaga, Rhodora	F	BOD Member
Pinote, Elenita R.	F	BOD Member

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**Focus Group Discussion (FGD) with the Board of Directors/Management of the**

Don Bosco Foundation For Sustainable Development, Inc. (DBFSDI)

200 Batasan Hills, Batasan, Makilala, Cotabato.

**January 26, 2011**

Name	Sex	Position
Gamela, Betsy Ruiz	F	President/ Executive Director
Laurilla, Romano S.	M	Vice President
Abian, Gilda G.	F	BOD Member
Alolosan, Mario B.	M	BOD Member
Esmeralda, Mario P.	M	BOD Member
Gran, Cesar O.	M	BOD Member
Bello, Billy	M	Credit Manager

## ANNEX 2

### Biodynamic Farming

Biodynamic agriculture is an advanced organic farming system that is gaining increased attention for its emphasis on food quality and soil health.

Biodynamic or biodynamics as a term is derived from the Latin word “bios” for life and “dynamics” or “dynamic” for force. It grew out of the anthroposophic philosophy (science of the spirit) of Rudolf Steiner in 1924. Anthroposophy is an approach to science that integrates precise observation of natural phenomena, clear thinking, and knowledge of the spirit. It offers an account of the spiritual history of the Earth as a living being, and describes the evolution of the constitution of humanity and the kingdoms of nature. Biodynamics is a science of life forces, a recognition of the basic principles at work in nature, and an approach to agriculture that takes these principles into account to bring about balance and healing. As such, biodynamics is an ongoing path of knowledge rather than an assemblage of methods and techniques. Steiner’s concerns include that of food. He contends that food produced by chemical means was being depleted of “life force” needed for the continued evolution of humanity.

A basic ecological principle of biodynamics is to conceive the farm as an organism, a self-contained entity. A farm is said to have its own individuality. Emphasis is placed on the integration of crops and livestock, recycling of nutrients, maintenance of soil, and the health and well-being of crops and animals; the farmer too is part of the whole. Thinking about the interactions within the farm ecosystem naturally leads to a series of holistic management practices that address the environmental, social, and financial aspects of the farm. A comparison of objectives between biodynamic and conventional agriculture systems in Appendix 1 summarises these ideas.

A fundamental tenet of biodynamic agriculture is that food raised biodynamically is nutritionally superior and tastes better than food produced by conventional methods.

While biodynamics parallels organic farming in many ways – especially with regard to cultural and biological farming practices – it is set apart from other organic agriculture systems by its association with the spiritual science of anthroposophy founded by Steiner; and its emphasis on farming practices intended to achieve balance between the physical and higher, non-physical realms. Biodynamics also is different in that it acknowledges the influence of cosmic and terrestrial forces to enrich the farm, its products and its inhabitants with life energy.

In a nutshell, biodynamics can be understood as a combination of “biological dynamic” agriculture practices. “Biological” practices include a series of well-known organic farming techniques that improve soil health. “Dynamic” practices are intended to influence biological as well as metaphysical aspects of the farm (such as increasing vital life force), or to adapt the farm to natural rhythms (such as planting seeds during certain lunar phases).

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Adapted from Fernandez, P. G. 2001. Organic seed: Implications for sustainable agriculture. SEARCA Inaugural Professional Chair Lecture, Department of Agronomy, University of the Philippines, Los Banos, Laguna, July 10, 2001, 172pp.

The concept of dynamic practice – those practices associated with non-physical forces of nature like vitality, life force, ki, subtle energy and related concepts – is a commonality that also underlies many systems of alternative and complementary medicine. It is this latter aspect of biodynamics which gives rise to the characterisation of biodynamics as a spiritual mystical approach to alternative agriculture.

### **Objectives in Biodynamic and Conventional Farming**

‘Biodynamic’	‘Conventional’
<b>ORGANISATION</b>	
Ecological orientation, sound economy, efficient labour input	Economical orientation, mechanisation, minimising labour input
Diversification, balanced combination of enterprises	Specialisation, disproportionate development of enterprises
Best possible self-sufficiency regarding manure and feed	Self-sufficiency is not an objective; importation of fertilizer and feed
Stability due to diversification	Programme dictated by market demands
<b>PRODUCTION</b>	
Cycle of nutrients within the farm	Supplementing nutrients
Predominantly farm-produced manuring materials	Predominantly or exclusively bought-in fertilizers
Slowly soluble minerals if needed	Soluble fertilizers and lime
Weed control by crop rotation, cultivation, thermal	Weed control by herbicides (cropping, cultivation, thermal)
Pest control based on homeostasis and inoffensive substances	Pest control mainly by biocides
Mainly home-produced feed	Much of all feed bought in
Feeding and housing of livestock for production and health	Animal husbandry mainly oriented towards production
New seed as needed	Frequently new seed

'Biodynamic'	'Conventional'
<b>MODES OF INFLUENCING LIFE PROCESSES</b> <p>Production is integrated into the environment, building healthy landscapes, attention is given to rhythm</p> <p>Stimulating and regulating complex life processes by biodynamic preparations for soil, plants, and manures</p> <p>Balanced conditions for plants and animals, few deficiencies need to be corrected</p>	<p>Emancipation of enterprises from their environment by chemical and technical manipulation</p> <p>No equivalent biodynamic preparations; use of hormones, antibiotics, etc.</p> <p>Excessive fertilizing and feeding, correcting deficiencies</p>
<b>SOCIAL IMPLICATION; HUMAN VALUES</b> <p>National economy, optimum input-output ratio regarding materials and energy</p> <p>Private economic: stable monetary results</p> <p>No pollution</p> <p>Maximum conservation of soil, water quality and wild life</p> <p>Regionalised mixed production, more transparent consumer-producer relationship; nutritional quality standards</p> <p>Holistic approach, unity between world conception economic and motivation</p>	<p>National economy; poor input-output ratio regarding materials and input</p> <p>Private economic: high risks, gains at times</p> <p>Worldwide considerable pollution</p> <p>Using up soil fertility, often erosion, occurs losses in water quality and wild life</p> <p>Local and regional specialisation, more anonymous consumer-producer relation; interested in grading</p> <p>Reductionist picture of nature, emancipated, mainly motivated</p>

Koepf, H. H. 1981. The principles and practice of biodynamic agriculture p.237-250. In: Stonehouse, B. (ed), Biological Husbandry: A Scientific Approach to Organic Farming. Butterworths, London.

**Biodynamic Preparations, Source and Function**

<b>Prepa- ration</b>	<b>Source (Plant Part)</b>	<b>Process</b>	<b>Functions</b>
500	Cow manure	Cow manure buried in cow horn during winter	Serves to relieve plants of stress; promotes root activity especially of fine root hairs to stimulate soil micro-life and increase beneficial bacterial growth; invigorates the soil
501	Quartz	Quartz crystals buried in cow horn for several months	Helps bring sunlight to the leaves; stimulates fruit and seed formation; improves the flavour; keeping quality nutritional value of crops as well as making them resistant to diseases and pests; acts as supplement to biodynamic 500
502	Yarrow (blossoms) ( <i>Achillea millefolium</i> )	Blossoms are buried for a year in a bladder of a stag (male young deer)	Regulates potash process with the help of sulfur; allows plant to take up the proper trace elements essential for growth and seed formation
503	Chamomile (blossoms) ( <i>Chamomilla officinalis</i> )	Chamomile buried in a cow's intestine	Regulates calcium process also with the help of sulfur; aids in stabilising the nitrogen content of plants; helps the plant to find the right relationship between silica and potassium, enabling the soil to take in the right amount of silica from the atmosphere and from its cosmic surroundings
504	Stinging nettle (whole shoot in bloom) ( <i>Urtica dioica</i> )	Buried for a year or more	Multiple functions; similar to heart in human organisms; regulates potassium, calcium and iron with help of sulfur; makes manure inwardly sentient and sensitive; makes the earth itself intelligent and permeates it with reason; soil individualises itself and allows proper relationship between soil and specific plants; helps keep the N content of the compost from evaporating; as liquid manure, it enhances the vegetative growth of plants, especially during the dry weather

<b>Preparation</b>	<b>Source (Plant Part)</b>	<b>Process</b>	<b>Functions</b>
505	Oak (bark) ( <i>Quercus robur</i> )	Buried in a skull of a domestic animal	Calcium regulation; helps control plant diseases
506	Dandelion (flowers) ( <i>Taraxacum officinale</i> )	Buried in cow's mesentery (stomach)	Stimulates transmutation of chemical elements; for example, potassium to nitrogen helps regulate cosmic influences; sensitises plant to environment; plants are stimulated to draw in what they need and not just from soil environment; helps regulate the formative life energies coming from the cosmos or the stars and planets beyond the earth
507	Valerian* (flowers) ( <i>Valeriana officinalis</i> )	Extract juice	Regulates phosphorus process; aids in the compost fermentation process
508	Horsetail* ( <i>Equisetum arvense</i> )		Prevents rust and other fungal diseases; can be used as spray against mildew, rust, scab, and other soil-borne pathogenic fungi; improves protein content and ratio of vitamin C in the plants

\*Plant specific crops under specific zodiac signs.

#### **Biodynamic Preparations, Sources and Representations**

<b>Preparation</b>	<b>Source</b>	<b>Representation</b>
500	Cow manure	Earth
501	Quartz	Sun
502	Yarrow (asteraceae)	Venus
503	Chamomile (asteraceae)	Mercury
504	Stinging nettle (urticaceae)	Mars
505	Oak (sterculiaceae)	Jupiter

Preparation	Source	Representation
506	Yellow-flowered dandelion (asteraceae)	Jupiter
507	Valerian (valeriaceae)	Saturn
508	Horsetail (equisitaceae)	with the cometary forces

Note: Reproductive forces of the Moon, Mercury and Venus work directly through the limestone content of the earth and rayed back upward from below the surface. Mars, Saturn and Jupiter work on the siliceous element in the soil.

#### **What Biodynamic Preparations and other Substances Provide in People**

Biodynamic 500	Intelligence
Biodynamic 501	Sensation
Biodynamic 502	Excretion/Purification
Biodynamic 503	Digestion/Assimilation
Biodynamic 504	Circulation
Biodynamic 505	Structure
Biodynamic 506	Regulation
Biodynamic 507	Metabolism
Biodynamic 508	Boundedness
Homeopathic milk	Nourishment
Honey	Ripeness;Maturation

### ANNEX 3

#### **Comparative Production Data for Rice Resulting from the Shift from Conventional Chemical Farming to Biodynamic Agriculture**

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**Integrated Research And Development**

**BATASAN, MAKILALA, COTABATO**

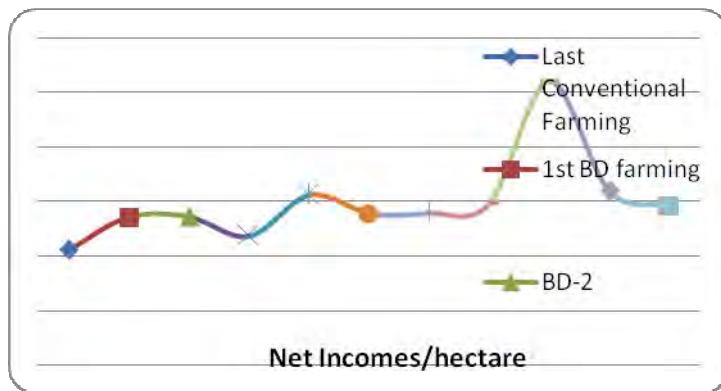
#### **COMPARATIVE PRODUCTION DATA FOR RICE**

##### **NET INCOME PER HECTARE**

	<b>DISTRICT 6- Magsaysay</b>	<b>DISTRICT 5- Midsayap</b>	<b>DISTRICT 3- Mlang</b>	<b>DISTRICT 2- Kabacan</b>	<b>TOTAL</b>	<b>MEAN</b>
	<b>Davao del Sur Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>		
Last Conventional Farming	28,802.17	18,906.02	16,365.15	20,331.92	84,405.26	21,101.32
1st Biodynamic farming	26,502.12	37,564.46	18,438.71	25,997.76	108,503.05	27,125.76
Biodynamic-2	30,345.69	23,801.78	21,362.06	33,434.74	108,944.27	27,236.07
Biodynamic-3		23,875.51	16,413.31	30,605.79	70,894.61	23,631.54
Biodynamic-4		35,079.33	25,097.18	33,695.40	93,871.91	31,290.64
Biodynamic-5		32,950.95	23,617.31	26,766.23	83,334.49	27,778.16
Biodynamic-6			24,970.43	30,878.36	55,848.79	27,924.40
Biodynamic-7			36,108.15	23,125.39	59,233.54	29,616.77
Biodynamic-8			81,232.11	22,927.51	104,159.62	52,079.81
Biodynamic-9			41,451.16	22,356.19	63,807.35	31,903.68

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	DISTRICT 6-Magsaysay	DISTRICT 5-Midsayap	DISTRICT 3-Mlang	DISTRICT 2-Kabacan	TOTAL	MEAN
	Davao del Sur Area	Cotabato Area	Cotabato Area	Cotabato Area		
Biodynamic-10			34,392.25	24,082.31	58,474.56	29,237.28



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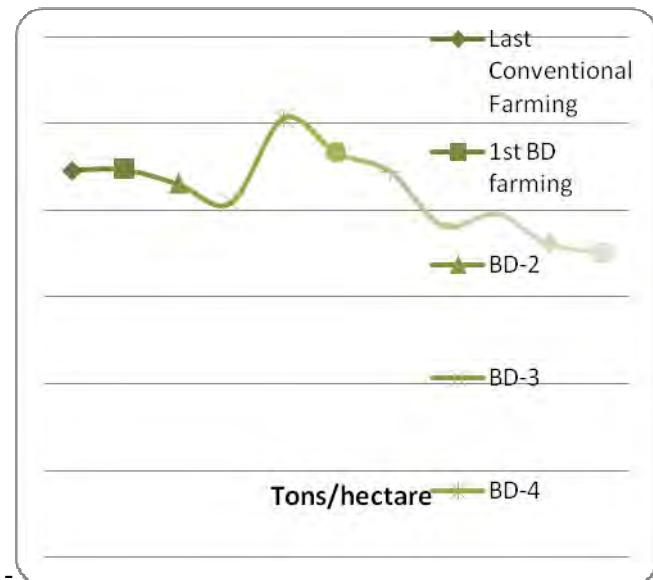
**BATASAN, MAKILALA, COTABATO**

**COMPARATIVE PRODUCTION DATA FOR RICE**

**TONS PER HECTARE**

	<b>DISTRICT 6- Magsaysay</b>	<b>DISTRICT 5- Midsayap</b>	<b>DISTRICT 3- Mlang</b>	<b>DISTRICT 2- Kabacan</b>	<b>TOTAL</b>	<b>MEAN</b>
	<b>Davao del Sur Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>		
Last Conventional Farming	4.65	4.41	4.25	4.56	17.87	4.47
1st Biodynamic farming	3.66	5.61	4.25	4.37	17.89	4.47
Biodynamic-2	3.86	3.76	4.68	4.95	17.25	4.31
Biodynamic-3		3.87	3.99	4.4	12.26	4.09
Biodynamic-4		5.34	4.89	4.99	15.22	5.07
Biodynamic-5		5.34	4.62	4.04	14.00	4.67
Biodynamic-6			4.56	4.34	8.90	4.45
Biodynamic-7			4.26	3.38	7.64	3.82
Biodynamic-8			4.56	3.36	7.92	3.96
Biodynamic-9			4.70	2.53	7.23	3.62
Biodynamic-10			4.17	2.86	7.03	3.52

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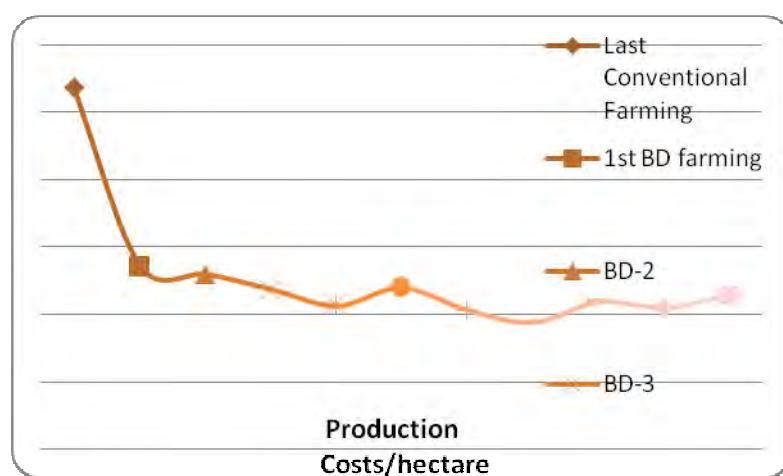
**COMPARATIVE PRODUCTION DATA FOR RICE**

**PRODUCTION COST PER HECTARE**

	<b>DISTRICT 6- Magsaysay</b>	<b>DISTRICT 5- Midsayap</b>	<b>DISTRICT 3- Mlang</b>	<b>DISTRICT 2- Kabacan</b>	<b>TOTAL</b>	<b>MEAN</b>
	<b>Davao del Sur Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>		
Last Conventional Farming	12,253.39	8,587.19	9,931.60	12,234.71	43,006.89	10,751.72
1st Biodynamic farming	8,438.46	3,809.93	5,223.81	4,162.16	21,634.36	5,408.59
Biodynamic-2	8,362.94	3,835.58	4,459.68	4,072.02	20,730.22	5,182.56
Biodynamic-3		5,441.83	4,439.87	4,318.06	14,199.76	4,733.25
Biodynamic-4		4,239.00	4,129.74	4,384.27	12,753.01	4,251.00
Biodynamic-5		5,351.67	4,558.37	4,437.44	14,347.48	4,782.49
Biodynamic-6			4,332.67	3,913.04	8,245.71	4,122.86
Biodynamic-7			4,110.27	3,410.65	7,520.92	3,760.46
Biodynamic-8			5,190.42	3,555.99	8,746.41	4,373.21

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	DISTRICT 6- Magsaysay	DISTRICT 5- Midsayap	DISTRICT 3- Mlang	DISTRICT 2- Kabacan	TOTAL	MEAN
	Davao del Sur Area	Cotabato Area	Cotabato Area	Cotabato Area		
Biodynamic-9			5,032.50	3,332.71	8,365.21	4,182.61
Biodynamic-10			6,650.00	2,506.07	9,156.07	4,578.04



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**Integrated Research And Development**

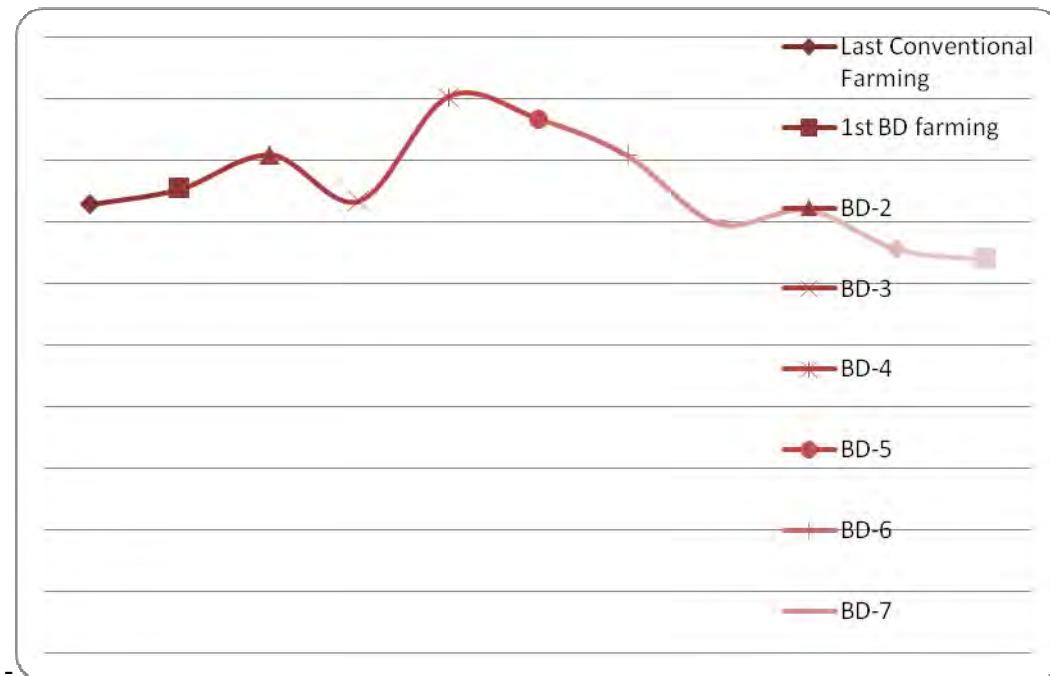
**BATASAN, MAKILALA, COTABATO**

**COMPARATIVE PRODUCTION DATA FOR RICE**

**LAND EFFICIENCY RATIO (Bags/has. @55 Kg)**

	<b>DISTRICT 6</b>	<b>DISTRICT 5</b>	<b>DISTRICT 3</b>	<b>DISTRICT 2</b>	<b>TOTAL</b>	<b>MEAN</b>
Last Conventional Farming	53.70	78.69	77.40	81.88	291.67	72.92
1st Biodynamic farming	44.57	101.89	77.39	77.74	301.59	75.40
Biodynamic-2	81.84	68.26	85.13	88.47	323.70	80.93
Biodynamic-3		70.28	72.44	77.43	220.15	73.38
Biodynamic-4		96.97	83.48	90.69	271.14	90.38
Biodynamic-5		97.09	88.61	74.79	260.49	86.83
Biodynamic-6			82.86	78.74	161.60	80.80
Biodynamic-7			80.59	59.06	139.65	69.83
Biodynamic-8			82.88	61.01	143.89	71.95
Biodynamic-9			85.16	46.09	131.25	65.63
Biodynamic-10			75.68	52.20	127.88	63.94

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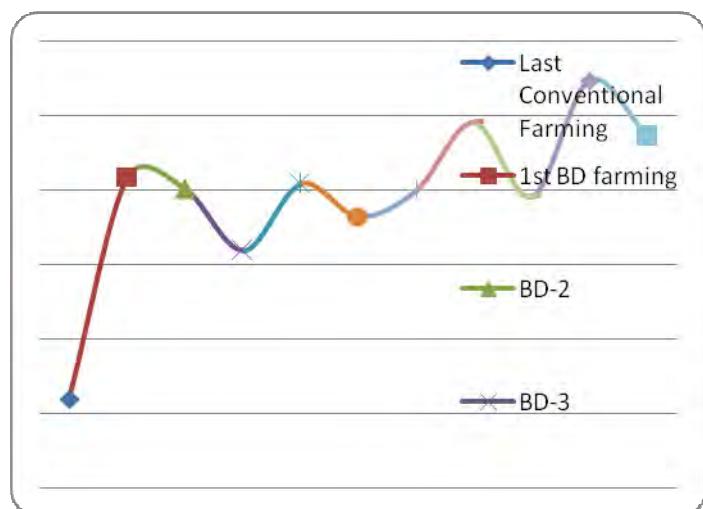
**BATASAN, MAKILALA, COTABATO**

**COMPARATIVE PRODUCTION DATA FOR RICE**

**RETURN ON INVESTMENT %**

	<b>DISTRICT 6- Magsaysay</b>	<b>DISTRICT 5- Midsayap</b>	<b>DISTRICT 3- Mlang</b>	<b>DISTRICT 2- Kabacan</b>	<b>TOTAL</b>	<b>MEAN</b>
	<b>Davao del Sur Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>	<b>Cotabato Area</b>		
Last Conventional Farming	337	228.31	189.86	199.22	954.39	238.60
1st Biodynamic farming	497.70	1084.03	603.16	1,160.80	3,345.69	836.42
Biodynamic-2	671.87	647.83	474.77	1,417.13	3,211.60	802.90
Biodynamic-3		540.73	382.74	991.24	1,914.71	638.24
Biodynamic-4		851.08	647.92	952.26	2,451.26	817.09
Biodynamic-5		657.42	517.33	1,011.81	2,186.56	728.85
Biodynamic-6			477.23	1,122.38	1,599.61	799.81
Biodynamic-7			792.733	1,173.83	1,966.56	983.28
Biodynamic-8			551.285	1,013.14	1,564.43	782.21
Biodynamic-9			849.12	1,341.45	2,190.57	1095.29
Biodynamic-10			558.365	1,331.55	1,889.92	944.96

THE DON BOSCO FOUNDATION FOR SUSTAINABLE DEVELOPMENT, INC.: BIODYNAMIC  
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## CHAPTER 5

### FAIR TRADE PRACTICES IN THE PHILIPPINES

*"Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South. Fair Trade Organisations, backed by consumers, are engaged actively in supporting producers, awareness raising, and in campaigning for changes in the rules and practice of conventional international trade."<sup>1</sup>*

Organisations in the Philippines started to engage in fair trade in the 1980s. The fair trade movement gained popularity during the sugar and coffee crises when prices plummeted, causing unemployment among thousands of Filipinos. In response to the situation, organisations started to implement structures that alleviated poverty and lessened dependency on sugar and coffee exports. Organisations such as PREDA and CCAP pioneered the advocacy and application of fair trade principles. Alternative trade organisations evolved such as SAFRUDI and Alter Trade that provided producers with an alternative market where they could gain higher economic returns for their products.<sup>2</sup>

This case study presents fair trade practices from three pioneer fair trade organisations in the Philippines — PREDA, CCAP and SAFRUDI. It also presents some existing fair trade networks. Measures of fair trade practices are presented in the case to highlight how fair trade practices affect management conduct and social impact of the social enterprises.

#### The Global Fair Trade Network

The World Fair Trade Organization (WFTO) was a global representative body of more than 350 organisations committed to achieving the vision of 100 percent Fair Trade<sup>3</sup>. It had members in 70

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<sup>1</sup>[www.wfto.com](http://www.wfto.com)

<sup>2</sup> "Fair Trade in the Philippines: Challenges and Opportunities," ICLEI-Local Governments for Sustainability, October 2006.

<sup>3</sup> Following case writing standards, this case was written in the past tense. This is not to say however that the organisations cited in the case do not follow the described practices any more. In fact, it can be assumed that the

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*This case was written by Edwin M. Salonga under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.*

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## FAIR TRADE PRACTICES IN THE PHILIPPINES

countries across six regions – Africa, Asia, Europe, Latin America, North America and the Pacific Rim. WFTO was a global movement composed of different stakeholders, namely producer organisations, non-government organisations, business development service providers, marketing organisations and producer groups, as well as individual members who commonly adhered to the principles and goals of fair trade.<sup>4</sup>

WFTO prescribed 10 standards that fair trade organisations must follow in their day-to-day work, and carried out monitoring to ensure these principles were upheld:<sup>5</sup>

1. Creating Opportunities for Economically Disadvantaged Producers;
2. (Ensuring) Transparency and Accountability;
3. (Establishment of Fair) Trading Practices;
4. Payment of a Fair Price;
5. (Prohibition of) Child Labour and Forced Labour;
6. Non-Discrimination, Gender Equity and Freedom of Association;
7. (Safe and Healthy) Working Conditions;
8. Capacity Building;
9. Promotion of Fair Trade; and
10. (Protection of the) Environment.

### The Fair Trade Network in Asia

At the regional level, WFTO made its presence felt through WFTO – Asia which “provides impoverished food and crafts producers from all over Asia greater access to regional and inter-regional export markets. Maximising the advantage of the established cooperation, WFTO ASIA served as a platform wherein member-organisations shared, among each other, culturally sensitive and regionally distinct strategies in the areas of skills and organisational development, technology transfer and access to information.”<sup>6</sup>

WFTO – Asia was comprised of 90 fair trade organisations across developing countries in Asia. It had country networks in Bangladesh, Cambodia, India, Indonesia, Laos, Nepal, Philippines, Sri Lanka, Thailand and Vietnam. It also had member organisations in China, Korea, Pakistan and Timor-Leste.

### The Fair Trade Network in the Philippines

WFTO – Philippines was established in 2002 but was known back then as the Philippine Fair Trade Forum (PFTF). It was a network of fair trade organisations in the country. When this

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organisations have a long-term and fundamental commitment to Fair Trade. For updated information, please contact the organisations directly.

<sup>4</sup> <http://www.wfto.com>

<sup>5</sup> See Annex A for the 10 Standards of Fair Trade prescribed by WFTO

<sup>6</sup> <http://www.wfto-asia.com>

## FAIR TRADE PRACTICES IN THE PHILIPPINES

research was conducted, WFTO – Philippines had 30 member organisations, nine of whom were directly affiliated to WFTO – Global. This included some of the pioneers of fair trade in the Philippines such as the People's Recovery, Empowerment and Development Assistance (PREDA), the Community Crafts Association of the Philippines (CCAP), and the Social Action Foundation for Rural and Urban Development, Inc. (SAFRUDI).<sup>7</sup>

WFTO – Philippines worked for the development of progressive and responsible fair trade stakeholders in the country. It ensured that all member organisations were engaged in their commitment to the principles and standards of fair trade: providing income and food security to disadvantaged communities; empowering community-based producers; and promoting a quality and market-driven image of fair trade products. WFTO – Philippines served as a common vehicle of the member organisations for:<sup>8</sup>

1. Increasing market access, both domestic and export;
2. Raising consumer awareness of fair trade;
3. Sharing experiences and taking common action;
4. Establishing a center of information for fair trade initiatives, products and services; and
5. Lobbying and campaigning for changes in trade policies which will redound to the benefit of marginalised producers.

WFTO – Philippines was envisaged as the common voice representing issues and concerns of local fair trade stakeholders to the WFTO and WFTO – Asia.

During the certification process, WFTO – Philippines encouraged prospective members to undertake a self-evaluation first using the 10-point checklist found below.

Number	Question	Yes	No
01	Do I give the minimum legally mandated wage to my regular workers?		
02	Do I provide a safe and clean working environment to my workers?		
03	Do I give equal treatment to my workers regardless of gender and facility?		
04	Is my enterprise legally registered?		
05	Do I pay my legally mandated taxes and dues?		
06	Are my workers aware of fair trade?		
07	Are my suppliers aware of fair trade?		
08	Is it important for my consumers to be aware of fair trade?		

<sup>7</sup> Some pioneers of fair trade in the Philippines, notably the Alter Trade Group, used to be members of the network but had not renewed their membership.

<sup>8</sup> <http://wftoph.wordpress.com>

## FAIR TRADE PRACTICES IN THE PHILIPPINES

Number	Question	Yes	No
09	Is my production harmful to the environment?		
10	Am I transparent with my suppliers and workers?		

WFTO – Philippines also advocated for the Philippine Fair Trade Standards, which was subdivided into four main categories: (1) awareness and practice of fair trade; (2) human resource development and responsibility; (3) social accountability and transparency; and (4) continuous improvement and social development. These categories were further broken down with great details.

According to Mr. Ronald Lagazo, country manager of WFTO – Philippines, performance of fair trade organisations was “quite hard to measure because they have specialised areas”. Mr. Lagazo explained that “it is difficult to set a common set of targets or success indicators for fair trade organisations because they have different advocacies and they focus on different issues”. In spite of this, WFTO – Philippines still planned to craft an assessment tool for its members.

Other parties aside from WFTO, such as funders and buyers, evaluated the social performance of fair trade organisations. Mr. Lagazo further explained that “as [fair trade] buyers, their responsibility is not just to buy products. They provide assistance to the producers. They also create programmes for the producers. They usually assess the communities [where they buy their products from].”

Every member-organisation of WFTO was obliged to submit a self-assessment report every two years to renew its membership. According to Mr. Frony Lapitan, executive director of SAFRUDI, WFTO was developing a new system of evaluation for its members. Under the new system, member organisations would be evaluated by a third-party auditor. This system was still on its pilot stage here in the Philippines. The three fair trade organisations undergoing the pilot test were SAFRUDI in Luzon, Southern Partners and Fair Trade Corporation (SPFTC) in the Visayas, and Salay Handmade Paper Industries, Inc. (SHAPII) in Mindanao.

“The problem with self-assessment is that there’s no way for the head office to validate [our reports],” said Mr. Lapitan. On the other hand, it would be expensive for representatives of WFTO to check on each organisation. He added: “The new system will make it more professional and systematic. It is a very good direction to know if we are really practicing the 10 Standards of Fair Trade.”

Another initiative to help assess the performance of local fair trade organisations was being advanced by the Advocates of Philippine Fair Trade, Inc. (APFTI), one of the member-organisations of WFTO – Philippines. APFTI was a resource institution committed to social development and poverty alleviation through fair trade. The assessment tool — Principles of Fair Trade and Their Indicators — covered 15 fair trade principles broken down into 76 indicators. An observation about this instrument was that it “deals with recognised fair trade practices and processes that are inputs or outputs to the achievement of fair trade outcomes and impact, rather than measures of outcomes or impact themselves.”

## FAIR TRADE PRACTICES IN THE PHILIPPINES

PREDA and CCAP, two other members of WFTO – Philippines had their own practices in social performance measurement. PREDA utilised its annual plan and evaluated its accomplishments based on these annual targets. The areas covered in its annual plan were the main areas that PREDA wanted to focus its efforts on. These typically revolved around fair trade and community development.

Using their own indicators of development, CCAP developed an assessment tool to monitor and evaluate its producers' performance within a specified period of partnership. The ratings were used as a basis for incentives, awards, or termination of partnership from organised to assisted partners. They also held annual consultations with producers to discuss crucial issues that needed to be resolved.

### **Pioneer Fair Trade Organisations in the Philippines**

PREDA, CCAP and SAFRUDI were considered pioneers of fair trade in the Philippines. They all maintained close relationships with each other. As they all sold handicrafts, they engaged in healthy competition. According to Ms. Gina L. Sadorra, executive director of CCAP, they even consolidated their products to minimise shipment costs when they delivered to the same buyer. They helped out one another in promoting their products and they shared fair trade advocacies. PREDA was a not-for-profit organisation working at the national and international levels for the protection of human rights, especially women's and children's rights. It was founded in 1974 and a year after it started to engage in fair trade. The revenues derived from its marketing activities of handicraft and food products were used to sustain its other development activities.

Meanwhile, CCAP was a non-government organisation that used development marketing as a socio-economic development intervention. It was founded in 1973 by business philanthropists, church and religious leaders. It focused on marketing handicrafts from its partner-producers for export to other countries. These producers numbered close to 1,000 people and were mostly from the Bicol region. In 1998, its entrepreneurial development arm was put up to concentrate on product marketing, technology, design and warehousing. Meanwhile its social development arm focused on membership, leadership, fair trade orientation and advocacy.

In 1966, SAFRUDI started as the Social Action for Filipino Youth (SAFY). It was incorporated as SAFRUDI in 1970. As a non-stock, non-profit social development organisation, it had two main thrusts, namely social community development and social entrepreneurship. It usually entered the community upon the request of the local government or the Church. The common needs that they addressed were health and nutrition, agriculture, and income-generating activities.

The Fair Trade practices of PREDA and CCAP are described below.

### **PREDA and Fair Trade**

Based in Olongapo City, the People's Recovery, Empowerment and Development Assistance (PREDA) Foundation was a not-for-profit organisation working nationally and internationally for the protection of human rights, especially women's and children's rights. It was founded in 1974 by an Irish priest, Fr. Shay Cullen of the Missionary Society of St. Columban, together with his long-time friend Alex Corpus Hermoso and the latter's late wife, Merie Ramirez.

## FAIR TRADE PRACTICES IN THE PHILIPPINES

Fr. Cullen had worked for the protection of human rights, particularly of women and children, in the Philippines since 1969. He was a three-time Nobel Peace Prize nominee and human rights awardee. Mr. Hermoso was a social and human rights activist who pioneered various social development initiatives in the country. They collaborated on advocating the protection of human rights and the welfare of indigenous peoples, and uplifting the dignity of women and children.

Fr. Cullen invested his own funds to establish a craft manufacturing project and later expanded it to help mango and fruit farmers export dried fruits and purees. Later on the project's ethical standards evolved into a much admired fair trade project that PREDA had since promoted in the Philippines and in countries to which they exported. PREDA Foundation moved forward in developing social services for marginalised groups especially street youth, and children in conflict with the law (CICL). Guided by Fr. Cullen's vision and key decisions, propelled by his inspiring speeches, interviews, writings and leadership, the projects established a reputation for pioneering best practice and won international recognition and awards. Along with Fr. Cullen, Ms. Ramirez took over the administration of the centre while Mr. Hermoso spearheaded public relations and the day-to-day operations.

While the protection of women and children's rights was at its core, PREDA Foundation was also heavily involved in helping indigenous peoples (IPs), protecting the environment, and alleviating poverty through micro-credit and fair trade initiatives. It was a human rights and social development organisation that sought to help the poorest and most vulnerable people in society and to overcome injustice and poverty, through fair trade practices. They had a professional Filipino staff of 88 implementing 12 projects.

A year after the establishment of the foundation, PREDA Fair Trade emerged as a poverty alleviation project that sought to lift the poor from dehumanising poverty to a life of dignity by engaging in a manufacturing and export enterprise that upheld the fair trade principles. PREDA Fair Trade was an independent limited partnership that funded the projects with partners and helped change an unjust trading system. It continued to benefit small farmers through payment of premiums, giving social assistance, and donation of surplus revenues to fund the foundation's development work.

An excerpt from Fr. Cullen's writing described how the PREDA Fair Trade's mission began.

*"Fair Trade has been an important part of my work in life since I first came to the Philippines 40 years ago and today it is more important than ever. It all began when I started a small handicraft basket and rattan chair-making project in Olongapo City to help street youth and drug dependents find a self-reliant livelihood and restore their self-esteem. I went to buy raw materials from the indigenous peoples of Subic and Botolan in the province of Zambales. This was the first fair trade project of the PREDA Foundation.*

*The Aeta people of Zambales are the original inhabitants of the islands but as usual, the colonialists and later the ruling elite exploited them and took their lands, destroyed the rain forests and only left them the mountain peaks where the bulldozers and logging trucks could not reach.*

*I discovered that the traders of rattan and wicket were not paying the indigenous people in money; instead they had set up barter trade. In return for their cut rattan poles, they gave a*

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*sack of rice and some canned foods. The rattan was worth 10 times more than that. I set up a trading post with the Aeta people, made friends with them and agreed on the just and fair payment that was their right and due. It was our first fair trade project. Later we taught them to use their own materials to make baskets and find them a market.*

*It became a lifelong relationship and through the PREDA Foundation, we were able to help the Aeta people organise and empower themselves and share development benefits because of fairtrade. That community was later assisted by PREDA to become self-organised, educated and empowered, and in January they won back their rights to their ancestral domain.”<sup>9</sup>*

Mr. Hermoso further explained that fair trade provided sustainability to the organisation, explaining that they knew for a fact that their funding partners had limitations as well so they had to generate their own funds by setting up a business using their skills and resources and the market prevailing at that time. There was strong support from the community at the US Naval Base in Subic Bay, the Officers' Wives Club, and the Society of American Naval Engineers who helped put up their building.<sup>10</sup>

In 1975, they started manufacturing wicker and buri baskets and furniture for this market. "They liked it very much," added Mr. Hermoso. Some officers who had the privilege to stay for two years or those who were reassigned would ship the furniture items to the US. The trading went on until they encountered problems with the local government.

It was in 1978 when PREDA Fair Trade came upon the Social Action Foundation for Rural and Urban Development, Inc. (SAFRUDI) that was run by Belgian nuns. SAFRUDI was taking crafts and selling them initially through export to charitable institutions on what was called the solidarity market. PREDA Fair Trade started to supply handicrafts to SAFRUDI which then later found its own buyer from London through a visit from representatives of the European Fair Trade Association (EFTA). They advised PREDA to develop and diversify their line of products and offer them to the members of EFTA.

SAFRUDI started sharing their markets with PREDA Fair Trade. Community Crafts Association of the Philippines (CCAP), Inc. also did the same. Eventually, PREDA Fair Trade exported handicraft products with SAFRUDI and CCAP, with both CCAP and SAFRUDI acting as central shipping stations. Their partnerships solidified in 1984 when they linked up with EFTA and the other Alternative Trading Organizations in Europe and later in the United States of America.

In 1986, Mr. Hermoso represented not only PREDA Fair Trade but the Philippines when he was invited to campaign in France because of the new government. One of the host organisations was *Artisan Dumond* (Artists of the World), which invited him to go around France to speak about the political and social changes in the Philippines to different communities, universities and churches. After that, as the trading contacts and partnerships with members of the Alternative Trading Organizations increased, sales of PREDA products also grew. The producers' products were reaching markets in London, France, Belgium and the Netherlands. With its expanding market, PREDA Fair Trade later came up with another product — dried mango — the Philippines'

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<sup>9</sup> <http://www.preda.net/>

<sup>10</sup> Interview with Mr. Alex Corpus Hermoso (PREDA Fair Trade) dated 18 January 2011

national fruit. PREDA Fair Trade had been an integral part of the evolution of fair trade in the Philippines from then on.<sup>11</sup>

## Local Producers

The producers assisted by PREDA Fair Trade were located all over the country. They were mainly found in Luzon and the Visayas.<sup>12</sup> It also had local producers in Metro Manila. In Luzon, PREDA Fair Trade had producers in Pangasinan, La Union, Kalinga-Apayao, Zambales and Albay. Meanwhile, in the Visayas it had producers in Antique and Cebu. In Mindanao, it had worked with small farmers in Cotabato, Davao and General Santos in producing the carabao variety of mango, papaya, soursop or guyabano, and passion fruit.

The big benefit to the small farmers was that PREDA Fair Trade paid the highest prevailing price with an additional bonus payment per kilogram, which ensured that the deal was fair and right. In the case of mangoes, for example, on top of the prevailing farm gate price which was determined in consultation with the stakeholders of the mango industry within a given province or region, PREDA gave P2 fair trade premium per kg as cash incentive directly paid to the farmer-beneficiary.

Aside from the P2 cash FT Premium, another P1 was provided per kg of fresh mangoes that were for direct export or that were produced and delivered to the food processors of PREDA. The P1 per kg was accumulated as the total fund intended for the PREDA Fair Trade Socio-Economic Development Programme.

PREDA Fair Trade worked in close partnership with different indigenous communities in Botolan; Cabangan; the Aeta Resettlement Areas in Sitio Gala, Brgy; and Sacatihan in Subic, Zambales. The community in Subic was established in 1991 through the resettlement and rehabilitation programme of the Foundation of Our Lady of Peace Mission, Incorporated (FOLPMI), which supported around 100 Aeta families. Farming was the main livelihood in the community.

According to Mr. Bonifacio Ronque, community organiser and area coordinator of FOLPMI, PREDA Fair Trade had been helping the community since 2000. PREDA Fair Trade implemented various livelihood and education programmes for the Aeta families. One livelihood programme that PREDA Fair Trade implemented was organic mango farming.<sup>13</sup>

The farmers in Sitio Gala used to spray potassium nitrate on their mango trees for greater production. In 2005, PREDA introduced the idea of growing mangoes naturally with the possibility that one day they could be certified as organically grown. They provided mango saplings to the farmers, as well as training on organic mango farming. The community set up a mango orchard where they planted the saplings given by PREDA Fair Trade. They also established a Mango Growers Association within the community. Gudoy, 27, a farmer and at the same time employee of FOLPMI, was a member of the association who served as the local organic inspector. He ensured that the farmers in the community adhered to the policies of

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<sup>11</sup>Ibid

<sup>12</sup>See Annex D for the map showing the location of PREDA Fair Trade's local producers

<sup>13</sup>Interview with Mr. Bonifacio Ronque (FOLPMI) dated 4 February 2011

organic mango farming.<sup>14</sup> However, the production volume was small and the mangoes were of the pico variety, which was not usually used for making dried mangoes. At the time of the research, PREDA was trying to explore the marketing possibility of using pico mangoes for drying and export.

Juvito, 47, vice chieftain of the tribal council of the community and a farmer, believed that PREDA Fair Trade had been helpful to him and his family. Aside from assistance in organic mango farming, the organisation also provided them an additional source of income through goat-raising. Another farmer, Amboy, 49, shared that one of his children was a scholar of PREDA.<sup>15</sup>

Although it had been roughly five years at the time of the research, the organic mango farming in the community was still at its preparation stage. The mango trees that they planted using the mango saplings that PREDA Fair Trade provided had not borne enough fruits. The community had not yet been able to supply naturally grown carabao mangoes to PREDA Fair Trade as the pico variety was not yet acceptable to customers abroad. Juvito thought it would take a few more years before they could get sufficient harvest of carabao mangoes especially those that could be certified as organically-grown mangoes to supply to PREDA Fair Trade. He hoped that a natural organic substance would be discovered soon to induce mango trees to bear flowers without having to use chemicals.

"The objective is not just to produce organic mangoes, [but] at the same time give additional income [to the farmers]," explained Mr. Ronque. The benefits to the community would be through higher prices and the bonuses paid by PREDA Fair Trade to the farmers. Just like Juvito, he was also hoping to find ways to solve the problem of slow production without going back to spraying potassium nitrate. They needed to rapidly increase their production to be able to meet the market demand. If the mangoes were to be certified as organic, then they would be able to get an even higher price for their produce.

According to Mr. Hermoso, PREDA Fair Trade had already started to conduct a research study, in partnership with Ramon Magsaysay Technological University (RMTU), on developing an organic mango flower inducer. He foresaw that demand for organic products would continue to increase in the coming years. They were already preparing their small farmers and mango growers in Zambales so that they could become suppliers in the long run. At the time of the research, PREDA sourced most of their mangoes from their partner producers in Mindanao.<sup>16</sup>

## Dried Organic Mangoes

PREDA Fair Trade had hundreds of handmade products. These handicraft items were sold locally and internationally.<sup>17</sup>

According to Mr. Hermoso, the PREDA Dried Mangoes were their biggest selling item and it differed greatly from what could mostly be found in local supermarkets. The dried mangoes of

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<sup>14</sup>Interview with community members of Sitio Gala, Barangay Sacatihan, Zambales dated 4 February 2011

<sup>15</sup> Ibid

<sup>16</sup>Interview with Mr. Alex Corpus Hermoso (PREDA Fair Trade) dated 18 January 2011

<sup>17</sup>Interview with Fr. Shay Cullen (PREDA Fair Trade) dated 18 January 2011

PREDA Fair Trade were produced in cooperation with their partner, Pro-Food, which was responsible for the drying and puree making that was in accordance with the highest international standards. The products were unique in that they were free from sulfur dioxide ( $\text{SO}_2$ ) preservatives, artificial coloring, or heavy added sugar. There were even sugar-free dried mangoes and green dried mangoes that were deliciously tangy with a sweet-and-sour taste.<sup>18</sup>

Due to high demand for their dried mangoes, orders were processed on a "first come, first served" basis, and buyers placed their orders months in advance. Since it could not control the temperature and storage conditions once the products left the processing plant, PREDA Fair Trade offered six months liability against deterioration. The products' shelf life, once stored in cool temperature, could last up to one year. The dried mangoes were usually packaged in 100-gramme bags when sold in retail shops, or in 5-kilogramme bags if sold in bulk when importers wanted to repackage the products with their own brands.

Quality assurance was of utmost importance to PREDA Fair Trade, from the selection and preparation of the raw materials up to the time the actual products reached their customers. Importers were advised to use refrigerated container vans when shipping to warm climates.<sup>19</sup>

## 2010 Targets and Accomplishments<sup>20</sup>

PREDA Fair Trade used its own method of self-assessment. For 2010, it had broken down its performance and measured itself in terms of the following components: (1) product development and sourcing; (2) promotions and marketing; (3) producers' social development; (4) knowledge, attitude and skills; (5) fair trade advocacy and networking; and (6) organic development. The targets relevant to fair trade set by PREDA for 2010 and what it had accomplished for the same year were detailed in its 2011 assessment and planning presentation, part of which could be found below.

### (1) Product Development and Sourcing

Targets	Accomplishments
1. To identify five new product lines and organise five new producer groups	<ul style="list-style-type: none"> <li>- Handicrafts, six: pandan bags, abuan bags, water lily handicrafts, folded paper magazine, hand-painted paper boxes and recycled fabric bags.</li> <li>- Food, two: dried pineapple without sugar and dried green mangoes.</li> <li>- Six potential producer groups for PREDA Fair Trade were identified.</li> </ul>

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<sup>18</sup>Interview with Mr. Alex Corpus Hermoso (PREDA Fair Trade) dated 18 January 2011

<sup>19</sup> <http://preda.net>

<sup>20</sup> Abridged version of PREDA Fair Trade Assessment and Planning Presentation, January 2011

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### (2) Promotions and Marketing

<b>Targets</b>	<b>Accomplishments</b>
1. To have 10 percent increase on sales for both food and handicrafts	- 7.67 percent increase on food sales and 58.63 percent increase on handicraft sales exhibited.

### (3) Producers' Social Development

<b>Targets</b>	<b>Accomplishments</b>
1. At least 90 percent of the producers must have availed of profit sharing	- Profit share for MAO Producer was awarded to supply electricity and to improve their working area. The rest of the producers had not submitted their proposal on the use of the profit share.
2. 100 percent of the producer groups to be given production assistance	- 96.15 percent of the producers had availed of the interest-free production assistance.

### (4) Knowledge, Attitude and Skills

<b>Targets</b>	<b>Accomplishments</b>
1. To conduct one centre-based training and quarterly area-based trainings/seminars	- A centre-based training on paper jewellery making was conducted on April 12-16, 2010 for the AKBAY Youth members. - Two area-based trainings on paper jewellery making were given.
2. Producers' General Assembly and Self-assessment	- The General Assembly of Producers was held on December 14-15, 2010.

### (5) Fair Trade Advocacy and Networking

<b>Objective:</b> Promote fair trade practices among small-scale and medium enterprises and promote responsible consumerism.	
<b>Targets</b>	<b>Accomplishments</b>
1. Fair Trade Advocacy - Fair Trade Colloquium - Networking Campaign - IFAT Conference - World Fair Trade Day Celebration	- IFAT/AFTF/PFTF meetings attended. - Attended WFTO General Assembly in May 2010. - World Fair Trade Day Celebration held in Libis, Quezon City spearheaded by the WFTO - Philippines. - Developed fair trade news update.
2. To attend business-related trainings for staff development	- Two staff attended trainings and seminars (Organic Agriculture and Mining).

(6) Organic Agriculture Development<sup>21</sup>

<b>Organic Mango Development for Indigenous Peoples of Zambales (MISEREOR)</b>	
<b>Objective 1:</b> To implement development assistance to IP communities through integrated organic mango production with marketing assistance.	
<b>Targets</b>	<b>Accomplishments</b>
1. To conduct two trainings on organic mango production	- Conducted one training on integrated organic mango production to nine indigenous peoples communities with 60 participants.
2. To identify sources of mango fruits from IP communities and within Zambales	- Initiated planning consultation with IP communities. - Conducted marketing survey to vegetable vendors. - Conducted marketing survey to Aeta producers in Botolan. - Conducted sourcing of naturally grown mango fruits.
3. Agro-forestry projects a. Tree planting - To plant 1,000 grafted mango and 250 forest tree seedlings in seven IP communities	- Purchased 2,200 grafted carabao mango saplings. - Initiated tagging of mangoes. - Mango saplings distributed to nine IP communities. - Conducted tree planting activities to four IP communities. - Canvassed available forest tree seedlings.
b. Firebreaks and control - To plant 7,000 pcs of amukaw suckers and 7,000 kakawati cuttings	- Conducted strategic planning with Aeta tribal leaders of nine IP communities on establishment of firebreaks and planting of protective corps to their corresponding farms. - Sourced out supply of amukaw suckers and kakawati cuttings in Botolan and Cabangan IP communities.
c. Training on household mango industry - one training per community for seven IP communities	- Conducted one-day training on mango nursery establishment, care and management to nine IP communities on June 22-24, 2010 facilitated by four RMTU research staff.
d. Setting up of mango nursery - Set up organic mango nurseries for seven IP communities at 1,000 pieces per IP community	- Distributed 7,000 PE black potting bags to nine IP communities.
e. Monitoring - To conduct four visits per area at seven IP communities	- Conducted two visits to nine IP communities.

<sup>21</sup> Accomplishments were only within 6 months of implementation; Part of the organic agriculture development programme with project scope of two years

<b>Targets</b>	<b>Accomplishments</b>
4. Livelihood projects a. Livestock-goat dispersal project - To distribute five goats per community in seven IP communities (35 goats)	<ul style="list-style-type: none"> <li>- Conducted consultations with nine IP communities regarding proposed shifting of project to organic free-range chicken production.</li> <li>- Attended training on organic free-range chicken production.</li> <li>- Visited Reina Helena Organic Chicken Farm in Tarlac.</li> </ul>
b. Crop production 1) Vegetable production - To distribute assorted vegetable seeds to seven IP communities (10 per community)	<ul style="list-style-type: none"> <li>- Canvassed vegetable seed suppliers in two stores in Iba and one in Castillejos.</li> </ul>
2) Banana planting - To distribute 500 banana suckers (saba) to four IP communities (10 per community)	<ul style="list-style-type: none"> <li>- Conducted planning consultation with nine IP communities last September 2010.</li> <li>- Canvassed sources of banana suckers from two IP communities in Botolan.</li> </ul>

### **Research Development on Organic Mango Production**

**Objective 2:** To conduct scientific research study on organic mango production and discover alternative flower inducer.

<b>Targets</b>	<b>Accomplishments</b>
1. Meetings - To conduct four meetings per year	<ul style="list-style-type: none"> <li>- Conducted four meetings with RMTU researchers and ABS-CBN Foundation (March 17, May 7, September 3 and September 30, 2010).</li> <li>- Finalised proposal on organic mango research study.</li> </ul>
2. Field Trials (RMTU, Pangasinan and Batangas) - To conduct research study through three field trial farms	<ul style="list-style-type: none"> <li>- RMTU started cultural management practices such as sanitation clearing (March), pruning (April) and preparation of EM solutions to be used for inducing flowers and pest disease control.</li> <li>- Established network with Villegas Hobby Farm in Batangas.</li> <li>- Successful field trial on organic application by Rex Rivera in partnership with Japanese researchers in Mindanao.</li> </ul>
3. Funding - To source out available funds for the research study	<ul style="list-style-type: none"> <li>- Letter from Secretary Alcala informing them that research proposal on organic mango production was already included for funding as a priority project of the Department of Agriculture.</li> </ul>

### **Networking and Linkage**

**Objective 3:** To establish network and linkage to other mango growers and organic practitioners.

<b>Targets</b>	<b>Accomplishments</b>
1. To attend one national training/organic forum	<ul style="list-style-type: none"> <li>- Attended the provincial Mango Forum in Iba, Zambales last March 4, 2010.</li> <li>- Third Organic Festival held in Quezon City last May 28, 2010.</li> </ul>
2. To participate in the crafting of Organic Bill	<ul style="list-style-type: none"> <li>- Participated in the crafting of Organic Bill last January 21, 2010.</li> <li>- RA 100681 Organic Agriculture Law was signed by President Gloria Arroyo in April 6, 2010.</li> </ul>

### **Challenges Faced and Actions Taken<sup>22</sup>**

In an effort to better provide for the living needs of its producers, there was a time when PREDA Fair Trade used the Grameen microfinance methodology to provide direct loans to the local producers. However, it did not work well. Some of the producers did not even need capital. PREDA Fair Trade then turned over the microfinance function to another organisation while it continued to finance its own producers with interest-free production loans.

When PREDA Fair Trade was developing its vision, mission and goals, Mr. Hermoso asserted that PREDA Fair Trade was clear in its intention to (1) empower small producer groups to determine their own livelihood and assist them, and to (2) assist communities to develop alternative income generating projects. At the time of the research, PREDA had restarted a microfinance programme with a partner organisation with the capacity and skills, but this time it focused on their project beneficiaries such as the families of children in conflict with the law, who were mostly from Tondo, Manila and other depressed areas like in Navotas, Caloocan, and Taguig. They were provided with some capital and training sessions, and were assisted in setting up their small businesses.

There were also failures and difficulties in the many years of PREDA Fair's operations. According to Mr. Hermoso, there was also a time when PREDA started exporting nut products but it failed. They also experienced dealing with one container of rejected goods because of molds found in it. Fortunately, PREDA Fair Trade found solutions to these problems with the help of technical assistance from its Fair Trade partners.

For Mr. Hermoso, it was a constant business challenge that when producers sold products to commercial traders, the producers would find their income inadequate because the traders would want to pay the producers less. There were times when buyers from Manila would not pay the producers. He stressed it was good that PREDA Fair Trade and its producers always discussed and found solutions to these challenges.

It was a practice by PREDA Fair Trade to hold discussions with producers. During these meetings, help was given to the producers in order to determine the value of their materials, labour, time,

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<sup>22</sup>Interview with Mr. Alex Corpus Hermoso (PREDA Fair Trade) dated 18 January 2011

and overheads, and for them to set the price that they think was just and fair. At the same time, Mr. Hermoso said he considered it a challenge when the producers were stuck in their old ways and would not like to make samples of new designs in order to find new orders. This way, the producers just wanted to make the same products that they already knew how to make. "Ang katigasan ng ulo ng mga producers who tend or want to do the same products and not to diversify," he said.

He emphasised that recurring business issues included maintaining the high quality of their products across different producers, delivering the right volume, and timely production. In order to address these, PREDA Fair Trade invested in community organising, making sure that their producers related well with one another. It was also a priority of the organisation to continue training their producers not only in terms of knowledge and skills, but also in attitude and behaviour. All of this was done in order to ensure that their communities enjoyed a better quality of life, as envisioned when they established PREDA Fair Trade.

The assessment of PREDA Fair Trade's impact on the lives of its local producers was still very much anecdotal. Mr. Hermoso reported that the income derived from fair trade might be considered as additional income for some producers to augment the overall household income. Many of them were mixed producer farmers, or they worked part-time at other jobs. Nevertheless, Fair Trade production gave them the opportunity to improve their quality of life. Among the usual uses of this income included better food and housing, as well as educational support for younger members of the family.

### Issues and Future Plans<sup>23</sup>

It was an important part of the long-term plan of PREDA Fair Trade that indigenous communities in Zambales would become suppliers of organic mangoes. As in Sitio Gala, mango farmers were provided with saplings to be grown organically within a span of 10 years. Eventually, these mango farmers, particularly the Aetas, and others would hopefully become PREDA Fair Trade's partner producers. At the time of the research, PREDA was working with producer groups in Mindanao that had been supplying them with 10 tons of mangoes per batch of processing. Mr. Hermoso took pride in saying that they had perfected the system of how these producer groups consolidated and delivered the products to the processing plant on their own. Fr. Cullen went to Davao to visit their local producers and paid them directly their Fair Trade premium bonus.

During the 2011 harvest season in Zambales, Fr. Cullen, PREDA staff members, volunteers and boys from the CICL Boys Home joined the harvesting and delivery of the mangoes to the Pro-Food Fruit-Asia processing plant in Bulacan. Mr. Hermoso explained that the processing plant in Cebu started very small as a garage industry. Pro-Food then became the biggest processing plant in its category in the world.

While mangoes was their main food product, various fruits like papaya, pineapple, guyabano, guava and banana were dried or made into fruit preserves such as jams, calamansi and passion fruit and were also being exported as puree in drums and as jams. They exported 72 drums of mango puree per container as raw materials used in countries like Germany where mango puree

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<sup>23</sup>Interview with Mr. Alex Corpus Hermoso (PREDA Fair Trade) dated 18 January 2011

was mixed with other fruits such as apples and oranges and packaged into tetra packs and bottles. Mr. Hermoso commented: "Sayang din 'yung added value. Sana tayo na rin ang nag-export, naka-bottle na. Pero di pa namin nagagawa 'yun kasi bottling pa lang dito sa Philippines napakamahal na." (It's a waste that we could not provide the added value. It would have been better if we were the ones to export bottled finished products. But we can't do it because bottling in the Philippines is expensive.)

Aside from mango puree, PREDA Fair Trade also produced mango jams and dried mangoes. PREDA's biggest market was Europe but it had already penetrated Japan where packets of dried mangoes were sold at Mini-Stop Convenience Stores in Tokyo. French and German Fair Trade Organizations imported sugar-free dried mangoes, and the green dried mangoes were taking off well together with mango-coco balls. According to Mr. Hermoso, PREDA was the first to export preservative-free and sugar-free dried mangoes. On the other hand, the handicraft products market was much smaller than the food product market. PREDA handicrafts were exported to New Zealand, Australia, and the US, as well as to European countries. He added that PREDA had not yet developed a big market in the US, thus it was still looking for partners through which PREDA could open up this big market.

Given that global warming affects production, farm producers faced the difficulty of meeting the demands for fresh mangoes. Mr. Hermoso expressed his concern: "What if we do not meet the demand of 2 million kilograms of fresh mangoes?" He then thought of importing mangoes from Vietnam. Conversely, he resented that Vietnam had "stolen" the Philippine variety of carabao mangoes. He exclaimed: "*Aagawin nila ngayon ang korona ng Pilipinas!*" He seemed disappointed when he mentioned that we were not protecting the Philippine variety of carabao mangoes unlike in Hawaii, a tropical place like the Philippines, Macadamia nuts are not allowed to be smuggled out of their jurisdiction.

"Our direction is to go organic," Mr. Hermoso asserted, describing that "it is an opportunity and at the same time a threat since we are not ready." He recalled that a couple of years ago, it was declared that in the next five years the European market would only accept organic products. He believed that the Philippines was not yet ready for the growing demand for organic products which was increasing by 35 percent per annum. Agricultural systems in the Philippines were not ready to comply with organic standards.

In preparation for this growing demand, PREDA Fair Trade was scouting for mango farms that got fed up with spraying potassium nitrate for conversion to organic farming, offering mango farmers guaranteed market for their produce as long as they would not spray the mango trees with potassium nitrate. PREDA Fair Trade was targeting 10 to 12 tons of mangoes to be transported to the processing plant in Bulacan that PREDA Fair Trade would then sell as organically grown but not yet certified. Mr. Hermoso reported that the organisation had not yet gotten the certified organic mark but considered this accomplishment to be a good start. Being certified organic gave products higher value that they could then sell at a higher price.

PREDA Fair Trade likewise started going into scientific research in partnership with RMTU. Because RMTU had scientific researchers, agriculturists and experts on mangoes, PREDA Fair Trade asked them to develop an organic flower inducer. However, because RMTU did not have funding for the research, PREDA had helped look for other fund sources. With the support of Secretary Alcala, the Department of Agriculture (DA) allocated more funds to organic farming.

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Since the DA had no programmes or projects yet on organic farming, PREDA Fair Trade was the first to submit a formal research project proposal to develop organic mangoes. PREDA Fair Trade held the first Organic Mango Conference in Subic, which supported the research project.

PREDA Fair Trade expected that their producers would be able to augment their income through fair trade. There were already some who were able to make fair trade their reliable source of livelihood. However, PREDA did not expect its producers to become rich. Mr. Hermoso was able to recall though that there was a producer who became a direct exporter. There were also producers who became suppliers to other buyers. Mr. Hermoso reminded them that "as much as possible they should still uphold the same principles of fair trade since [PREDA Fair Trade] cannot monitor them anymore. However, we still try to keep in contact with them. They should not be engulfed by conventional trading."

PREDA Fair Trade envisioned greater fair trade awareness in the Philippines as well as increasing local fair trade shops in the years to come. PREDA Fair Trade's financial returns would also continually be used to improve the quality of life of its producer communities, and to support the other development projects of PREDA Foundation, especially its work on women and children's rights.

### **CCAP and Fair Trade**

Established in 1973, CCAP envisioned itself to be an empowered community-based craft producers' organisation engaged in fair trade. As a non-government organisation, it aimed to improve the quality of life of Filipino craft producers through sustainable development. CCAP committed itself to unifying craft producers into an effective fair trade organisation working together in developing local and global market access, promoting the cultural heritage of the Filipino people through the development of the craft industry, and establishing partnerships between government organisations and non-government organisations in developing a community-based craft industry in the Philippines. Among the 10 fair trade principles, CCAP focused its efforts in making sure that it supported gender equity, environmental sustainability, child protection, and cultural sensitivity.<sup>24</sup>

In 1998, CCAP Fair Trade for Development was established. It was CCAP's trading arm that focused on the export of handicraft products. CCAP and CCAP Fair Trade were two separate organisations with distinct Board of Directors. CCAP focused on giving assistance to uplift the socio-economic conditions of the beneficiaries. They had indicators to measure the extent of assistance they should give and how long the partnership should last. CCAP Fair Trade, on the other hand, focused on the business side.

They had two main programmes: the Social Development and Advocacy Programme (SDAP) and the Entrepreneurial Development Programme (EDP). SDAP covered organisational development, production and technical assistance, development marketing assistance, as well as advocacy and networking. On the other hand, EDP entailed trading, production management, quality control and warehousing, shipment and documentation, as well as advocacy and networking.

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<sup>24</sup>CCAP Fair Trade PowerPoint Presentation dated 18 March 2011

## FAIR TRADE PRACTICES IN THE PHILIPPINES

CCAP Fair Trade worked with three types of producers: CCAP-organised producer-groups, assisted producer-groups, and individual producer-entrepreneurs. CCAP organised five producer-groups. Two of these were found in Pangasinan, another two in the Bicol region, and one federation of individual entrepreneurs. Among the 11 assisted producer-groups, five were found in the Bicol region, two in Abra, two in Metro Manila, and one each in Leyte and Bohol. CCAP Fair Trade also had 16 individual producer-entrepreneurs. Eight were found in the Bicol area, two in Metro Manila, and one each in Laguna, Quezon, Abra, Bulacan, Samar and Leyte.<sup>25</sup>

Three mainstream organisations and 11 fair trade organisations overseas purchased handicraft products from CCAP. These organisations were based in the United States of America, Canada, Italy, Australia, New Zealand, Japan, the Netherlands, Hong Kong and Austria.

### Financial Standing

CCAP Fair Trade generated income from sales. It bought products from local partner producers and sold these to clients abroad. On the other hand, CCAP generated income from its investments. CCAP invested heavily in CCAP Fair Trade, reaping returns at the end of each year. CCAP Fair Trade's actual sales from 2006 to 2010 could be found below.

<b>Year</b>	<b>Sales (USD): Fair Trade Organisations</b>	<b>Sales (USD): Mainstream</b>	<b>Total Sales (USD)</b>
2006	531,847	30,797	<b>562,644</b>
2007	532,804	19,008	<b>551,812</b>
2008	571,909	21,173	<b>593,082</b>
2009	442,440	6,170	<b>448,610</b>
2010	604,247	2,198	<b>606,445</b>
<b>Average</b>	<b>536,649</b>	<b>15,869</b>	<b>552,518</b>

CCAP also monitored the percentage from its total sales that went to its partner-producers as well as to other expenses incurred in bringing the products to the buyers. Its cost of sales expressed as a percentage based on total sales is shown below. The cost of goods was the percentage of the total sales that went to CCAP's partner-producers.

<b>Year</b>	<b>Cost of Goods (Producers)</b>	<b>Other Expenses</b>	<b>Total Cost of Sales</b>
2006	59%	16%	<b>75%</b>
2007	48%	24%	<b>72%</b>
2008	50%	18%	<b>68%</b>

<sup>25</sup>See Annex E for the map showing the location of CCAP Fair Trade's local producers

Year	Cost of Goods (Producers)	Other Expenses	Total Cost of Sales
2009	38%	15%	53%
2010	51%	14%	65%
Average	49%	17%	66%

### Performance Rating for Partner-Producers

CCAP conducted its own Fair Trade Audit of its partner-producers annually. It had developed its own tool, which had two main parts: (1) Organisational Development; and (2) Entrepreneurial Development. In the assessment, a partner-producer could have a maximum rating of 50 on each of the two parts.

For Organisational Development, the highest allocation of points went to payment of fair price to workers. In paying fair price to their partner-producers, CCAP made use of the Fair Wage Guide,<sup>26</sup> which ensured that payments for producers were made on transparent and verifiable calculation of costs and profit margins. CCAP believed that paying fair price to its partner-producers was one of the most sensitive signs of adhering to the principles of fair trade. Meanwhile, the highest allocation of points for Entrepreneurial Development went to the ability of the partner-producer to finish production at the right time, quality and volume. This was to ensure that their buyers would in turn receive quality products on time, which was a basis for repeat orders.

CCAP had been featured for development indexing in social enterprises.<sup>27</sup> Its assessment tool tried to quantify qualitative outcomes. The indicators CCAP used in its Fair Trade Audit were still evolving. The following tables constituted CCAP's Fair Trade Audit Form.<sup>28</sup>

#### (1) Organisational Development (Fair Trade Practices)

Indicator	Maximum Rate
Creating opportunities for small/poor producers <ul style="list-style-type: none"> <li>• Vision to eradicate poverty through trade</li> </ul>	5
Being open and responsible <ul style="list-style-type: none"> <li>• Submission of financial documents to appropriate government agencies</li> <li>• Open communication with buyers</li> </ul>	5

<sup>26</sup> <http://www.fairtradecalculator.com>

<sup>27</sup> Dacanay, M.L. M. (2009), Development Indexing in Social Enterprises, in Dacanay (ed.), *Measuring Social Enterprise: A Resource Book on Social Enterprise Measurement*. ISEA and Oikocredit: Philippines.

<sup>28</sup> CCAP Fair Trade Audit Form, provided by CCAP Programme Director Czarina Gragera on 18 March 2011

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<b>Indicator</b>	<b>Maximum Rate</b>
Capacity building <ul style="list-style-type: none"> <li>• Attendance and active participation in trainings</li> <li>• Trainings for workers</li> </ul>	5
Commitment to fair trade <ul style="list-style-type: none"> <li>• Orientation about fair trade to workers</li> <li>• Adherence to fair trade principles when negotiating with buyers</li> </ul>	5
Paying fair price <ul style="list-style-type: none"> <li>• High quality products</li> <li>• Practice of the proper way of putting price tag onto products</li> <li>• Giving cash advances to workers to start production</li> <li>• Paying fair wages to workers</li> <li>• Immediate payment to workers once payment from buyers is received</li> </ul>	10
Gender equity <ul style="list-style-type: none"> <li>• Wage and incentives based on the contribution of women in production</li> <li>• Ensuring the safety and health of women in the workplace</li> <li>• Respect for culture, tradition, religion, gender and age</li> </ul>	5
Working conditions <ul style="list-style-type: none"> <li>• Ensuring safety in the workplace</li> <li>• Adherence to working hours in accordance to law</li> <li>• Regular orientation about health and safety</li> </ul>	5
Child labour (participation of 14 years old and below in production) <ul style="list-style-type: none"> <li>• Promotion of children's rights in accordance to law</li> <li>• Not allowing children to participate in production</li> </ul>	5
Environment <ul style="list-style-type: none"> <li>• Not using hazardous or toxic materials</li> <li>• Acquisition of materials legally</li> </ul>	5
<b>SUBTOTAL</b>	<b>50</b>

## (1) Entrepreneurial Development

<b>Indicator</b>	<b>Maximum Rate</b>
Ability to produce and sell without help from CCAP <ul style="list-style-type: none"> <li>• Participation in trade fairs</li> </ul>	10
Ability to finish production at the right time, quality and volume <ul style="list-style-type: none"> <li>• Ability to deliver products on time with less than 20 percent reject rate</li> <li>• Ability to find other sources of raw materials if needed</li> </ul>	20
Ability to design and create original products <ul style="list-style-type: none"> <li>• Ability to create at least 10 designs that pass CCAP standards in one year</li> </ul>	10
Ability to raise own capital for production <ul style="list-style-type: none"> <li>• Requesting only 20–30 percent cash advance from buyers</li> </ul>	10
<b>SUBTOTAL</b>	<b>50</b>

CCAP and its partner-producers conducted the assessment jointly. The partner-producers were given the form and they were asked to rate themselves based on the indicators set in the Fair Trade Audit Form. CCAP independently rated its partner-producers. In most cases, both CCAP and its partner-producers arrived at the same rating. However, in cases where there was a discrepancy in the ratings, CCAP met with the partner-producers to dialogue. The result of the assessment was the basis for planning future interventions by CCAP to its partner-producers.

Based on CCAP's Manual of Partnership with producers, all partner-producers should be able to get a rating of at least 50 percent on the Organisational Development part of the Fair Trade Audit. CCAP had given its partner-producers one year to comply with this requirement. If after this grace period and a partner-producer still could not reach the 50 percent mark, then the partnership would be terminated. Meanwhile, a rating of 80 percent or higher meant that a partner had reached self-sustainability. CCAP-organised partner-groups graduated to becoming assisted producer-groups once they attained this level of sustainability. CCAP was moving towards helping CCAP-organised producer-groups graduate in order to have more assisted producer-groups.

The rating achieved by partner-producers also served as the basis for giving out incentives. At the end of the year, CCAP gave out incentives based on their net income. The incentive allocation based on graduated rating scale could be found below.

Rating	Interpretation	Incentive Allocation
49% and below	Below average / Unsatisfactory	5%
50% to 79%	Average / Satisfactory	7%
80% and higher	Very satisfactory	10%

Eligible partner-producers had been elected to the CCAP board of trustees since 1998.<sup>29</sup> At the time of the research, two partner-producers of CCAP were part of its board of trustees — Handy Wire Frame Handicrafts and Barcelona Multi-Purpose Cooperative.

### Handy Wire Frame Handicrafts (HWF)

Mr. Perfecto Llanera<sup>30</sup> started his career in handicrafts production working part-time while in college. He got married and expanded his trade by having other workers join in the production process. In 2000, they focused on producing handicrafts for the local market. It was in 2005 when Mr. Llanera incorporated his business into a sole proprietorship as Handy Wire Frame Handicrafts. It was the same year when the company became a partner-producer of CCAP. It was CCAP that encouraged Mr. Llanera to register his firm. Mrs. Luzviminda Llanera, his wife, served as general manager.

HWF was based in the Guinobatan, Albay in the Bicol region. It had three regular employees. Two to three weeks every month, depending on the volume of orders, HWF employed 15 contractual workers for welding steel frames and about 150 contractual workers for actual handicrafts production. During this time, the welders stayed in the production area and were given free meals and accommodation on top of their wages. On the other hand, the actual producers of handicrafts worked at home. They were found in different municipalities in the Bicol region, including Daraga, Guinobatan, Camalig, Pio Duran and Oas.

Mr. Llanera asserted that they provided equal pay for equal work regardless of gender and age. Fair wages were extended to all workers, and were computed based on the prevailing minimum wage in the region. Although all the contractual welders were male, their regular employees and most of the contractual handicraft producers were female. Among his regular employees, maternity benefits were given to those who were pregnant. He believed that forced labour should not happen in any workplace. In HWF, he ensured that all workers were of legal age. He admitted, however, that in the homes of the actual handicraft producers it was difficult to monitor whether or not children helped out in the production process. To his knowledge, no

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<sup>29</sup>Dacanay, M.L. M. (2009). Development indexing in social enterprises. In M. L. M. Dacanay (ed.), *Measuring social enterprise: A resource book on social enterprise measurement* (pp. 18–35). Philippines: ISEA and Oikocredit.

<sup>30</sup>Interview with Mr. Perfecto Llanera (Handy Wire Frame Handicrafts) dated 23 March 2011.

child had worked for the company. According to the contractual handicraft producers,<sup>31</sup> all their children went to school and only helped during their free time.

Although there was still a lot of room for improvement, Mr. Llanera believed that HWF provided a safe and healthy environment for its workers. On a regular day, workers worked for eight hours. He stressed that work hours were actually dependent on individual workers. Contractual workers set their own timeline, making sure that they beat the deadline with the right quality and specifications.

HWF also received no more than 30 percent cash advance from CCAP, since it already had enough capital to run its handicraft production. CCAP helped HWF in building the capacity of its workers. CCAP provided handicrafts samples for new products and the necessary training for the workers to produce the items. Through in-house CCAP trainings on product costing and product development, HWF continued to build the capacity of its workers.

HWF had not received complaints from its buyers regarding the handicrafts they produced. According to Mr. Llanera, "quality control is the key." Buyers were given brochures and samples. The approved samples then became the basis for mass production. Quality was monitored at each step of the production process. The materials they used for their handicrafts were locally sourced. In cases of raw material shortages, they sourced materials from the Visayas area. Once finished, the handicrafts were then wrapped in recycled brown paper, then boxed and transported to Manila.

When asked about the impact of HWF on its workers, Mr. Llanera immediately answered that it can be seen in the income workers derived from handicrafts production. Regular employees were extended all the benefits in accordance with the law such as SSS, Phil Health and Pag-IBIG. According to some contractual welders,<sup>32</sup> they earned about P150 to P300 (US\$3.70 to \$7.40) per day on top of free board and lodging. Contractual handicraft producers earned about P100 to P200 per day, which added to their total household income as many of them also engaged in farming and other means of livelihood. Regular employees and contractual workers also received a cash bonus and/or gifts in-kind in December.

Mr. Llanera admitted that the income workers got from welding and handicraft production was not big, but it was enough to help out their families for basic needs, education and better housing. This was also the answer given by regular employees and contractual workers in a separate interview. Aside from being given jobs, the contractual workers said that some of their family members were assisted by HWF through scholarships. Of those interviewed, some were able to build or renovate their house and others used the savings they accumulated from their income for the education of their younger relatives, for everyday household needs, and for additional capital for businesses such as hog raising, farming, and putting up a small grocery shop. When asked to rate their life before they became part of HWF using a scale of 1 to 10, with 1 the hardest and 10 the easiest, the workers gave an average rating of 5. Being part of HWF, using the same scale, they rated their life as 7.

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<sup>31</sup>Based on a focus group discussion attended by two regular employees, four contractual welders, and three contractual handicraft producers of Handy Wire Frame Handicrafts, dated 23 March 2011.

<sup>32</sup>Ibid

## Barcelona Multi-Purpose Cooperative (BMPC)

Barcelona Multi-Purpose Cooperative was founded in 1991 in Barcelona, Sorsogon. It was also in this year that BMPC became a partner-producer of CCAP. At the age of 70, Ms. Sara Ernacio<sup>33</sup> served as the cooperative's general manager.

According to Ms. Ernacio, an objective of BMPC was "to provide jobs and to produce quality crafts for local and international markets". The cooperative aimed to provide members with income so that they could afford education, housing, medical and other household expenditures. It targeted people who did not have access to formal financial institutions and other services. BMPC also practiced transparent pricing. Workers set the price (cost of labour and raw materials) for a product then the cooperative added 30–40 percent markup. She added that "most importantly, the producers are also owners of the coop".

Although only a small organisation with 109 members, about 60 of which were handicraft producers for the cooperative, BMPC took pride in helping build their community. Ms. Ernacio stressed that they "help people in our community become productive through craft production". The materials that they used were locally sourced in Sorsogon, such as palm tree and buri. BMPC also gave 10 percent of its net income to the kindergarten school in the area. According to Ms. Rosemarie Intac,<sup>34</sup> a member-producer, BMPC provided employment opportunities for their community. She added that member-producers might also employ their own workers and sell their products to the cooperative.

BMPC practiced transparency and accountability, especially in pricing. The cooperative held a general assembly meeting every year wherein all the members were given a copy of their audited financial statement. In order to ensure that the handicraft producers had a voice in the cooperative, two of the five members of the board of directors of BMPC were weavers for its handicrafts production. Ms. Rosie Castro,<sup>35</sup> quality controller of BMPC, added that there was consultation first with the member-producers before each purchase order was farmed out to them.

Ms. Ernacio added that in most cases, BMPC was able to deliver products on time and at the desired quality and specifications. Should there be anticipated delays, they informed their buyers ahead of time. CCAP did not penalise their partner-producers for delays with prior notice. Quality was controlled at every stage of the production process, starting from the sourcing of their raw materials. The quality of their products needed to meet the expectations of their buyers. No buyer had returned orders due to dissatisfaction. Monitoring was not the sole responsibility of the cooperative. There were times when buyers visited them to monitor the production process. BMPC used to receive about 30 percent prepayment from CCAP for its orders. However, at the time of the research BMPC fully capitalised its production.

Payment to workers was computed by piece. Pricing actually started with the workers, who set the price based on their valuation of the raw materials used and the labour they had exerted

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<sup>33</sup>Interview with Ms. Sara Ernacio (Barcelona Multi-Purpose Cooperative) dated 24 March 2011

<sup>34</sup>Based on a focus group discussion attended by four regular employees and four member-producers of Barcelona Multi-Purpose Cooperative, dated 23 March 2011

<sup>35</sup>Ibid

into making each item. There was also negotiation with the weavers. Ms. Ernacio recalled that in cases when there was stiff competition which required a lower price for their finished products, the cooperative's markup was lowered and not the wage of the weavers.

All the weavers of BMPC were women. Men helped their wives in certain tasks such as making abaca twine, getting fresh buri, and transporting products from their homes to the cooperative. At times, men were called in for special work, especially when moving their products from the warehouse to the trucks. BMPC was against forced labour and child labour. According to Ms. Ernacio, workers did not force their children to work for the cooperative. There were times, however, when children helped out their family members such as in the delivery of products from the house to the cooperative. This practice did not conflict with their studies. In a separate interview, this had also been raised by the member-producers. They stressed that their children only helped out during their free time. More importantly, two member-producers of BMPC were differently abled, both leg amputees. As regards to its regular employees, BMPC gave out maternity benefits such as maternity leave with pay as required by law.

When it came to the workplace, Ms. Ernacio believed that their production was located in a safe place. The colours that they used were non-toxic, and when colouring, producers wore masks. There were electric fans for air circulation, and comfort rooms in the building. There were also sleeping quarters for workers if overnight stay was needed. Regular employees worked eight hours a day. On the other hand, producers at home worked at their own pace. They usually juggled production and care for their household.

BMPC provided in-house training to its members on quality assurance, use of indigenous materials, dyeing, and bleaching. Organisations such as CCAP and SAFRUDI extended trainings to the cooperative. At times, BMPC also attended trainings of government agencies like the ones provided by DTI.

BMCP produced handicrafts that maximised the use of raw materials from sustainably-managed sources, according to Ms. Ernacio. The materials that they used were locally sourced in Sorsogon. These raw materials included buri, abaca fiber and bacbac. Colour was sourced from Daraga, Albay. Only accents such as feathers were sourced from Divisoria in Manila. Finished products were packed using biodegradable carton boxes.

Member-producers were given dividends, which was dependent on their capital build-up and net surplus of the cooperative. There was also a patronage refund based on the number of crafts produced by the weavers. In special cases, members of BMPC received assistance from CCAP and SAFRUDI. After calamities, they were given materials such as nails and galvanised iron sheets for house reconstruction.

"There is great impact at individual level as employee or producer," according to Ms. Ernacio. She added that workers had better self-esteem because of their job. They were productive, and they were important not only for the cooperative but also in the community. The traditional weaving process was being preserved by BMPC and this traditional skill had been passed on for generations. Ms. Ernacio added that "it is interesting that this skill that is not university-taught is now the source of livelihood of the member-producers. At the household level, the traditional skill in weaving and source of livelihood is also the source for education, better food and housing, medicines, and even leisure." She believed that in many ways, the lives of their member-producers had improved over the years. This was exemplified by the ability of the

member-producers to send their children to school with the help of the income derived from handicraft production for the cooperative.

BMPC had seven regular employees for its handicrafts production. Each was paid based on the prevailing minimum wage in the region. Depending on the volume of orders, member-producers usually received ₱500 to ₱1,000 (\$12.30 to \$24.60) per week. When asked about the impact of BMPC on their lives, member-producers were quick to point to their income, which they used for the education of their children, better food, and additional capital for business. They added that they also valued the additional learning they got from the cooperative, especially in terms of skills in handicraft making. Ms. Judith Endraca,<sup>36</sup> a weaver, specifically mentioned that she became more confident in dealing with other people.

Using a scale of 1 to 10 to rate their life prior to becoming a member-producer of BMPC, with 1 as hardest and 10 as easiest, they gave an average rating of 5. As part of the cooperative, using the same scale, they rated their life as 9.

## **Impact of Fair Trade**

The most significant and immediate impact of fair trade was the increase in income generating opportunities for marginalised workers. Fair price for their produce and fair wage enabled them to be able to afford basic needs, most importantly food, and be able to invest on housing and education of children. Because ecological integrity was given importance as a fair trade principle, environmental aspects were addressed in the supply chain. There was an impact on capacity, due to trainings and awareness-raising campaign provided to workers. The interventions on product development and seminars on business planning were the most tangible contributions. Improved self-esteem and better relations within the organisation helped local communities to deal with other socio-economic issues and pursue their aspirations.<sup>37</sup>

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<sup>36</sup>Based on a focus group discussion attended by four regular employees and four member-producers of Barcelona Multi-Purpose Cooperative, dated 23 March 2011

<sup>37</sup> “Fair Trade in the Philippines: Challenges and Opportunities,” ICLEI-Local Governments for Sustainability, October 2006.

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## ANNEX A

### **10 Standards of Fair Trade<sup>38</sup> (Prescribed by the World Fair Trade Organization)**

The World Fair Trade Organization (WFTO) prescribes 10 Standards that fair trade organisations must follow in their day-to-day work and carry out monitoring to ensure these principles are upheld:

#### **Standard One: Creating Opportunities for Economically Disadvantaged Producers**

Poverty reduction through trade forms a key part of the organisation's aims. The organisation supports marginalised small producers, whether these are independent family businesses, or grouped in associations or cooperatives. It seeks to enable them to move from income insecurity and poverty to economic self-sufficiency and ownership. The trade supports community development. The organisation has a plan of action to carry this out.

#### **Standard Two: Transparency and Accountability**

The organisation is transparent in its management and commercial relations. It is accountable to all its stakeholders and respects the sensitivity and confidentiality of commercial information supplied. The organisation finds appropriate, participatory ways to involve employees, members and producers in its decision-making processes. It ensures that relevant information is provided to all its trading partners. The communication channels are good and open at all levels of the supply chain.

#### **Standard Three: Trading Practices**

The organisation trades with concern for the social, economic and environmental well-being of marginalised small producers and does not maximise profit at their expense. It is responsible and professional in meeting its commitments in a timely manner. Suppliers respect contracts and deliver products on time and to the desired quality and specifications.

Fair Trade buyers, recognising the financial disadvantages producers and suppliers face, ensure orders are paid on receipt of documents and according to the attached guidelines. An interest-free prepayment of at least 50 percent is made if requested.

Where southern fair trade suppliers receive a prepayment from buyers, they ensure that this payment is passed on to the producers or farmers who make or grow their fair trade products.

Buyers consult with suppliers before cancelling or rejecting orders. Where orders are cancelled through no fault of producers or suppliers, adequate compensation is guaranteed for work already done. Suppliers and producers consult with buyers if there is a problem with delivery, and ensure compensation is provided when delivered quantities and qualities do not match those invoiced.

The organisation maintains long-term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of fair trade. It maintains effective

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<sup>38</sup> <http://www.wfto.com>

communication with its trading partners. Parties involved in a trading relationship seek to increase the volume of the trade between them and the value and diversity of their product offer as a means of growing fair trade for the producers in order to increase their incomes. The organisation works cooperatively with the other fair trade organisations in the country and avoids unfair competition. It avoids duplicating the designs of patterns of other organisations without permission.

**Standard Four: Payment of a Fair Price**

A fair price is one that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market. Where fair trade pricing structures exist, these are used as a minimum. Fair pay means provision of socially acceptable remuneration (in the local context) considered by producers themselves to be fair and which takes into account the principle of equal pay for equal work by women and men. Fair Trade marketing and importing organisations support capacity building as required to producers, to enable them to set a fair price.

**Standard Five: Child Labour and Forced Labour**

The organisation adheres to the UN Convention on the Rights of the Child, and national/local law on the employment of children. The organisation ensures that there is no forced labour in its workforce and/or members or homeworkers.

Organisations who buy fair trade products from producer groups either directly or through intermediaries ensure that no forced labour is used in production and the producer complies with the UN Convention on the Rights of the Child and national/local law on the employment of children. Any involvement of children in the production of fair trade products (including learning a traditional art or craft) is always disclosed and monitored and does not adversely affect the children's well-being, security, educational requirements and need for play.

**Standard Six: Non-Discrimination, Gender Equity and Freedom of Association**

The organisation does not discriminate in hiring, remuneration, access to training, promotion, termination or retirement based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, HIV/Aids status or age.

The organisation provides opportunities for women and men to develop their skills and actively promotes applications from women for job vacancies and for leadership positions in the organisation. The organisation takes into account the special health and safety needs of pregnant women and breast-feeding mothers. Women fully participate in decisions concerning the use of benefits accruing from the production process. The organisation respects the right of all employees to form and join trade unions of their choice and to bargain collectively. Where the right to join trade unions and bargain collectively is restricted by law and/or political environment, the organisation will enable means of independent and free association and bargaining for employees. The organisation ensures that representatives of employees are not subject to discrimination in the workplace.

Organisations working directly with producers ensure that women are always paid for their contribution to the production process, and when women do the same work as men they are paid at the same rates as men. Organisations also seek to ensure that in production situations

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where women's work is valued less highly than men's work, women's work is re-valued to equalise pay rates and women are allowed to undertake work according to their capacities.

### **Standard Seven: Working Conditions**

The organisation provides a safe and healthy working environment for employees and/or members. It complies, at a minimum, with national and local laws and ILO conventions on health and safety.

Working hours and conditions for employees and/or members (and any homeworkers) comply with conditions established by national and local laws and ILO conventions.

Fair trade organisations are aware of the health and safety conditions in the producer groups they buy from. They seek, on an ongoing basis, to raise awareness of health and safety issues and improve health and safety practices in producer groups.

### **Standard Eight: Capacity Building**

The organisation seeks to increase positive developmental impact for small, marginalised producers through fair trade.

The organisation develops the skills and capabilities of its own employees or members. Organisations working directly with small producers develop specific activities to help these producers improve their management skills, production capabilities and access to markets – local/regional/international/fair trade and mainstream as appropriate. Organisations which buy fair trade products through fair trade intermediaries in the south assist these organisations to develop their capacity to support the marginalised producer groups that they work with.

### **Standard Nine: Promotion of Fair Trade**

The organisation raises awareness of the aim of fair trade and of the need for greater justice in world trade through fair trade. It advocates for the objectives and activities of fair trade according to the scope of the organisation. The organisation provides its customers with information about itself, the products it markets, and the producer organisations or members that make or harvest the products. Honest advertising and marketing techniques are always used.

### **Standard Ten: Environment**

Organisations which produce fair trade products maximise the use of raw materials from sustainably managed sources in their range, buying locally when possible. They use production technologies that seek to reduce energy consumption and where possible use renewable energy technologies that minimise greenhouse gas emissions. They seek to minimise the impact of their waste stream on the environment. Fair trade agricultural commodity producers minimise their environmental impact, by using organic or low pesticide-use production methods wherever possible.

Buyers and importers of fair trade products give priority to buying products made from raw materials that originate from sustainably managed sources, and have the least overall impact on the environment.

All organisations use recycled or easily biodegradable materials for packing to the extent possible, and goods are dispatched by sea wherever possible.

## ANNEX B

### Philippine Fair Trade Standards<sup>39</sup> (World Fair Trade Organization – Philippines)

#### 1. Awareness of Practice of Fair Trade

This scope looks at the main and core responsibility of management to install systems and mechanisms that promote the awareness and practice of fair trade within the organisation. Management should be able to install instruments and/or vital information/dissemination activities that proliferate the principles and/or stories of fair trade.

##### 1.1. Awareness of Fair Trade

- 1.1.1. Copy of current labour code.
- 1.1.2. Fair trade principles are included in the written and/or expressed mission, vision and values of the company.
- 1.1.3. Orientation on employee benefits/salaries and office rules/guidelines and pertinent government laws is conducted.
- 1.1.4. Mechanism for complaints and grievances is evident.
- 1.1.5. Mechanism for promoting fair trade practices exists

##### 1.2. Cooperative Workplaces

- 1.2.1. Company conducts meeting and consultations with workers on matters concerning company policy, plans and procedures.
- 1.2.2. Workers are allowed to join associations, unions, cooperatives or similar organisations that promote their rights and welfare, in the best interest of the organisation.
- 1.2.3. The company provides an atmosphere conducive to the social, physical, intellectual and emotional development of workers.
- 1.2.4. Workers are informed about the performance of business and the organisation's plans.
- 1.2.5. Family-friendly policies at work exist

##### 1.3. Respect for Cultural Identity

- 1.3.1. An equal work opportunity for IPs and Moros is practiced.
- 1.3.2. The company protects and promotes communal intellectual property rights and cultural designs of IPs. Respect of cultural practice is evident.
- 1.3.3. Free and prior informed consent in the use of communal IP design/tradition is ensured.

#### 2. Human Resource Development and Responsibility

This scope underscores the main and vital bias of fair trade — the workers. Mechanisms, policies and guidelines within the enterprise should promote the welfare, security and development of its workers.

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<sup>39</sup> <http://wftoph.wordpress.com>

### **2.1. Fair Wages**

- 2.1.1. Wages approximate average rate for similar occupation or minimum wage except those with exemptions (refer to legally mandated regional minimum wage rate).
- 2.1.2. Wages regularly paid in full.
- 2.1.3. Wages are properly documented.
- 2.1.4. Deductions from workers are done in agreement with workers.
- 2.1.5. Wages are in cash or check, never in kind.
- 2.1.6. Pakyaw rates (if any) have been negotiated and agreed upon.
- 2.1.7. Legally mandated and transparent mechanism on the calculation of piece rates exists.
- 2.1.8. Legally mandated benefits for regular workers are given.

### **2.2. Safe and Healthy Working Conditions**

- 2.2.1. Working hours in a workplace other than home do not exceed 40hours/week or whatever timeframe is legally mandated.
- 2.2.2. Workplace provides sufficient light, ventilation and comfort.
- 2.2.3. Trainings on potential hazards and safe use of equipment and materials are conducted.
- 2.2.4. Accidents are recorded and appropriate measures are taken to prevent repetition.
- 2.2.5. System for proper handling and storage of toxic or dangerous substances is in place.
- 2.2.6. Worksite and lavatories are kept clean.
- 2.2.7. Production process is not hazardous to health.
- 2.2.8. Safety gears, devices and accessories are provided and worn by workers (e.g. gloves, helmet, masks).
- 2.2.9. Eating area is separated from production area.
- 2.2.10. First aid medicines and fire fighting equipment are available and accessible for use.
- 2.2.11. Living quarters (if provided) are clean and comfortable.
- 2.2.12. Corporal punishment, verbal abuse, mental or physical coercion are not used as disciplinary measures.
- 2.2.13. Smoking is allowed only in designated areas.
- 2.2.14. Written health and safety manual/policy/guidelines exists

### **2.3. Fair Labour Provisions**

- 2.3.1. No child labour.
- 2.3.2. Married women enjoy their paid maternity leave and married men their paid paternity leave.
- 2.3.3. Mechanism to prevent and address concerns relating to sexual harassment exists.
- 2.3.4. No prejudice in hiring, training or promotion.
- 2.3.5. Equal pay for equal work.
- 2.3.6. Reasonable arrangements for children's care while mothers are at work are in place.
- 2.3.7. No discrimination on types of work.

### **2.4. Provisions for Differently Abled Workers**

- 2.4.1. No prejudice against differently-abled and capable employees, as long as they are able to do the tasks assigned.

- 2.4.2. Working place is differently-abled friendly.
- 2.4.3. Special skills training for differently abled workers is provided.
- 2.4.4. Appropriate consideration is given to the special needs of differently-abled workers.

### **3. Social Accountability and Transparency**

This scope looks at various accountability systems within the enterprise. Documentation and verifiable evidence of legal compliance becomes all the more important in this scope. Business relationships with suppliers and customers are given weight in this scope along with product quality, compliance to statutory requirements and environmental accountability.

#### **3.1. Fair Trade Pricing**

- 3.1.1. Transparent pricing mechanism is evident.
- 3.1.2. Avoids engaging in unreasonable competition and unethical trading practices (e.g. undercutting, no invoice etc.).
- 3.1.3. Social premium generated is used for community development.

#### **3.2. Public Accountability**

- 3.2.1. Willingness to show practices to fair trade aligned groups to foster cooperation.
- 3.2.2. Willingness to open books to authorities.
- 3.2.3. Taxation payment history, if applicable.
- 3.2.4. Business registration is present.

#### **3.3. Environmental Sustainability**

- 3.3.1. Production process and materials used do not pollute or are hazardous.
- 3.3.2. Production does not involve banned natural raw materials, chemicals, endangered species or resources.
- 3.3.3. Production process and sourcing of materials do not involve illegal means.
- 3.3.4. Recycling programme is in place.
- 3.3.5. Measures are in place such that resources (water, energy, materials) are sustainably utilised and wastage is minimised or eliminated.
- 3.3.6. Promotion and/or use of renewable energy sources in production is practiced.
- 3.3.7. Promotion and/or use of natural/organic/local resources is evident.

#### **3.4. Respect for Intellectual Property**

- 3.4.1. Respect for intellectual/cultural property is ensured.

### **4. Continuous Improvement and Social Development**

This scope looks at various mechanism/systems/plans the enterprise is working on to continuously develop the plight and circumstance of the other scopes, especially on human resource development and social accountability.

#### **4.1. Total Quality Management**

- 4.1.1. Prime consideration of users/consumers safety in the use of product is evident.
- 4.1.2. Continuous quality improvement and product research to provide world-class products is conducted.

**4.2. Practice of Management to Give Motivational Rewards**

- 4.2.1. Recognition and incentives are given for outstanding achievements and long, quality service.
- 4.2.2. Programmes, activities and incentives that promote family values and participation are in place.

**4.3. Voluntary Benefits are Extended to Workers**

- 4.3.1. Housing Benefits, Profit Sharing, Performance Bonus etc.

**ANNEX C****Fair Trade Principles and Their Indicators<sup>40</sup>****(Developed by the Advocates of Philippine Fair Trade, Inc.)**

<b><i>Awareness of Fair Trade Practices</i></b>
1. Copy if labour code exists.
2. Fair trade principles are included in the written and/or expressed mission, vision and values of the company.
3. Orientation of employee benefits/salaries and office rules/guidelines exists.
4. Mechanism for complaints and grievances exists.
5. Mechanism for promoting fair trade practices among its employees exists.
<b><i>Fixed Wages</i></b>
6. Wages approximate average rate for similar occupations or minimum wage, except those with exemptions (this refers to the legally mandated regional minimum wage rate).
7. Wages increase in line with increase in cost of basic needs.
8. Wages are regularly paid in full.
9. Wages are properly documented.
10. Deductions from the wages are done with the agreement of the worker.
11. Wages are paid in cash or in check, not in kind.
12. Legally mandated benefits are present and given on time.
13. Working hours with ample rest.
14. Flexible working hours.
<b><i>Piece or Pakyaw<sup>41</sup> Rates</i></b>
15. Per-piece rate approximates the average for the industry/sector within the community or the minimum wage (this refers to the legally mandated regional minimum wage rate).
16. Piece rates have been negotiated (this refers to the prevailing piece rate in the community/region).
<b><i>Benefits Legally Mandated or Per CBA Agreement</i></b>
<b><i>(Applicable to permanent employees)</i></b>
17. Vacation leave and sick leave.
18. Medical and/or dental benefits.
19. Sickness and disability benefits.
20. 13 <sup>th</sup> month bonus.
21. Retirement pay.

<sup>40</sup> APFTI, 11 February 2005. Dacanay, M.L. M. (2009). The Challenge of social enterprise performance measurement. In M. L. M. Dacanay (ed.), *Measuring social enterprise: A resource book on social enterprise measurement* (pp. 2–17). Philippines: ISEA and Oikocredit.

<sup>41</sup> *Pakyaw* is a Filipino term for providing compensation based on a certain level of output.

<b><i>Cooperative Workplaces</i></b>
22. Company conducts meetings and consultations with workers on matters concerning company policy, plans and procedures.
23. Workers are allowed to join associations, unions, cooperatives, or similar organisations that promote their rights and welfare, as long as these organisations are not in conflict with company interests.
24. The company provides an atmosphere conducive to the social, physical, intellectual and emotional development of workers.
25. Workers are informed about the performance of business and the organisation's plans.
<b><i>Working Conditions and Safety</i></b>
26. Working hours in a workplace other than home should not exceed 40 hours a week, whatever time frame is legally mandated.
27. The workplace provides sufficient light, ventilation and comfort.
28. Trainings are conducted on potential hazards and on the safe use of equipment and materials.
29. Accidents are recorded, and appropriate measures are taken to prevent a repetition of such accidents.
30. A system for the proper handling and storage of toxic or dangerous substances is in place.
31. The worksite and lavatories are kept clean.
32. The production process is not hazardous to health.
33. Safety gear, devices and accessories (for example, gloves, helmet, masks) are provided and are worn by workers.
34. The eating area is separated from the production area.
35. First-aid medicines and fire-fighting equipment are available and accessible for use.
36. Living quarters (if provided) are clean and comfortable.
37. Corporal punishment, verbal abuse and mental or physical coercion are not used as disciplinary measures.
38. Smoking is allowed only in designated areas.
<b><i>Child Labour and Gender</i></b>
39. Child labour (14 years old and below) is not allowed.
40. Married women are allowed two months of paid maternity leave, and married men are allowed five working days of paid paternity leave.
41. There is no manifestation or record of sexual harassment inside and outside the workplace.
42. There is no prejudice in hiring, training or promotion.
<b><i>Management and Motivational Rewards</i></b>
43. Recognition and incentives are given for outstanding achievements and long, quality service.
44. Bonuses are given for new ideas or new products.
45. Reasonable arrangements are made for children's care while their mothers are at work.
46. Programmes, activities and incentives that promote family values and participation are in place.

<b><i>Provisions for the Differently Abled</i></b>
47. There is no prejudice against differently abled employees.
48. The working place is differently-abled friendly.
49. Special skills training is available for differently abled personnel.
<b><i>Environment Sustainability</i></b>
50. The production process and materials used do not pollute the environment and are not hazardous.
51. Production does not involve banned natural raw materials, chemicals, endangered species or resources.
52. The production process and the sourcing of materials do not involve illegal means.
53. A recycling program is in place.
54. Measures are in place to ensure that resources (water, energy, materials) are conserved and wastage is minimised or eliminated.
<b><i>Fair Trade Pricing</i></b>
55. There is transparency in pricing.
56. Unreasonable competition in pricing among fair trade practitioners/producers (for instance, undercutting, no invoice, etc.) is avoided.
57. The social premium generated from fair trade is used to improve working conditions and the community.
<b><i>Financial and Technical Support</i></b>
<b><i>(For organisations receiving eternal funding/support)</i></b>
58. Financial and technical capability-building measures are in place.
59. Plans to phase out assistance, sustainability plans, and exit plans are in place.
<b><i>Respect for Cultural Identity</i></b>
60. Equal work opportunities for workers from cultural minorities.
61. Respect for cultural practices.
<b><i>Public Accountability</i></b>
62. Willingness to show practices to fair trade-aligned groups.
63. Willingness to open books to authorities.
64. Taxation payment history, if applicable.
65. Business registration.
<b><i>Voluntary Benefits Extended</i></b>
66. Productivity/performance bonus.
67. Profit sharing.
68. Housing benefits.
69. Mechanism for loans (housing, salary, emergency, etc.).
70. Training programme for capability building.
71. Nutrition programme.
72. Scholarships.
73. Clothing allowance.
74. Merits/awards received by the company for community service, etc.

***Voluntary Benefits Extended***

- |   |
|---|
| 75. Reasonable arrangements for children's care while mothers are at work; working parents allowed to visit their children during breaks. |
| 76. Mechanism for training and compensation of OJT (on-the-job-training) students.  |

## ANNEX D

### PREDA Fair Trade's Local Producers<sup>42</sup>



<sup>42</sup> <http://www.preda.net>

## ANNEX F

### CCAP Fair Trade's Local Producers<sup>43</sup>



<sup>43</sup>CCAP Fair Trade PowerPoint Presentation dated 18 March 2011

## CHAPTER 6

### MICRO VENTURES, INCORPORATED: THE EVOLVING SOCIAL ENTERPRISE BEHIND HAPINOY

In a gathering of social development advocates, Mr. Rafael Lopa, who then envisioned having a chain of convenience stores for low-income communities, and Dr. Aristotle Alip, the founder of the country's biggest microfinance institution, CARD (Center for Agriculture and Rural Development), bumped into each other and started talking about how they could pursue their common goals. Prior to this accidental meeting, CARD had started developing its business development services that was intended to help its microfinance clients, some 10 to 15 percent of whom were sari-sari store owners, grow their business.

At this time, too, childhood friends Mr. Bam Aquino and Mr. Mark Ruiz were contemplating on putting up a micro franchise for low-income groups (what they referred to as the "base of the pyramid" or BOP) after leaving their respective jobs — Mr. Aquino as the chairman of the National Youth Commission and Mr. Ruiz as Unilever's senior customer marketing manager, Customer Marketing Development (CMD) academy head, and head of channel strategy development.

Because of Mr. Aquino and Mr. Lopa's close relationship, they, together with Dr. Alip, formed MicroVentures Incorporated (MVI). Mr. Lopa explained:

*This partnership with CARD is the most important piece of the puzzle. If we were able to convince CARD to partner with us, this would save us precious time and spare us from the logistical nightmare of having to talk to each and every store to participate in the project. With CARD's 300,000 clients at that time, we figured that we could already have access to a low of 45,000 to a high of 60,000 sari-sari store owners who we could immediately invite to participate in the project since these store owners already have on-going business dealings with the microfinance institution (MFI). (Lopa, 2009, p.3)*

MVI was thus founded in 2006 with the goal of "transforming the lives of base-of-the-pyramid consumers and shop owners, by unleashing the potential of the local sari-sari stores, using a self-funding financially sustainable model." (Lopa, 2009, p.1) The board — composed of the

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*This case was written by Asuncion M. Sebastian under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

## MICRO VENTURES, INCORPORATED: THE EVOLVING SOCIAL ENTERPRISE BEHIND HAPINOY

proponents' friends from both the business and the development sectors — put in their own capital and eventually got a loan to pursue growth. (Annex 1. Hapinoy Board of Directors)

It was clear to the founders that MVI was a for-profit social enterprise with both business and social objectives, which, as MVI President Mr. Aquino described, "always go hand-in-hand; never one above the other. We did not evolve from a pure business to a business with a social development angle or a good CSR programme; right from the start, the business and social goals were defined." (Aquino, Ruiz, & Tatad, personal communication, December 10, 2010)

Though it clearly saw itself as a social enterprise, MVI registered as a for-profit corporation in the Philippines. Despite its social mission, it did not receive any support from government in the form of benefits or incentives (unlike the tax-free non-government organisations), however. On paper, MVI, as a social business enterprise, did not differ from any other business corporation.

### Finding fortune at the base of the pyramid

Sari-sari stores were the Philippines' local corner mom-and-pop shops. Although these stores were the smallest retail units, they numbered around 800,000<sup>1</sup> nationwide, comprising 90 percent of the entire universe of stores in the country. These stores thrived because of the issues of access and affordability that plagued a majority of Filipinos. The larger stores, supermarkets and shopping centres were located in urban and town centres, thus the sari-sari stores made the consumer goods available to the people outside of these areas. The sari-sari stores also catered to the base-of-the pyramid consumers, who, with their limited purchasing power, shopped only for their basic needs and in small quantities that matched their budget for the day. Almost everything in sari-sari stores were sold in sachets or repacked in smaller packaging (e.g. clove garlic). (Lopa, 2009)

With its mission in mind, MVI offered business development services that would help increase the profit of microfinance borrowers who operated sari-sari stores.

First, MVI analysed the distribution system and found that sari-sari store owners paid a higher price for goods. Stand-alone sari-sari store owners could not access the huge wholesaling process that was the domain of the giant supermarkets and wholesalers. Usually, a typical sari-sari store would go to the nearest wholesaler in the public market or the supermarket in town, which in turn, accessed their goods from different levels of distributors of the manufacturers. Therefore, the sari-sari store owners had to pay all the markup from the manufacturers, distributors, wholesalers and supermarkets. This accumulation meant that the poor pay the most for groceries and consumer goods.

Since the sari-sari stores were a highly fragmented and disorganised channel, it was uneconomical and costly for anyone to distribute goods directly to these stores. Hence, these sari-sari stores, despite their number, could not bargain for bulk discounts. The way to solve this, as MVI had seen, was to aggregate the inventory of these small stores. MVI thus took on the challenge of helping the sari-sari store owners increase their incomes while at the same time providing cheaper and better service to the base-of-the-pyramid market.

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<sup>1</sup> 2010 estimate

## MICRO VENTURES, INCORPORATED: THE EVOLVING SOCIAL ENTERPRISE BEHIND HAPINOY

Ultimately, MVI saw three problems in the distribution system:

1. The products and services needed by the low-income group did not reach them.
2. The products that did reach them were more expensive due to distribution inefficiency.
3. The enterprises at the low-income group did not have access to market opportunities.

Aggregating the inventory requirements of the sari-sari stores, however, meant that store owners would have to agree to purchase their inventory from a common source and MVI's entry would pose a challenge since, chances were, these store owners already sourced their goods from their "suki" (regular vendor). MVI thought that the only way to get the sari-sari stores to shift to a common source was to offer them lower-priced goods, and delivery service that must be as or more reliable and more convenient than their present source, in addition to offering them competitive or very good credit terms.

Looking at the distribution chain of the retail trade business from the manufacturers to the sari-sari stores and identifying a point of intervention, MVI decided to establish "community stores" among the larger sari-sari store-clients of CARD. These community stores would serve as wholesalers for the smaller sari-sari stores within its area. Moreover, through the organised supply chain, community stores would have access to better discounts, which would be consequently passed on to the smaller sari-sari stores.

In order to help the sari-sari store owners grow further, the Hapinoy Program offered them the following services:

1. Capital
2. Capacity building and knowledge training
3. Cheaper inventories and new product lines
4. Store branding

### Capital provisioning

Soon, CARD established areas to be involved in the pilot test of the project. The next step was for MVI to test the waters in the corporate world, to see if they could get the buy-in of the manufacturers.

On the part of the community stores that would need additional capital to purchase inventory for their wholesale operation, CARD set up a new loan window primarily to assist the qualified community store owner to scale up their inventory for the wholesale operation. As a result, the community store owners had increased their borrowings per year from an average of ₱30,000 (US\$738) per store owner to a maximum of about ₱150,000 per store owner.<sup>2</sup>

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<sup>2</sup>As of December 2008, CARD had lent more than ₱15 million to the community store owners, which increased to ₱25.5 million the following year.

## Capacity building

Conscious that a mindset change was a critical pillar for the development of the *nanays*, MVI came up with the *12 Gabay ng Hapinoy*. (Annex 2. Ang 12 Gabay ng Hapinoy). Inspired by Grameen Bank's 16 decisions and developed in the first year of the programme, the 12 Gabay was part of MVI's culture shaping that clearly set the goal for the Hapinoy community to be more active members of the community and the country.

In addition, the required training complemented the mindset change. The pre-operations phase of the Hapinoy community store required community store owners to go through an average of four weeks of store management training.

With training as one of the main thrusts of its programme, MVI provided continuing education for all its community store owners. These store owners were required to attend the monthly and quarterly training events that focused on business and personal development skills.

## Supply of cheaper goods

Because some MVI board members previously worked for multinationals, MVI was able to meet with and present the programme to companies such as Unilever, Colgate-Palmolive, Coca-Cola, Rebisco, Nestle and Century. MVI approached the companies "not by way of charitable appeal to help the small store owners", but by presenting to them a win-win business proposition that would allow them to expand their market reach to the base-of-the-pyramid market and accelerate their cash movement.

At the same time, the community store owners would be able to expand their business from retailing to wholesale as well; the sari-sari stores would have access to a cheaper source of inventory; and ultimately, the consumers would have access to cheaper goods. (Lopa, 2009)

Initially, MVI's concept was to work with existing supermarkets and wholesalers. The idea then evolved into the present-day community stores — chosen among the *nanays* (mothers) who were able to expand their stores to serve as hubs for smaller sari-sari stores.

## Store branding

Taking the cue from board members who had solid experience in marketing, MVI saw the need for a branding "that would create a culture that would strengthen the bond and loyalty among our store owners, manufacturers, distributors, CARD and the base-of-the-pyramid consumers". (Lopa, 2009)

The MVI team thus looked into an article published in Time Magazine, which revealed that the Philippines was said to have one of the highest ratings in Asia insofar as happiness and life satisfaction scores were concerned, based on the World Values Survey. It stated that despite burdens like poverty and pollution, Filipinos tended to be happy because for them, happiness is not only about material goods. Filipinos were resilient and self-sufficient; and they believe that happiness is not just a goal, but also a tool for survival. (Robles, 2005) With this finding, MVI decided to brand the Philippines' first and only sari-sari store chain as the "Hapinoy Store: the Store of the Happy Filipino". Hapinoy simply meant "Happy Filipino".

## MICRO VENTURES, INCORPORATED: THE EVOLVING SOCIAL ENTERPRISE BEHIND HAPINOY

Hapinoy, the brand and the business, was launched in February 2007.

By mid-2007, the project with corporate partner, SMART Communications, for e-load retailing and store merchandising was started. By August, seven community stores were set up as part of the pilot stage. By the end of the year, there were already 17 community stores. (Annex 3. Hapinoy Store Branding)

### **Building the business through partners**

#### **CARD-BDS**

The Business Development Services (BDS) of the CARD Mutually Reinforcing Institutions was formalised in 2005. It spun off into an independent NGO in 2008 although its partnership with MVI was established in 2007.

CARD-BDS was in charge of lending capital to the *nanays* and was responsible for helping them grow the business, which entailed networking with the companies. Prior to its partnership with MVI, CARD-BDS considered working with a purely for-profit company as well as with an NGO, but these entities fell short. According to Mr. Julius Alip, deputy director of CARD-BDS, these organisations neither had the credibility nor the background to deliver CARD-BDS's requirements.

Further, CARD-BDS decided to enter into a partnership with MVI because they could not claim expertise in marketing, advertisement, real estate, and the many other diverse aspects of business development. According to Mr. Alip:

*They (the companies) speak a different language so we need the likes of MVI to help us in this area. We tried bulk sourcing in the past but it caused us much headache. Aside from distribution, there are other areas that require experts such as marketing support, product development, and research, among others. (Alip, personal communication, January 17, 2011)*

Besides, what the two organisations wanted was also aligned: 1) to improve clients' business and standard of living and 2) to attain sustainability goals as investors in MVI. Since CARD's chairman, Dr. Alip, sat on the board of MVI, CARD-BDS was assured that the partnership would not deviate from their original social and sustainability goals.

Since the first day of MVI, CARD had been present, holding 30 percent of shares of the enterprise. "Co-management" was what best described the relationship between MVI and CARD-BDS. Structurally, BDS handled the financials—lending and purchasing of inventories, while MVI handled the distribution and social side—clients' strategic selling skills, product knowledge, financial management and inventory management skills, and value/belief system, among others. At the field level, the store doctors worked under MVI in consultation with BDS and with the project officers of CARD. Before they came up with this organisation, however, they also went through a trial-and-error stage. Mr. Alip said that this arrangement worked for them as long as delineation of roles was clear to both parties, and reporting structures to the field staff.

## MICRO VENTURES, INCORPORATED: THE EVOLVING SOCIAL ENTERPRISE BEHIND HAPINOY

Just like in any kind of relationship, conflict was inevitable. Initially, there was misunderstanding in culture and communication style. The expansion issue was their most common point of argument. "They tend to adopt rapid expansion while we in CARD opt to perfect the system first. Issues like this are settled during meetings (thrice a month at the operations level and once a month at the board). Communication is key and it helps to speak the other person's language," shared Mr. Alip (2011).

In making a partnership work, Mr. Alip believed that the key success factors lay in the persons involved. According to him:

*They must have the same vision, same social mission, and sustainability goals; maintain communication; and keep an open mind especially in introducing innovations. MVI always do prior study before presenting an idea to the group and it is CARD-BDS's job to manage the risk. A possible deal breaker, however, would be, if MVI deviates from its social mission or if MVI fails to deliver.*  
(Alip, 2011)

### **SMART Communications**

Smart Communications, Inc. was the Philippines' leading wireless services provider with 45.3 million subscribers on its GSM network as of end-June 2010. SMART had built a reputation for innovation, having introduced world-first wireless data service, including mobile commerce services such as Smart Money and Smart Load. (Businessweek Mindanao, 2010)

SMART had been recognised for its "growth inclusive business model" — maintaining profitability while at the same time serving the needs of the poor by providing access to low cost telecommunications services, providing entrepreneurial avenues for the lower income segment of the market, empowering women through microfinance opportunities, helping to boost the quality of education through internet access, and practicing environmental sustainability. (SMART Communications website, 2008). SMART received numerous awards because of their participation in the Hapinoy programme.

In 2008, SMART was the only Southeast Asian company to receive the World Business and Development Award from the International Chamber of Commerce, Prince of Wales International Business Leaders Forum, and UN Development Programme. SMART's programmes, which included their participation in the Hapinoy programme, were cited for servicing the Base of the Pyramid, and for changing the way Filipinos communicate. (Businessweek Mindanao, 2010)

SMART Communications, Inc. was one of MVI's key partners, and one of the first companies to sign an agreement with the social enterprise. SMART saw in the Hapinoy business model a potential channel to broaden its base of electronic load<sup>3</sup> (e-load) retailers and other products for the base-of-the-pyramid. It contracted MVI to do the merchandising of the Hapinoy stores and the distribution of SMART "sim" cards and phones to enable the store owners to retail e-load. The store owners would buy their e-load inventory from MVI or any wholesaler of SMART e-load.

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<sup>3</sup>E-load retailing was the sachet equivalent of mobile phone load, by which prepaid mobile phone users can purchase load for text messaging for as low as P5.00 (good for five text messages).

## MICRO VENTURES, INCORPORATED: THE EVOLVING SOCIAL ENTERPRISE BEHIND HAPINOY

"We are happy to expand our current partnership with Hapinoy, to spur entrepreneurial opportunities and economic growth for members of the base of the pyramid," said Orlando B. Vea, SMART chief wireless advisor, during the launch of MIMO in 2010, three years after their agreement between SMART and MVI was signed. He added: "...Hapinoy Stores (will) allow us to give more Filipinos additional ways to improve their livelihood, while at the same time providing easier access to SMART's cutting-edge products and services, including our award-winning Smart Money platform." (Businessweek Mindanao, 2010)

MVI's Mr. Aquino responded thus: "In the same manner that we aimed to give micro entrepreneurs viable and sustainable business opportunities, we are happy to provide BOP members with easier access to financial services which they otherwise had limited access to. Hand in hand with SMART, we hope to alleviate poverty, one sari-sari store at a time."(Businessweek Mindanao, 2010)

In 2010, some community stores had become money-in, money-out (MIMO) centres where SMART Money<sup>4</sup> owners could encash their electronic money, which had become an alternative form of remittance. By offering electronic money encashment in stores, consumers were able to save as much as 10 percent to 20 percent on remittance transaction costs.

SMART continuously evolved the products they offered at the stores, such as the Barangay Phone, a product that allowed consumers to call other mobile numbers for P1 per minute (with P6 as the regular rate) and were looking to launch another low-cost mobile phone product for consumers in mid-2011. SMART also launched the Tipid Sulit (or value for money) campaign, where they set up corners in stores that featured value for money items.

## Grameen Foundation

The Grameen Foundation (GF) Manila/Asia Regional Office was established in 2008 to deliver services such as catalytic capital, systems, automation and social performance metrics to help MFIs in the Philippines more effectively pursue financial empowerment and sustainable growth. Initially, the organisation was targeting the microfinance institutions; in 2010, however, it expanded its coverage to include social enterprises, which led to its interaction with MVI.

That year, MVI explored the possibility of sourcing financing from GF to support its expansion plan from 150 to 400 community stores. According to Mr. Christopher Tan, GF's regional manager, it was clear to GF what it could not afford—the cost of money that they had to repay and the overhead that they needed to cover. Although the conversion of liabilities to equity was discussed in length, the process of determining the valuation price was not agreed on.

Their first attempt to partner did not materialise; however, communication lines had remained open. For GF, capital alone would not help a woman and, as Mr. Tan opined:

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<sup>4</sup> Smart Money was the world's first reloadable electronic wallet linked to a mobile phone. Through Smart Money, account holders may send and receive cash using their cellular phones, all at the speed of text messages.

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*MVI has figured out a way to expand, to make much more profound the business development services — beyond financial literacy and skill-building of the women — by establishing a network of business, a value chain, which ensured success of the entrepreneurs especially in the rural areas where population is not as dense as in the urban regions. This is certainly not the expertise of the microfinance institutions, many of which have attempted to set up their own business development service. Beyond capital, the poor need a new business model; not just microfinancing but economic development intervention. We know that money is never in the production. (Tan, personal communication, January 11, 2011)*

If Muhammad Yunus, the founder of Grameen, was a banker with a conscience, Mr. Tan considered MVI as the middleman with a conscience. The trick in creating the infrastructure, he said, was to work with the big boys in such a way that one retains control or influence over the network. He further said: "Others do not have the social network and experience that Mr. Ruiz has. Others tend to be happy with their community-level success. Others are more traditional in their networking approach. That's culture. That's fine. GF would like to partner with these entities as well." (Tan, 2011)

GF did not have business goals; it was a not-for-profit entity that did not have any investors to satisfy. GF was willing to throw in money for the pilot of Hapinoy projects, Mr. Tan said, "because they are smart people who will figure out what will work and what is valuable to them. We trust their judgment. MVI is focused on learning, replicating, teaching others, with implications seen as beyond MVI." (Tan, 2011)

An observation Mr. Tan had was that "Hapinoy is evolving quickly, not in a whimsical manner, but they change their approach quickly in order to serve their customers better." (Tan, 2011)

### The Nanays

For MVI, its primary concern was to determine and ensure that the *nanays* had the right inventory/assortment which would 1) result in higher revenue to the store and 2) be more beneficial to the community.

Take for example the case of Nanay Ella Bitara, who had had her sari-sari store for 10 years in Alaminos, Laguna, but joined CARD and the Hapinoy programme only in 2009 and October 2010, respectively. Prior to joining the programme, she used to sell ₱1,000 (US\$24.60) to ₱2,000 worth of goods per day, earning a meager ₱150.

What enticed her to join Hapinoy was the 30-day credit term it offered and the price of its goods that enabled her to sell at par with the downtown market prices. Nanay Ella shared:

*My neighbors have started buying goods from me instead of going to the market, as they are able to save some ₱16 in fare. More people also started coming to my store because of wider range of inventories I now offer, including medicines under Hapinoy's Botika Corner that gives me good margins. The grocery loan (also called 'gift certificate') extended by CARD to its members which could only be used in Hapinoy stores, brings in people to my store, too. In six month's time, my daily earning has increased between ₱500 and ₱1,000. (Bitara, personal communication, April 14, 2011)*

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In addition to the original business and personal skills training programme, MVI started its three-level leadership training in 2009. The goal of the leadership training was to enable and empower the micro entrepreneurs to work beyond their stores and be of service to their communities. A number of the *nanays* had become leaders in their own right in that they coached their *suki* stores and even the newbies in the business, and gave inspirational talks across Hapinoy communities. Anecdotally, the list of principles in 12 Gabays — which included helping and being helped in the community and being leaders — was also something that engaged the *nanays* as they really felt that they were becoming a part of “something bigger than themselves” and saw their roles in society and their communities with an expanded perspective. (Ruiz, personal communication, April 14, 2011)

No wonder then, when asked about the impact of Hapinoy, Nanay Edith Miranda unabashedly answered:

*Self-improvement and (lessons from) Foundations Learning Experience (FLEX). Sir TJ (Hapinoy's community store operations manager-expansion in charge of training and community building) taught us to be gutsy and confident. He made us speak to other nanays about how to care for customers, how to start a business...to inspire other nanays to grow their sari-sari stores.*  
(Miranda, personal communication, April 14, 2011)

Nanay Edith had been running her sari-sari store in Candelaria, Quezon since 1987; unfortunately her store was burned down to ashes in 2001. The only asset she was able to save was the ₱4,000 (US\$98.40) in her pocket then — which she used to start their lives anew. In 2002, she joined CARD and took out a ₱4,000 loan “which was enough to buy only 10 boxes of cigarettes”. Whatever she earned, she invested it either in inventory or in hog-raising. In 2007, her sari-sari store was chosen to be one of the seven pilot Hapinoy stores.

Nanay Edith shared that at times other distributors’ agents offered a price lower than Hapinoy’s. However, she still preferred to get orders from Hapinoy because of its 30-day credit term, which was longer than the agents’ usual seven days.

Ten years after the unfortunate event, Nanay Edith had increased her daily net income from ₱500–1,000 to ₱2,000–3,000 (from her daily sales of ₱20,000–30,000) and ran a community store that serviced around 100 *suki* stores with three delivery tricycles managed by her husband. While she opened the store at 6 or 7 in the morning, her husband took the evening shift, manning the store until 11 in the evening. Nanay Edith also hired her sibling to help her in the daily operations of the store while her son assisted in the delivery of goods occasionally.

When asked about her secret of success, she said:

*My husband's support plays a big part in the success of our store. We also made sure that whatever we earn we plough back to the business. Unlike other business people I know, we do not buy appliances; we buy inventories instead. It also helps that our children do not complain about our lifestyle.* (Miranda, 2011)

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Such testimony was not surprising as Hapinoy's training programme also aimed to help the *nanays* build better relationships and working partnerships with their husbands, encouraging the couples to own and manage the business together.

According to Mr. Aquino, one of MVI's key business principles was that each stakeholder should find value in the venture, be it in the form of growth in business or a transformation in his or her personal life, as in the case of the *nanays*. Mr. Aquino emphasised that MVI's measures of achievements were in two areas: the *nanays'* business income and level of 'happiness' or self-esteem.

He further said:

*Hapinoy believes that given the right access to goods and opportunities, the poor will be able to lift themselves out of poverty. We work towards the economic and social growth of the communities we engage.*

*Thus quantitatively, we check the sales and revenue of the stores and micro entrepreneurs we support with financial monitoring tools. Over the past three years, the store owners have experienced an increase in their revenue because the goods that they are purchasing through the programme are cheaper. For the community stores, from an average daily sales of \$50 (₱2,000) per day their daily sales increases to at least \$250 (₱10,000) upon joining the programme.*

*Qualitatively, we ask our nanays how the interventions of the programme helped them, not only on the entrepreneurial aspect, but also on personal levels. We are able to evaluate their mindset shifts on motivation, self-image and belief systems. We track these with weekly visits, interviews, surveys and community store meetings. Community store meetings are monthly learning sessions of all community store owners of a town.*

*We physically see the success of the programme. The nanays' houses are getting bigger, they purchase new appliances, and they are able to send their children regularly to school.*

*Our Nanays even physically look better after some time in the programme. (Aquino, 2011)*

Among the mothers featured in the MVI website, more than half cited personal development and social skills as their lessons learned from the enterprise. The rest cited financial management, and growing and building the business as well as the community as their main realisation from joining the Hapinoy programme. According to some mothers' anecdotes, MVI was able to help them primarily in increasing their inventories and thereby increasing their revenues, and becoming more sensitive to their customers. (Hapinoy website, 2010)

## Evolution of the enterprise

In 2009, MVI formally defined its vision and mission thus:

### **Our reason for being:**

Micro Ventures Inc aspires to be the leading partner of Microentrepreneurs in the Philippines. In so doing, we leverage Microfinancing as a powerful tool to empower socially and economically challenged families.

### **What we do:**

1. The Development of Viable and Sustainable Business Models for Microentrepreneurs.
2. The Empowerment of Microentrepreneurs through Capacity-building.
3. The Formation of Strategic Partnerships with Microfinancing Institutions and other Organisations.

## Scaling up

*In the past two years, Hapinoy has evolved from a programme focused on the increased incomes of sari-sari store owners to one which is trying to solve problems of access for areas and communities, utilising the sari-sari stores with the support of more empowered and financially stable sari-sari store owners. It was a natural evolution for us. (Aquino, personal communication, 2011)*

The initial 22 community stores were able to move over ₱60 million (US\$1.5 million) worth of fast moving consumer goods to the smaller stores within a 16- to 17-month period. Over the same period, these 22 stores recorded combined earnings estimated between ₱3 million and ₱4.2 million. By 2009, MVI had 50 community stores and by 2011, this number grew to 150.

A year after the inception of the SMART-MVI partnership, MVI had merchandised 4,000 stores by prominently displaying the logos of the SMART brands in the Hapinoy signages. The sari-sari stores' new business resulted in an average additional income of ₱300 to ₱400 per month per store; for SMART, this meant a total of ₱19.8 million worth of e-load in 2008 alone. (Lopa, 2009, p.7)

MVI realised that their business model was more effective in less urbanised areas where big wholesalers would not go and thus the benefit of having community stores were optimised. In such areas, having a Hapinoy community store could help the smaller, *suki* sari-sari stores save as much as ₱50 in one-way fare that they would have otherwise spent if they were to source their inventories from the public market. Its challenge, however, was to become as efficient as the other distributors that could supply goods to just any sari-sari stores in town.

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Another challenge would be helping the *nanays* grow their business. While many had dreams of someday turning their sari-sari stores into groceries, others were content working within their comfort zones such that no amount of persuasion could make them want to carry more product lines. In some cases, as business capital was often treated as conjugal property of couples in the Philippine society, the husbands' being more risk-takers in their businesses had adversely affected the wives' enterprises. In others, the husbands had problems dealing with their wives' successful business ventures.

For 2011, its target was to expand its reach to 400 communities. Although MVI had always intended to engage other MFIs, negotiations were still in process.

### **Widening product offerings**

As of January 2011, MVI maintained 400 stock keeping units (SKUs) for distribution from around 10 to 15 big companies and 10 small manufacturers.

MVI had started moving from merely selling to the base-of-the-pyramid to mainstreaming the low-income group into the market. Whereas initially MVI approached the big companies, this time it included the local producers in their network.

In 2010, Hapinoy started launching its line of house brands, starting with Hapinoy Banana Ketchup, which cost ₱20 less than the leading brands but of high quality and taste. With its house brands, MVI aimed to deliver better quality products to the local communities while offering the Hapinoy stores better deals and higher margins. Strategically, once volume and scale were achieved, the long-term goal of MVI was to source raw materials from communities, other microfinance borrowers or from the micro-producers themselves. As in the case of the Banana Ketchup, perhaps bananas could directly be sourced from farmers.

It had also expanded its products beyond the fast moving consumer goods to include those innovations with significant social impact such as solar lamps (for areas not yet covered by electrification programmes) and mosquito nets (for dengue-infected areas). It also included the community-based manufacturers in its network such that commodities such as rice, sugar and drinking water were made available at the communities at better prices.

Mr. Ruiz explained:

*Selling the fast-moving goods from the multinational companies was a sort of MVI's entry strategy to the stores. Now with Hapinoy's track record, it is easier for us to ask the stores to sell medicine or rice, or the more socially beneficial products.*

*We are really trying to mitigate the risk to the nanays and her community store, especially as she scales up. For example, when we do pilots, we require our partners to absorb the risk of inventory, that is, what if the product won't sell? We also try to actively promote the products, which could benefit the community but might not be immediately sellable from the store, as was our experience with some entrepreneurs. (Ruiz, 2011)*

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In the future, MVI planned to incorporate more socially beneficial products and services into the Hapinoy programme such as diversification of ownership of stores and opening to other markets such as the Overseas Filipino Workers.

### **Launching Hapi Delivery**

In 2010, MVI also launched its own supply chain, Hapi Delivery, immersing itself into the whole distribution business (Annex 4. Activity Chain). The stores would be able to sell the products on terms. Aside from getting bigger discounts from manufacturers, from which the end-buyers also benefited, this service also provided substitute products that were generally cheaper — an opportunity for the small businesses to access markets through the Hapinoy network. (Hapinoy website, 2010)

CARD-BDS made the investments in the logistics while MVI managed the Hapi Delivery business. In essence, Hapi Delivery was another form of co-management or partnership between CARD-BDS and MVI. Having its own distribution network assured the regularity of deliveries without sacrificing the bulk discounts for the community stores; further, it facilitated the entry of products of community-based manufacturers into the system.

"Our goal is to provide end-to-end support for the micro entrepreneurs, from production to distribution," emphasised Ms. Erika Tatad, the director for operations (personal communication, January 28, 2011). Eventually, MVI intended to serve the sari-sari stores, going beyond the community stores and further down the economic pyramid.

"We envision Hapinoy to be a universal platform where you can plug in any 'application', or business, for distribution to the market," explained Mr. Ruiz (2011), using computer technology as an analogy. "The system is set, and everyone, big or small, has a place in Hapinoy. It is just a matter of finding the fit," added Ms. Tatad (2011).

### **Managing resources**

Structurally, MVI had also evolved. In 2009, Ms. Erika Tatad joined the team as the operations director, while Mr. Ruiz, the managing director, focused on marketing and business development, and Mr. Aquino remained as the president and handled partnership-building. Ms. Tatad was a welcome addition to the duo, both of whom she had known since childhood. Prior to joining MVI, she had solid experience in strategy management, handling key accounts in the consumer goods industry and banking. Later, she became a regional director for an international socio-civic organisation. When she went back to school, she interned for an organisation that aggregated "ethically-minded producers and companies" engaged in online retailing.

By 2011, MVI had employed 15 personnel at the headquarters and another 15 in the field. MVI had also included "store doctors" in its operations. Their role, which was more as a partner and coach (more personal, more involved) as opposed to a consultant (more detached), was to give the store owners business advice. These store doctors were employed by a third party, owned by another MVI board member, whose business expertise was in marketing and activation.

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At this time, too, the company had its own office space already; however, its accounting functions remained outsourced to a company, managed by an MVI board member. It was MVI's intention to look for partners who could handle its support functions and pay for the partner's services so that it could focus on its core business — retail, distribution and logistics.

According to Ms. Tataad, they were able to keep the company lean by looking at the demand of the job first, then matching it with the skills and workload of the existing staff. Only when nobody could fill in the need would they decide to hire a new employee. She added: "We are such a hardworking team that lines have become blurred across functional areas." (2011)

MVI wanted a sustainable business not only in terms of financials but also in terms of the institution. Traditionally, people working in NGOs did not earn much so they either leave the NGO or go the other extreme (or opposite route). As MVI wanted to attract and keep the best, it thus offered a salary that was more than what an average NGO offers and was competitive when compared to the corporate sector.

As in any growing organisation, human resource management slowly gained management attention. In the beginning, staff development was not the focus of the growing enterprise. Although they had headcounts, benefits, developmental activities (such as seminars and conferences) and work plan in place, the system was relatively informal. Thus, MVI wanted to professionalise the programme for its staff, which, it recognised, would put pressure on sustainability.

### **Going beyond selling to the BOP**

In line with its effort to further the training and capacity-building thrust, MVI planned to launch its foundation in 2011, which would eventually handle the entire training curriculum for the *nanays*, the social impact measurement and management, and special programmes. (Annex 5. Organisational Structure)

One objective of the foundation was to formally look into the impact of MVI by analysing the Progress out of Poverty Index (PPI)<sup>5</sup> scores of the community stores. Currently, the enterprise was able to measure only the growth in revenues of these community stores. Another was to form a separate entity to maximise the use of resources.

Mr. Ruiz explained further:

*The challenge with social business enterprises is that there are two dimensions that have to be fulfilled — the social mission and the business goals. We've learned that it would be best to have a true hybrid organisation — MVI, which will focus more on commercial operations and generate its*

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<sup>5</sup> The Progress out of Poverty Index™ (PPI™) was a simple and accurate tool that measures poverty levels of groups and individuals. CGAP, Grameen Foundation and the Ford Foundation endorsed the use of this poverty assessment tool for those institutions interested in measuring the likelihood of client poverty. The PPI was based on an approach developed to estimate the likelihood that clients fall below the national poverty line, the poverty line that defined the poorest half below the national poverty line or the \$1/Day/PPP and \$2/Day/PPP international poverty lines. While the PPI was built on a universal methodology, each PPI was country specific and based on that country's best nationally representative income and expenditure household survey. (source: <http://www.progressoutofpoverty.org/understanding-the-progress-out-poverty-index>)

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*own revenue; and MVF (Foundation), which will tackle capability-building and training. Moreover, it is a vehicle to also accept donations and grants geared more for less commercial and more socially-oriented activities.* (Ruiz, 2011)

With its main thrust to build skills and capacity of partners and micro entrepreneurs, MVI planned to launch two programmes in the same year, incorporating its original programmes with a new line-up.

First was the Hapinoy Training Program, which would give an overview of the training programme. While in the past a lot of the training focused on the *nanay's* development and business skills, the planned programme had a holistic training-formation approach that touched on both the business aspect and the personal-social aspect of the persons. The rationale behind this programme was that "Hapinoy members were envisioned to be empowered individuals: ones who had achieved a level of personal mastery; been deeply rooted in sound and basic financial and operational business disciplines; and been deeply engaged in the life of the community — starting from one's family, the neighborhood, the local CARD branch and the town. The members tapped all these spheres of influence towards an improvement in the economic and social situation." This programme also reinforced the role of 12 Gabays in the formation of the *nanays*. (Hapinoy Training Program Brief)

The Hapinoy Training Program was divided into two modules: Business Skills and Life Skills. Business Skills included financial literacy, customer care and sales, personal assessment and business opportunities, visual merchandising, management system, and inventory management. On the other hand, Life Skills covered leadership excellence; paradigm/belief systems; vision, mission, purpose and core values; motivation and self-image; personal responsibility; and the *Masaya at Masaganang Pamilya* (Happy and Prosperous Family) seminar. (Hapinoy Training Program Brief)

The second programme to be launched was the *Kahanapbuhay* Program, the arm that would link micro producers to the Hapinoy network by upgrading their business from the community level to the micro enterprise level. This programme was in line with MVI's vision to "be a universal platform where you can plug in any 'application', or business, for distribution to the market".

The programme segmented the micro producers into three levels, each with specific needs: Level 1 or aspiring micro producers who needed to explore business opportunities; while Level 2 or early state micro producers who may require assistance in the areas of product development, production process, packaging, and quality assurance. Finally, Level 3 or mature micro producers who were more concerned with business expansion, production capacity, working capital, and management systems, and were ready for integration in the Hapi Delivery System. (Hapinoy Kahanapbuhay Program Brief)

MVI started with the development of Level 1 micro producers by partnering with a local leading donut company to introduce donut production in the Hapinoy network. The project pooled together the partner company's product development and franchise development expertise, MVI's ability to network with microentrepreneurs, and the micro producers' desire to have a "higher-standard business-in-a-box". A Hapinoy member was trained and provided with raw materials and the equipment to produce the donuts. At this pilot stage, MVI and the partner

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company assumed the burden of these costs. As of April 2011, there were still refinements in the prototype — from the *nanays'* training, product development and production processes — but MVI intended to develop five Hapinoy Kahanapbuhay Models for micro producers. (Hapinoy Kahanapbuhay Program Brief)

Mr. Ruiz also added:

*Now that the network is there, we can use it beyond building business. MVI has a tie-up with the Visayan Forum Foundation whose goal is to combat human trafficking. A number of our nanays, who have agreed to work with the Visayan Forum, have been trained to spot potential human trafficking activities and report them back to the organisation, who in turn, will be working with the authorities.*

*We also now have partnerships for our disaster response programme. In case of typhoons, for example, people can work through the Hapinoy network by coordinating their purchase of goods for donation from the Hapinoy stores located in the areas of calamity. The nanays will pack and deliver the goods themselves to the beneficiaries — this way we can avoid depletion of stocks in the city and ensure faster delivery of needed goods to the affected communities. We learned our lesson from Ondoy that struck many parts of Luzon in 2009; of course, we do not know yet if this disaster response programme will work until another typhoon comes, which we do not hope to happen.*  
(Ruiz, 2011)

Three years after its establishment, MVI had evolved from being merely a distribution network of the big boys to a venue that aimed to mainstream the micro and/or community-based producers and to make available socially beneficial products to low-income communities. Its network had also become a medium for other social organisations such as those that combat human trafficking (Visayas Forum). More importantly, MVI had pursued efforts to set up a foundation to give more attention to the development of the small store owners and their communities. As Hapinoy was envisioned and designed to be a universal platform where one could plug in any "application", its very nature made changes inevitable in the coming years. Any new application — be it a product, a business, a social service or an advocacy — would cause MVI to continuously evolve.

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## ANNEX 1

### Hapinoy Board of Directors

The Board of MicroVentures Incorporated is composed of visionary leaders with unparalleled experience and expertise in various sectors such as government, social development, micro finance, and business. What they share is a common advocacy for social business enterprise, proof that social development and business can go hand in hand.

**Rafael C. Lopa, Chairman of the Board**, is the executive director of the Benigno S. Aquino, Jr. Foundation and executive assistant to former President Corazon C. Aquino. He sits as a trustee in various foundations and was formerly a board member of the Philippine Center for NGO Certification (PCNC). Rapa currently serves as the executive director of Philippine Business for Social Progress (PBSP).

**Dr. Aris Alip, Vice-Chairman of the Board**, is the founder and managing director of the Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD MRI), one of the leading microfinance institutions in the Philippines. He has extensive international experience in microfinance and rural development, and has advised on many microfinance projects in Asia and the Pacific. Dr. Alip was awarded Ernst & Young's Social Entrepreneur of the Year for 2006 and the Ramon Magsaysay Award for Public Service in 2008.

**Paolo Benigno Aquino IV** is the former chairman of the National Youth Commission (NYC), the youth policy-making arm of the Philippine Government. He was the youngest person in Philippine history to head a government agency. Bam also hosted Breakfast, a youth-oriented TV morning talk show on Studio 23 from 2001–2006, and Start-Up, a business magazine show on ANC. His first publication, Young Southeast Asia, was the ASEAN's 40th Anniversary Book. In 2010, Bam was recognised as one of Ernst & Young's Entrepreneurs of the Year and one of the Ten Outstanding Young Men (TOYM) of the Philippines. As president of MicroVentures, he is in charge of overseeing the overall strategy and operations of the company. He also establishes and maintains partnerships with key stakeholders.

**Manny de Luna** is an expert in demand creation/activation, developed through years of experience with multinational companies. He has served as global manager for Winning at Point of Sale and country customer activation manager in Unilever Philippines, and has also had senior-level positions in Coca-Cola, Nestle and Colgate-Palmolive Philippines. Manny is the president of ActivAsia Inc, one of the leading activation agencies in the country.

**Jaime C. Lopa** worked for two years as a project and financial analyst for Benguet Management Corporation's Agribusiness Unit then spent 20 years in Central Azucarera de Tarlac under Sugar Farming Operations, Cane Supply Operations, and the Financial Controls Department. He was also a member of Central Azucarera de Tarlac's Mancom & Execom for 15 years.

**Mark Joaquin Ruiz** has seven years of experience in Unilever Philippines, with extensive expertise in Category Management, Channel Strategy, and Trade Marketing, skills which are now highly utilised in application to Hapinoy. He is also founding partner of another social business enterprise, Rags2Riches — a community-based enterprise that upcycles scrap cloth into high-end

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designer accessories, and teaches Business Innovation Management in the Ateneo de Manila University. Mr. Ruiz was recognised by Ernst & Young as one of 2010 Entrepreneurs of the Year. In his role as managing director, Mark is responsible for the marketing and sales group and the evolution of the business so as to increase the overall value of the programme.

**Franco Sevilla** is a multi-awarded art director from McCann Erickson Phils, Inc. Franco was a managing partner and the executive creative director of White Stone Creatives, Inc., a communications and design company. He is currently the chief dreammaker of ActivAsia's Beyond group.

**Erika Tataad** joined MicroVentures in 2009 as director of operations after returning from UC Berkeley's International Business and Marketing programme and an internship with World of Good, a leading US-based social enterprise now with the eBay group. She has experience in both the public and private sectors. She served as regional director for Asia Pacific of World Youth Alliance, a UN-affiliated youth organisation headquartered in New York that focused on dignity and development from 2003 to 2007, and a senior strategy manager for k2 interactive, a Manila-based boutique strategy and communications firm from 2000 to 2003. Erika is one of Asia Society's Asia 21 Philippines Class of 2010 Fellows.

**Willie J. Uy** is the president of PHINMA Property Holdings Corp, the largest developer of in-city affordable medium-rise buildings. He is also national chairman of the Subdivision and Housing Developers, Inc. (SHDA) and chairman of the Philippine Retirement, Inc. He also sits in the Board of Trustees of Mariposa Foundation and PHINMA Foundation. Willie has 17 years of experience in Treasury and Finance at PHINMA, Inc. and 21 years in non-life insurance brokering.

**Perry Villa III** has 23 years experience in Unilever Philippines in both marketing and customer development. He was general customer development manager for GMA/Luzon, and has represented the company in regional general trade development forums. Perry currently holds the position of VP for business development of ActivAsia, Inc.

### Management Team

Paolo Benigno Aquino IV, president

Mark Joaquin Ruiz, managing director

Jaime Lopa, director of finance

Erika Tataad, director of operations

## ANNEX 2

### Ang 12 Gabay ng Hapinoy

1. **Ako ay isang mabuti at epektibong negosyante.**  
*I am a good and effective entrepreneur.*
2. **Ako, ikaw at tayo ang bumubuo ng Hapinoy.**  
*You, me, we all comprise Hapinoy.*
3. **Ako ay parating natututo at nagpapa-unlad ng sarili sa aking kaalaman at kakayahang.**  
*I am always learning and improving myself, therefore developing my knowledge and skills.*
4. **Ako ay determinado at palaban. Hindi ako magiging biktima ng sitwasyon o ng mga pangayari. Kaya kong gawan ng paraan at lampas an kung anu mang hamon sa aking negosyo.**  
*I am determined and resilient. I will not be a victim of the situation. I can and will overcome all the difficulties my business might encounter.*
5. **Ako ay nagbibigay importansya at maingat sa aking mga relasyon sa negosyo lalo na sa aking mamimili at suki.**  
*I take care of all my business relationships, especially those with my regular customers.*
6. **Ako ay disiplinado at may isang salita. Kapag sinabi ko, gagawin ko, lalu na ang pagiging sa oras.**  
*I am disciplined and abide by my word. When I say it, I do it, especially when it comes to punctuality.*
7. **Pinahahalagahan ko ang aking sarili at ang aking tindahan. Ang malinis na sarili at tindahan ang siyang sumasalamin sa aking pagkatao.**  
*I take care of myself and my store. A clean self and store show who I am as a person.*
8. **Ako ay masagana at patuloy kong nililiha ang aking masaganang buhay. Punong-puno ng oportunidad ang mundo, kailangan ko lang maniwala at tumanggap.**  
*I live in abundance and continue to create my abundant life. The world is full of opportunities, I just need to believe in and receive them.*
9. **Ako ay nagtitiwala sa samahan ng Hapinoy. Mayoong handang tumulong sa akin, hindi ako mag-aatubiling humingi ng tulong at handa rin akong tumulong sa mga kasama ko sa komunidad.**  
*I fully trust the Hapinoy community. There are people who are ready to help me out. I won't think twice about asking for help; I will be willing to help out in my community as well.*
10. **Ako ay ilaw ng tahanan. Papatatagin ko ang samahan ng aking pamilya sa pamamagitan ng tindahang Hapinoy. Dahil sa Hapinoy, mabibigyan ng pagkakataong magnegosyo ang aking asawa at makapag-aran ng aking mga anak.**  
*I am the light of the home. I will strengthen the ties within my family through the Hapinoy store. Because of Hapinoy, my husband will be able to participate in the business and my children will be able to go to school.*
11. **Ako ay isang pinuno at ang aking Hapinoy Store ang ilaw ng kapit-bahayan. Hindi ko pinapatulan ang mga paninira at isusulong ko ang mga isyung makakabuti sa buong kapit-bahayan.**  
*I am a leader and my Hapinoy store is a beacon of light in the community. I won't listen to rumors and unfair criticisms. I will push forth things that will benefit my community.*
12. **Ako ay makabayani. Ang tindahang Hapinoy ay siyang kontribusyon ko sa pag-unlad ng bayang Pilipinas.**  
*I love my country. The Hapinoy store is my contribution towards the development of the Philippines.*

**ANNEX 3**  
**Hapinoy Store Branding**



## ANNEX 4

### Hapinoy Activity Chain

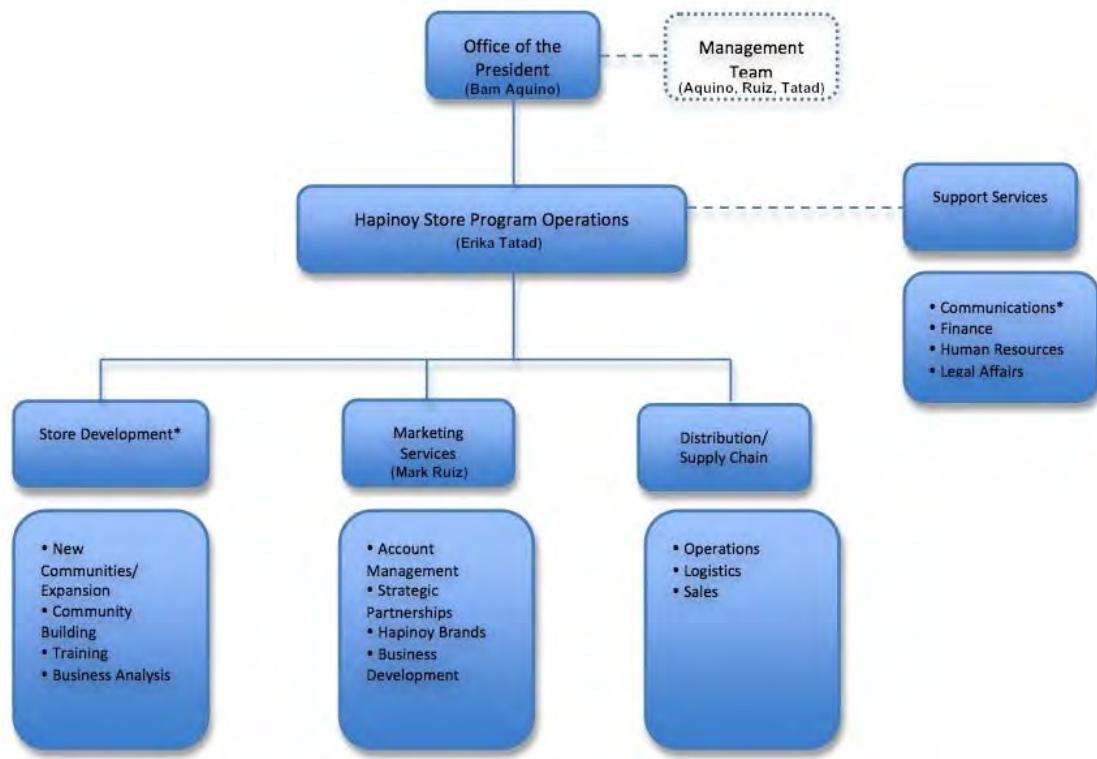


**INCREASED PROFITABILITY FOR HAPINOY STORES;  
BETTER VALUE AND SOCIAL IMPACT FOR THE BoP**

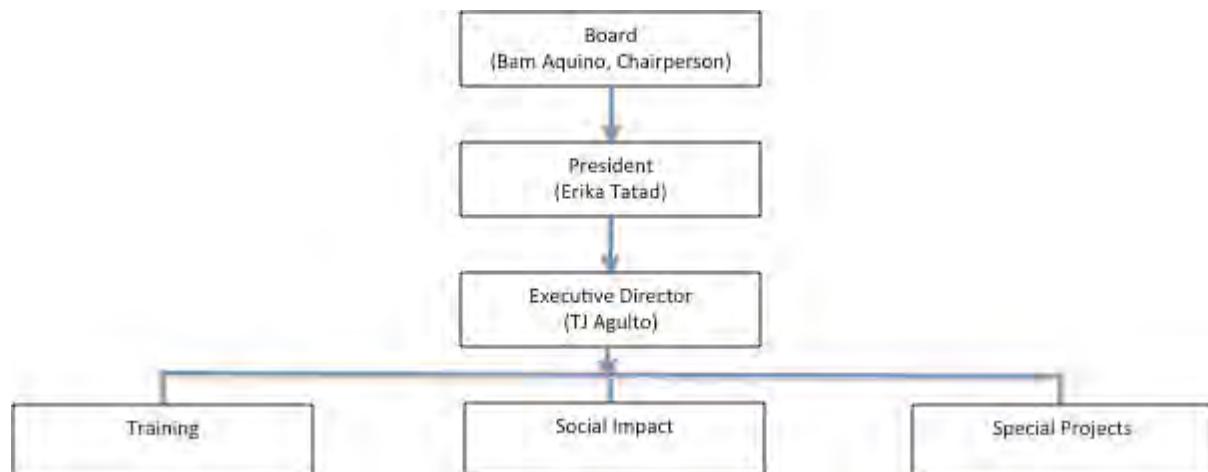
## ANNEX 5

### Organisational Structure

#### Micro Ventures, Inc.



#### MVI Foundation



## CHAPTER 7

### HEALTH PLUS: AN EXPERIENCE IN SOCIAL FRANCHISING

"If the system is followed well down the line, HEALTH Plus™ definitely has a bright future, as it has a distinct niche in the market for pharmaceuticals," declared Ms. Teofila "Fe" Remotigue. Fe Remotigue was chief executive officer of the National Pharmaceutical Foundation, Inc. (NPF), which ran the HEALTH Plus network. HEALTH Plus was facing financial sustainability issues compounded by escalating competition in the Philippine pharmaceuticals market. Still, Fe Remotigue believed that there was ample room for HEALTH Plus as a viable social enterprise seeking to make quality essential medicines affordable and available to Filipinos, particularly to the poor. It sought to do this via a network of *Botika ng Barangay(s)* or village drugstores, and pharmacies<sup>1</sup> carrying the HEALTH Plus brand, selling generic<sup>2</sup> essential drugs and providing health education and counselling services to community residents.

#### The Roots of HEALTH Plus: Re-Inventing the *Botika Bini* Programme

The *Botika ng Barangay* (BnB) referred to a drug outlet where primary, non-prescription generic drugs and selected prescription drugs as may be defined by the Department of Health were sold/made available (DOH, 2002). A BnB was managed by a legitimate community organisation/non-government organisation and/or the local government unit with a trained operator and supervising pharmacist. It was specifically established in accordance with Department of Health (DOH) guidelines. Basically, the BnB outlet should be "identified, evaluated and selected by the concerned Center for Health Development (CHD), approved by the PHARMA 50 Management Unit of the DOH, and especially licensed by the Bureau of Food and Drugs (BFAD) to sell, distribute, offer for sale and/or make available low-priced generic home remedies, over-the-counter drugs, and two selected, publicly-known prescription antibiotic drugs (i.e.

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<sup>1</sup> The succeeding section defines the BnB or village drugstore. A pharmacy is allowed to sell all pharmaceutical products listed in the National Drug Formulary and has to have a full-time pharmacist.

<sup>2</sup> Unbranded

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*This case was written by Rosalinda m. Roy under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

Amoxicillin and Cotrimoxazole)<sup>3</sup>" (DOH AO 144 s.2004). Its objective was to promote equity in health by ensuring the availability and accessibility of affordable, safe, quality and essential drugs to all, especially to the marginalised, underserved, hard-to-reach areas of the country.

By 2010, there were reportedly more than 14,000 BnBs in the country (Bilowan, 2010). Around 90 percent of these BnBs were based in the DOH-Centers of Health Development, with the balance of 10 percent in the Botika Binhi network of the Kabalikat ng Botika Binhi, Inc. (KBB) and the HEALTH Plus network of the National Pharmaceutical Foundation. As a whole, the BnB system had received varying degrees of support across administrations. The most recent prominent push was the Arroyo administration's directive in the early 2000s promoting the widespread establishment of BnBs. Department of Health (DOH) Administrative Order (AO) No. 144 s.2004 on "Guidelines for the Establishment and Operations of Botika ng Barangays (BnB) and Pharmaceutical Distribution Networks (PDN)" continued to govern the operation of BnBs in the country<sup>4</sup>. President Benigno "Noynoy" Aquino III, elected in 2010, had also specifically mentioned strengthening of such "community pharmacies" as part of his administration's thrust for universal health care.

Village drugstores had long been a feature of community-based health programmes run by non-government organisations. The network of accredited BnBs in the country was essentially patterned after the *Botika Binhi* network which grew in the 1970s and the 1980s. *Botika Binhi* was spearheaded by Dr. Emma Palazo, a public health doctor working in the 1970s to provide cheap medicines to the poor. The opportunity for mainstreaming the *Botika Binhi* concept came in 1989, when the Department of Health (DOH) ran the German government-supported Health and Management Information System (HAMIS) Project contest. The contest sought to identify and support noteworthy practices for effective delivery of health services. *Botika Binhi* joined and won first place in the HAMIS contest, for which it was awarded up to ₱5 million (US\$122,971) through three awarding cycles, supported by a Department Order, to promote the concept across the country.

In 1995, a Financing Agreement was signed between the Philippine and German Government. The agreement stipulated a donation of drugs to Filipinos, especially to poor households. The drugs would be distributed with cost recovery mechanisms in order to sustain the services. The Department of Health (DOH) and the German Technical Cooperation (GTZ) developed the sustaining cost recovery mechanism within the framework of the technical cooperation project called Family Health Management by and for the Urban Poor Settlers (FAMUS). The system was patterned after *Botika Binhi* best practices<sup>5</sup>.

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<sup>3</sup> This listing is as stated in DOH Administrative Order 144 s.2004. The listing of drugs that can be made available for sale is determined by the Philippine National Drug Formulary which is regularly updated.

<sup>4</sup> These followed DOH Administrative Order (AO) No. 23-A, dated 5 July 1996, which initially defined the guidelines on the development and establishment of Botika ng Barangays in the country, and AO No. 70 s.2002 on the "Licensing of Botika ng Barangays in Local Government Units".

<sup>5</sup> The German Government and DOH put in ₱100 million (US\$2.5 million) and ₱30 million respectively, with a revolving drug fund of ₱25 million, in FAMUS. Residuals on the revolving drug fund were worth ₱5 million when NPF took over.

The FAMUS Project ran from 1995 till October 2001. In the first three years, FAMUS established a central warehouse and pharmacies in three pilot cities (Cavite, Lucena Butuan). These three pharmacies were registered as regular commercial pharmacies and served as satellites for the distribution of drugs to a network of FAMUS outlets (called FAMUScy) at the barangay level. From 1998–2000, NGO distributors outside the three pilot cities were tapped, spreading the distribution system to the entire country with NGO partners coming from Luzon, Visayas and Mindanao. Growth of outlets during this stage was “phenomenal from less than 50 to more than 900 ... posing a great problem because the system was loose and the tools of the FAMUS project were not sufficient to efficiently and effectively manage the system”. (NPF, 2010).

Issues arising from this situation, as well as concerns for post-FAMUS sustainability of the programme, led to rethinking by the DOH and GTZ on such aspects as:

- institutional arrangement of a new distribution system — who owns, what is the legal identity, what are the organisational characteristics;
- what is the business model — operations, product, vital functions, earning, investments; and
- how to provide legal mandates to the network of retail outlets that could not satisfy the licensing standards of the pharmacy law that strictly required a full time pharmacist in every outlet.

Working with a group of non-government organisations (including the *Kabalikat ng Botika Binhi*, or KBB, which by then ran the *Botika Binhi* network) and consultants, the DOH, with GTZ assistance, conceptualised the HEALTH Plus Social Franchising system as the post-FAMUS sustainability mechanism. HEALTH Plus was formally launched by the DOH via AO 138 s.2000. On September 22, 2000, the National Pharmaceutical Foundation, Inc., which was organised to run HEALTH Plus, held its founding meeting. By September 1, 2001, the NPF started business by hiring the first management team. The KBB President had sat as chair of NPF since its inception. (Annex A presents a more detailed timeline of the FAMUS to NPF/ HEALTH Plus history.)

According to Fe Remotigue, three main options were actually considered when discussions for a sustainability mechanism/ structure for FAMUS were ongoing. These were: 1) setting up a corporation, 2) organising a federation of cooperatives, and 3) social franchising. The first option, however, would require a huge investment. A cooperative federation would be a more difficult system in terms of management and ensuring consistency. After thorough consideration, it was decided that a social franchising system would be the best option. This would ensure quality and price standards across the system while not requiring huge investments from NPF and sharing the risks with applicants of the social franchise.

### **The Health Plus Social Enterprise Strategy and Business Model**

Social franchising, the option chosen to sustain and expand the FAMUS project via HEALTH Plus, had emerged in the development field as one of the modes for replicating successful projects and thus expanding and improving social impact.

Social franchising was “an attempt to use franchising methods to achieve social rather than financial goals”. (Montagu 2002). There were various types and modes of franchising. Perhaps the most well-known was what was called “business format franchising”, which was the mode essentially being utilised by HEALTH Plus. In this mode, the franchisor offered a turnkey business concept for starting and running the business. Basically, the franchisor allowed use of the “brand” and assisted the franchisee in setting up the system. In return, the franchisee abided by the rules of the system and could pay a fee (sometimes not required under social franchises). (Annex B – Note on Social Franchising, provides a backgrounder on social franchising.)

### Objectives for Key Stakeholders

The HEALTH Plus social franchising system hoped to deliver benefits to a wide array of stakeholder groups. This array spanned Philippine households, barangay health workers, pharmacists, local government units, NGOs, cooperatives, the Department of Health, and manufacturers of generic medicines in the Philippines. The key stakeholder groups and the targeted benefits to these groups are listed below:

- **For consumers/ communities:** Access to affordable, high-quality medicines. Medicines in HEALTH Plus outlets were of guaranteed quality as these were procured from certified Good Manufacturing Practices (cGMP) – compliant manufacturers. Also, the procurement process required submission of all quality standard requirements and criteria. Random post delivery tests were done, mostly assay tests.
- **For Barangay Health Workers and others designated as HEALTH Plus operators:** Additional income. The standard sharing scheme for a Health Plus Outlet’s (HPO’s) net income was 70 percent for the operator and 30 percent for the organisation owning the outlet, i.e. a cooperative, association or NGO. NPF targeted a take-home pay of at least ₱5,000 per month for the operator.<sup>6</sup>
- **For local government units (LGUs):** Improvement of services in health facilities where there was HEALTH Plus, since drugs were available to patients who sought health care services in these facilities.
- **For non-government organisations (NGOs):** A social enterprise that would be sustainable and would keep the people’s organisations together for a social project.
- **For cooperatives:** A health project that improved the benefit package to members and extended services to the community.

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<sup>6</sup> The figure was reportedly being reached by less than 10 percent of the operators at the time of the research.

## HEALTH PLUS: AN EXPERIENCE IN SOCIAL FRANCHISING

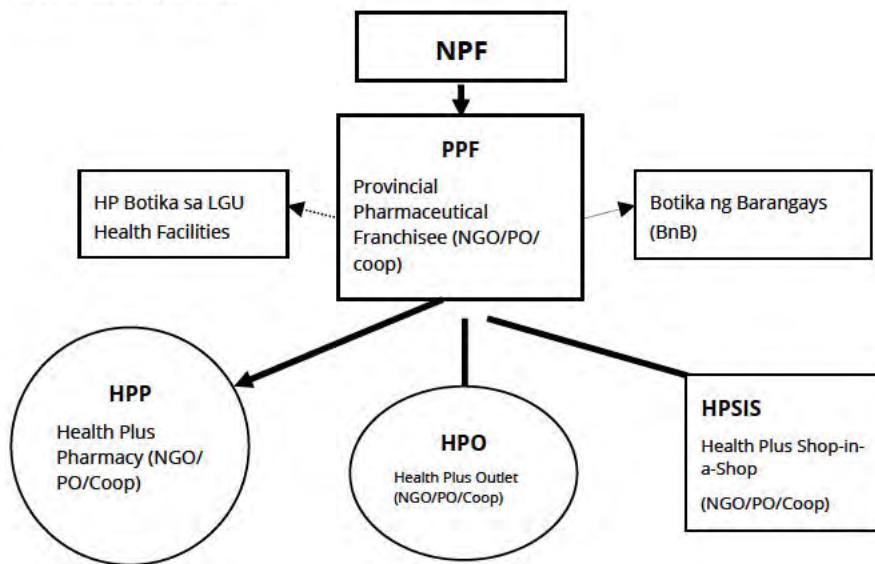
In general: HEALTH Plus contributed to the promotion and popularisation of generic pharmaceuticals.

As will be seen in the later discussion of HEALTH Plus in the province of Antique, the system indeed sought to provide the above key stakeholders with the targeted benefits.

### Social Enterprise Model

To achieve these, the social enterprise was guided by a model that, in the words of Fe Remotigue, should give equal attention to the market, management and governance. Basically, HEALTH Plus aimed to make low-cost, quality generic essential drugs available to small communities throughout the country. This was complemented by the provision of counselling services for patients on a range of health issues. This was done via a social franchising system — including drug procurement and distribution — that consisted of the entities shown in Figure 1.

Figure 1: NPF BUSINESS MODEL



Source: NPF Fact Sheet (2010).

Notes:

1. Arrows denote the flow of pharmaceutical products for sale. Dotted lines denote coordination. The heavy solid lines denote supervision in the direction of the arrow.
2. *Botika ng Barangay* in this chart, and in subsequent discussions, refers specifically to the BnBs in the DOH system.

Annex C shows the organisational structure of the NPF as of 2010. The members of the NPF-led social franchise system are described below.

*Provincial Pharmaceutical Franchisee:* The PPF was usually an NGO or cooperative. In line with joining the system, it was licensed by the BFAD as a drug and medical device distributor and wholesaler in the province. The PPF was the exclusive franchisee in distributing HEALTH Plus

## HEALTH PLUS: AN EXPERIENCE IN SOCIAL FRANCHISING

products in a particular service area such as a province or city. It did not sell products to individual patients. Rather, it sold only to HEALTH Plus retail outlets and other clients as a distributor. (Please see Annex D for the list of PPFs as of January 2011.)

In addition to the franchisees at the provincial level, NPF had also recently ventured into setting up directly-owned branches in Tacloban and Bacolod. It also had booking agents. For monitoring purposes, NPF counted all of these as "PPFs". As of January 2011, the number of "PPFs" stood at 15.

Until 2010, a PPF paid NPF a franchise fee of ₱50,000 (US\$1230) good for a three-year period. As franchisee, it had the right to carry the HEALTH Plus brand and act as HEALTH Plus distributor in the franchise territory. It also had access to training and technical assistance from NPF on systems installation. In 2011, NPF was set to increase the franchise fee to ₱150,000. This move was part of a major effort to revamp and strengthen its social franchise system down the line, while shoring up its financial viability. According to Fe Remotigue, current agreements with PPFs (as well as other entities in the franchise system) would just be allowed to run their course, but renewals/ new agreements would already follow the new fee structure and service packages.

*Health Plus Outlet (HPO)*<sup>7</sup>: This model, ideally built in a barangay health station, was designed to address the problem of access to basic pharmaceuticals in rural areas. This kind of retail outlet had product lines limited to six molecules of six prescription medicines that included two antibiotics and over-the-counter medicines. These were listed as Essential Medicines in the Philippine National Drug Formulary (PNDF). The outlets also carried four prescription drugs considered as maintenance drugs for chronic diseases. (Please see Annex E for the list of drugs that were carried at the HPO level as of January 2011.) The HPO was operated by a trained Barangay Health Worker and supervised by a pharmacist who periodically visited the HPO.

Up until 2010, an HPO got its franchise from the PPF, at a franchise fee of ₱3,000 for a three-year period. Starting 2011, as part of the revamp of the franchise system, NPF had decided to start contracting HPOs directly. The social franchising fee had risen to ₱50,000 for three years. With the awarding of the franchise, NPF would also bundle in services including promotional support, assistance in registration and licensing with relevant government agencies, and training. Along with this package, NPF would also supply (at additional cost) initial stocks worth ₱25,000 to ₱50,000 depending on the business plan. It was estimated that the HPO could sell the medicines at an average markup of 30 percent. Annex F lists down the elements of the package as shown in NPF's promotional flier.

*Health Plus<sup>TM</sup> Pharmacy (HPP)*: The HPP was like a commercial pharmacy in the urban area that was operated under the supervision of a full-time pharmacist. Unlike the HPO, it could carry all product lines, including a complete line of generic products, allowed to a commercial pharmacy. Its main objective was to provide an alternative source of medicines for the poor people who in spite of the presence of a number of pharmacies still could not gain access to essential drugs due to high cost. Up till 2010, an HPP paid the PPF a franchise fee of ₱10,000, also good for three years. Starting 2011, NPF would start franchising HPPs directly at a fee of ₱150,000 for three

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<sup>7</sup> Descriptions of the outlets and distribution strategies from the HPO to "Support to LGUs Program to Improve Access to Medical Services" are drawn mainly from the NPF Fact Sheet, 2010. Developments for 2011 were based on the interview with Ms. Fe Remotigue on June 10, 2011.

## HEALTH PLUS: AN EXPERIENCE IN SOCIAL FRANCHISING

years. The fee included ₱100,000 for the computerised point-of-sale (POS) system and ₱50,000 for marketing.

*Health Plus<sup>TM</sup> Shop-in-a-Shop (HP SIS):* The HP SIS was developed to address the insufficient supply of medicines in government hospitals. This kind of model was a corner within government hospital pharmacies or within commercial pharmacies. Like the others, it was owned by cooperatives, non-government organisations, and other similar not-for-profit organisations. The HP SIS carried not only medicines but also hospital supplies whenever needed. As of 2010, the HP SIS also paid the PPF a franchise fee of ₱10,000 for every three-year period. By 2011, NPF increased the social franchising fee to ₱150,000 complete with a POS system and marketing materials bundle.

HEALTH Plus also utilised the following distribution strategies:

*Botika sa Health Facility (BsHf):* The Botika sa Health Facility was a strategy to harmonise the HEALTH Plus Outlet at the poblacion with an additional business of booking the medicines needed to resupply the BnBs in the different barangay health stations within a catchment area. This would ensure that the population in a municipality would have access through a HEALTH Plus outlet and a network of BnBs.

*Support to Botika ng Barangays (BnBs).* HEALTH Plus had a package of support for existing *Botika ng Barangays*. These included the following: 1) resupply of good quality and affordable inventory, 2) training on sustainability operations (cash flow management, inventory management and control), and 3) programmed monitoring, coaching and evaluation.

*Support to LGU Programs to Improve Access to Essential Medicines.* HEALTH Plus could support LGUs in their access to essential medicines programme in the following ways: 1) supply of good quality and affordable essential medicines, 2) dispensing drugs for Philhealth members, 3) technical assistance to LGU programmes for inventory management, cash flow management, and control systems for distribution of essential medicines.

Products of franchisees included a core product of essential generic pharmaceuticals, galenicals (medicinal preparations composed mainly of herbal or vegetable matter), medical supplies and family planning commodities. Subject to limits provided for in the contractual agreements, social franchisees were permitted to carry additional products that did not contradict the health programs promoted by the Department of Health. For example, the HEALTH Plus social franchisees could not carry infant milk formula as this ran counter to the DOH programme to promote breast feeding by mothers.

All Health Plus retail models were envisioned to be venues for educating consumers on the real significance of generics. In addition, HEALTH Plus also aimed to offer value-added health services to its customers. These included counselling on basic family planning and reproductive health, maternal and child care, sexually transmitted diseases (STDs) and Acquired Immune Deficiency Syndrome (AIDS), herbal medicines preparation, and management of common ailments and first aid for home emergencies.

Operations of PPFs and HPOs were supposed to be governed by a comprehensive manuals of operations developed at the inception of HEALTH Plus. These Manuals of Operations (please see Annexes G-1 and G-2 for respective Tables of Contents) covered a broad range of topics. These included site/store specifications, standards for products and services, and operating

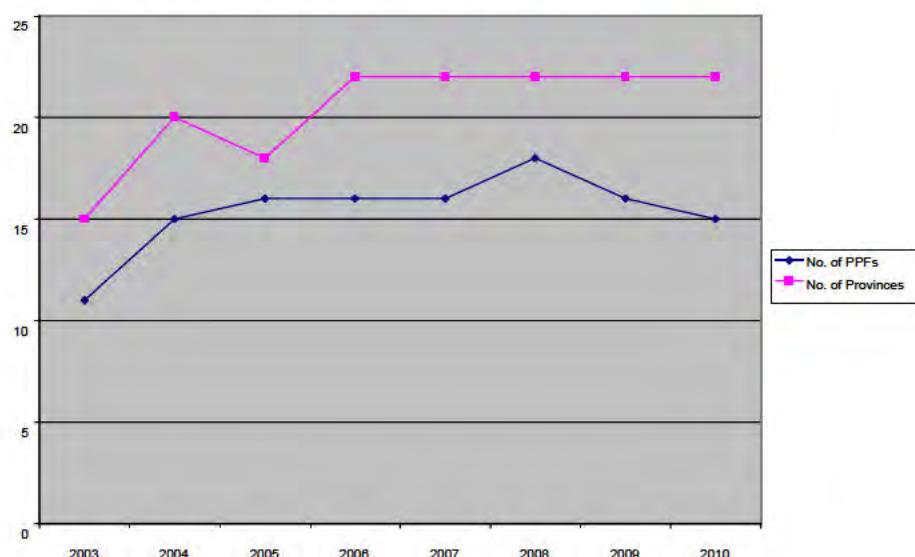
procedures. As of January 2011, there were as yet no manuals for HPPs and the HP SiS, both of which were conceptualised some time after the establishment of HEALTH Plus<sup>8</sup>.

### Growth and Current Status

Since it started full-blown operations, the number of outlets had expanded though difficulties had also been experienced during certain periods, including in the year 2010.

The following chart shows the number of provinces of operation (includes one city in Metro Manila) and the number of PPFs across the years.<sup>9</sup> The number of areas of operation had remained the same at 22 since 2005. The number of PPFs had gone through some fluctuation. The total peaked at 18 in 2008, then went down to 16, then 15 in the next two years.

**Figure 2: No. of Provinces of Operation and PPFs**



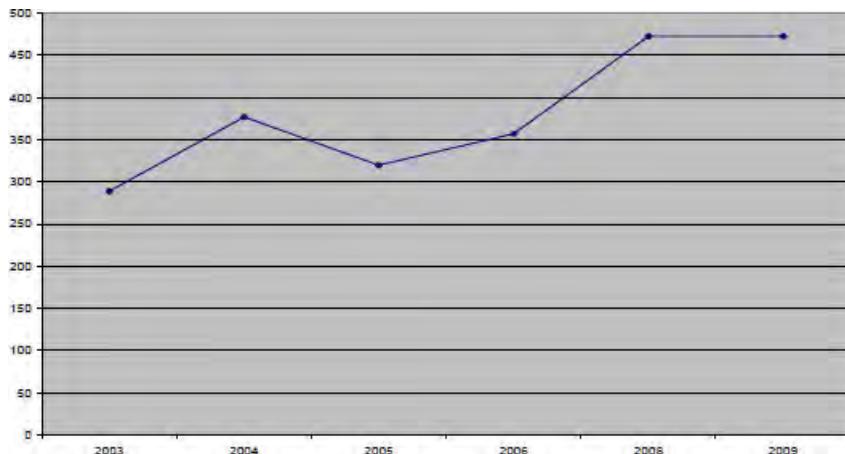
Source of Basic Data: NPF Fact Sheet (2010).

The next two charts show the number of HPOs, HPPs and HP SiS from 2003 to 2009. (Data were not available for the year 2007.) The number of HPOs increased quickly from 289 in 2003 to 377 in 2004. Mirroring the 2005 dip in number of provinces, the number of HPOs also declined in 2005, and recovered from 2006 onward. The number remained steady at 473 in 2008 and 2009.

<sup>8</sup> The creation of the manuals for the PPFs and HPOs was funded by a grant from the German government through the Department of Health.

<sup>9</sup> Provinces of operation as of 2010 were Cavite, Albay, Negros Occidental, Negros Oriental, Antique, Cebu, Bohol, Leyte, Southern Leyte, Biliran, Samar, Bukidnon, Maguindanao, Batangas, Paranaque, Camanava, Agusan del Sur, Surigao del Sur, Davao del Sur, Davao del Norte, Capiz, Eastern Samar. PPFs may take the form of provincial pharmaceutical franchisees, booking agents, main warehouses or branches.

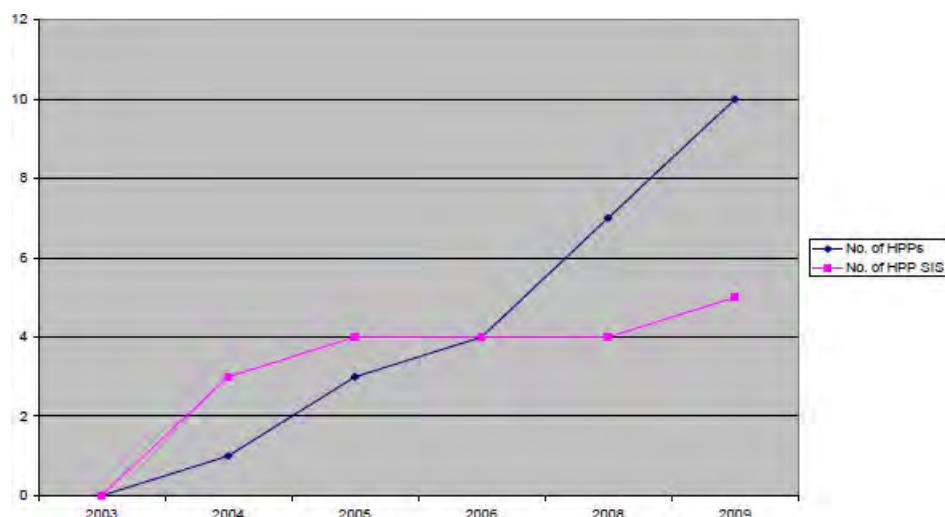
**Figure 3: No. of HPOs**



Source of Basic Data: NPF Fact Sheet (2010).

There were 10 Health Plus Pharmacies in 2009. Health Plus Shops in a Shop did not increase markedly, remaining at five in 2009.

**Figure 4: No. of HPPs and HPP SiS**



Source of Basic Data: NPF Fact Sheet (2010).

Fe Remotigue noted that not all PPFs and outlets down the line followed the mandated systems and procedures. This was apparent with the outlets in Antique, which was visited by the case writer for the research. Although the operations of PPFs and HPOs were supposed to be covered by a comprehensive manuals of operations, there were significant deviations observed, e.g. in terms of the layout of the outlets. Of greater concern was the flow of supplies (i.e. numerous stock-outs at HPO and PPF level) which were influenced by problems on accounts receivable management. Fe noted that the Antique operation, with the Antique Federation of NGOs (AFON) as PPF, was already one of those considered by NPF as relatively compliant with the systems and procedures mandated under the franchise.

Fe shared a frank assessment of the current franchise network. She surmised that there had been a gap in terms of a “meeting of the minds on the business model” among the NPF, the PPFs and the outlets. On one hand, there were those who “did not seem to take to heart” the quality objective and the National Drug Policy, seeming to have “no social orientation, just ordinary peddlers”. On the other hand, for some, there was a struggle to treat the enterprise as a retail operation as opposed to a form of microfinance, leading to excessive extension of credit. Similar to this, many of the owning organisations in Antique emphasised that their objective was social, not economic, which seemed to be congruent with very low incomes generated from the outlets. In general, Fe assessed that there were significant limitations in the franchise-holders capacities to manage a double-bottomline enterprise — particularly in terms of cash flow and inventory management, and in making the HEALTH Plus brand stand out in a competitive environment.

The development and performance of the HPOs, especially in terms of income accruing to the operator, was of particular concern. These issues had led to the NPF’s consideration of changes in its social enterprise model. Aside from establishing branches, NPF also decided that it was time for it to give direct attention to the outlets, although the PPFs could continue to serve as distributors. NPF was also mulling the possibility of co-owning “prototype outlets” in demo sites. On the whole though, NPF recognised that the main challenge lay in maintaining a franchise system that would be financially sustainable.

### **The Health Plus Performance as a Whole**

In 2005, NPF was able to secure a €3 million (US\$3.9 million) grant from the German Development Bank (KfW). This amount, which was to be released to NPF over a five-year period, was intended to fund the purchases of pharmaceutical goods and services to tide NPF over the expansion period.

In the CEO Report NPF@10, the CEO noted that 2010 was the “first year that NPF operated without technical assistance from GTZ and is fully financing its operations”. Working capital was derived from the residual funds of the KfW releases and interests earned. Operating expenses were financed from the profit margins earned from its operations. These were mainly distribution profits, as social franchising fees contributed only 282,000 (US\$6935) and thus constituted a minor source of income.

NPF’s sales rose quickly from ₦4 million (US\$98,376) in 2003 to ₦11 million in 2005 and ₦21 million in 2006. From 2006 onward, sales fluctuated within the ₦20 to ₦22 million range. Based on October 2010 figures, the 2010 total was likely to be in the same range or could reach ₦23 million. Sales to PPFs accounted for the bulk of sales at around 75 percent. Direct sales to HPOs and BnBs together accounted for a significant percentage. NPF noted that sales to BnBs had increased, while sales to HPOs were decreasing.

Profitability, however, had been a problem. A net loss of more than ₦2 million was posted in 2008. Following a slim net income of around ₦116,000 in 2009, final figures for 2010 would probably show another net loss though at a much lower level (compared to 2008) of around ₦200,000.

Despite this, assets (based on unaudited figures for 2010) stood at around ₦34 million vs. liabilities of ₦21 million. This left a net worth of around ₦12.97 million, slightly higher than for the

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past two years<sup>10</sup>. Grant funds sourced over the years contributed to shoring up NPF's financial position as it sought stability in its enterprise operations.

Data provided by NPF showed efforts to analyse and address problems in the market and the supply chain:

- Issues at HPO level: Despite the growing demand for essential medicines, HPO sales declined. Random assessments showed that many HPOs were crippled by problems in cash flow management and inventory management systems.
- Price Comparison: Studies were random and not systematically analysed, but all indications were that HEALTH Plus maintained a competitive position versus leading chain drug stores.
- Cost of Goods: Procurement price of the top five products were reduced by an average of 11.54 percent in 2009 and were further reduced to 21.94 percent in 2010. Freight costs versus value of stocks shipped were reduced dramatically from 15 percent in 2008, to 8 percent in 2009, to 4.5 percent in 2010.
- Servicing of Orders: Data for 2010 showed unserved orders from clients of around 11 percent of what was ordered. Lead time ranged from 7 to 20 days before the goods were received from the time the orders were sent to the NPF.

Looking forward to the rest of 2011 and beyond, NPF sought to stabilise operations and gain market share. Along with sustained measures to improve operations, strategies under consideration by NPF included the revamp of the franchise system as described in the earlier sections. This revamp would involve an increase in franchise fees across the board, which would enable NPF to strengthen marketing, systems installation and training support for the PPFs and outlets, while also strengthening the stake of the franchisees in the success of the enterprise. Current agreements would be allowed to run their course while NPF was also in the process of reviewing the partnerships with the individual PPFs. In June 2011, the NPF was discussing possible PPF agreements with organisations in Bacolod (Negros Occidental) and the Cordilleras. Fe was particularly excited about the latter as it would enable HEALTH Plus to expand services to indigenous communities. The NPF was also reviewing applications for HPOs, and was planning to directly set up "prototype/ demo" HPOs which would be organised and ran along the standards that it sought to establish among HPOs. A major objective was ensuring a take-home pay for the operator which would not be lower than the minimum wage in the area.

Other plans included:

- Establishment and consolidation of sales offices in selected major areas; the sales offices would also take care of HPO strengthening.
- Launching of the Botika sa Health Facilities (BsHF), intended to provide a systematic distribution system at the municipal level in partnership with the LGU.

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<sup>10</sup> All figures are based on unaudited figures for 2010.

- Intensive marketing support to the existing HEALTH Plus network. This would include provision of marketing collaterals and logistics support to partners who reached a certain volume of turnover.
- Launching of a nationwide programme to resupply the *Botika sa Barangays*.
- Partnership-building with development partners who were willing to help in capacity-building for partners on social entrepreneurship and management.
- Spinning off the supply and distribution business into a public-private sector entity. This would involve inviting investors to invest into the supply chain and distribution system.
- Simplification of the governance structure of NPF by engaging members who were interested in and willing to invest in HEALTH Plus.

Fe recognised that in a market with many players, HEALTH Plus — specifically the HPOs, could not compete in terms of completeness of the pharmaceutical line. Hence, they were looking at enhancing and highlighting the “services” part of the package, especially in terms of person-to-person (i.e. operator-to-patient) consultations. It was hoped that enhancement of the HEALTH Plus “brand” in line with its double bottom line, along with improvements in the supply system and financial management down the line, would enable the HEALTH Plus social franchise network to survive and grow. Fe recognised that there was a substantial jump in franchise fees, but she felt that serious social investors would find the investment worthwhile. With these, the NPF was confident that HEALTH Plus would be able to claim a significant segment of the Philippine essential medicines market. In turn, this would help it achieve the aim of making quality essential drugs more available and affordable to poor communities.

### Health Plus in the Communities: The Antique Experience

The challenges, and at the same time opportunities, facing HEALTH Plus were apparent in the situation in Antique, one of its areas of operation. The writer was able to visit some of the areas served by the HEALTH Plus network in the province. The network was managed by the Antique Federation of NGOs (AFON), the provincial pharmaceutical foundation.

Antique was a second class province with 18 municipalities. Lying between the relatively more progressive provinces of Iloilo and Aklan, it had an estimated population of around 590,000 (for 2010, per NSO) and a 43 percent poverty incidence<sup>11</sup> (as of 2006, per NSCB).

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<sup>11</sup> The National Statistical Coordination Board (NSCB) of the Philippines provides the following definitions: Poverty incidence is the proportion of families/individuals with per capita income/expenditure less than the per capita poverty threshold, to the total number of families/individuals. The poverty threshold refers to the minimum income/expenditure required for a (five-member) family/individual to meet the basic food and non-food requirements. Non-food basic needs include the following: clothing and footwear; fuel, light and water; housing maintenance and other minor repairs; rental or occupied dwelling units; medical care; education; transportation and communications; non-durable furnishing; household operations; and personal care and effects. In 2007, Filipino families consisting of five members should have been earning a combined monthly income of ₱6,195 in order to meet their most basic food and non-food needs for the year.

Development organisations, i.e. NGOs and cooperatives in particular, appeared to be quite active in the province. The Antique Federation of NGOs (AFON), the HEALTH Plus PPF for the province, had been in existence for nearly 22 years. AFON was organised in 1988 by five NGOs, who thought of the federation as a venue for resolving the issue of overlapping of areas and coordinating programmes. This was particularly timely with the conceptualisation that year of the Antique Integrated Area Development (ANIAD) programme. AFON was registered in 1989, and secretariat staff were hired in 1991. AFON was later joined by four other organisations, bringing the total to its current membership of nine organisations.

AFON's programmes were on capacity-building, advocacy and networking — taking care to serve the purpose of coordination and support to its member organisations. The member organisations were individually engaged in marketing, organising, business development and microfinance (please see Annex G for the listing of members). Aside from HEALTH Plus, the federation also implemented a programme on local economic development funded by TRIAS, a Belgium-based NGO.

### **Start of HEALTH Plus in the Province**

HEALTH Plus emerged as an option while AFON was grappling with the issue of sustainability in the early 2000s. AFON was then on the lookout for a social enterprise that would sustain its operations and serve communities, while at the same time would not compete with members' programmes.

Romeo "Romy" Baldevia, AFON executive director, shared that the idea of joining HEALTH Plus came quite serendipitously when he attended a forum in Bacolod. Also in attendance was Rod Bornales, a PBSP staff at the time, who also happened to be on the board of the Negros Occidental Pharmaceutical Foundation, which was a PPF of HEALTH Plus. Rod told Romy about HEALTH Plus, gave him a brochure, and connected him with Helen Hipolito, then CEO of HEALTH Plus. Both executives took the proposed partnership up with their respective boards, and the evaluation process and other pre-implementation activities were undertaken.

Through the Western Visayas Network of Social Development NGOs (WEVNET), of which AFON was a member, AFON was able to obtain a grant of around ₱400,000 (US\$9,837) from the Peace and Equity Foundation. The DOH and NPF also later contributed to the start-up funds. With these funds, AFON was able to launch HEALTH Plus in the province in 2004.

AFON did not have a problem in recruiting owning organisations (i.e. organisations that would own HEALTH Plus outlets as franchisees) because of its members' respective networks. The AFON HEALTH Plus network started in a big way with 35 HPOs opened in 2004, followed by three in 2005. However, this enthusiastic start was followed by fluctuations in the number of outlets. After some peaks and lows, the number of HPOs in 2010 was the same as the 2005 level, with one HPP being added in the interim.

Romy Baldevia noted that most of the owning organisations were cooperatives which were "very entrepreneurial". Cooperatives owned 28 or 74 percent of the 38 active HPOs. Three of the four HPO owning organisations covered in the case research, as well as the owning organisation of

the sole HPP, were “multi-million” cooperatives, engaged in a wide range of enterprises and services — mainly lending — for their members<sup>12</sup>.

According to Romy, there was also one failed venture into an HP SIS. As of January 2011, the HEALTH Plus network in the province stood at 38 HPOs and one HPP. AFON had also started serving LGUs as wholesale clients.

The following sections describe the status of the HPOs and the sole HPP in the Antique network.

### The HPOs

The year 2004 saw three waves of HPO start-ups. St. Joseph the Worker HPO and St. Peter HPO — both still active as of January 2011, were the pioneer HPOs established in May. This was followed by a big batch of openings in July and again in December. Three other outlets were opened in 2005, followed by a lull in 2006. The year 2007 saw another big wave of openings, but also the first closures. The following years were unsteady, seeing additional closures. In 2010, another outlet was opened, but three were closed. As of January 2011, AFON had 38 active HPOs, scattered across the 18 municipalities. The progress through the years could be seen in the following chart.

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<sup>12</sup> The Cooperative Development Authority listed 18,484 cooperatives registered under Art. 144 of RA 9520 (requiring cooperatives to secure a new certificate of registration) as of December 31, 2010. Micro cooperatives, with assets of ₱3 million (US\$73,782) and below, accounted for 76.5 percent of the total. Small cooperatives, with assets in the ₱3–15 million range, accounted for 15.6 percent of the total. Three cooperatives covered in this case research had assets in the ₱15–100 million category (considered “medium”), which accounted for 6.5 percent of the total; one cooperative had assets of ₱110 million, putting it in the “large” category, which accounted for 1.4 percent of the total.

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Figure 5: AFON HEALTH Plus Outlets, Openings and Closures, 2005–2010

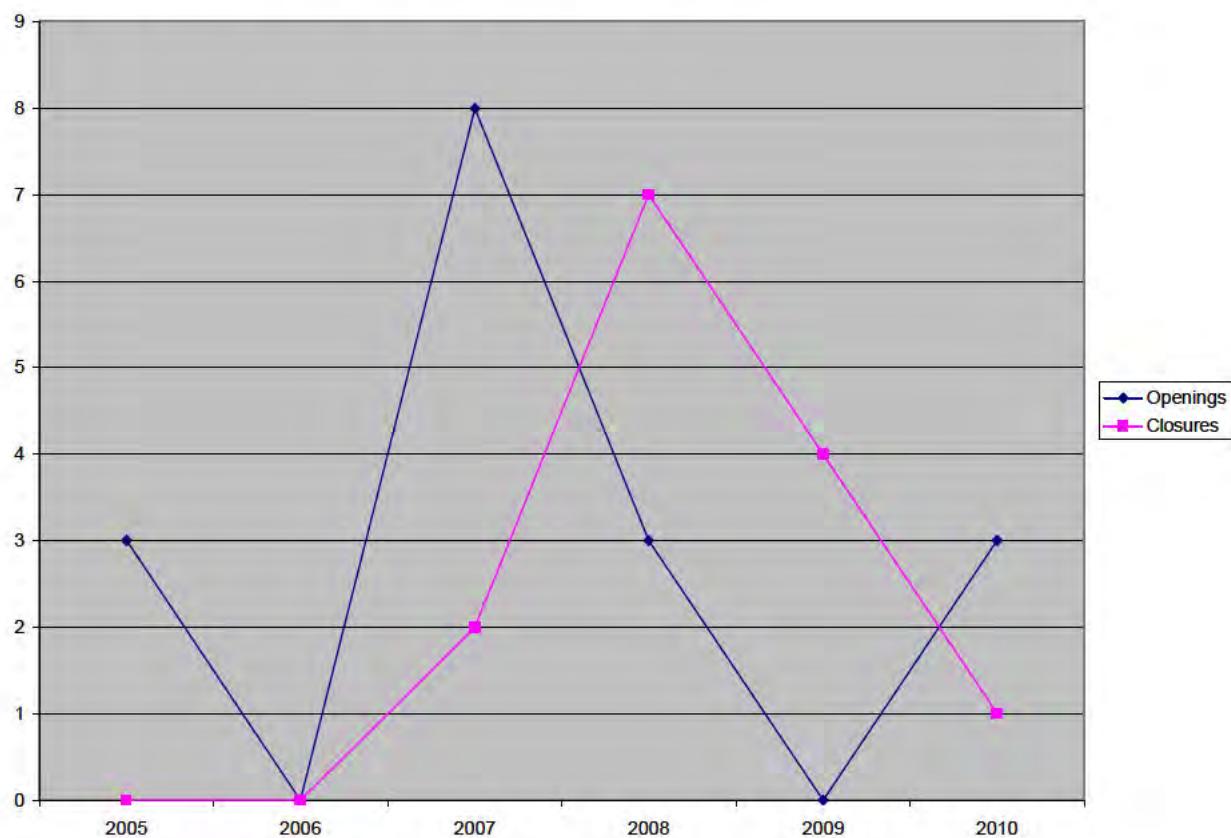
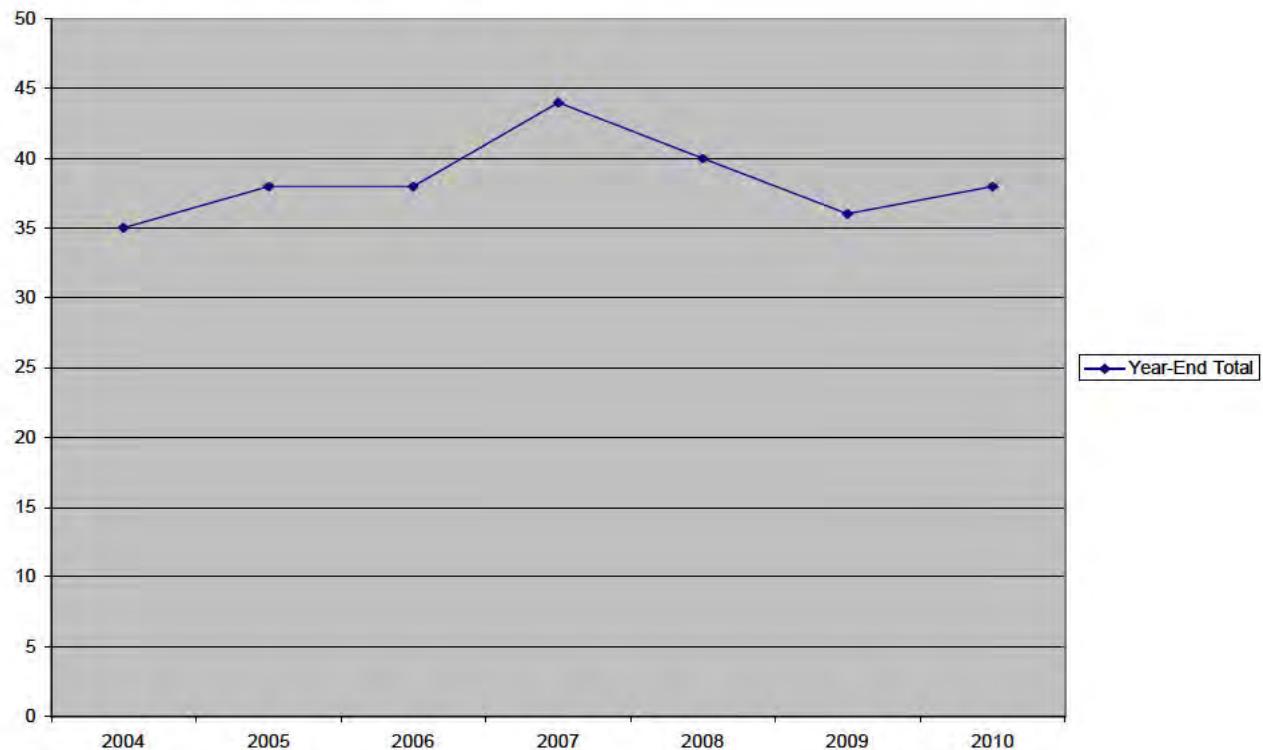


Figure 6: AFON Health Plus Outlets, Year-End Totals, 2004–2010



Sources of Basic Data: AFON. Profile of AFON Health Plus and List of HPROs. (2010).

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AFON HEALTH Plus staff attributed the closures to a range of reasons. On the one hand, there had been problems in particular to the HPO, e.g. the owning organisation encountered problems or chose to concentrate on other enterprises and programmes. For example, Infant Jesus of Prague closed all three of its outlets from 2009 to early 2010. In some other cases, the operator left or had to be let go of the outlet, and the owning organisation could not find a replacement for the operator.

On the other hand though, some HPOs seemed to have succumbed to viability problems that were also still plaguing active HPOs. Data from AFON and feedback from the interviewed operators and managers of owning organisations indicated that HPO sales and profitability were quite low. HPOs followed a standard income distribution scheme of 70 percent to the operator, and 30 percent to the owning organisation, and the data below show that the financial performance thus far had not been stellar.

**Table 3: AFON – Comparative Sales Data of Outlets, 2008, 2009 and 2010**

	2008 Jan - Dec	2009 Jan - Dec	2010 Jan - June	2010 Jan - Dec (est)/Note 1
No. of HPOs (est)/ Note 2	43	38.5		37.25
HPO Sales to Customers (₱)	3,688,704.49	2,304,788.35	1,056,082.93	2,112,165.86
Operators Incentives (₱)	496,287.50	387,794.39	178,960.82	357,921.64
Average Operators' Incentive (₱)/Note 3	11,541.57	10,072.58		9,608.63
Owning Org. Incentives (₱)	212,694.64	166,197.60	76,697.50	153,395.00
Average Owning Org. Incentive (₱)/Note 3	4,946.39	4,316.82		4,117.99
Aggregate Income of HPOs (₱)	708,982.14	553,991.99	255,658.32	511,316.64

Notes to Table:

1. Available financial data from AFON were only up to June 2010. Figures for the entire year of 2010 were projected on a straight "times 2" basis. Although there were indications of peak and low seasons during the year, not enough data was gathered to determine extrapolation factors that would be more accurate.
2. The number of HPOs in this table considers new openings and closures during the year; the active life of each HPO was rounded off to the nearest half-month.
3. Average incentives for the operator and the owning organisation were computed by dividing the figures for total incentives provided by AFON by the effective number of active HPOs for the year.

Source of Basic Data: AFON. (2010).

From this table, it was not only obvious that sales and profits were low; they were also going down. These were due to a variety of reasons, many related to the market environment, which could be gleaned from the stories shared by the operators and owners. Romy Baldevia also observed that the owning organisations treated the HPOs more as service vehicles, rather than as social enterprises. This was also quite obvious from the interviews with the owning organisations.

The case writer was able to visit 6 HPOs owned by five organisations (the San Jose MPC had two HPOs). The following sections summarise the experience and status of the HPOs.

### Dao MPC

Dao MPC in the town of Tobias Fornier carried the old name of the town. Organised in 1964 and registered as a credit union in 1965<sup>13</sup>, the organisation grew and was registered with the CDA in 1992 as a multi-purpose cooperative. Coop Manager Salvador Diana narrated that the cooperative started with 25 members contributing ₱125 per share in 1965. Dao MPC had now grown to a membership of more than 3,000, with ₱33.8 million (US\$83,128) of share capital, and total assets of around ₱72.3 million. The HEALTH Plus outlet was in a corner of the MPC's bustling grocery — reportedly the largest in the town — which was situated right beside the town's *municipio*.

The Coop had two main programmes — lending and marketing. Lending operations provided the larger chunk of income with net surplus for 2010 reaching ₱3.3 million from a gross income of ₱8.9 million. Marketing provided a net income of ₱1.4 million in 2010, from total sales of ₱20.6 million.

In comparison, any income generated from HEALTH Plus was lumped under "Other Income", which totalled only ₱265,437 in 2010. The coop was invited by AFON to join HEALTH Plus in 2004. With seed capital in the form of initial stocks from AFON, support from the DOH through NPF amounting to ₱25,000 (which was still being revolved at the time of the research) and the coop's counterpart solely being the cabinet for stocks, the cooperative found the social enterprise to be an attractive proposition for adding services to members and other customers.

The current operator, Mierly Osumo, had been the operator since 2004. Mierly shared that her take-home income averaged ₱2,700 per month in 2009, when sales averaged ₱22,000 per month. However, sales dipped to around ₱18,000 per month in 2010. One major reason for the decline seemed to have been the stocks-out experienced in certain periods in 2010, including the latter part of the year extending into 2011. These stocks-out were due partly to AFON's inability to serve orders at certain times, and partly due to AFON's having imposed a strict "cash policy" under which orders would not be served if cash was not paid on delivery. The cash policy had been imposed because AFON had been having problems with growing payables from the outlets.

Apart from these though, the HPO had to compete in an increasingly competitive environment. Salvador and Mierly shared that when they started, there were only a couple of drugstores in the

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<sup>13</sup> All of the interviewed cooperatives follow this historical profile. Apparently, Jesuits, with the help of Ateneo students, did extensive organising work in Antique in the 1964–65 period in line with their community outreach programme.

area. Now, there were five within an estimated 2 kilometre radius in the *poblacion* alone. The HPO benefited from its prime location and from being inside the coop's grocery — making it a one-stop shop for customers. However, there was a small physician-owned drugstore around a kilometre to the south, and two drugstores inside the municipal hospital located around a kilometre to the north. Another drugstore owned by the Municipal Health Officer (MHO) sat right outside the hospital. The limited hours of operation of the HPO (Monday to Saturday, 8 a.m. to 5 p.m.), and its limited product lines (apart from stocks-out) also affected competitiveness. One factor working in its favour was the lower prices of the products, although even this was challenged by the MHO, who said that his pharmacy offered lower prices for certain products.

Although a pharmacy could potentially be more competitive and generate more income, Salvador said that the board was not keen on putting up a pharmacy. They preferred to concentrate on the cooperative's other enterprises and services, while keeping the HPO as is, mainly as a social service to members.

### **St. Joseph (San Jose MPC)**

The HPO as social service was particularly pronounced for the San Jose Cooperative, which owned two HPOs. The HPO located inside the Rural Health Unit (in San Jose de Buenavista, the capital town) was one of the pioneer HPOs established in 2004. A second outlet was put up in 2009 in front of the cooperative's office, also in San Jose.

The San Jose MPC also started out as a credit union in 1964. As of 2010, it had a membership of 4,288, total assets of ₱80 million (US\$1.97 million), and 2010 revenues of ₱14.9 million, with a resulting net surplus of ₱4.1 million. Credit was still the main service provided by the cooperative.

The coop's share of the 2010 income from HEALTH Plus was only ₱15,296, indicating a total income of ₱53,000. From this, the estimated share of each of the two operators was around ₱18,580 for the year, or ₱1,548 per month.

Based on the financial data shared by the operator, the San Jose Rural Health Unit (RHU) outlet experienced a steep drop in sales in the second quarter of 2009. Another drop came in the latter part of 2009, with sales progressively declining since then. The operator opined that the declining sales were caused by several factors: increasing number of drugstores in the area including a generics pharmacy, the coop's having opened another HPO which took away some of the sales to members, limited operating days, and limited stocks. The coop manager added that apparently, some RHU staff were also selling medicines (on the side and unofficially), adding to the competition.

The San Jose MHO also voiced her concerns on the stocks-out and product lines ("AFON and the HPO should complete the drugs under the new PNDF"). Aside from this, she opined that while the presence of the HPO in the RHU improved access for patients, the "contract between the LGU and the coop (was) one-sided" and that the HPO was "taking up space" in the already cramped premises.

The satellite outlet in the coop premises was not performing all that well either. To move the stock and also help members, medicines worth around ₱4,000 per month were actually provided as door prizes in ownership meetings.

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Despite this situation, Manager Rodelyn Vera Cruz-Berto said that HEALTH Plus was firmly lodged under the coop's "social services" projects, although the coop was also looking at ways to improve the outlets' sales.

### **Patnongan MPC**

The Patnongan MPC HPO was located outside the cooperative's office, and right behind the Rural Health Unit (RHU), incidentally a wholesale customer of AFON. According to the midwives, the RHU was visited by around 50 percent of the population of the town of Patnongan, a fourth class municipality with a poverty incidence of around 50 percent.

The Patnongan MPC was another "millionaire coop". Manager Mary Salvi Villanueva related that the cooperative, with 4,653 members, had ₱110 million (US\$2.7 million) in assets. These had been built up mainly from its lending operations; the cooperative had 11 loan windows available for members. Aside from lending, the cooperative was also into cable operations, money transfer (Western Union), and was part of a provincial federation established for a funeral care enterprise under NATTCO's FONUS brand.

Mary Salvi was quite explicit about HEALTH Plus place in the cooperative's line of enterprises. It was for "service, not income". The Patnongan MPC joined HEALTH Plus in order to respond to the needs of members, "*sana may botika* (wish we had a drugstore), affordable".

Despite its proximity to the RHU, the HPO generated very little income. From July to December 2010, the cooperative only got an income of ₱1,000. For the third quarter of 2010, for instance, the HPO generated gross sales of only ₱8,054, translating to a take-home pay of only ₱978 for the operator, and income of only ₱419 for the cooperative, for the entire quarter.

The manager and the operator hoped though that the HPO could be allowed to carry more products including branded medicines (Alaxan, Enervon were among those frequently asked for). They recognized though that as a form of BnB, the HPO was limited by the Philippine drug formulary. Echoing the other HPOs, they also hoped that AFON would always have adequate stock.

One positive point that was drawn from conversations with some members/customers was the increasing acceptance of generic drugs for common ailments, although they also echoed the wish for more products and adequate stock. One member said, "*Sana madagdagan ang ibang klase ng gamot, (like) antibiotics and cough syrup* (Hopefully, other types of medicines can be added, like antibiotics and cough syrup.)". Still, they were happy with the prices at the HPO. As one member pointed out, amoxicillin trihydrate suspension at the HPO was ₱40 compared to ₱70 in the drugstore. All things considered, "*Maraming nagpapasalamat na may Health Plus* (Many people are thankful that Health Plus exists.)".

### **Asosasyon ng Magagmay nga Mangunguma sa Aureliana (Association of Small Farmers in Aureliana)**

This farmers' organisation based in Bgy. Aureliana in Patnongan was a stark contrast to the cooperatives owning HPOs. Formed in the mid-1990s, the association had tried pre-harvest and post-harvest projects which did not succeed. HEALTH Plus was now the only live project of the nearly inactive association.

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The HPO based in the house of the operator served residents of the barangay (with 415 households) as well as nearby barangays. The home-based location made it convenient to maintain for *Nanay Ana Namo*, the operator. Because of this, she was also able to provide services from Monday to Sunday, unlike most of the HPOs.

*Nanay Ana* said that the HPO had around 50 customers in one week. In the third quarter of 2010, business had been relatively good, both because the rainy season was the peak season for medicines, and because the HPO had adequate stock. She was able to earn ₱3,000 (US\$74) during the quarter, with ₱1,313 going to the association. However, the fourth quarter saw a big drop in sales, leading to operator earnings of only ₱598 for the entire quarter, and only ₱256 for the association. Aside from a dip in demand, she attributed this sharp drop to stocks-out, particularly the delayed delivery of paracetamol for the quarter.

### **San Pedro MPC**

A somewhat different picture could be seen in San Pedro, a barangay in San Jose around 20 minutes away from the town proper, where another pioneer HPO was located. For one, it was the only HPO visited where the HPO reported having received a take-home pay of more than ₱5,000 (US\$123) in a month (specifically in July 2010). Based on the sales figures provided, the operator's take-home pay in other months probably ranged from ₱3,000 to ₱4,000. The relatively significant sales seemed to be due to two main factors: 1) it was the only drugstore in San Pedro, and 2) there was a close working relationship with the Barangay Health Station (BHS). Notably, the San Pedro HPO occupied a prominent and comfortable share of the BHS office and the midwife was very appreciative of the HPO's presence. The San Pedro BHS's catchment area consisted of the barangay, plus three other outlying barangays.

The HPO was an integral part of the cooperative's operations. Still, like the others, lending was the major programme, providing ₱135,000 in net surplus in 2010. In comparative terms, the San Pedro MPC was much smaller than the first two, with only ₱4 million in assets.

Interestingly, this HPO and all the other HPOs visited in the course of the field research were along or near the main road, if not located in the town centre. According to the AFON staff, only around eight of the currently-active HPOs were located in remote barangays.

### **The Pandan MPC HEALTH Plus Pharmacy**

There was only one HPP in the HEALTH Plus network in Antique. The sole HEALTH Plus Pharmacy in the Antique network was located in Pandan at the northern tip of the province, the "gateway to Aklan". The pharmacy was owned by the Pandan MPC. Manager Dedaci "Daci" Nepomuceno shared that the cooperative, also organised in 1964, had encountered ups and downs. The "downs" had been brought about by a high rate of loan delinquency among members. The cooperative had since recovered, with total assets of ₱61.3 million (US\$1.5 million) and a net surplus in 2010 of ₱2.9 million. It had a wide range of enterprises. Aside from lending and HEALTH Plus, the cooperative also had shares in a telephone project and a cable project, and had a feeds and rice marketing business, Western Union and ATM outlets, and a grocery located in the Pandan public market. It had 3,622 members coming from Pandan and the nearby towns of Sibaste and Libertad.

The cooperative started with an HPO in 2005, then decided to put up a full-blown pharmacy in 2007. The pharmacy occupied two other locations before settling in just a few months prior to the case research period in the public market area, near the grocery run by the cooperative. There were other drugstores in the town proper — one on the other side of the public market, plus another four in scattered locations. Still, the HPP had garnered its share of clientele. On the day of the case writer's visit, ₱5,000 in sales had reportedly been generated in the first one and a half hours of operation, and the pharmacy saw a steady stream of customers during the time of the visit. According to Daci, the HPP contributed ₱177,000 to the cooperative's net income in 2010. (Staff for pharmacies — the pharmacist and pharmacy aides — received salaries and did not have a share in the income.)

The pharmacy was put up with ₱200,000 invested by the MPC as equity and a ₱200,000 soft loan from the governor, along with the ₱25,000 seed capital in the form of initial stock from AFON, as support from DOH through NPF. At the time of the research, the seed capital was still part of the MPC's revolving fund. MPC had already been able to partially pay back the soft loan from the Provincial Cooperative Development Office.

Daci credited AFON with helping it set up the accounting and internal control systems, which she believed were crucial elements at the inception of an enterprise. She also spoke highly of the cooperation and support under the franchise arrangement with AFON, especially since the cost was not high<sup>14</sup>. However, the MPC itself formulated the operational policy for the pharmacy, given the lack of a HEALTH Plus manual specifically for HPPs.

Daci echoed the stock-out complaints of the HPOs, which she succinctly described as "*Meron kayo nito? Wala ... (Do you have this? No ... )*". She had already asked AFON if they could access from other suppliers, believing that if stock was enough, the pharmacy faced bright sales prospects. Around the time of the case research, the HPP was generating ₱4,000 to ₱10,000 per day. The target for 2011 was ₱20,000 per day and a 50 percent increase in net income.

Although the pharmacy also got a lot of inquiries from customers on branded medicines and carried a limited line of branded products, the cooperative had decided to stick primarily with generics. This was a campaign that the pharmacist had already introduced to members and other customers via barangay meetings. The Chief of Hospital and RHU in the town also conscientiously prescribed and promoted generics.

When asked about factors that made a pharmacy viable, Daci cited location, and the establishment of an internal control system, as the main concerns. She emphasised though that, despite the targeted profits from the HPP, they still intended to sustain the pharmacy primarily because of the social service provided.

Aside from the Pandan pharmacy, AFON said that there were also prospects for pharmacies in three other areas. Limiting factors, however, were the capital investment, need to hire a pharmacist, and lack of a suitable location.

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<sup>14</sup> The cooperative had considered becoming a franchisee for a coop federation's grocery enterprise, but had decided to go on their own, finding the franchise fee of ₱250,000 to ₱300,000 plus a share of net income too high.

## Systems Governing the AFON HEALTH Plus Network

In keeping with the concept of a social franchising system, AFON sought to install a standard set of systems and procedures to ensure quality operations across the system. Some standards laid down in the manual for HPOs, in particular those that pertained to physical layout and completeness of products and services, were not consistently followed. Record-keeping and ordering, delivery and payment — arguably the most important aspects of the system aside from brand management — are assessed below.

### Record-Keeping

One aspect of the HPO Manual that was faithfully followed by the AFON HEALTH Plus network was record-keeping. There were seven main forms that were used at the HPO level:

- Customer Service and Transaction Record – each transaction was entered manually; consolidation was done daily
- Financial Record – daily status of cash and payables recorded at the end of each day
- Monthly and Quarterly Outlet Reports (using Quarterly Outlet Report form) – showing the consolidation of client data gathered daily, broken down by clients' sex, age, and number availing of drugs, capital (stock on hand, cash on hand and in bank, payables), revenues, expenditures and expired drugs
- Income Statement for the Outlet (Monthly and Quarterly) using Quarterly Outlet Report
- Stock + Cash and Receivable Inventory – ideally done monthly; more often done quarterly; ideally with AFON and management of owning organisation
- Stock Cards
- Requisition and Issue Voucher (RIV).

These facilitated internal control and monitoring by both the owning organisations and AFON. As noted by AFON Chair and NPF Vice Chair Marilou "Baby" Llavan (referring to the system as a whole), "There could be problems but everything is accounted for".

One aspect though that was actually lost with the Pandan HPP's utilisation of a Peachtree-based point-of-sale and accounting system was the recording of patient data. Compounded by the large number of customers, this made tracking (by only one full-time staff, i.e. the pharmacy aide) difficult.

### Ordering, Delivery and Payment

The ordering, delivery and payment functions collectively comprised the most important aspect of the social franchise system. This was especially crucial given the nature of the products — essential, expirable, and not unique in the market — meaning, customers would buy the needed products from other vendors when not available at the HP outlets.

The process basically went as follows:

- Start of the month (20 days before delivery schedule): HPO/ HPP estimated the requirements for the succeeding month, and submitted the order to AFON via text or order slip followed by the Requisition and Issue Voucher (RIV).
- AFON consolidated the orders, with three possible actions:
  - If available in stock → allocated delivery to the respective outlets
  - Not available in stock, or volume was not sufficient to meet orders → order from NPF. This, however, required leadtime. According to AFON, NPF urged PPFs to order in volumes sufficient for one month plus one-month buffer. NPF also required orders to be at least ₦250,000 worth, although it had accommodated smaller orders at times.
  - If not available from NPF, or order was urgent and could not be delivered on time by NPF → order from other suppliers (so far accounting for around 5 percent of AFON's total purchases)
- Last week of the month: delivery was made to the outlets.

Complications arose when deliveries from NPF were delayed due to stocks-out at the NPF end, or when AFON itself had difficulties with the financial requirements for orders. The latter had arisen because of AFON's problems with large receivables from the outlets.

To address the problem of burgeoning receivables, AFON had shifted to a purely cash-on-delivery (COD) system in 2009. Deliveries on orders were mutually adjusted to the level of cash available at the time of delivery. This system, however, flattened sales. At the time of the case research, AFON was starting to try out a new system. Under the new system, delivery would be done based on the entire order, and payment would be based on the cash available at the time, with full payment to be made one week before the next delivery. If payment was not completed, the next delivery to the outlet would be put on hold.

### Market Environment

AFON, as well as NPF/HEALTH Plus as a whole, operated in an increasingly highly-competitive environment. The threats facing the HEALTH Plus network were in full evidence in Antique:

- **Consumer perception of generic vs. branded medicines.** Despite the passage of the Generics Law and the Cheap Medicines Law, and government's push of generics through several administrations, there remained a perception that branded medicines were more effective than generic medicines. The Health Plus operators related that while there had been increasing acceptance of generics, many customers still asked for recognised brands like Biogesic, Neozep, Alaxan and Enervon. This became particularly pronounced for items like antibiotics, for which some doctors specified brands alongside the generic names. For "higher-level" drugs in particular, the network was not in a position to compete.

- **Competition from other drugstores.** Many of the outlets surveyed were in highly-competitive areas with several drugstores carrying more extensive product lines. These drugstores were also able to sell generic drugs, sometimes at lower prices than those available at the HEALTH Plus outlets. For the generics market, the Generics Pharmacy had also emerged as an increasingly present and recognised “brand”.
- **Competition from other BnBs.** The GMA government’s push for the establishment of BnBs in 2004 had led to a massive, and on hindsight disorganised push to establish BnBs just about anywhere in the province. BnBs were put up even in areas already served by HEALTH Plus, which also belonged to the larger BnB network. DOH Representative Dr. Feman Autajay narrated that some barangay councils pushed for their own BnBs. The councils justified this by saying that the HEALTH Plus outlets closed at night, and the barangay council-owned BnBs could have more flexibility in service hours. To serve the BnBs, DOH had used its own channel, sourcing directly from the Philippine International Trading Corporation at cheaper prices. Unfortunately, long delivery times had led to a situation where most of the medicines were delivered to the BnBs near their expiration dates. Compounded by management issues, the situation in Antique was now such that out of 248 BnBs, 15 had stopped operations, and only 84 had obtained a special license to operate. DOH Representative Autajay was now talking with AFON on the possibility of the latter taking on distribution and monitoring functions for the BnBs. The issue on BnBs and HPOs in the same areas remained unresolved.
- **Competition from other vendors,** including sari-sari stores and illegal peddlers serving these and other retailers. Illegal peddlers of both generics and branded drugs, some of which were probably fake, served some small retailers in the province. The DOH Representative recognised this problem but said that the DOH was trying to address the problem, hopefully with the help of the barangay councils.

In the face of competition from various sides, HEALTH Plus remained steadfast in its positioning as a provider of high-quality, low-cost essential drugs, citing that the drugs sold through the system had gone through all the required certification and quality control processes. Also, although the relationship with individual RHUs was sometimes tenuous, AFON maintained a strong relationship with the DOH Representative and with some LGUs/RHUs. The DOH Representative also spoke of internal lobbying being done with the central office for the expansion of the formulary allowed for BnBs, which would enhance these outlets’ competitiveness in the market.

## AFON's Financial Performance

AFON's financial performance over the past four years reflected the effects of the internal and external challenges faced by the network.

**Table 4: AFON HEALTH Plus Income Statements, 2007–2010**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Jan-June 2010</b>	<b>2010 (estimated)</b>
<b>REVENUES</b>					
Sales	4,113,975.49	5,718,134.19	4,416,423.02	2,133,930.04	4,267,860.08
(SRA)	(189,379.41)	(140,564.75)	(224,297.48)	(52,780.22)	(105,560.44)
Net Sales	3,924,596.08	5,577,569.44	4,192,125.54	2,081,149.82	4,162,299.64
Social Franchise Fee – HPOs	24,000.00	3,000.00	3,701.20	10,000.00	20,000.00
Other Income	19,635.79	29,654.52	44,233.50	28,181.90	56,363.80
Total Revenues	3,968,231.87	5,610,223.96	4,240,060.24	2,119,331.72	4,238,663.44
<b>COST OF SALES</b>	2,706,035.18	1,180,657.70	3,210,670.99	1,622,098.06	3,244,196.12
<b>GROSS PROFIT</b>	1,262,196.69	1,180,657.70	1,029,389.25	497,233.66	994,467.32
<b>EXPENSES</b>	1,047,568.65	1,157,411.00	1,042,020.87	486,073.12	972,146.24
<b>NET INCOME</b>	214,628.04	23,246.70	(12,631.62)	11,160.54	22,321.08

Sources: AFON Income Statements, 2007, 2008, 2009, Jan–June 2010.

After peaking in 2008, sales declined in 2009 and final figures for 2010 were expected to show a decline or remain roughly at the 2009 level. Notably, despite the increase in sales in 2008, net income actually declined from the 2007 level. A net loss was registered for 2009, though positive income was expected for 2010. The decline in net income came about because of a sharp increase in the cost of goods sold from 68 percent to 79 percent of sales<sup>15</sup>. Cost of goods sold stood at around 76–77 percent of sales in 2009 and 2010.

The other notable aspect shown in the income statements was the high percentage of sales returns and allowances. This reached 5 percent of gross sales in 2007 and 2009, but was at a lower 2 percent for 2008 and 2010.

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<sup>15</sup> Franchise fees and other income are not significant, hence net sales do not differ much from total revenues.

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**Table 5: AFON HEALTH Plus Balance Sheets, 2007-June 30, 2010 (Summary)**

	2007	2008	2009	As of June 30, 2010
<b>ASSETS</b>				
Current Assets	2,598,817.77	2,375,198.44	2,461,431.71	2,416,117.57
Property and Equipment (Net)	25,000.00	48,029.00	72,954.53	101,304.53
Other Assets	-		43,000.00	33,333.00
<b>Total Assets</b>	<b>2,623,817.77</b>	<b>2,423,227.44</b>	<b>2,577,386.24</b>	<b>2,550,755.10</b>
<b>LIABILITIES AND CAPITAL</b>				
Current Liabilities	1,223,382.52	684,300.74	852,988.59	973,454.53
LTL - Advances from NPF Seed Capital	721,130.44	721,130.44	721,130.44	721,130.44
<b>Total Liabilities</b>	<b>1,944,512.96</b>	<b>1,405,431.18</b>	<b>1,574,119.03</b>	<b>1,694,584.97</b>
<b>Total Capital</b>	<b>679,304.81</b>	<b>1,017,796.26</b>	<b>1,003,267.21</b>	<b>856,170.13</b>
<b>Total Liabilities and Capital</b>	<b>2,623,817.77</b>	<b>2,423,227.44</b>	<b>2,577,386.24</b>	<b>2,550,755.10</b>

Sources: AFON Balance Sheets, As of December 31, 2007, 2008, 2009, As of June 30, 2010.

AFON still found itself in a stable financial position. Details showed however that a large percentage of current assets (85 percent as of end June 2010) was made up of exposure to the outlets. These were not only accounts receivable on trade but also included advances to outlets on seed capital and facilitation. The AFON chair emphasised the need for AFON to remind the outlets to pay, and for AFON to collect on unpaid franchise fees and drug stock advances. Together with prompt collections on trade receivables, this would definitely help improve AFON's liquidity position.

On the whole, the situation in Antique highlighted the concerns raised by NPF about the need to improve systems and capacities down the line to help the HEALTH Plus social franchise achieved its double bottom line of financial sustainability and making quality essential drugs more available and affordable to poor communities.

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## ANNEX A

### Highlights Of Health Plus History

The HEALTH Plus network of the NPF directly traced its origin to 1995, when a financing agreement annexed with separate agreements was signed between the Philippine and German governments, stipulating a donation of drugs to the Filipinos, especially the poor households, that would be distributed with cost recovery mechanisms in order to sustain the services. The Department of Health (DOH) and the German Technical Cooperation (GTZ) developed the sustaining cost recovery mechanism within the framework of the technical cooperation project called Family Health Management by and for the Urban Poor Settlers (FAMUS). With a system patterned after *Botika Binhi*, the FAMUS project was engaged in Family Planning and Reproductive Health activities with access to basic health commodities (i.e. family planning commodities and essential drugs) as one of its major components. This component involved the establishment of the Revolving Drug Fund.

The FAMUS Project existed from 1995 till October 2001. These were the highlights leading to the formation of the NPF:

- 1995–1997: Establishment of a central warehouse managed by the FAMUS Project with FAMUS pharmacies in three pilot cities (Cavite, Lucena, Butuan). These three pharmacies were registered as regular commercial pharmacies and served as satellites for the distribution of drugs to a network of FAMUS outlets (called FAMUScy) in the barangay level.
- 1998–2000: Identification of NGO distributors outside of the identified three pilot cities. This spread the distribution system to the entire country with NGO partners coming from Luzon, Visayas and Mindanao. The central warehouse was maintained and managed by the FAMUS project, with the NGOs serving the province and/or region that it covered, utilising Municipal Health Offices as satellites before the drugs reached the FAMUS outlets. The growth was phenomenal from less than 50 to more than 900 during this stage. "This posed a great problem because the system was loose and the present tools of the FAMUS project was not sufficient to efficiently and effectively manage the system. The trade-off between absorption and management control was at a very high cost. This led to serious rethinking by both DOH and GTZ to design a very appropriate distribution system. Several consultancies and internal assessments were done with the intention to answer the following vital issues: a) institutional arrangement of the new distribution system — who owns, what is the legal identity, what are the organisational characteristics; b) what is the business model — operations, product, vital functions, earning, investments; c) how to provide legal mandates to the network of retail outlets that cannot satisfy the licensing standards of the pharmacy law that strictly requires a full time pharmacist in every outlet?" (NPF Fact Sheet, 2010). The latter part of this period was marked by the search for an appropriate sustainability mechanism.
- 2000–2001: AO 138 s. 2000: The HEALTH Plus Social Franchising system was formally launched by the Department of Health. On 22 September 2000, the National Pharmaceutical

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Foundation, Inc. held its founding meeting. The system underwent a transition from the last quarter of 2000 to the first three quarters of 2001.

- 1 September 2001: The NPF opened its business by hiring the first management team.

Main Source: National Pharmaceutical Foundation (NPF). 2010. Fact Sheet on HEALTH Plus. A Social Franchising Experi(ment/ence) of Pharmaceuticals and Basic Health Commodities in the Philippines, supplemented by History and Project Design of HEALTH Plus, NPF unpublished documents, and interview with Ms. Teofila Remotigue, CEO of NPF.

## ANNEX B

### Note On Social Franchising

Social Franchising is called "a way of systematic replication to increase social impact" (Ahlert et. al. 2008), and is seen as "an attempt to use franchising methods to achieve social rather than financial goals" (Montagu 2002) or "can be understood as contract-based cooperation of decentralised entrepreneurial units with a central support unit, uniform quality standards and supported by a common philosophy" (Ahlert et. al. 2008).

A franchise "comprises 'a contractual relationship between a franchisee (usually taking the form of a small business) and a franchisor (usually a larger business) in which the former agrees to produce or market a product or service in accordance with an overall 'blueprint' devised by the franchisor' (Stanworth et al. 1995). The concept of creating a valued brand for goods or services and extending the reach of that brand by leasing the right to use it to private individuals became widespread in the food and hospitality services in the United States during the first half of the 20th century and grew quickly from the early 1950s (Justis and Judd 1989; Milgrom and Roberts 1992)" (Both references as cited in Montagu 2002).

There are various types and modes of franchising but perhaps the most well-known is what is called "business format franchising"<sup>16</sup>. In this mode, the franchisor offers a turnkey business concept for starting and running the business. The franchisor provides a catalogue of services to support the franchisee's efforts. By entering the franchise system, the franchisee acquires the right and obligation to use the system's brand name, know-how and business concept. (Ahlert et. Al. 2008)

Hence, franchise systems, e.g. food chains like McDonald's or Jollibee, or Mercury Drugstore in the pharmaceutical fields, are generally characterised by: 1) a consistent market appearance through the use of one brand, 2) standardised processes, products and services, 3) consistent marketing, and 4) central coordination by the franchisor. These are supposed to provide the basis for customer awareness and brand recognition, signaling a certain standard of quality, and thus earning customer goodwill.

The interest in social franchising could be due to growing concerns with branding, quality standards, and hence the increasing importance of a common title and tighter control for a programme or project in the face of replication of successful models. There is also the realisation that networks can contribute to the success of a project (drawn from Ahlert et.al. 2008).

<sup>16</sup> This note will focus on business franchising, which is most applicable to the HEALTH Plus case. For further reading on social franchising, please refer to *Social Franchising, A Way of Systematic Replication to Increase Social Impact* (2008) by Ahlert et. al., published by Bundesverband Deutscher Stiftungenhe which provides a comprehensive introduction to the concept. The document is available on the website of the Social Innovation Exchange on url:

<http://www.socialinnovationexchange.org/files/event/attachments/Social%20Franchising%20A%20Way%20of%20Systematic%20Replication%20to%20Increase%20Social%20Impact.pdf>.

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Various literature on social franchising and franchising in general cite advantages for using the franchise system to pursue expansion, i.e.:

- **Economic advantages**, via less entrepreneurial risk on the part of the franchisor (lower investments to finance expansion) and the franchisee (starting with a proven business concept) and financial efficiency through economies of scale. For non-profit programmes, franchising allows for faster and more cost-effective replication, and can also provide for shared fundraising between the franchisor and franchisees.
- Improvement through the **systematic transfer of know-how and ongoing learning**.
- **Quality management through standardisation/ quality control**. To protect the brand reputation, the franchisor typically trains its franchisees in the system and monitors their performance to ensure that they conform to its standards.
- **Benefits of network synergies**.

Franchising may also offer benefits in terms of bulk supply of goods and services, and mass marketing.

The literature also cites success factors for franchise systems:

- Clear market potential.
- Business concept itself must be franchisable, which basically means that the elements of success must be "standardisable, replicable and teachable to prospective franchisees".
- Adequacy and proper selection of trainable franchisees.
- Capital to finance the development and expansion of the business concept and to cover running expenses for acquiring franchisees, consulting and training, marketing and other services for the franchisee.

Despite of being patterned after franchising in the business world, it is also pointed out that "the main objective in the third sector is not to maximise profit, but rather to maximise social impact. This means that the franchisor might be less commercial and 'hard-nosed' in recruiting and managing its franchisees. Furthermore, franchising disciplines may be harder to implement and to control" (Ahlert et. al. 2008).

On the point of standardisation, Ahlert et. al. also note that, in principle, there are two elements that can be standardised in social franchising: 1) elements of the non-profit service that lead to a certain quality standard and facilitate monitoring, and 2) management processes such as controlling or marketing processes.

The majority of experience to date comes from family planning service franchises (Montagu 2002). In the Philippines, social franchising is utilised by the Well-Family Midwife Clinic Network and BlueStar (an affiliate of Marie Stopes International).

## HEALTH PLUS: AN EXPERIENCE IN SOCIAL FRANCHISING

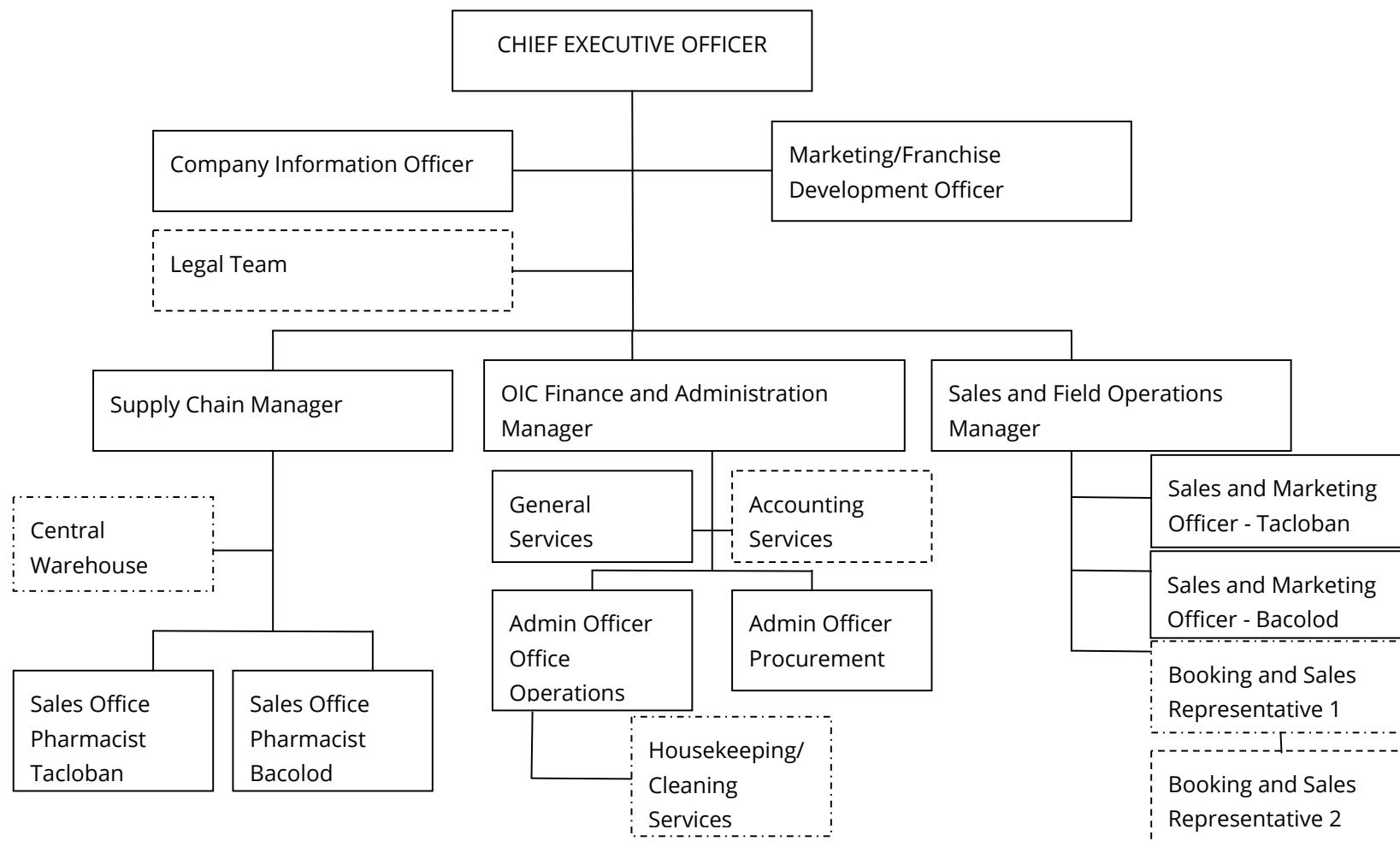
Early results from health franchising schemes suggest that the model can rapidly expand the coverage of basic health services to poor people, capture economies of scale, and reduce the information asymmetries that often adversely affect the quality of care. The financial sustainability of health franchising schemes is being debated, however. While franchisees may reach financial sustainability relatively quickly, franchisers that pursue public policy goals may need to continue to rely on public subsidies. (Ruster et. al. 2003)

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**ANNEX C**

**NPF Organisation Chart as of January 2011**



**ANNEX D**

**List Of Provincial Pharmaceutical Franchisees**  
**as of December 2010**

<b>PPF (Franchisee)</b>	<b>Province</b>
Carmen Health District, Inc.	Bohol
Bicol Initiatives for Community Health Development, Inc.	Albay
Cordova Multipurpose Cooperative	Cebu
Anabu Development Cooperative (ANADECO) Provincial Pharmaceutical Foundation, Inc.	Cavite
Valenzuela Development Cooperative	Valenzuela, Metro Manila
Mahintana Foundation, Inc.	South Cotabato
Kamayo Mindanao Foundation, Inc.	Davao del Sur
Katibyugan, Inc.	Capiz
Kamayo Mindanao Foundation, Inc.	Surigao del Sur
Antique Federation of NGOs	Antique

## ANNEX E

**Medicines Available In Health Plus Outlets****Medicines\* Available in HealthPlus Outlets**

1. Analgesic/Antipyretics  
**Paracetamol**
2. Antacid  
**Aluminum hydroxide 225mg + Magnesium hydroxide 200mg/5mL suspension**
3. Anthelmintics  
**Albendazole**  
**Mebendazole**
4. Anti-Allergic/Antipruritic  
**Diphenhydramine (as hydrochloride)**  
**Chlorphenamine (as maleate)**
5. Non-Steroidal  
Anti-inflammatory Drugs (NSAIDs)  
**Mefenamic acid**  
**Ibuprofen**  
**Aspirin 300mg (325mg ) tablet**
6. Anti-thrombotic  
**Aspirin 80mg tablet**
7. Anti-vertigo  
**Meclozine (Meclizine)**
8. Bronchodilator/Anti-Cough  
**Lagundi [Vitex negundo, L. (Fam. Verbenaceae)]**
9. Diuretic/Anti-urolithiasis  
**Sambong [Blumea Balsamifera (L) DC (Fam. Compositae)]**
10. Antitussive (Centrally Acting)  
**Dextromethorphan**
11. Anti-motility  
**Loperamide (as hydrochloride)**
12. Solutions Correcting Water and Electrolyte Losses  
**Oral Rehydration Salts (ORS 75-replacement)**
13. Laxatives/Cathartics  
**Bisacodyl**  
**Standard Senna Concentrate**
14. Anti-scabies , Anti-lice and Anti-fungal  
**Benzyl Benzoate**  
**Crotamiton**  
**Sulfur**
15. Anti-anemic  
**Ferrous Sulfate**
16. Antifungals  
**Benzoic acid + Salicylic acid**  
**Clotrimazole**  
**Miconazole (as nitrate)**
17. Vitamins  
**Ascorbic acid (Vitamin C)**  
**Vitamin B1+B6+B12**  
**Vitamin A (Retinol)**  
**Multivitamins**
18. Vitamins & Minerals  
**Folic acid+Ferrous sulfate**  
**Zinc sulfate**
19. Minerals  
**Calcium (as lactate)**  
**Calcium (as carbonate )**
20. Disinfectants  
**Hydrogen Peroxide**  
**Ethyl Alcohol**  
**Povidone Iodine**
21. Anti-infectives  
**Amoxicillin (as trihydrate)**  
**Cotrimoxazole (sulfamethazole + trimethoprim)**
22. Other Prescriptions drugs  
**Metformin ( as hydrochloride)**  
**Glibenclamide**  
**Metoprolol (as tartate)**  
**Captopril**  
**Salbutamol (as sulfate)**

\* Per DOH DEPARTMENT MEMORANDUM NO. 2008-0248 the following are Drugs to be sold in Botika ng Barangay (BnB) outlets:

## ANNEX F

### Health Plus Franchise Offering for HEALTH Plus Outlets, 2011

**Franchise Fee:** ₱50,000 (US\$1,230) for a three-year period

**Cost of Initial Stock:** Variable, depending upon business plan result: ₱25,000 to ₱50,000

**Entitles HPO Social Franchisees to:**

- Cabinet and counter (DIY – to be assembled by franchisee)
- Participation Bond
- HPO starter kit
- Selling supplies for six months
- Signage
- Directional signs – 5
- Cell phone and load for 6 months at ₱150 per month
- T-shirt for operator and officers of organisation – 10 pcs.
- Product/price catalogue for households – 1000 pcs.
- HEALTH Plus stickers for tricycles and/or jeepneys – 100 pcs.
- Training materials and resource person cost for operator training
- Tarpaulin price posters – 5 pcs.
- Average markup of 30 percent (on medicines)

**Eight Steps to Set Up a HealthPlus Outlet**

- Business planning and signing of agreement
- Application for business license with local government unit
- Training of operator with Food and Drug Administration (FDA)
- Application for license to operate with FDA
- Training and installation
- Registration with Bureau of Internal Revenue and PhilHealth
- Grand launching and marketing salvo

**ANNEX G-1:**

**Table of Contents, Provincial Pharmaceutical Foundation (Franchisee)  
Manual Of Operations**

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**ANNEX H**

**Antique Federation Of Non-Government Organisations (AFON)**  
**List Of Members, With Engagement In Livelihood Development**

<b>Organisation</b>	<b>Involvement in Livelihood Development</b>
Antique Development Foundation	handicrafts production and marketing
Antique Federation of Cooperatives	financing and marketing consolidation for member coops
Antique Human Development Program	organic coffee; owns an HPO
Ahon sa Hirap, Inc.	Microfinance
HIC-HE	livestock; owner of two HPOs
Insol Development Foundation	packaging facility
Palanan Awon Pas Kauswagan	focused on children's programme
PROCESS Foundation Panay, Inc.	organic agriculture
Taytay sa Kauswagan, Inc. (microfinance)	microfinance

## CHAPTER 8

### HUMAN NATURE: PRO-PHILIPPINES, PRO-POOR AND PRO-ENVIRONMENT

Anna Meloto-Wilk, president of Gandang Kalikasan was upbeat about the high demand for natural products in the Philippines as shown by their increasing sales. "It's a huge opportunity that nobody was addressing," she explained (Meloto-Wilk, 2011).

Gandang Kalikasan, Inc. was the company behind the Human Nature line of all natural beauty and personal care products. It started in November 2008. Human Nature was a brand that promoted natural beauty without the high price tags characteristic of other beauty and personal care products. The brand carried nine product categories. These were color cosmetics, protective care, face care, lip care, deodorants, hair care, body care, feminine wash and kid's products. The Human Nature range of products was founded on three core principles: Pro-Philippines, Pro-Poor and Pro-Environment.

#### Pro-Philippines

The products were 100 percent manufactured in the Philippines. The social enterprise tried to source all its raw materials and packaging from the Philippines even if these were cheaper abroad. It only imported raw materials if these were not available locally. They still sourced some raw materials, especially the sophisticated ones, from abroad (e.g. natural surfactants, preservatives and emulsifiers). However, Human Nature had a vision of migrating as many materials to local suppliers. For example, they used a lot of sunflower oil in their face care products and they imported the raw material from Spain. To be Pro-Philippines, they were studying the feasibility of sunflower extraction in the Philippines. They also did not use sweet

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*This case was written by Mariel Vincent Rapisura under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

almond oil, because it could not be grown in the Philippines. Instead, they used gugo<sup>1</sup>, calamansi<sup>2</sup> and other local raw materials.

When sourcing for raw materials, the social enterprise worked with three communities in three provinces. The provinces were Camarines Norte, Negros Occidental and Bulacan. Human Nature supported 46 citronella farmers in Camarines Norte; more than 20 lemon grass farmers in Negros Occidental; and 50 Gawad Kalinga families who maintained demonstration organic farms in Bulacan.

Human Nature started buying from farmers in Camarines Norte in April 2010 at a price that was higher than the market price. The relationship developed and they started to work closely with them. In October 2010, they launched “One Heart, One Community” in which 100 percent of the profits from Citronella Bug Spray went back to the community. They were able to raise close to ₱1 million (US\$24,582). They used the money to buy 20 hectares of additional land on top of the seven hectares that the farmers were using. They also used the money to repair broken equipment, repair a school in the community, and build a small office for their partner-cooperative based in the community. For 2011, their target was to set aside ₱10 million for community development. Their sales staff were working hard to meet this target.

Human Nature believed that Filipinos can produce world class finished goods. Other countries reached prosperity by buying raw materials cheaply from poor countries and turning them into expensive finished goods. Think of Switzerland — they produced some of the finest chocolate in the world, yet not a single cocoa bean grew naturally in Switzerland. They bought cocoa from around the world, turned it into chocolate and sold it back to the country that grew it for many times the price! The only way for the Philippines to become prosperous was for it to produce not just raw materials, but world-class finished goods and if Filipinos bought Filipino products. This was how they aimed to help raise the country — by sourcing locally at fair trade prices, producing world-class finished goods and exporting them around the world.

### **Pro-Poor**

From the beginning, the company was set up with the goal of providing more livelihood opportunities to *Gawad Kalinga* residents and communities. *Gawad Kalinga*(GK) meant “to give care” in Filipino. The organisation was officially known as the Gawad Kalinga Development Foundation, a Philippine-based poverty-alleviation and nation building movement. In the Philippines, Gawad Kalinga had the goal of building empowered communities by people with faith and patriotism; driven by a culture of caring and sharing. It was dedicated to eradicating poverty and restoring human dignity. Its mission was to end poverty for five million families by 2024. In 2006, Gawad Kalinga received the Ramon Magsaysay Award for Community Leadership. The award was regarded as the Nobel Peace Prize for Asia.

Human Nature’s dream was to set up GK communities as globally certified organic farms that could produce world-class raw materials for Human Nature products. It had already started

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<sup>1</sup>Gugo was a bark used extensively in the Philippines for washing hair. When the bark is soaked in water and rubbed, it produces a lather that cleanses the scalp very effectively.

<sup>2</sup>Calamansi was normally used for Filipino dishes and beverages. It is also used for personal hygiene as deodorant and whitening agent.

organic farming in a GK community in Bulacan. The organic farm was a partnership with non-government organisations (NGOs) that specialised in organic farming and processing.

The social enterprise was also a firm believer of fair trade principles. They bought at fair prices from community-based suppliers. Sometimes, they even offered above-market prices if the market price was not enough to provide good quality life for the farmers. The social enterprise believed that good business sense was not just about getting the lowest prices for raw materials but ensuring that community-based suppliers received fair prices for their products.

Human Nature employed GK residents from nearby communities in Quezon City. It provided a fair living wage that is higher than the minimum wage required by law. For example, the warehouse staffs were provided with full benefits and overtime pay in order to promote dignity of work. (Our Philosophy, undated). They received 25 percent more than the minimum wage required by law as starting salary and were also paid for overtime work. New hires were placed under probation for only three months, less than the six months generally practiced in traditional businesses. Once they became regular employees, they received a salary increase based on their performance review. They also got to enjoy the full benefits as mandated by law and additional health insurance coverage from a health management organisation. These practices were hardly seen in traditional businesses. Human Nature directly employed 64 employees and they were still hiring for various positions in 2011.

## Pro-Environment

The social enterprise took its responsibility of being nature's stewards very seriously. It carefully deliberated the impact of all its business decisions on the environment. For example, raw materials were thoroughly researched to ensure that they were naturally derived, were not processed using environmentally-toxic processes, and did not become toxic when released into the environment when used. It also used recyclable bottles and printed its brochures on recycled paper to minimise waste.

Vision: We will be the gold standard of a globally successful enterprise with a heart that will embolden all businesses to better serve society.

Mission: Being faithful stewards of our God-given talents and natural resources, we will give the best of ourselves to urgently and sustainably build a global company which will showcase the best of the Philippines and uplift all our people, especially the poor through providing affordable, quality, natural products.

Values:

- Pro-Philippines – we work in the best interests of our country
- Pro-Poor – we prioritise the needs of those who need them most
- Pro-Environment – we act responsibly towards the planet
- Heart of a Hero – we sacrifice self interest and commit to the cause
- Stewardship – of our own gifts, people & environment
- Personal Integrity – we are true & stick to commitments
- Bayanihan – culture of collaboration and we watch each others' backs
- World-Class Excellence – strive to be the best
- Pioneering Spirit – we push the boundaries of what's possible
- Quality of life for all – we work well, we live well

Tagline: Only the Good.

## Human Nature Products

The target market of Human Nature was women who want safe, natural, locally-produced products at affordable prices. They were typically 25–45 years old and were middle-class. At first, the market was class B because they were the ones aware of the benefits of natural products, but it grew into the middle-class because of the products' affordability.

Human Nature created its own seal due to the absence of government regulation to be accredited as a producer of "natural" products. This made it difficult for ordinary people to discern what was genuinely natural and what was mostly chemical with a few natural extracts in the ingredients. In the Philippines, many manufacturers did not provide the complete list of ingredients on their labels. The social enterprise believed in integrity. That's why it disclosed every single ingredient on its labels. When it used the term "natural," Human Nature went to great lengths to ensure that the natural ingredients were not contaminated with harmful chemicals. It established three requirements to qualify for the natural seal. First, the ingredients must be biodegradable and at least 95 percent natural — the same standard set by the Natural Products Association in the USA. Second, the ingredient must come from a renewable resource with no petroleum compounds and processed in a way that did not damage the environment. Third, a "non-natural" ingredient was only permitted if there was no readily available natural alternative and the ingredient meets strict criteria regarding human and environmental safety and biodegradability. (Our Natural Seal, undated). Human Nature also outlined in its website the top chemicals to avoid. These chemicals are not used in its products. It made a comparison between the good — natural and organic; versus the bad— synthetic and harmful. This was one way of educating its buyers about the benefits of organic and natural products. (See Appendix 1). It also provided an extensive list of the natural ingredients it used in its website. (See Appendix 2)

Human Nature purchased everything (e.g. raw materials, labels, packaging) and formulated the products, but a third party assembled them and then gave them back to Human Nature as finished products. A third party used to formulate and process the products, but now they do it themselves. They tried to develop everything in-house. "It's more transparent that way since third parties don't disclose everything. This is also beneficial to consumers," said Anna Meloto-Wilk, Human Nature President. It started from the founders' gut feel on what products to develop, and then they told the formulators. Later on, they also got input from dealers. For instance, the idea of coming up with deodorant and feminine wash (two of the current top-sellers) came from dealer suggestions.

The social enterprise focused on personal care and beauty products because the founders were passionate about it. It started with Anna and her sister. They were in the United States from 2007 to 2008. Anna just gave birth then. She was already using natural products. And just like any other typical young parent, she was reading up on the best way to take care of her kids. She had an affinity for a natural or holistic lifestyle. This was manifested by her use of reusable diapers for her kids and the food that she prepared herself.

They realised an opportunity in that there was limited access to natural products in the Philippines. They were present but expensive and hard to find, unlike in the US where natural products were readily available in supermarkets and drug stores. Anna's sister was a cosmetic junkie. She previously worked for a pioneering personal care multinational company. "It was a lot of fun for us," she remarked. Her sister used to do bridal make-up in the US. One time as a

token, she received natural products of a high-end foreign brand. They tried the products, and that was where the idea came from. They checked the ingredients and they found out that some of the ingredients were available in the Philippines. So they thought: "What if we come up with our own natural brand?" At first, they were hesitant to start a business because even though Anna had been into advertising and marketing, she had no experience in manufacturing. She also had no background in chemistry. In June 2008, Anna came back to the Philippines from the US. She talked to a friend who knew a formulator. They registered Gandang Kalikasan, Inc. with the Securities and Exchange Commission with a capitalisation of ₱500,000 (US\$12,291). Their initial working capital was ₱3 million. (Tomada, 2010)

Human Nature started with five product categories: hair care, face & lip care, body care, hand & foot care and kid's products. The following were the product descriptions, sizes, images and prices of the various products that Human Nature offered.

There were seven products under the hair care product category. It promised to offer natural hair care products at a price that was affordable to almost everyone. Human Nature asserted that harsh chemicals such as sulfates from commercial shampoos and conditioners damage hair, lead to premature hair loss and hair aging. Dandruff and dry hair were also side effects of chemicals in most hair care products available. The products offered under this category have nature's best ingredients that resulted in soft, shiny and healthy looking hair. The scents of the products were also refreshingly "yummy" and invigorated the senses. (Hair Care, undated)

The facial and lip care product category had the most number of products. These were facial toners, facial wash, lip balms, beauty oil, cleansing oil, moisturisers and facial scrubs. The facial toners offered did not have alcohol in them. It also contained elemi oil known for its skin care and healing properties as well as lactic acid from sugar that intensively moisturised skin and helped stimulate skin to regenerate. Facial wash were designed for people with oily skin, normal skin, and dry and mature skin. (Facial and Lip Care, undated)

The body care product category had 10 products. These were deodorants, body butters, body scrubs, bug spray, shaving oil, feminine wash, lotion and massage oils. The deodorants used Chitosan, which was derived from crustacean shells. Chitosan was an anti-bacterial active that was biodegradable and non-toxic. It had also been clinically proven to promote wound healing while being anti-itching, anti-microbial and an excellent skin moisturiser. And because Human Nature was all about everything natural, it did not use dangerous anti-perspirant actives such as aluminium salts. According to Human Nature's own desk research, many studies had linked aluminum salts to breast cancer. Aside from breast cancer, aluminium salts had also been linked to reproductive system toxicity and neurotoxicity. (Body Care, undated)

The six products under the hand and foot care product category were soaps, salve and sanitizers. The soaps of Human Nature did not contain triclosan which was classified by the U.S. Environmental Protection Agency as a probable carcinogen, which is linked to cancer, developmental defects, hormone disruption and more. (Hand and Foot Care, undated)

The four products under the kids product category were shampoo, baby wash, bug spray and sanitizers. The products were developed because many studies suggested that many baby shampoos, baby lotion and baby powders were exposing children to harmful chemicals called phthalates. Phthalates inhibited or negatively affected the proper development of the

reproductive system, especially in babies and very young children. The kid's care products were phthalate-free, sulfate-free and paraben-free. (Kid's Care, undated)

The following were some examples of the products of Human Nature<sup>3</sup>.

## **Hair Mask – Intensive Gugo Bark & Avocado**

### ***Hair Care Product Category***

Strengthening, moisturising and nourishing, with natural vitamin E and vitamin B-complex, this intensive recovery hair mask is a breakthrough in total hair care!

Avocado (with Omega-3) restores moisture and elasticity without adding extra weight. Gugo Bark meanwhile, nourishes and helps strengthen to minimise hair loss. Organic virgin coconut oil adds the final kiss, leaving your locks healthy, shiny and soft!

Banish old, tired tresses to the past and look gorgeous instead! Choose from Rosemary mint scent or our special edition Jasmine scent (200g only).



Price: 50g – ₱99.75; 200g – ₱299.75 (Hair Care)

## **Tinted Lip Balm Sheer Lip Soother**

### ***Face and Lip Care Product Category***

Enjoy the goodness of our best-selling lip balms with a hint of a rose red tint. Our 100 percent natural lip balms are made from a unique combination of beeswax, sunflower oil, rice bran oil, avocado oil and calendula extract to offer nourishing protection and a soothing, cooling sensation. Feel good knowing that the natural-looking lip color comes from natural minerals and not carmine — the red pigment in most lipsticks and tints that comes from crushed insects! Perfectly complements our mineral blushes.

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<sup>3</sup>Product images, product descriptions and prices were reproduced with permission from Human Nature's website.



Price: ₱69.75 (Facial and Lip Care)

## Citronella Bug Spray

### ***Body Care Product Category***

Shoo off mosquitoes and other pesky bugs with an effective, organic antidote. With natural skin moisturisers your skin will thank you for it! No dangerous chemicals such as DEET means this gentle formula is safe even for very young children.



Available in 100ml or pocket-sized 50ml. Please choose your size from the drop-down menu below.

Price: 50ml -₱84.75; 100ml -₱129.75 (Body Care)

## Sugarcane Hand Sanitizer

### ***Hand and Foot Care Product Category***

Due to popular demand, our best-selling natural sugarcane hand sanitizers are now available in a family-sized 200ml bottle! Keep harmful bacteria at bay without exposing your family to the harmful effects of Triclosan, which is classified by the U.S. Environmental Protection Agency as a probable carcinogen, which is linked to cancer, developmental defects, hormone disruption and more. Our Triclosan-free sanitizers are also enriched with moisturising Aloe Vera to stop hands drying out. Choose from Watermelon or Mandarin scents



Price: ₱274.75 (Hand and Foot Care)

## Aloe Vera & Chamomile Baby Shampoo & Baby Wash

### ***Kid's Products Product Category***

Shower your little ones with a million starry kisses and nurture their petal soft skin with our mild baby formula. With chamomile extract to calm and soothe your baby. Choose your size from the drop down menu below.



Prices: 50ml -₱39.75; 100ml -₱69.75; 200ml -₱119.75; 500ml -₱274.75 (Kid's Care)

## Direct Selling

Direct selling was marketing and selling products directly to consumers away from a fixed retail location. Sales were typically made through party plans, one-to-one demonstrations, and other personal contact arrangements. The text book definition of direct selling was: "The direct personal presentation, demonstration, and sale of products and services to consumers, usually in their homes or at their jobs." (Belch & Belch, 2006)

The easiest marketing strategy that the founders could think of to sell their personal and beauty care products was direct selling. "Retail is very difficult unless you're already an established business. Human Nature brand is very new. We have a lot to say about the company, not just about the product. If we put the products in the shelf beside Pantene, nobody will pick us," said Anna.

Human Nature had plans of going retail, but with a limited product offering. The bulk of the products would still be for dealers. Retail would only address the problem of producing more than what the dealers can fully support. They were still devising strategies on what was the best way to go. Most of their previous marketing was to support the mother brand, Human Nature. Human Nature had a very small marketing department. It only had one person for public relations. They did not pay for write-ups. "Our association with GK got us into the papers," Anna admitted. In order to be sustainable, Human Nature knew that they had to offer very competitive, high quality products. "[The consumers are] not going to give us special treatment just because we are a social enterprise. Our products had to deliver and be as good or even better than the competition," she added.

## Dealership

According to Human Nature's president, the dealers served as their walking advertisements. They spread the word about Human Nature. They were allowed up to two levels of downlines. "It's not multi-level marketing because in that kind of marketing, customers will have to pay more to compensate for the dealer's costs," Anna elaborated as she distinguished their direct selling strategy versus traditional multi-level marketing.

Multi-level marketing (MLM) is a marketing strategy in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a downline of distributors and a hierarchy of multiple levels of compensation. (Pratt & Rosa, 2003)

There were three registration options to become a Human Nature dealer. These were Lite Pack, Best Seller's Sample Pack and Full Business Development Pack. The option required ₱499, ₱799 and ₱1,999 registration fees respectively. The registration fee already provided the dealer with products worth ₱518, ₱981, and ₱2,736 respectively. All dealer registration packs came with catalogues, fliers, a dealer identification card, training for career development and an optional visit to a Gawad Kalinga village.

The sample packs, except for the Full Business Development Pack, was meant to function as product testers so prospective customers can experience first-hand the high quality of the products and be amazed at the affordable prices. According to market researches reviewed by Human Nature, a majority of Filipinos purchased a lot of their personal care products based on scent and how the product felt on their skin. The sample pack was meant to help the new dealer

achieve momentum as she started out with Human Nature business dealership. The sample packs were not meant to be for selling.

The Full Business Development Pack gave the dealer all product samples plus some initial selling stock, all at a 25 percent discount. It represented all available product forms and contained the top selling SKUs<sup>4</sup> and new products. The pack was a registration option to help new dealers to start a business.

After being registered, the person would be known as a Human Nature dealer. As such, the starting discount was at 25 percent and could go up to as high as 30 percent depending on the purchase volumes per month. As one sold more products and recruited more dealers, you would rise through the ranks earning higher discounts and more commission. The level you reached and the amount you earned depended on how much you were able to sell the products and how often you were able to share the earning opportunity with others who later on registered as dealers themselves.

There were two ways of earning when one becomes a Human Nature dealer. First was from personal discounts and second from commissions on group purchases. One earned from personal discounts as one purchased products from Human Nature using personal discounts then selling the products to customers at the Standard Retail Price (SRP). As one recruited people who sign up to be dealers under her, she would also earn a commission from the sales of their recruits. It must be emphasised that one earned commission from the purchases of recruits and not from merely recruiting. Thus, it was important to monitor recruits and motivate them to sell the products and share the business to their own networks. Computation of group purchases excluded the dealer's own purchases.

The following table shows the discounts on personal purchases, commissions on group purchases, and monthly minimum requirements for dealers.

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<sup>4</sup>SKU refers to a Stock Keeping Unit, a unique identifier for each distinct product and service that could be purchased in business

Dealer Level	Discounts on Personal Purchases		Commissions on Group Purchases	Monthly Minimum Requirements		
				Personal Purchases	1 <sup>st</sup> Gen Active Dealers*	Group Purchases
Human Nature Dealer	25% Basic 26% Php10,000-14,999 27.5% Php15,000-29,999 30% Php30,000 & above		N/A	Php1,000	N/A	N/A
Human Nature Consultant	25% Basic 26% Php10,000-14,999 27.5% Php15,000-29,999 30% Php30,000 & above		3% on 1st Gen Sales	Php2,000	1	Php5,000 (1st Gen Sales only)
Silver Executive	26% Basic 27.5% Php15,000-29,999 30% Php30,000 & above		5% on 1st Gen Sales	Php2,500	5	Php25,000 (1st Gen Sales only)
Gold Tier Executive	30% Basic		5% on 1st Gen Sales 1% on 2nd Gen Sales	Php3,000	10	Php100,000 (1st & 2nd Gen Sales)

Notes on the table above:

- 1st Generation dealer = your direct recruit (anak<sup>5</sup>); 2nd Generation dealer = the recruit of your recruit (apo<sup>6</sup>).
- All peso amounts indicated were net of dealer discount.
- Active Dealers = must have had a cumulative personal purchase of ₱1,000 (dealer price) within the month.
- Dealer Performance would be assessed monthly and will serve as basis for promotion to the next level to be applied immediately on the succeeding month. Changes normally took effect from the 5th of the following month. Back orders were not included in calculating sales figures. Sales figures were considered net of returns.
- All prices quoted were inclusive of value added tax(VAT).

Dealers might place their orders directly from the head office or at any Human Nature branch via email, phone or fax. There were four branches in Metro Manila including the head office. These were located in Quezon City, Manila and Paranaque. There were 15 branches spread out in different provinces and cities outside Metro Manila. These were Bulacan, Cavite, Laguna, Naga, Palawan, San Fernando, Olongapo, Bacolod, Bohol, Cebu Lapu-Lapu, Mandaue, Iloilo, Ormoc, Tacloban, Cagayan de Oro, Davao and Zamboanga.

When ordering directly from the head office, orders needed to be paid in full prior to delivery through any of the following payment methods: bank deposit, GCash, credit card and BPI Express Payment System. Once Human Nature established a relationship with dealers after several orders, they might request credit, wherein Human Nature shipped goods to dealers and they could pay within five working days. All credit requests were subject to approval.

The staff of Human Nature would prepare orders for pick up if a dealer placed an order of more than ₱3,000 and informed the head office at least three hours prior to picking up the products. The dealers were also served with a free cup of either brewed or instant coffee with healthy, organic coco sugar while they shopped or while waiting for their orders to be ready.

<sup>5</sup>Anak refers to child in the Filipino language

<sup>6</sup>Apo refers to grandchild in the Filipino language

Orders made to the head office could also be delivered to dealers for a minimal fee. Within Metro Manila, the delivery fee was ₱50 regardless of order size. Delivery took one to two working days. Dealers were encouraged to order from branches if they were outside of Metro Manila. If there was no branch in a dealer's location, they might order from the head office. The delivery fee varied depending on weight but began at ₱80 for some provinces and ₱100 for others. Delivery took one to five working days, depending on the location.

Any faulty or less than perfect items would be replaced free of charge, as long as the defect was Human Nature's fault. Determination of fault was at Human Nature's discretion. Unsold stock could be returned for credit within 30 days as long as it had not been opened/used and was in perfect condition. There was a ₱5 restocking fee per item returned. (Meloto-Wilk, 2011)

The Independent Dealer Registration Form which contained an agreement between Human Nature and the dealer is shown in Appendix 3. The order form for the dealers is shown in Appendix 4.

## Online Purchases

Customers could also make purchases online. Human Nature had two websites that were able to take orders. The websites catered to Filipinos and the other website catered to customers in the US. One could pay through PayPal when placing orders online.

## Initial Financial Performance

The staff noted that sales volume in 2010 was better than 2009. Total sales in 2009 was almost ₱45 million (US\$1.11 million). The sales volume was huge considering that the year was considered the first full year of operations of Human Nature. In the same year it earned ₱6.2 million. Human Nature was registered as a for-profit stock corporation with a capitalisation of ₱500,000. This gave the company ₱12.4 earnings per ₱1 share. Interestingly, Human Nature only spent ₱0.02 on marketing and advertising per peso sold. The financial statements for 2008–2009 of Human Nature are shown in Appendix 5.

## Challenges and Plans

The founders' initial challenge was when they first opened for business. That was in November 2008 when they launched Human Nature near the Christmas season. "We had no idea what the demand was," recalled Anna. When they opened for business, they were surprised with the high demand and enthusiasm that the customers showed towards their products. "At first, we tried to meet all orders. Phones were ringing from nine in the morning until six in the evening," she added. They had no lunch break because those were the busiest times. They used wireless landline so they could bring the phone anywhere. But after some time, it was no longer manageable, especially since they had a promise of next-day delivery. Anna explained, "After a certain point, we turned off the phones at four in the afternoon."

Some challenges faced by Human Nature were in packaging products and managing suppliers. They received complaints that some of their products were under-filled because of the availability of the appropriate bottles for packaging. For instance, their cost computation was for

a 200ml bottle, but the only available bottle was for 250ml. Over time, they learned to negotiate better with packaging suppliers with regards to purchasing of bottles and labels. This was important to control the costs and keep their promise of affordable products. They tried new and creative ways of minimising costs. For instance, in one sheet they printed different labels to minimise the cost. They were also starting to influence the packaging suppliers to adapt new designs. Slowly, they were able to change their bottles, starting from the color of the cap to the color of the bottle itself. They had also established good relationships with their suppliers, so they could negotiate credit terms. Before that, all transactions were on cash basis.

Human Nature was planning to make an overhaul of their website. Although their website was handy, it was not very interactive and functional. They wanted to come up with a system where dealers could view their purchases and discount levels. Human Nature planned to integrate its automated accounting system online to streamline its finance function.

Human Nature underwent a strategic planning session in early 2011. As they scanned their environment, they noted the potentials of the export market. But they were clear about focusing on local clients and expanding their local operations first. If they were to enter the export market, they would have to make changes to adapt to the taste of this segment of customers. Using Pro-Philippines as their strategic positioning in terms of marketing the products may be less effective when dealing with foreign customers. They also observed that foreigners wanted a more minimalistic design. If they were to serve foreign markets, they needed to make major changes in their packaging.

Human Nature has come a long way from its humble beginnings. Its tremendous growth did not just surprise the social entrepreneurs but traditional businesses as well. The social enterprise used its Pro-poor, Pro-Philippines and Pro-environment principles as a viable value proposition to its target market. It continues to professionalise its operations and carefully plan for the future to expand its economic and social benefits to its primary stakeholders.

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## APPENDIX 1

### WHAT'S NOT IN OUR PRODUCTS: TOP CHEMICALS TO AVOID

You may already know that many chemicals can be bad for you, but do you know which ones to really watch out for or what harm they can do? You deserve to know so we've put this list together to help you be a smart shopper! Why not check the products on your shelf right now?

		<b>THE GOOD: NATURAL &amp; ORGANIC</b>	<b>THE BAD &amp; THE UGLY: SYTHETIC / HARMFUL</b>
<b>PRESERVATIVE:</b> Prolongs shelf life of products		Rosemary essential oil Anisic acid (from anise seeds) Gluconolactone (from corn)	Parabens - allergenic / premature aging BHA/BHT - may cause cancer & tumors DMDM Hydantoin - weakens immune system Phenoxyethanol – causes allergy; irritant TEA (Triethanolamine) - may cause cancer
<b>CHELATING AGENT:</b> removes traces of metal ions to prevent spoilage		Phytic acid (from rice bran)	Trisodium NTA - possible carcinogen; bioaccumulating
<b>EMULSIFIER:</b> Helps combine 2 liquids especially water-based liquid & oil		Glyceryl Oleate (Coconut oil derived)	DEA (Diethanolamine) – affects the hormones
<b>MOISTURIZER / EMOLlient:</b> Softens, relaxes and soothes skin		Cocoa Butter Virgin Coconut Oil Sunflower Oil Avocado Oil	Mineral oil - clogs pores; speeds up aging Dimethicone - clogs pores; irritant Isopropyl Palmitate - clogs pores; worsens acne Petrolatum / Paraffin - clogs pores; worsens acne Urea – may cause cancer; toxic by inhalation
<b>ANTI-BACTERIAL:</b> Prevents the growth of bacteria		Chitosan (marine derived) Acapulco extract Sugarcane alcohol	Triclosan – Endocrinial & reproductive malfunctions
<b>SURFACTANT:</b> Used to bring dirt to the surface, foaming agent		Sodium Cocoyl Isethionate (coconut oil derived) Decyl Glucoside (coconut derived) Coco Glucoside (coconut derived)	SLS/SLES (Sodium Lauryl Sulphate / Sodium Laureth Sulfate) – irritant ALS/ALES (Ammonium Lauryl Sulfate / Ammonium Laureth Sulphate) – skin & eye irritant

John Hopkins University (top medical university in the USA) has named mineral oil in cosmetics and moisturisers as the number two cause of aging (#1 is the sun).

"Petroleum-based ingredients [e.g. propylene glycol, PEGs, isopropyl alcohol] pose risks of cancer, genetic damage and reproductive toxicity including infertility, to unsuspecting consumers and their infants and children" – Professor Emeritus Samuel Epstein, University of Illinois School of Public Health (What's not in our products: top chemicals to avoid)

## APPENDIX 2

### INGREDIENTS GLOSSARY

Organic Avocado Oil (*Perseaamericana*)

- Smooths and moisturises hair while adding shine
- Anti-fungal & anti-bacterial properties
- Rich in fiber, folate, and Vitamins A, C, K & B6

Organic Gugo Bark Extract (*Entadaphaseoloides*)

- Promotes hair growth and volume
- Helps reduce eczema and dandruff

Organic Moringa Extract (*Moringaoleifera*)

- High in antioxidants known for anti-aging benefits
- Excellent skin conditioner
- Anti-bacterial, antiseptic, and anti-inflammatory properties
- Contains Beta-carotene, Vitamins A, C, E, B2, B3 & B6

Organic Seaweed Extract (*Eucheumaspinosum*)

- Nourishes hair shaft promoting thickness and shine
- Rich in lipids that moisturise and nourish skin & hair
- Effectively treats dry, itchy scalp due to dandruff

Organic Calamansi Extract (*Citrofortunellamicrocarpa*)

- Eliminates itchy scalp and promotes hair growth
- Natural anti-bacterial properties

Organic Papaya Extract (*Carica papaya*)

- Naturally whitening/brightening
- High in Vitamin E which is known for anti-aging and anti-wrinkling properties
- Contains papain to help regenerate damaged skin

Lemongrass Hydrosol (*Cymbopogonciatrus*)

- Natural astringent - tightens skin pores and controls oil production

- Powerful anti-bacterial properties to help prevent acne

Gluconolactone (derived from sugar)

- Contains antioxidants and acts as a preservative to prolong shelf life naturally
- Effectively yet gently smooth skin complexion
- Keeps moisture locked in the skin

Sunflower Oil (*Helianthus annuus*)

- Known for anti-wrinking and anti-aging properties
- Brightens uneven skin tone and blemishes
- Highly effective skin moisturiser
- Very high in Vitamins A, C, E and D

Honeyquat (Hydroxypropyltrimonium honey)

- Natural Honey derivative
- Conditions hair providing moisture and shine
- Effective skin moisturiser

Organic Pineapple Extract (*Ananascomosus*)

- Improves skin elasticity and softness
- Renews and brightens rough, dull-looking skin
- Exfoliates, hydrates and moisturises skin

Super-Fruit Combination

- Smooth skin for a younger looking complexion
- Rich in Alpha Hydroxyl Acids (AHA) that renew dull skin
- A rich combination of *Vaccinium Myrtillus* (Bilberry) Extract, *Saccharum Officinarum* (Sugar Cane) Extract, *Acer Saccharinum* (Sugar Maple) Extract, *Citrus Aurantium Dulcis* (Orange) Fruit Extract, *Citrus Medica Limonum* (Lemon) Extract

Phytic Acid

- Rice bran derived
- Natural chelating agent
- Good antioxidant

Anisic Acid

- Anise seed derived
- Natural preservative
- Anti-inflammatory and anti-microbial properties

Glyceryl Caprylate

- Coconut and palm fatty acids and glycerine derived
- Natural emulsifier and preservative
- Conditioning and anti-microbial properties

Chamomile Essential Oil (*Ormensismulticaulis*)

- Has calming and relaxing properties
- Soothes irritated skin
- Anti-bacterial and anti-inflammatory properties

Sunflower Seed Oil (*Helianthus annuus*)

- Protects skin from infection
- Effective moisturiser
- Naturally rich in vitamins A,C,D and E

Royal Jelly

- Strong anti-bacterial properties
- Nourishes the skin preventing blemishes and pimples
- Helps diminish fine lines

Aloe Leaf Juice (*Aloe barbadensis*)

- Soothing and calming properties good for sensitive skin
- Contains Vitamins B1, B2, B6, C and many amino acids
- Naturally regenerates skin

YlangYlang Essential Oil (*Canangaodorata*)

- Natural anti-microbial and prevents infection
- Can balance oily and dry skin conditions
- Calming effects in aromatherapy

Chitosan

- Marine derived
- Natural and effective antimicrobial and deodorising agent
- Natural antibacterial properties

Rosemary Essential Oil (*Rosmarinus officinalis*)

- Helps stimulate and strengthen hair follicles
- Slows down premature hair loss
- Tones and helps prevent skin dryness

Virgin Coconut Oil (*Cocos nucifera*)

- Effective skin moisturiser
- Helps prevent premature ageing
- Natural source of antioxidant for youthful skin and hair

Cocoa Powder (*Theobroma cacao*)

- Has 40x more antioxidants than chocolate
- Natural mood lifter
- Naturally smoothens skin

Lavender Essential Oil (*Lavandula angustifolia*)

- Naturally disinfects scalp and skin
- Calming effects in aromatherapy
- Naturally repels bugs and soothes insect bites

Sugarcane Alcohol

- Effective anti-bacterial agent
- Helps preserve products
- Helps kill germs upon contact

## CHAPTER 9

### ROOST TO ROAST: THE JOURNEY OF "ANG LECHON MANOK NI SR. PEDRO"

Ang Lechon Manok ni Sr. Pedro was a family enterprise that grew from being a small roadside stall of roast chicken to a broiler conglomerate business. Over a span of 15 years, they had established over 300 lechon manok outlets nationwide. The growth was a steady, step by step, problem solving phenomenon guided not so much by "sophisticated" planning tools but more by an understanding of its customers, good business sense, a clear system of monitoring and review, and a mechanism for bringing the rural poor people and communities into the business operations.

"This business is not only about making money. If it was, things would be run very differently," Marybel Unabia explained. (Unabia, M, 2011) Marybel, as president of Anak Ciano Inc., was describing how Anak Ciano Inc (ACI) and Anak Tering Foundation. Inc. (ATFI) worked together to achieve the business and social objectives of their family enterprise, Ang Lechon Manok ni Sr. Pedro. ACI came into being to integrate all the business lines and ventures while Anak Tering Foundation, Inc. was established to help build self-reliant empowered communities.

#### History

In 1994, Peter and Erlinda Unabia started their business with only ₱29,000 (US\$713). The first roadside "Ang Lechon Manok ni Sr. Pedro" was put up in Malaybalay, Bukidnon and was named after Peter and the radio programme, "Manok ni San Pedro" at the time. Peter's brother, Antonietto, formulated the mixes or "timpla". The initial capital came from Peter's retirement pay with some loans from relatives and friends. Back then, they could not get a bank loan. They just got chicken on credit from Pure foods and Vitarich agents. ₱4,000 to ₱5,000 worth of chickens were lent to the couple daily to be paid after one month. This scheme allowed the couple to roll the money. Later, other family members and some very close friends joined in and established lechon manok outlets in other places like Cebu and Ozamis City. In 1995, Ang Lechon Manok ni Sr. Pedro was registered as a single proprietorship enterprise.

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To achieve a bigger market and to be more centrally located, the family moved its business center to Cagayan de Oro City. They opened the first “lechonan” or roast stall in a small dark corner along Velez St. and the second lechonan in front of the City Hall. Peter and Erlinda personally did the roasting. Nieto continued with the stall in Malaybalay, Bukidnon and just sent his marinade mixes to Cagayan de Oro. In these first ventures, they also sold deep fried chicken under the name “Fido Prito”. Later, they got a small loan from the First Integrated Community Cooperative (FICCO). They were immediately able to pay back the loan. As they expanded, they no longer availed of loans. They also concentrated on lechon manok and along the way, dropped Fido Prito.

In 2005, Anak Ciano, Inc. (ACI) was incorporated with the Securities and Exchange Commission. This time, the business was selling three million birds a year. It had built a dressing plant and acquired two iceplants and a blast-freezing facility. In 2008, the company was selling 11 million birds, 10 million lechon manok and one million dressed chicken under the label of “Manok Pinoy”. By 2010, ACI had a sales record of 16 million birds and more than 300 lechon manok outlets. The “Manok Pinoy” share of birds had also risen to 30 percent.

ACI blossomed into a multi-million conglomerate of businesses that included ice plants, a dressing plant, a processing plant, poultry farms, a feedmill and an oil mill. (Please see Annex 1 – ACI’s organisational structure.)

### **ACI Product-Market Fit**

Roasted chicken was a favourite food among the urban population that thrived on fast foods and ready-to-eat meals. It was tasty, easily eaten, did not spoil quickly and was affordable. Lechon manok stalls were strategically located in small urban community centres near the market, churches, schools, supermarkets or bus and jeepney terminals. Workers from offices and factories bought lechon manok on their way home either for special occasions or for fast family meals. Groups also purchased roast chicken for parties or quick gastronomic fixes.

The management of ACI noted that a majority of consumers in the Philippines could only afford 1 kg worth of roasted chicken. Fast food chains served fried chicken per cut, and anything bigger than 1 kg of roasted whole chicken was no longer saleable. (FGD with ACI Management, 2011).

Because of the stiff competition in urban centres where there were at least four brands of roasted chicken competing in a given location, the competitive edge hinged on the quality of the chicken, its taste and price. To accommodate surplus production of chicken broilers, ACI came up with “Manok Pinoy” dressed chicken. Off-size chickens were more easily sold under “Manok Pinoy”. Some of the bigger-sized chickens were brought to Metro Manila, also sold under “Manok Pinoy”. For the undersized chicken, ACI revived “Fido Prito” and sold deep fried chicken cut-ups.

The by-products of small intestines, large intestines, chicken feet, chicken head, proventriculus and neck were sold to distributors on an allocation basis. By-products served as incentives for the distributors who got dressed chickens by volume. Chicken blood was sold separately to a buyer/contractor who molded it and sold it as barbecue.

## Trademark and Product Quality

Ang Lechon Manok ni Sr. Pedro prided itself with its slogan, “once tasted, forever wanted”. The taste of the roast chicken was seen to be its most competitive factor. The ingredients and mix of the marinade remained to be a culinary masterpiece and trade secret. Despite the fact that thousands of roasted chickens were being produced daily, the ingredients and recipe remained a family secret. Even the processing area where the chickens were cured with the marinade remained off limits to unauthorised persons, including visitors.

All “Ang Lechon Manok ni Sr. Pedro” outlets had the same look, signboard and uniforms. The chicken all weighed between 0.8 kg to 1 kg.

## Competitive Pricing and Positioning

ACI ensured its supply chain and had its own broiler production and processing and this allowed it to easily compete in terms of the pricing of its lechon manok. It remained to be one of the more affordable but high quality lechon manoks in the market. It was usually priced ₱10–20 cheaper than other brands. While ACI could further decrease its prices, it did not do so. In reality, the other roast chicken brands requested ACI to maintain its current price levels.

Being in Cagayan de Oro City, a melting pot of Christians, Muslims and Lumads in Mindanao, made ACI sensitive to the cultural and religious practices and differences. It taught ACI to be more inclusive of its target market. Hence, while other lechon manok brands combined the roast chicken with roast pig (lechon baboy or liempo), Ang Lechon Manok ni Sr. Pedro sold and ensured that the chicken was not contaminated with pork or pork oil. This was a marketing strategy to target the Muslim community. This seemed to work as ACI reported that among its clients was the Muslim diplomatic community.

Having captured the market in Mindanao and the Visayas, Ang Lechon Manok ni Sr. Pedro expanded to Luzon. For the Metro Manila market where there were more than 100 outlets, ACI roasted bigger-sized chicken. This was due to the higher purchasing power of the Metro Manila population compared to the provincial cities. Ang Lechon Manok ni Sr. Pedro also reached the northernmost part of Luzon with its outlet in Aparri. Family members continued to expand and make their mark. ACI envisioned overseas expansion in places with many Filipinos. It worked on obtaining a Halal accreditation so as to be able to reach the Middle East and neighboring Muslim states.

Competition and the promotion of healthy lifestyles influenced and brought changes to ACI’s marketing strategies and product lines. In addition to charcoal roasting, some outlets used electric rotisseries, in effect roast-baking the chicken. However, the marinade remained the same, as well as the price.

## Managing ACI Operations and Growth

ACI’s growth and expansion as a company came as a result of a step-by-step process of responding to the problems it faced as it went about ensuring the smooth flow of its business and the quality of its products and services. The improvement of product quality and delivery of Ang Lechon Manok ni Sr. Pedro became an evolving process of building, learning from

experience, experimenting and constantly studying the market. ACI was a story of value chain integration, especially in ensuring the volume, timeliness and quality of its supplies.

ACI responded to its production and supply problems by ensuring the supply chain through backward integration. Because the company could not get the production requirements in the right amounts and volumes at the quality standard it set for itself, and at the time needed, ACI charted its own development towards this end.

When ACI could not get the needed number of broilers to the point that its lechoneros had to line up in supermarkets, the company decided to go into poultry growing. Contract growers increased to 64. It also managed 75 poultry farms, with each farm producing between 5,000 to 80,000 heads of broiler chicken per year. These large contract growers supplied 60 percent of ACI's requirements. The remaining 40 percent were produced by the 2,743 backyard poultry growers who contributed approximately 6.4 million heads. The broiler supply exceeded the needed number for the lechon manok business so that 30 percent of broiler production went to another product line — dressed chicken under the label of “Manok Pinoy”. Expansion towards other product lines included the revival of “Fido Prito” deep fried chicken. Further product development included research on the production of chicken tocino, chicken ham and other processed chicken meat. For its Luzon expansion, ACI opened poultry farms in Pampanga and Tarlac.

To guarantee the number and quality of its broiler chicken, ACI provided both the backyard as well as the large contract growers a package of day-old chicks (DOCs), feed requirements, medicine and technology. In-house veterinarians assisted by veterinarian aides monitored the health of the chicken.

For more than five years, ACI relied on its suppliers for its DOC requisites. However, its biggest supplier reneged on its agreement with ACI and sold the allocated DOCs to a Manila client for a higher price. This left ACI in a quandary, left the poultry raisers hanging in the air, and the lechon manok business in peril. To make sure that this did not happen again, ACI started its own breeder farms.

ACI breeder farms provided for 50 percent of the DOC requirements of the poultry growers. The other 50 percent was still outsourced from other producers. From 1.4 million DOCs per month, the suppliers were forced to look for other markets for their 700,000 DOCs. Because ACI was no longer at their mercy and there was now an excess supply, the price of DOCs went down.

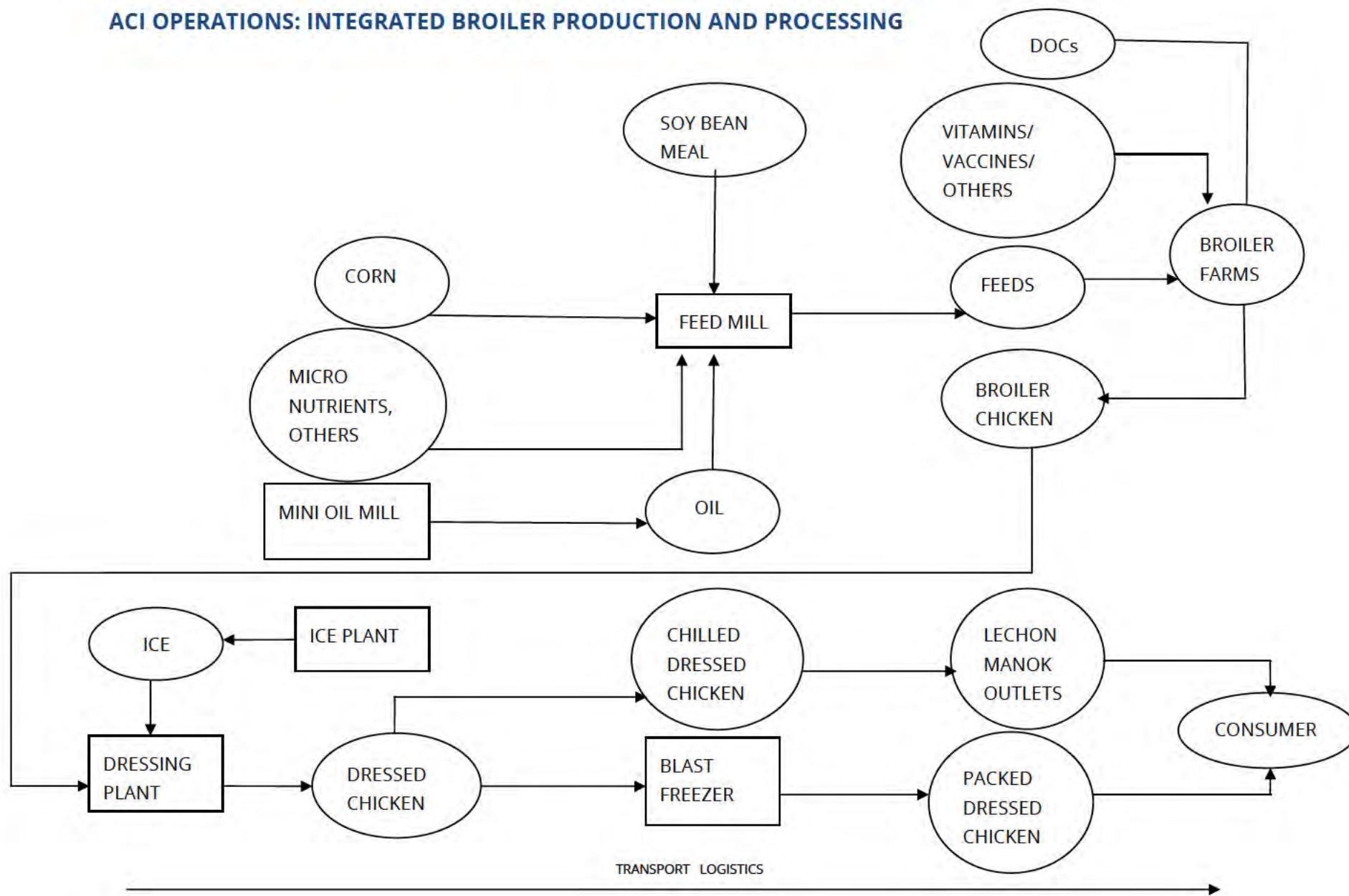
Because of the unreliable supply chain, ACI ventured into feedmill manufacturing and processed its own feeds. ACI's feedmill met 100 percent of all the feed requirements of the poultry growers. With the use of the ACI feeds, the poultry growers reported improved growth. The ACI feedmill took over the former General Milling Corporation (GMC) plant, renting the land for approximately ₱1 million per month. The feed mill produced feeds not just for poultry but also for swine and other livestock.

As oil was needed to process the feeds, ACI also established its own oil mill. Further in its backward integration was the corn and cassava contract growing. The Anak Tering Foundation, Inc. (ATFI), ACI's social responsibility arm, put up granulators and buying stations, and linked market contracts with cooperatives and other farmers' associations.

## ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”

The ACI Food Supply Chain Program outlined the ACI flowchart below. It presented the operations of the integrated broiler production and processing, and showed how the supply chain became integrated.

**ACI OPERATIONS: INTEGRATED BROILER PRODUCTION AND PROCESSING**



## Quality of Supply

ACI set and followed the highest quality standards for all its products throughout its supply chain. The company monitored and reviewed not just its products but also its systems and processes.

Because broiler chicken was its main requirement, ACI embarked on a quality assurance programme for all its contract growers and backyard poultry raisers. ATFI's handouts on “Poultry Management Undertaking” defined and disseminated the factors for successful poultry raising as follows:

1. An environment that was managed to provide birds with all the requirements for ventilation, air quality, temperature and space.
2. The detection, prevention and treatment of ill health.
3. The provision of nutrient requirements through the compounding of appropriate feed ingredients and the proper management of the provision of feed and water.
4. Attention to bird welfare throughout, especially prior to processing.

The different growers carried this definition to heart and performed the consequent actions to ensure the health and quality of the birds that they produced.

## Incentives for Premium Sizing and Efficiency Standards

ACI worked with both large contract growers and backyard poultry raisers. The growers built the infrastructure of the cages according to the company's standards and took care of the birds until they were harvested. Then they were paid a grower's fee for every chicken harvested plus incentives and bonuses if they were able to reach or exceed the performance parameters set. ACI provided the day-old-chicks, feeds, vitamins and medicine. Veterinarians and technicians monitored the growth and development of the chicken.

When ACI started to engage and promote backyard poultry, it faced the problem of having differing qualities of broiler chicken, particularly in size. This was not good for the lechon manok business as the purchasing power of the average Filipino was said to only be for a kilogramme of lechon manok. Bigger sizes were no longer saleable while smaller sizes did not have a good amount of meat. ACI also experienced problems when the growers sold the feed stock or chicken.

To address these problems, ACI came up with a new growership scheme and specific performance parameters. The standards set were on the Average Live Weight (ALW) of 1.35 kg, Feeds Conversion Ratio (FCR) of 1.75, and Harvest Ratio of 95 percent of the DOC placement. FCR was computed by dividing the total weight of feeds consumed with the total live weight of chicken harvested.

## ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”

As contained in ATFI’s “Backyard Poultry Raising Program – New Scheme”, the incentive and penalty scheme per grower for premium sizing of chicken were as follows:

1. Average Live Weight (ALW) within 1.25 kg to 1.40 kg, payscale plus 1 peso.
2. Feeds Conversion Ratio (FCR) 1.75 and below, free harvest trucking fee.
3. Association incentive: zero negative grow, rebate 0.10 per bird harvested.
4. For returned feeds: 1 peso additional on payscale per sack per 200 day-old chicks (DOCs).

ACI continued to monitor its negative growth records and its size variances. The volume of off-size chicken went down. Off sizes were sold as “Manok Pinoy” dressed chicken.

ANAKCIANO, INCORPORATED  
POULTRY DIVISION

Growing fee schedule  
Effective January 2009

1. Basic fee of ₱ 8.00/bird divided into:

- ✓ Harvest Recovery Fixed at 94% – ₱3.50/bird
- ✓ Feed Conversion Ratio fixed at 1.85 – ₱4.50/bird

Incentive/Penalty

- ✓ % HR = ₱0.50/bird for every 1% deviation from 94%
- ✓ FCR = ₱0.12/bird for every class A premium size (or every point of deviation from 1.85)

2. Right size incentive for every class A premium size (900 to 1100 gms)

- ✓ Dressed chicken ₱1.00/bird= if more than 70% of total harvest
- ✓ Dressed chicken ₱0.80/bird= not less than 60% of total harvest

3. Performance bonus ₱ 0.50/bird for those who achieve:

- ✓ % HR = 96%
- ✓ FCR= 1.80
- ✓ % PS = 70%

4. Programmed medicine/disinfection/vaccination incentive:

- ✓ 100% free for those who achieve HR 94%, FCR 1.85, ALW 1.30
- ✓ 50% free for those who achieve 2 of the 3 parameters
- ✓ 20% free for those who achieve 1 of the 3 parameters

5. Guaranteed fee of ₱3.00/bird for those who fell below the standard minimum computation subject to ACI evaluation

6. Growers fee shall be liquidated within 20 working days after fully submitting all necessary documents

Please be guided accordingly,

Thank you,

(Sgd) Jonathan V. Akiat

Poultry Operations Manager

## **Environmental Standards**

ACI strictly adhered to all Philippine government environmental and safety regulations. Among these were the Clean Air Act, the requirements for an Environmental Certificate of Compliance (ECC) and the requirements of the National Meat Inspection Service (NMIS). In addition, ACI prescribed clear guidelines on the maintenance of the poultry farms of both the large contract growers and the backyard poultry raisers. Daily cleaning of the farms was a must, as was the digging of the pit for the chicken dung. Waste segregation was practised. Sprays used were all bio-organic and the fly control mechanisms employed were the same as those utilised for food processing. Veterinarians regularly made their rounds assisted by veterinary aides trained in the Daciano Agricultural Training Center, Inc. (DATCI).

The processing and dressing plants employed the biological oxygen demand (BOD) measure. Generators used when there was no electricity were powered by biogas. Quality control in the outlets was ensured not only by the owners and “lechoneros” or roasters but also by the roving supervisors.

## **Transport Efficiency**

Unlike the large grower farms, harvesting the matured chicken from the backyard poultry raisers presented a logistical nightmare since each of the backyard poultries only had between 200 to 1000 heads and were more spread out. To achieve scale, ACI and ATFI clustered the backyard poultry farms and made them mostly family based. Because family members tended to live near each other, they allowed each family to have their own backyard poultry farms. This clustering made monitoring and harvesting more efficient.

Likewise, ACI and ATFI organised the backyard growers into barangay associations and municipal federations. These federations calendared the growers' activities and helped supervise the loading and harvesting. They assisted the backyard growers and served as the conduit between the individual growers and the company.

The chickens were delivered to the outlets chilled and already marinated. Since all the chickens were processed in Cagayan de Oro, they were blast frozen, shipped in refrigerated vans, then delivered to the different outlets all over the country.

## **Family “Franchising”**

The Unabia family established Anakciano, Inc. (ACI). Literally, this meant “children of Ciano”, Ciano being the father. Ciano started as an agricultural worker in Bukidnon, and later became a small farmer “who had to contend with middlemen, creditors and traders to get by with little earnings from his harvest”. Yet Ciano and his wife, Tering, managed to send all their 11 children to school. While continuing to help their parents, the siblings also supported each other and many of them obtained scholarships.

ACI continued to be owned, run and managed by the Unabia siblings. Marybel came home from Canada to be the company's president and took charge of overall operations. Eugene was the harvest manager and ensured the checking-in of the broilers. Peter's wife, Erlinda Unabia, was

the company's finance officer. A niece, Danette Unabia, daughter of Peter's deceased brother, Daciano, Jr. returned from the USA, and together with her husband, helped in the feedmill.

As a family corporation, ACI managed to run its operations efficiently. The siblings utilised a consultative form of decision-making and the lines of authority, responsibility and accountability were clarified. While the top decisions resided with the Unabia siblings, they also hired professional managers to ensure efficient and effective operations and management. This multi-million peso company kept its cash flow moving and did not depend on credit. While banks persistently offered loans, it maintained its financial integrity and refused to incur debts.

Other relatives in the business operated the lechon manok outlets or chose to become distributors of the “Manok Pinoy” dressed chicken, or engaged in the trucking business or became poultry contract growers. While the contract growing, trucking, and the distributorship of dressed chicken were open to all interested parties, ACI did not franchise out Ang Lechon Manok ni Sr. Pedro outlets to outsiders. Only family members had the exclusive right to operate these outlets although they had to prove themselves and run these as businesses. Thus, these outlets were actually managed as franchises, separate from the mother company.

To avoid conflict within the family, once a family member opened a lechon manok outlet in a particular area, no other family member was permitted to operate in the said area. However, the family member could operate as many outlets as she/he wanted in that specific locality.

The Unabia family stressed that while this scheme helped family members, it was not a dole-out. While the lechonan “franchising” was exclusive to family members, the relationship was also a business relationship. Each family member had to make each outlet earn and become profitable. For example, there was a case of a cousin who managed lechon manok stands in a big city in Mindanao but did not pay for the chicken being delivered to him. The family was forced to stop delivery and rescind the permit to use the name of “Ang Lechon Manok ni Sr. Pedro”. A few years after, another relative took over and established “Ang Lechon Manok ni Sr. Pedro” outlets in the said city.

## **Resolving Operational Issues**

Operational issues were not only affected by the organisational or even local conditions. Because of heavy dumping of imported chicken parts in the past year, there was a glut in the market of dressed chicken and many chicken farms closed down. The small poultry businesses either closed or were foreclosed while the big ones suffered heavy losses.

ACI was affected but because it had Ang Lechon Manok ni Sr. Pedro as its regular and captive market, it was able to absorb the market shock better. Other companies followed suit. For example, a company which only used to sell dressed chicken also created its own brand of roast chicken and established outlets all over the country.

Other problems surfaced and were subsequently resolved. Inclement weather conditions brought problems in the care and harvest of the birds but vaccines and regular monitoring of the health of the birds minimised the risk. ACI always looked for reliable shipping lines and inspected their refrigeration facilities because unreliable refrigerated vans caused spoilage. Shortage of supply came with the peak seasons especially during the Christmas season so as early as October, ACI prepared buffer stocks. Because this was a business of food and small items, a

problem faced was theft and non-declaration of goods. Stricter control systems and regular monitoring was the solution.

Apart from intuition and gut feel, trial and error, and monitoring and review, ACI also made use of experts and consultants to help them improve their work. Peter commissioned a social research institute to study the impacts of their community businesses while ACI hired a consultant so that its biogas could be further utilised for the generation of power especially in the face of frequent power outages.

## **ATFI: Pursuing Social Objectives**

As the company grew, the opportunities to assist more families and communities also increased. After doing philanthropic work, backyard poultry raising, institutionalising a feeding programme and embarking on Christmas gift-giving, the Anak Tering Foundation (ATFI) was born in December 29, 2005 as the corporate social responsibility arm of ACI. While ACI ensured that its chicken products satisfied the demands of the customers, ATFI made sure that the suppliers also benefited from company operations and enjoyed a better quality of life.

Anak Tering Foundation completed the family equation. Ciano was the patriarch while Tering was the matriarch. Tering was remembered by the Unabia brood for her charitable work. She went abroad and instead of spending her money on herself, she built churches and day-care centres.

ATFI believed in the biblical passage of “what we do to the least of our brethren, we do unto Him” as well as the Chinese proverb of “Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime.” (ATFI Strategic Plan, 2010).

As ACI’s social responsibility organisation, ATFI had three elements: adherence to ACI’s production standards; the development of sustainable livelihood programmes; and advocacy and pursuit of the mission of Peter M. Unabia (PMU). ATFI’s mission was to “build communities of socially responsible, economically emancipated and politically aware people on the foundation of honest labour, hard work and dignity to all”. The organisation taught people how to be self-reliant and productive, and shared the knowledge and opportunities to others in need. Its goal was “to alleviate the living conditions of poor families, specifically by creating opportunities for the farmers to help stabilise the economy.” (ATFI Strategic Plan, 2010).

## **Backyard Poultry Raisers Programme**

Because the Unabia family believed in sharing benefits with the poor without dole outs, it sought for ways to bring the people and communities in as part of its business. Thus the Backyard Poultry Raising Program (BPRP) was born. The first project of ATFI was the establishment of the backyard poultry farms in the different barangays in Misamis Oriental. The number had since grown to 2,743 and provided for 20 percent of ACI’s requirements. Another 20 percent was supplied by another NGO, Balay Mindanaw Foundation, Inc. ATFI still hoped to increase the volume of production and respond to another 20 percent of ACI chicken requirements.

The BPRP became the core programme of ATFI. BPRP’s programme objective was to transform the backyard poultry growers of ATFI into the best broiler growers in the country by achieving

world-class standards. Initially, the growers were grouped into cells. However, this did not work as it was hard to establish responsibilities and accountabilities within the groups. The BPRP shifted to family and household poultry farming. The scheme allowed for a household to initially grow 200 birds. After a year this was raised to 400 birds, and so on. A backyard grower could have a maximum of 1,000 birds in their care.

Once accepted by ATFI to become a backyard poultry raiser, the farmers built the poultry house. They attended the orientation seminars and technical trainings. They followed the instructions given. ATFI through their field technicians-cum-community organisers, and area officers, provided the feeds, medicines, technology and guidance.

With a grower's fee of ₱11 per bird, and expenses of ₱14,366 per 200 birds, a backyard poultry grower with 200 birds earned about ₱2,090 per complete cycle (one month for grow-out and two months for rest and preparation). Added to these were the different incentives and bonuses for good performance. With four cycles per year, this meant an annual income of ₱8,360. The number multiplied further as the stocks increased. Average DOC load-in was 700 birds.

However, land ownership and control issues limited space requisites and stifled the capacity of the farmers to increase their stocks. For a 200 bird stock, the lot area should be at least 500 square feet. Given a square foot per bird requirement, the coop was approximately 200 square feet. Space around the cage measured at least 300 square feet.

ATFI's tasks widened not only in areas covered or in product lines. ATFI technicians cum community organisers unified the stakeholders around the programme objectives, rationale and performance targets. They spearheaded and guided the collective efforts of the beneficiaries to organise their own poultry grower associations. With the implementation of the Empowerment Program, ATFI transformed the mentality of the grower-beneficiaries to embrace and own the Backyard Poultry Raisers Program (BPRP).

The impacts of the BPRP were enormous and the backyard poultry growers were grateful. They considered themselves gainfully employed with steady incomes. Their quality of life improved as they were able to send their children through college and buy their basic necessities. If they were short of funds, stores provided credit lines such as rice loans. Their health and nutrition improved as they were able to buy milk and viands. They repaired their roofs and houses and installed electricity and water services. Once in a while, they indulged in simple luxuries of ice cream for the kids, beer and newspapers for the adults and nice slippers or sandals with manicure and pedicure for the wives. Many of them have acquired home appliances and bought motorcycles. Some invested in additional livelihood activities like operating their own tricycle.

## **Association of Backyard Poultry Raisers**

From 2006 to 2007, the backyard poultry growers were organised by barangays. For a few barangays, there was some initial resistance. However, by 2008, many of these barangay poultry grower associations federated by municipalities with membership ranging from 84 to 810 growers. ATFI focused on an empowerment programme for these associations so that they became stronger organisationally and business wise. ATFI trained these organisations to be sustainable and self-reliant.

The associations served as conduits between ATFI and the backyard poultry growers. Unlike the large poultry farms which were located in one area only, backyard poultry raisers were more dispersed so the associations also served as facilitators and to some extent as consolidators for the chicken harvest. They assisted in arranging for seminars, trainings, site inspections, building inspections, quality control, harvest and collection. These barangay associations and municipal federations often had committees on poultry building, sanitation, medicines and vaccines, feeds and harvest. Working with the technicians, they helped prepare for day-old chick distribution and brooding. They assisted in ensuring the medicine guides were followed and ensured premium sizing. They kept a calendar for the harvest and loading, ensuring accounting for quality and volume.

For this work, the organisation got ₱0.10 per bird harvested. The organisations were also provided with capital for further business ventures and services to the backyard poultry raisers such as microfinance, rice loans and emergency loans. Payment of loans of the poultry raisers were automatically deducted from their harvest pay.

There was a membership fee of ₱100. Monthly dues ranged from ₱5 to ₱20. Capital build-up was ₱50 for 200 heads harvested or for some groups, ₱1,000 paid by instalment. Other groups established a trust fund of ₱40,000 per grower.

Some associations and federations had their own feeding programme which they called “Share of Blessings”. After each harvest, the poultry growers each gave to the association one undersized chicken and one cup of rice. The association then sponsored a feeding day for the poorer families in their locality. On Christmas day, the associations distributed grocery packages worth about ₱250 for the indigent families.

## **Resolving Issues Affecting Backyard Poultry Raisers**

Working with the backyard poultry raisers had not been easy for ATFI, especially at the start. Sometimes, especially for new backyard poultry raisers, they were not able to cope with the standards set by ACI and ATFI, and instead experienced negative growth. With the poultry associations, ATFI technicians investigated the causes of the negative growth, provided technical assistance and counselling. The farmers were usually given one more chance to prove themselves. If the second cycle results were the same, then the farmers no longer qualified for the BPRP. Negative growth also happened when some farmers sold the feeds or chickens before harvest. If this was the reason for the negative growth, the farmers no longer qualified to join the BPRP.

Some farmers complained of delayed payments from ATFI for their harvests. ACI and ATFI explained that the documentary requirements had to be complied with first. As mentioned, the growth of the farmers' stocks was limited by their lack of control and ownership of land. Not much could be done about this except for the farmers to negotiate on their own with the landlords for the use of the land.

Because Peter M. Unabia joined the political fray and won as Congressional Representative of the First District of Misamis Oriental, ACI, ATFI and the organisations of the backyard poultry raisers became targets of political intrigue especially during elections. However, after the elections, the issue died down.

## Other ATFI Activities

Just recently, ATFI expanded its services to the other barangays and municipalities by conducting artificial insemination of cattle for dairy production. It improved management of its own cattle dairy genetic farm to increase milk yield and produce superior bulls for the backyard dairy farmers.

ATFI sponsored milk drinking days in the different barangays in Misamis Oriental. This was done by rotation on Saturdays. While originally targeting only malnourished children, the whole community, including adults and healthy children, lined up to drink fresh milk. In 2010,

ATFI had a total reach of 156 barangays. It distributed 44,323 bottles of milk in 330 ml bottles and 16,493 bottles of milk in one litre bottles.

As inputs to ACI's feedmill, ATFI also started a corn and cassava production project. ATFI invested ₱22,800 per hectare of corn. The farmer's counterpart was the land. Labour was paid for by the company at ₱5,000 per hectare, as well as all farm inputs, such as seeds and fertilizers.

Cassava growing served as further backward integration for the feeds. ATFI reimbursed expenses of the farmers with a guaranteed buy back. In this scheme, ATFI bought back the cassava produce at either the price during planting or the prevailing price at the time of harvest, whichever was higher. For the oil mill, when the farmers sold their copra to ACI, there were no deductions for dust and there was no minimum volume required.

ATFI also established the Daciano Agricultural Training Center (DATCI) in Sugbongcogon, Misamis. DATCI was accredited by the Technical Education and Skills Development Authority (TESDA) as a vocational training centre specialising in crop and animal sciences. DATCI students were often scholars of TESDA, ACI or ATFI. They were young women and men, at least 18 years old, high school graduates, of good moral character whose household incomes were below the poverty line, had good school performance, and passed the TESDA and DATCI entrance examinations. In the six-month course, no tuition fees were charged. Students only paid for their uniforms, identification cards and transportation to and from the school. Students knew of the school through the different barangay captains and the different farmers' organisations.

Because the school had its own farms, the students' theoretical learning was immediately complemented by actual practice. The hands-on experience also functioned as their on-the-job training. The curriculum included values formation in topics such as self discipline, honesty, obedience, service and respect for others.

DATCI trained young men and women from farmer families to be competent agriculturists and livestock growers, encouraging new farming techniques as well as entrepreneurship. Depending on their school performance, graduates were employed immediately by ACI or ATFI or absorbed by the large contract growers or other related companies. ATFI also supported business proposals from the graduates. Some DATCI graduates have started their own poultry farms, swine raising or have gone on to establish their own businesses.

ATFI also planned to set-up an Agri-Park for training and demonstration purposes.

From 2006 until 2009, ATFI was fully subsidised by ACI to the tune of ₱50 million a year. In 2010, they worked for their independence by taking on some of the business functions of the company particularly in their community businesses. At the end of the year, they became fully independent. The only project still subsidised by ACI was the milk drinking programme to which

## ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”

ACI allotted ₱5 million annually. There was no business deals involved as this was just a milk distribution programme.

ATFI engaged in business but with the profits being fully channelled back to the foundation's operations and projects. ATFI bought the DOCs, feeds and medicines from ACI, distributed these to the poultry raisers, monitored their progress, and bought back the chicken. ATFI then sold the chicken back to ACI. For the swine fattening, ATFI also provided the piglets, feeds and medicines. When the average live weight of 100 kg had been reached, the pigs were bought back. The same concept was used with the goats. Because ACI had no businesses involving pigs or goats, ATFI marketed these livestock separately and independently.

ATFI's Finance Report presented to its Board of Directors on December 13, 2010 painted the following picture of the Backyard Poultry Production:

Live Chicken Sales	294, 073, 103.23
Less: Payment to ACI	236, 763, 762.45
Growers Fee	39, 709, 601.48
Funds Available	17, 599, 739.30
ATFI Expenses	17, 266, 394.41
Fund Balance	333, 344.89

## Impacts on the Barangays and Communities

With these efforts of ACI and ATFI at rural development, positive community effects abounded. There were less idle and unemployed persons in the barangays who just sat and drank alcohol the whole day and night. Drinking happened only after harvest. Gambling also decreased. Some communities even experienced shortage of labour in the area. Out-migration went down. City folk found it difficult to look for house help in areas where the poultry farms were located.

Economic activities also multiplied as the barangay folk became more mobile and went to town more often. In addition to busier traffic with more tricycles going in and out of the barangays, a motorcycle shop also opened in the town centre.

The barangay officials were happy because of the income generated from the residence tax and barangay permits paid by the poultry raisers. The barangay also charged barangay tax per load in addition to the truck toll fees. Municipal tax from each grower amounted to ₱325 per year.

## ACI and ATFI: Running a Business Differently

The Unabia family lived by the philosophy of work and service taught by their parents, Ciano and Tering, “If you want to get rich, don't forget your origins and don't forget to help people.” (Unabia, P, 2011) This dictum had been taken to heart by the whole organisation. Both the large contract growers and backyard poultry raisers gave to their poor neighbors after every harvest. Everyone involved included those who were part of ACI, ATFI, the large contract growers and the farmers

## ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”

likewise underwent trainings on values formation, spiritual enrichment, seminars on good manufacturing practices and quality control.

As ACI and ATFI did business and expanded operations, they brought in more people to partake not only of the blessings, but also the responsibilities of running the business. In the process, the farmers and communities grew and became more productive. As ACI ensured its supply, it opened opportunities to other players and provided livelihood for more people. Even if ACI could afford to buy state-of-the-art machines and fully automate its processing plants, it did not do so. The reason was because this move would cause hundreds of workers to go jobless. The dressing and processing plants employed 230 persons. With automation, this number would be reduced to six. One of the criteria used in putting up Ang Lechon Manok ni Sr. Pedro outlets was location: no outlet was to be located where there were already other small local lechon manok stalls. The family did not like that these small players would be eaten up or put out of business.

With ACI and ATFI, the Unabia family had institutionalised its commitment of pursuing a profitable business with clear social objectives: ACI would continue to provide quality roast chicken at affordable prices, while ensuring supply and reducing risks. ATFI would continue to transform and improve the quality of life of the backyard poultry raisers assuring them of a market, income, access to services and options for a better life.

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Pacana, Clint Django. (2011). Interview with Lourdes Padilla. January 10. Cagayan de Oro City. Clint “Django” Pacana is the former executive director of Anak Tering Foundation, Inc. and current Chief of Staff of Congressional Representative Peter M. Unabia.

Padilla, Darlene U. (2011). Interview with Lourdes Padilla. January 11. Cagayan de Oro City. Darlene U. Padilla is the operator of the “Lechon Manok ni Sr. Pedro” in Cagayan de Oro City. She is a niece of both Peter and Marybel Unabia, the daughter of their brother who died.

Unabia, Marybel M. (2011). Interview with Lourdes Padilla. January 11. Cagayan de Oro City. Marybel M. Unabia is the president of the Anakciano, Inc.

Unabia, Peter M. (2011). Interview with Lourdes Padilla. January 10. Cagayan de Oro City. Peter M. Unabia is the founder and former president of the Anakciano, Inc., the “Sr. Pedro” of Lechon Manok ni Sr. Pedro. He is now the Congressional Representative, District 1, Misamis Oriental.

## ANNEX 1

Participants in Focus Group Discussions (FGD) Conducted  
Case on “Lechon Manok ni Sr. Pedro”

**Focus Group Discussion (FGD) with ACI Management Conference Hall, ACI Feed mill, Upper Tablon, Cagayan de Oro**

**January 11, 2011**

Name	Sex	Position
Unabia, Marybel	F	President
Akiat, Jonathan	M	Poultry Operations
Chaves, Franklin, Jr.	M	Marketing Manager
Chaves, Nasser	M	Corporate Secretary
Doong, Godulo B.	M	Administration
Escandor, Jay	M	Executive Director, ATFI
Padilla, Darlene U.	F	Lechon Manok ni Sr. Pedro
Platon, Julius Ceasar	M	Oil Mill
Unabia, Danette	F	ACI Feeds Marketing Distributor
Unabia, Eugene	M	Harvest Manager
Unabia, Lucille P.	F	Manok Pinoy Distributor, Contract Grower

**Focus Group Discussion (FGD) with ATFI Partners-Backyard Poultry and Swine Growers  
Barangay Benzir, Balingasag, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Angeles, Luz	F	Backyard Grower
Embate, Crisima	F	Backyard Grower
Lomacad, Marissa	F	Backyard Grower
Lomacad, Ranel	M	Backyard Grower
Taytay, Jacinta	F	Backyard Grower

**ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”**

Name	Sex	Position
Taytay, Mercol	M	Backyard Grower
Taytay, Pablo	M	Backyard Grower
Taytay, Raul	M	Backyard Grower

**Focus Group Discussion (FGD) with ATFI Partners-Backyard Cattle Raisers Barangay Manaol, Lagonglong, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Asis, Juanita G.	F	Backyard Grower
Lamiton, Lorenzo	M	Barangay Kagawad
Pamisa, Amor L.	F	Backyard Grower
Redondo, Jerry C.	M	Backyard Grower

**Focus Group Discussion (FGD) with ATFI Partners-Backyard Poultry Raisers Barangay Kabulawan, Lagonglong, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Abesamis, Anafe	F	Backyard Poultry Raiser
Mejorada, Valentino	M	Backyard Poultry Raiser
Salvaña, Wilbert A. Salvaña	M	BPRP Technician
Tagarde, Nancy	F	Backyard Poultry Raiser
Ubalde, Lourdes	F	Backyard Poultry Raiser

**Focus Group Discussion (FGD) with Members of Kalihukang Panlantaw sa Maayong Ugma (KPMU)**

**ATFI Office, Barangay Inobulan, Salay, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Dagondon, Mayette	F	Member
Magdua, Malyn	F	Member

**ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”**

**Focus Group Discussion (FGD) with ATFI Partners-BPRP Barangay Associations and Municipal Federations**

**ATFI Office, Barangay Inobulan, Salay, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Abalos, Delma S.	F	Pres-Kinogitan Federation
Ayahay, Ronie B.	M	Pres-Balingoan Federation
Cabacang, Fe “Ching” S.	F	Pres-Talisayan Federation
Quibolo, Mercedita	F	Sec-Medina Federation
Tumbago, Elvera D.	F	Pres-Salay Federation

**Focus Group Discussion (FGD) with ATFI Staff ATFI Office, Barangay Inobulan, Salay, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Agbu, Mary Ann	F	Administrative Assistant
Albarece, Jesse	M	Finance
Calustre, Janice	F	Finance
Escandor, Jay	M	Executive Director
Mendoza, Jacinta	F	Cashier
Pahuyo, Pierre	M	Logistics
Santua, Libby	M	Education, Training, Advocacy

**Focus Group Discussion (FGD) with Students of the Daciano Agricultural Training Center (DATCI)**

**DATCI, Sugbongcogon, Misamis Oriental**

**January 12, 2011**

Name	Sex	Position
Bagatcholon, Denmark	M	Student
Catacutan, Jirey M.	M	Student
Gonzales, April Lyn J.	F	Student
Labanes, Coney V.	F	Student

ROOST TO ROAST: THE JOURNEY OF “ANG LECHON MANOK NI SR. PEDRO”

Name	Sex	Position
Pestillos, Miljorie P.	F	Student
Salo, Arnida A.	F	Student

## CHAPTER 10

### RAGS TO RICHES: AN ECO-ETHICAL LIFESTYLE

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In mid-January 2011, Reese Fernandez, president of Rags to Riches, was mulling over the developments of the past year, which seemed like a roller-coaster ride for the Rags2Riches team. Reese recalled that less than two years ago, she, together with some colleagues, were still figuring out how to help the women in Payatas earn more and live more dignified lives. Now, the women were certainly earning more than they used to and were no longer at the mercy of traders.

The launch of the second series of RIIR designer bags by Amina Aranaz-Alunan was very successful. Before the end of the show, the team was swamped with orders. There was still a lot of demand for the first series of RIIR collection by renowned designer Rajo Laurel. While Reese was happy about that, what she was happier about was the impact this strategy had on the mothers.

*"[The designers brought] a lot of value to our products. At the same time, they gave our mothers a sense of empowerment, a sense of pride of having been able to work with them."<sup>1</sup>*

Reese and the Rags2Riches team wanted to build Rags2Riches as a brand featuring renowned designers. Moreover, expanding globally was something the management team had been considering seriously since January 2009 when Rags2Riches won the Business in Development Global Competition and when opportunities in the European market opened up.

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<sup>1</sup> Fernandez, Reese (2011). Interview with Meldy Pelejo, January 17. Cubao, Quezon City. Fernandez is the president of Rags2Riches Inc.

*This case was written by Meldy A. Pelejo under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

Several questions remained, though: How should Rags2Riches be known as an eco-ethical lifestyle brand? Would its women artisans and partner communities be able to face up to the global demand? How would Rags2Riches ensure that the enterprise and their primary stakeholders were ready to face the challenges ahead and remain sustainable?

### Brief History & Context

The roots of Rags2Riches could be traced to the apostolate of the Jesuits in Payatas, one of the biggest dumpsites in the Philippines. Bro. Xavier Alpasa, or Bro. Javi as he was fondly called, was then the director of the *Simbahang Lingkod ng Bayan* (SLB), a non-profit church-based organisation, which the Jesuit brothers started in 1986.

The Jesuit Brothers' regular apostolate in Payatas included celebrating Holy Mass at the Immaculate Conception Chapel in Payatas, organising the choir, giving communion to the sick and the elderly, blessing homes, teaching values formation to the people and supporting the different church ministries in the community. In addition, SLB was also helping the women in that area, who wanted to augment their family income by making rugs out of the scraps of cloths they picked out from the dumpsite.

### The Community of Payatas

Payatas is a 3,109-hectare barangay in Quezon City, which includes the La Mesa Reservoir, Metro Manila's water source. It is divided into two parts: Payatas A and B.<sup>2</sup> The country's largest sanitary landfill, occupying about 20 hectares of land,<sup>3</sup> is located in Payatas B. This open dumpsite had been operating since 1973. At the end of the 1990s, about 1,200 tons of garbage were delivered daily to the dumpsite where some 6,000 scavengers made their living picking out waste for selling to recyclers. By the year 2000, an average of 20 trucks delivered about 3,000 tons of trash daily at the dumpsite.<sup>4</sup>

According to an Asian Development Bank document, most of those who lived in Payatas came from calamity stricken areas or conflict zones in the Philippines. Many of them lost their homes and jobs as tenants, small farmers or fishermen due to typhoons, earthquakes or other natural disasters. Others left their hometown because they were victims of armed conflict between military groups and the communist New People's Army (NPA). They went to Metro Manila hoping to make a living and to find a better future for themselves and their families but ended up living with relatives or friends who were already squatting in the community.<sup>5</sup>

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<sup>2</sup> Serikat Suster Sahabat Setia Yesus, *Payatas:- Lupang Pangako...The Promised Land* Retrieved from [http://www.fcjsisters.org/aa/indo/about/history\\_payatas.html](http://www.fcjsisters.org/aa/indo/about/history_payatas.html)

<sup>3</sup> Gonzales, Eugenio. (December 2003). "From Wastes to Assets: The Scavengers of Payatas", International Conference on Natural Assets. Retrieved from [http://www.peri.umass.edu/fileadmin/pdf/conference\\_papers/CDP7.pdf](http://www.peri.umass.edu/fileadmin/pdf/conference_papers/CDP7.pdf) (2011, February)

<sup>4</sup> Eldon, Amy. *Payatas Garbage Dump*. Quezon City. Global Tribe. Retrieved from [http://www.pbs.org/kcet/globaltribe/countries/phi\\_payatas.html](http://www.pbs.org/kcet/globaltribe/countries/phi_payatas.html) (2011, February)

<sup>5</sup> Grant Assistance (finance from the Japan Fund for Poverty Reduction) to the Republic of the Philippines for Supporting the On-site Integrated Urban Upgrading for Vulnerable Slum Communities of Payatas Project, December 2000. Retrieved from <http://www.adb.org/Documents/RRPs/PHI/rrp-R34800.pdf>. (2011, February)

As of 2007, the population of Payatas was estimated at more than 200,000 people, of which 160,000 or 80 percent were informal settlers who worked as scavengers, hawkers, vendors and labourers.<sup>6</sup> Approximately 10,000 people depended completely on scavenging for their daily survival.<sup>7</sup> Children formed part of the family's labour force. These scavengers provided the supply of cheap recyclable materials such as paper, glass, plastic, metals, and others, which made the recycling business thrive.<sup>8</sup>

The Payatas dumpsite caught the public's attention when about 200 people died after a 50-feet mountain of garbage collapsed over the waste pickers' houses after strong rains on July 10, 2000. Other sources estimated that the figure reached 500 or even a thousand fatalities. The government closed the dumpsite but reopened it after a few months upon the request of the scavengers themselves. The collapsed section of the garbage dump, however, remained permanently closed. Various non-government organisations and government as well as international agencies were keen to provide different kinds of assistance to the Payatas scavengers.<sup>9</sup>

The assistance ranged from ecological initiatives to the establishment of daycare centres and schools for the children, to the development of health modules for the Payatas community as well as the establishment of a learning resource centre as a site for vocational training programmes for women and for income generation.<sup>10</sup>

### **The Rug-making Industry**

None of the women in Payatas recalled who thought of weaving the scraps of cloths from the factories that were thrown in the dumpsite into multi-coloured doormats that would adorn the thresholds of a lot of Filipino homes. But it had grown into an informal industry. Women in the community realised that weaving foot rugs and rags was a way of making extra money in between nursing or putting the baby to sleep, bringing the older children to school and other household chores such as cooking, mopping the floors, washing the family's clothes and ironing.<sup>11</sup>

It was not too long before unfair trade crept into this budding cottage industry. The middlemen decided to get the scraps of cloth directly from the textile plants. Without market access and information the women depended greatly on the middlemen. In the end, the women had no

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<sup>6</sup> Asian Institute of Journalism and Communication. "Healing Payatas" Retrieved from <http://www.aijc.com.ph/payatas-eKPD.pdf> (2011, February).

<sup>7</sup> Ibid.

<sup>8</sup> Asian Development Bank. (2000, December). Grant Assistance (finance from the Japan Fund for Poverty Reduction) to the Republic of the Philippines for Supporting the on-site Integrated Urban Upgrading for Vulnerable Slum Communities of Payatas Project. Retrieved from <http://www.adb.org/Documents/RRPs/PHI/rrp-R34800.pdf>. (2011, February).

<sup>9</sup> Gonzales, Eugenio. (2003, December). "From Wastes to Assets: The Scavengers of Payatas", International Conference on Natural Assets. Retrieved from [http://www.peri.umass.edu/fileadmin/pdf/conference\\_papers/CDP7.pdf](http://www.peri.umass.edu/fileadmin/pdf/conference_papers/CDP7.pdf) (2011, February).

<sup>10</sup> Asian Institute of Journalism and Communication. "Healing Payatas" Retrieved from <http://www.aijc.com.ph/payatas-eKPD.pdf>. (2011, February).

<sup>11</sup> Estopace, Eden. (2008, December 18). "Payatas Women: The Rugs they Weave", Retrieved from <http://www.newsflash.org/2004/02/tl/tl013267.htm>. (2011, February).

other recourse but to buy the scraps of cloth from a series of middlemen since they could not source any more raw materials from the dumpsite.<sup>12</sup>

According to Cynthia Cabrera, a long-time rug-weaver from Payatas who eventually joined Rags to Riches, making rugs from scraps of cloth was hard work. To make a rug, one first needed to buy bolts of scraps from the clothing factories. Second, the scraps of cloth had to be cut into identical sizes and then tied together to form a thick thread. Lastly, the thread was then looped around a wooden frame with nails or tacks around to create a pattern.

Weaving the rugs was one thing but selling them was another matter. The women of Payatas would either sell them around the neighborhood or in the market to another vendor. The women usually earned only around ₱1 (US\$0.02) per rug. They could even lose money if they failed to sell the finished rugs at a price higher than the cost of the scraps of cloth the rugs were made of.<sup>13</sup>

Cynthia recalled the situation at the time:

*Even before I became part of Rags to Riches, I was already making rugs although this was on and off due to the fact that we did not have access to the market. I always prayed: 'God, please give me a market, one who would not take advantage of us.' At that time, some middlemen would get the rugs from us. At times, they did not pay us.<sup>14</sup>*

The foot rugs were also sold on the sidewalks near the churches or public markets for Php10 to Php15 each. Ambulant vendors also sold them for as low as ₱1 profit per piece.<sup>15</sup>

## R2R: The Beginnings

1st Semester 2007. Moved by the desire to help the Payatas women, Bro. Javi approached his friends at Life's Directions, a community of single young professionals. A group of young workers from the organisation (including Angeline Benavides-Bulan and Memey Mendoza) went to Payatas with Bro. Javi to discuss the problem of the *nanays* (mothers) and to draw up initial solutions.

The group then tried to compute how much the women could earn from their work. The group learned that despite all the effort they put into the rugs, the women, who could make around 8

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<sup>12</sup> Rags to Riches company profile. Retrieved from <http://rags2riches.ph/v2/?s=ourhistory>

<sup>13</sup> Estospace, Eden. (2008, December 18). "Payatas Women: The Rugs they Weave", Retrieved from <http://www.newsflash.org/2004/02/tl/tl013267.htm>. (2011, February).

<sup>14</sup> Fernandez, Reese. (2009, September 14). Rags to Riches [Video]. Retrieved from <http://www.youtube.com/watch?v=3b-eozVqIJU&NR=1>

<sup>15</sup> Estospace, Eden. (2008, December 18). "Payatas Women: The Rugs they Weave", Retrieved from <http://www.newsflash.org/2004/02/tl/tl013267.htm>. (2011, February) and Rags to Riches company profile (<http://rags2riches.ph/v2/?s=ourhistory>)

to 10 pieces of rugs per day, only earned ₱1 from the rugs they sold while the traders earned as much as ₱10.<sup>16</sup>

Around the same time, another group made up of Mark Ruiz and some students from the Business Innovations Class, which included Reese Fernandez, visited the rug-weavers of Payatas. The group was able to identify the same problems and came up with a structure that would help direct the women of Payatas to the market.

Mark Ruiz, who was part of Life's Directions and who taught at the Ateneo's Business Innovations class, explained these solutions:

*Early on, we saw what we had to do. Number one, we had to work on the quality of the rags but aside from that we also knew that we had to correct what the nanays were earning from the rugs so that's essentially from the nanays getting ₱1-2 per piece to getting ₱15-20 per piece.<sup>17</sup>*

By the second semester of 2007, the volunteer young professionals (and this included Maan Lim, Timothy Agulto, Bam Aquino and Timi Gomez) supporting the growing social project had expanded. The project remained part of the CGE (Citizens by Good Example) Program led by Bro. Javi of Simbahang Lingkod ng Bayan (the socio-political arm of the Jesuits),

Some generous individuals (such as Jeremy Kho, Dr. Protacio and Rodney Laurel) provided financial assistance to the budding enterprise. The management committee of the organisation also decided to invest in their initiative. Together, they were able to pool ₱100,000 and this became the seed capital of Rags2Riches, Inc.

The Rags2Riches team organised a temporary workplace with modest furniture and equipment on the boundary of Payatas — far from the dumpsite — so that the women could work together in a safe and clean environment.<sup>18</sup>

By July 2007, the Rags2Riches team had helped the women improve the quality and style of the rugs. The team had also changed the rugs from being multi-coloured pieces to monochromatic products that appealed to the taste of the high-end market.<sup>19</sup> The group helped the women do away with the middlemen by sourcing the scraps of cloth from factories.

On July 31, 2007, during the feast day Mass of St. Ignatius, the Rags2Riches team decided to start selling the Payatas women's rugs at the Ateneo campus. Five *nanays* brought 100 monochromatic rugs, all of which were sold in less than two hours.<sup>20</sup> Their next bazaar was at the Mount Carmel Church in New Manila where Maida Pineda and two other volunteers set up a

<sup>16</sup> GoodNews Pilipinas. (2010, October 9). Homemade Rugs Changes the lives of Payatas Women. *Inquirer.net*. Retrieved from <http://newsinfo.inquirer.net/breakingnews/metro/view/20101009-296827/Homemade-rugs-changes-the-lives-of-Payatas-women>. (2011, February).

<sup>17</sup> Fernandez, Reese. (2009, September 14). Rags to Riches [Video]. Retrieved from <http://www.youtube.com/watch?v=3b-eozVqIJU&NR=1>

<sup>18</sup> Constantino, Angel. *From Rags to Riches*. Retrieved from <http://ls.ateneo.edu/module.php?LM=articles.detail&eid=1265418011905&id=1201505284217>

<sup>19</sup> Rags to Riches company profile (<http://rags2riches.ph/v2/?s=ourhistory>)

<sup>20</sup> Constantino, Angel. *From Rags to Riches*. Retrieved from <http://ls.ateneo.edu/module.php?LM=articles.detail&eid=1265418011905&id=1201505284217>

booth for the Payatas nanays. Their stock of 800 rugs was again sold out. The venture earned for the women a total of ₱24,000 (US\$590). The success of the two bazaars moved the organisers to ask the Payatas women to return to Mount Carmel and to sell in another bazaar in Magallanes.<sup>21</sup>

The remarkable response of the market to the one-coloured rugs led the group to join more bazaars and *tiangges* (flea markets). The number of women weavers from Payatas rose from three to 30.<sup>22</sup>

Media publicity through Shop Talk, a TV show at the local ANC channel brought the budding social enterprise to the limelight. Pia Hontiveros, the show's host and regular churchgoer at Mount Carmel Church, learned about the initiative and invited the group to be guests on her show. Thereafter, inquiries about the social project began to come from all over the country.<sup>23</sup>

## Product and Market Development

### From "Social" to "Sosyal" (sophisticated)

Upon seeing the big potential of the women's rug-making business to scale up and become high-end, the Rags2Riches team thought of adding more value to the foot rugs the women were making by adding a designer angle. The team wanted to involve Rajo Laurel, a famous and multi-awarded Filipino fashion designer, as a consultant of the growing enterprise. He had been in the business for more than 10 years, with countless clients from all over the country. He was the designer of choice of many brides-to-be for their wedding dresses.

Consequently, Angeline Benavides Bulan and Timothy Agulto of the R2R team contacted Rajo Laurel for a meeting. Over an informal dinner, the group who met with Rajo told him about the social project they had with the Payatas women.<sup>24</sup> They showed Rajo the rugs the women had made. Playing around with the woven pieces, Rajo saw more than just rugs. Before the dinner was over, he had designed five accessories. He borrowed the rugs and by the next day, he had created 11 product samples.

Rajo wrote about how his collaboration with Rags2Riches began:

*They asked me how I could improve the rugs that they were making. The minute I saw the rugs, images of fashionable accessories flashed in my mind, I call it my light bulb or 'aha' moment ... I started folding the bags and showing them my ideas. I took the rugs to my studio the next day and by evening I had the first prototypes. I*

<sup>21</sup> GoodNews Pilipinas. (2010, October 9). *Homemade Rugs Changes the lives of Payatas Women*. Inquirer net. Retrieved from <http://newsinfo.inquirer.net/breakingnews/metro/view/20101009-296827/Homemade-rugs-changes-the-lives-of-Payatas-women>.

<sup>22</sup> Rags to Riches company profile. Retrieved from <http://rags2riches.ph/v2/?s=ourhistory>

<sup>23</sup> GoodNews Pilipinas. (2010, October 9). *Homemade Rugs Changes the lives of Payatas Women*. Inquirer net. Retrieved from <http://newsinfo.inquirer.net/breakingnews/metro/view/20101009-296827/Homemade-rugs-changes-the-lives-of-Payatas-women>.

<sup>24</sup> Rags to Riches company profile. Retrieved from <http://rags2riches.ph/v2/?s=ourhistory>.

*Showed it to the board and then asked if I could meet with the people doing this so I can teach them.<sup>25</sup>*

Then based on the designs created by Rajo, the mothers made the bags and accessories. Rajo also decided to name a whole line of products after the people involved in Rags2Riches: the Cynthia bag (P560), the Javi eyeglass case (P135), the Mark wine holder (P420), and the Reese yoga mat bag (P480). Clutches, purses, utility kits and totes, made up the rest of the product line, which was called "RIIR" (another idea of Rajo).



RIIR's first collection designed by Rajo was launched at the Edsa Shangri-La Hotel through a fashion show on November 22, 2007. A whole new style of volunteerism came into play during that product launch. Bro. Javi's friends provided the paid-for ballroom while fashion director Robby Carmona organised the fashion show. Other friends of Rags2Riches like Meling Vergara, a hairstylist of a high-end salon, did the hair and makeup of the models during the launch for free. The services of the photographer, Jake Versoza, and the models including actress Krista Ranillo were also provided for free.<sup>26</sup> That was the beginning of the RIIR series of collection of Rags2Riches (see Annex 1 for the catalogue).

The women were surprised with how things turned out: "We did not know that there is a way to increase the value of the rugs."<sup>27</sup>

The success of the RIIR launch did more than make Rags2Riches known; it transformed the Payatas women. Before, the women were apprehensive about meeting Rajo Laurel and other people from the upper class but now according to Bro. Javi, the women could relate with anyone. Moreover, they looked forward to seeing their products in other exclusive venues and were motivated to improve the quality of the products they produced. "It's not enough to just do any kind of work; it should be the best!"<sup>28</sup> Cynthia exclaimed after the launch.

And as Rajo pointed out: "We not only require a good design but good design is actually with craftsmanship; and the quality is essential."<sup>29</sup>

Rags2Riches' products sold briskly during the Christmas season after the historic RIIR launch at the EDSA Shangri-La. In less than four months, Rags2Riches' capital grew by almost 400 percent. With the huge success of their initial venture, the Rags2Riches team decided to transform the social enterprise into a corporation.

<sup>25</sup> Laurel, Rajo. (2008, November 24). RIIR=Rags 2 Riches. [Blog Post] Retrieved from <http://blogs.stylebible.ph/rajosblog/2008/11/24/fashion-insider-rajo-laurel-74/>. (2011, February).

<sup>26</sup> Rags to Riches. Retrieved from <http://angperegrino.com/2008/01/21/ang-peregrino-recommends-1-rags-to-riches/> (2011, February)

<sup>27</sup> Ibid.

<sup>28</sup> GoodNews Pilipinas. (2010, October 9). Homemade Rugs Changes the lives of Payatas Women. *Inquirer.net*. Retrieved from <http://newsinfo.inquirer.net/breakingnews/metro/view/20101009-296827/Homemade-rugs-changes-the-lives-of-Payatas-women>. (2011, February).

<sup>29</sup> Ruiz, Mark Joaquin. (2010, March 24). Rags2Riches' Designer Line relaunched as Eco-Ethical Style! Retrieved from <http://www.youtube.com/watch?v=SFGg9FZ9ZDI&feature=related> (2011, February).

Thus, in the first quarter of 2008, Rags2Riches was established as a for-profit corporation that aimed to provide product development, marketing, sales, and community development services to the women of Payatas.<sup>30</sup>

### **Building the RIIR Brand**

After Rajo Laurel, Rags2Riches invited another top young designer to be RIIR's next featured designer. Amina Aranaz-Alunan, creative director and designer of the designer handbag store Aranaz, was behind Rags2Riches' second collection for the Designer Line (RIIR) of 2009. She was the co-founder of the School of Fashion and the Arts Manila (SOFA), where she taught and promoted fashion entrepreneurship.

Amina's partnership with Rags2Riches was no coincidence. After graduating from the Istituto Marangoni in Milan, Amina put up her own line of bags based on the social philosophy of "*de-ethnicising the ethnic*" by using indigenous and eco-friendly materials.<sup>31</sup>

Amina's signature design using mother of pearl components and handcrafted techniques with upcycled scraps of cloth for RIIR's second collection was launched on March 17, 2009 at "The Gallery of Greenbelt 5" (see Annex 2 for the launch poster/invitation).

Subsequently, Amina designed three other collections for RIIR: the Fall/Holiday Collection for 2009, the Spring/Summer Collection for 2010 (see Annex 4 launch poster/invitation) and the Fall/Holiday Collection for 2010.

Rags2Riches chose designers who shared the company's values (see Annex 5 about Rags2Riches). Potential partner designers must have shown that they cared for the environment and must have launched initiatives for the environment and the community.

Reese added:

*Rags2Riches is not just about empowering the community ... It is also about uplifting the Filipino name in the world and in order to do that, we have to create partnership with the best Filipinos. So Rajo Laurel and Amina Aranaz and our future designers share the values of Rags2Riches and are excellent enough to showcase it to the world.<sup>32</sup>*

The designers, on the other hand, collaborated with Rags2Riches because they saw their cooperation as an opportunity not only to improve lives about also to expand the perspective of the women who considered themselves most times as victims. Rajo explained:

*When I see them, I feel so enriched, I feel so alive, I feel so good because I see literally from the first time I saw them and then the way I see them now [the change] in the way they stand, in the way they smile, in the way they greet me. There's an air of confidence, there's*

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<sup>30</sup> Rags to Riches company profile.

<sup>31</sup> Natividad, Jean. What You do What You do: Amina Aranaz-Alunan. (2010, November 7). Retrieved from <http://www.spot.ph/videos/46908/why-you-do-what-you-do-amina-aranaz-alunan>

<sup>32</sup> Ruiz, Mark Joaquin. (2010, March 24). Rags2Riches' Designer Line relaunched as Eco-Ethical Style! Retrieved from <http://www.youtube.com/watch?v=SFGg9FZ9ZDI&feature=related> (2011, February).

*an air of empowerment, there's an air of belief in themselves. Perhaps, the beauty of Rags2Riches is in the name itself. From the lowly scrap materials, [the women] can now be rich in many ways.*<sup>33</sup>

Rags2Riches planned to continue the tradition of inviting renowned designers. Every year or every two years — depending on the contract with the designers — it plans to refresh RIIR designer collections while keeping the previously featured designers in their classic collection with a possibility of just updating the style and colours.

The RIIR would remain as Rags2Riches' designer line. This line would be made up of the products and designs of its featured designers such as Rajo Laurel, Amina Aranaz Alunan, as well as future designer partners like Kenneth Cobonpue.

## Featured Designers

Rags2Riches' relationship with the designers was a business partnership, the set-up of which Reese explained as follows:

*"After the successful partnership with Rajo Laurel who lent us his name and designs for free, we were inspired and encouraged by Rajo to also get more designers involved. However, this time, we want to spread the positive influence to more communities. We now offer profit sharing or royalties to our partner designers so that they can choose to put this in their favourite charity. In this way, we get to create positive impact for more people."*

Rajo considered Rags2Riches as one of his advocacies. He thought of himself as some sort of a conduit store. Consistent with his advocacy, Rajo presented a new product under RIIR: the enviro-chic bag. Designed by Rajo and crafted by the Women of Payatas, the reusable shopping bags were made of recycled canvas fabric and had colorful macramé handles and wooden insignias. The stylish totes were introduced to the public on June 3, 2009 at the Eastwood Mall. The launch included a silent auction where environmental advocates and fashionable buyers bid on three customised bags. The enviro-chic bags were priced at ₱600 (US\$15) each and the proceeds went to Rags2Riches and the Philippine National Red Cross.<sup>34</sup>

Aside from Rajo Laurel and Amina Aranaz-Alunan, Rags2Riches collaborated with many other icons in the Philippine art and fashion industries. These included Jenni Epperson, an MTV Stylist of the Year awardee; Raymond Isaac, a famous photographer; Anita Magsaysay-Ho, a multi-awarded painter; and Benedicto "Bencab" Cabrera, a multi-awarded national artist. During

<sup>33</sup> Ruiz, Mark Joaquin. (2010, March 24). Rags2Riches' Designer Line relaunched as Eco-Ethical Style! Retrieved from <http://www.youtube.com/watch?v=SFGg9FZ9ZDI&feature=related> (2011, February).

<sup>34</sup> Stylebible.ph. (2009, June 15). Rajo Laurel, & Rags 2 Riches present the enviro-chic Bag. [Video file]. Retrieved from [http://www.youtube.com/watch?v=bpMsQ\\_F7K9E](http://www.youtube.com/watch?v=bpMsQ_F7K9E). (2011, February).

Rags2Riches' first year anniversary, an auction was held that featured unique pieces such as a one-of-a-kind Bencab-Rajo Laurel bag masterpiece that sold for ₱360,000 (\$7,500).<sup>35</sup>

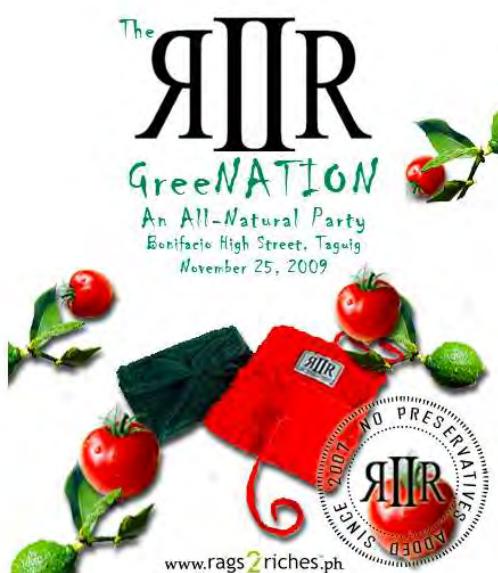
### An Eco-Ethical Lifestyle

Almost three years after they started the social enterprise, the Rags2Riches team was confronted with the dilemma of how to position the company and its products. Featuring renowned designers brought with it a lot of advantages. However, the Rags2Riches team wanted to build and strengthen the brand following a clearer roadmap, especially if Rags2Riches products and its RIIR designer line were to become global brands.



The team reflected on the company's core pillars of "community empowerment" and "fashion". They realised that they needed to project more prominently their environmental advocacy since Rags2Riches beginnings could be traced to upcycling scrap cloth. In the process, the company had contributed to converting tons of waste into high-end fashion bags and accessories.

"The convergence of these three pillars — community empowerment, fashion, and environment — formed the bedrock of a term that Rags2Riches President Reese Fernandez coined as "eco-ethical," Mark explained. "And that's what Rags2Riches will now stand for — An Eco-Ethical Lifestyle (see Annex 7 for Rags2Riches' Eco-Ethical Lifestyle manifesto).



<sup>35</sup> Laurel, Rajo. (2008, November 24). RIIR=Rags 2 Riches. [Blog Post] Retrieved from <http://blogs.stylebible.ph/rajosblog/2008/11/24/fashion-insider-rajo-laurel-74/>. (2011, February).

<sup>36</sup> Ruiz, Mark Joaquin. (2009, November 26). Rags2Riches' Celebrates the 2nd Anniversary of the RIIR Designer Line. Retrieved from <http://ruizmark.com/2009/11/26/rags2riches-riir-celebrates-it-2nd-anniversary/> (2011, February).

selecting their designer partners but also in ensuring that the company's [i.e. the distribution outlets] advocacy was consistent with theirs, which meant the company puts value or invests on People, Planet, Profit, and Positive influence.

Consequently, the Rags2Riches team also ensured that its products were 100 percent consistent with their values. All the materials were upcycled and thus, "eco-friendly". Only discarded scraps from factories were used in the products or organic materials that did not use harmful dyes or chemicals. Chemical adhesives were also prohibited in the production process.

Moreover, the products were eco-ethical, which meant they were made ethically.<sup>37</sup> The components of the products were also sourced ethically as much as possible. While it was challenging to source 100 percent upcycled or organic materials because of the limitations in supply, Rags2Riches intended to come up with innovative materials that could be developed in an eco-ethical way. To expand their sources of eco-friendly materials, Rags2Riches was going to partner with ethically run community-based enterprises where it could source more materials.

To put their new marketing advocacy into high gear, Rags2Riches launched another eco-friendly bag: the Rajo Laurel Tree Bag. The project was unique in that it served to empower four communities: the women of Abra, with the help of another Cebu-based social enterprise, Anthill Fabric Gallery, which produced the linen fabric of the bag from scrap thread from different materials (such as cotton, jeans, denims, etc.); the wood carvers of Cebu who made the wood components in the bag from scrap wood; the seamstresses in Cebu who sewed the bags; and of course, the women of Payatas who made the braid handles from the scrap cloths.<sup>38</sup> After the bags were assembled, the Rags2Riches team handled the quality control, labeling, inventory costing and packaging.

In line with the company's win-win philosophy, for every tree that was bag-sold a tree was planted in a watershed as a means to fight deforestation. San Carlos Development Board Inc., Rags2Riches' partner in the project, planted the trees.<sup>39</sup>

The Rags2Riches team made sure the new marketing advocacy was reflected in its



(Photo: Mark Ruiz. Oct. 6. 2009)

<sup>37</sup> Pardinas, Joe Mark (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 24. Pardinas is the sales and marketing manager of Rags2Riches, Inc.

<sup>38</sup> Cacha, Lyn. (2010, July 6). Rajo Laurel Tree Bags: More than just a Green Trend. *Philippine Online Chronicles*. Retrieved from <http://www.thepoc.net/thepoc-features/beauty-and-fashion/news-and-events/8276-rajo-laurel-tree-bags-more-than-just-a-green-trend.html> (2011, February).

<sup>39</sup> Laurel, Rajo. Stylebible.ph. (2010, June 25). The Treebag Bag Launch for R2R. [Blogpost] Retrieved from <http://blogs.stylebible.ph/rajosblog/2010/06/25/the-treebag-bag-launch-forr2r/> (2011, February).

merchandising for its retail store outlets. During the soft launch in 2010, RIIR products came with new taglines such as, "You are in love": R2R by Rajo Laurel.

"For every approach," Mark explained, "we make sure it's organic; it's eco- ethical; it's eco-sexy. We want clients to buy our products because they are beautiful and not because they pity the one who created them."<sup>40</sup>

## R2R's Products

The products (see photos) under the RIIR brand were aimed at the "high-end eco-conscious icons and socialites who are empowered to know the people behind their products and to choose purpose over mere purchase". This was clearly reflected in R2R's move to partner with well-known fashion designers.

## Packaging and Pricing

Reese described their strategy in marketing the RIIR product line as follows:

*The designer's name is the selling point in itself, coupled with the story of the nanays, coupled with the good quality products. That really helps because sometimes we don't even need to spend that much. We don't spend on advertising. That's important. As much as possible, our events are all sponsored.*

Meanwhile, pricing R2R's products followed a distinctive process. It usually involved various consultations with the "nanays" at the product development phase, with the board of directors, and with consultants. At the beginning, the R2R team asked the *nanays* to conduct a time and motion study to determine how long it took them on average to make a specific product, and how many of each type of product per day. Based on this study, the price of the product was set taking into account the labour cost on a per day basis, and the standard on profit margins.<sup>41</sup>

Moreover, each of the products that were sold had a tag, which explained the story of Rags2Riches, how it started and who it was supporting. And, at the back of the tag, the name of the woman who created the product was written. By including the name of the nanay, the buyer gets to know that s/he had a direct connection with this woman in Payatas, from a different side of the world. Reese explained, "We don't want



<sup>40</sup> Pardinas, Joe Mark (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Pardinas is the sales and marketing manager of Rags2Riches, Inc.

<sup>41</sup> Abrera, Miguel (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Abrera is the community relations officer of Rags2Riches, Inc. and Fernandez, Reese (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Fernandez is the president of Rags2Riches, Inc.

the communities to be faceless behind the brands and for us we call the women artisans because they are co-creators of the product.”<sup>42</sup> (see Annex 6 for other sample tags).

## Placement/Distribution

As of December 2010, Rags2Riches products could be seen at the Edsa Shangri-La, Intercontinental Manila Hotel, the House of Laurel, the Aranaz Store in Rockwell as well as at Greenbelt 5, at the Cultural Center of the Philippines, and at Rustans and Shopwise supermarkets. All these stores were located in prime locations and sold products aimed at the A-list clients.

“That’s how we protect our designers and our brands and the premium that we need to have. We really choose the good outlets, and if possible, they are all five-star,” Joe Mark Pardinas, sales and marketing manager of Rags2Riches, explained. A part of Joe Mark’s job was to look at the prospective stores, to check their merchandising, and to ensure that Rags2Riches’ products would be well placed inside the stores so that buyers would notice the products.<sup>43</sup>

Rags2Riches still participated in bazaars but the same criterion was applied. When it came to the location of the bazaars, for instance, the organisation was very selective: R2R’s products were sold only in the places where the target clients would go. “We go to Rockwell Tent, NBC, [Bonifacio] High Street,” Joe Mark added. Since Rags2Riches products were labour intensive and almost 100 percent handmade, the team had to find creative ways of managing the demand.

## Expanding R2R’s Positive Influence

Rags2Riches counted on a number of partners in moving the enterprise, the *nanays* and their advocacies forward. These included institutional partners, event partners and individuals. Since 2011, Rags2Riches’ counted on more than 500 local and international individuals and institutional partners. Among them were the Philippine Business for Social Progress (PBSP), Smart Talk N’ Text, Cream Silk, Sarabia Optical, Megaworld, the Power Plant Mall, Business World, Bonifacio Development Corp., Ayala Foundation, Ayala Land, and the School of Fashion and the Arts. The nature of the partnership varied depending on the expertise of the institution or individual.

CreamSilk, for instance, had been a partner of Rags2Riches since the enterprise launched its first collection. Through its Women Empowerment Program, CreamSilk funded Rags2Riches’ Eco-Ethical production site called the CreamSilk Women Empowerment Center. The production site gave Rags2Riches a place for sewing machines, equipment, and training materials, and a larger working area for Rags2Riches’ communities or weavers.<sup>44</sup>

Meanwhile, PBSP, a non-profit consortium of corporations that led the advocacy on and the practice of corporate social responsibility (CSR) and corporate citizenship, gave grants to businesses and social enterprises like Rags2Riches, Inc. The amount of the grant given was

<sup>42</sup> Ruiz, Mark Joaquin. (2010, March 24). Rags2Riches' Designer Line relaunched as Eco-Ethical Style! Retrieved from <http://www.youtube.com/watch?v=SFGg9FZ9ZDI&feature=related> (2011, February).

<sup>43</sup> Pardinas, Joe Mark. (2011). Interview with Meldy Pelejo. Cubao, Quezon City. January 24. Pardinas is the sales and marketing manager of Rags2Riches, Inc.

<sup>44</sup> RIIR. Retrieved from <http://rags2riches.ph/v2/?s=institutionalpartners>. (2011, February).

usually based on the immediate business need of the receiving organisation. Towards the end of 2010, Rags2Riches received training on cooperative development given by a PBSP consultant through a grant from Smart's Talk n' Text Tipid Sulit Campaign.

The partnership with Smart Communications began when the telecommunications company was looking for an advocacy for its new positioning, "Gumagaan ang life" (life is getting better). Talk n' Text's chosen advocacy was livelihood for the community based enterprises and this gave birth to the Tipid-Sulit Pinas campaign in 2009. Talk n' Text chose three communities that embodied the values of hard work, ingenuity and perseverance. These were Rags2Riches, Hapinoy, and the Banglos Sculptors of Gen. Nakar.



Another partnership between Rags2Riches and Smart was forged in 2010 when Smart decided to have more meaningful corporate giveaways during the Christmas season. Rags2Riches presented potential giveaways to the company and went through the bidding process like others vying for Smart's business. Rags2Riches won the bid and all Smart's partners from institutions to businessmen, distributors, storeowners and suppliers received an R2R product.<sup>45</sup>

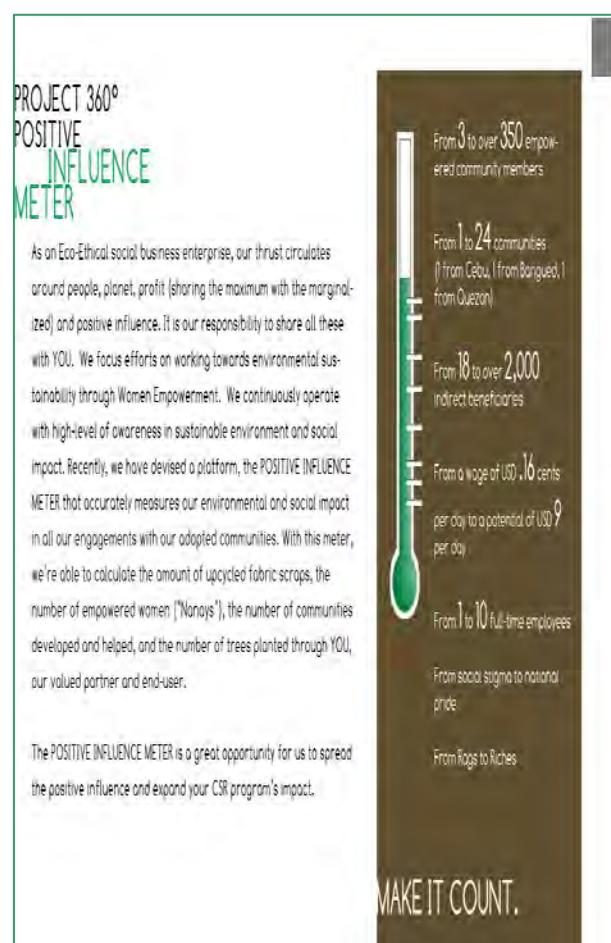
In recognition of its institutional partners' contribution, Rags2Riches would include a small logo of the institution on the product tag (see sample tag above).

<sup>45</sup> Mendoza, Melizza May Mendoza (2011). Interview with Meldy Pelejo. Cubao, Quezon City. February 9. Mendoza is a board member of Rags2Riches and is the mentor for sales and marketing.

Around the same time that it launched its Eco-Ethical tagline, the company also launched its Positive Influence Meter campaign.

The **Positive Influence Meter** was a platform that its partners could use to show their social and environmental impact. For example, if a corporation ordered 1,000 pieces of products, Rags2Riches could give the company an estimate of how much scrap materials were recycled, how many women were empowered and how many communities were supported because of that order. All this information became part of the product tag (*see Positive Influence Meter*)

For institutional partners like Smart with bulk orders, Rags2Riches created a special tag recognising the company's environmental contribution (*see sample tag on the left*).



## Primary Stakeholders and Operations

From the early stages of the social enterprise, the volunteers were clear on what they wanted to do to help the *nanays*: Create a social enterprise that would let these mothers of Payatas become more profitable.

Paolo Benigno Aquino Jr., board member and Rags2Riches mentor for community relations, elaborated:

*The goal was really to help these nanays with their business, be able to upgrade it, impart some knowledge on how best to run it, be able to share a little bit of design, be able to share some innovation. [In sum,] help them with their business.<sup>46</sup>*

<sup>46</sup> Fernandez, Reese. (2009, September 14). Rags to Riches [Video]. Retrieved from <http://www.youtube.com/watch?v=3b-eozVqIJU&NR=1>

As an informal business, Rags2Riches operated through a group of professionals who contributed their expertise for free. The team of volunteers was composed of accountants, professional counselors, events organisers, designers and finance executives. Each one played a key role in making the experiment of setting up the social enterprise work.<sup>47</sup>

As a formal corporation, Rags2Riches had to shift from running the operations of the enterprise relying mainly on volunteers to hiring competent employees. As of 2010, Rags2Riches had a complement of eight full-time staff consisting of Reese, who was appointed to run the entire operation, an office manager, a chief financial officer, a sales and marketing manager, a logistics officer, a director for production and product development, a community relations officer, and a community enterprise activation officer (see Annex 9 for Rags2Riches management & board members).

The name Rags2Riches was adopted as the corporate name and remained the brand name for the foot rugs. Meanwhile, "RIIR" became the brand name for the designer line of bags and other items.

Rags2Riches' rise to fame and fortune, literally, was not a product of chance. Mark Ruiz, vice-chairman of the Rags2Riches board of directors, summed up the secret of the R2R's success:<sup>48</sup>

*In every step of the way, the secret formula of Rags2Riches has always been working and moving alongside the community and the nanays. Whether it is in working out production systems and quotas, spewing out these high-fashion events, even quality control, the centrepiece of R2R continues to revolve around our community-empowering roots.*

Clearly, the driving force of Rags2Riches achievement had been the *nanays*. To be a weaver of Rags2Riches entailed taking on certain responsibilities such as attending trainings and seminars on quality control, values and religious formation, leadership, handling finances and running a cooperative venture. This approach, according to Brother Javi, had its foundation in the company's values: the four Ps, that is, people, planet, profit and positive influence. The women were given holistic formation in order that their work may positively influence other people, their community and the world.<sup>49</sup>

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<sup>47</sup> Eden Estopace, "Payatas Women: The Rugs they Weave", December 18, 2008  
<http://www.newsflash.org/2004/02/tl/tl013267.htm>

<sup>48</sup> Ruiz, Mark Joaquin. (2009, November 26). Rags2Riches Celebrates the 2nd Anniversary of the RIIR Designer Line. Retrieved from <http://ruizmark.com/2009/11/26/rags2riches-riir-celebrates-it-2nd-anniversary/> (2011, February).

<sup>49</sup> Ruiz, Mark Joaquin. (2009, November 26). Rags2Riches Celebrates the 2nd Anniversary of the RIIR Designer Line. Retrieved from <http://ruizmark.com/2009/11/26/rags2riches-riir-celebrates-it-2nd-anniversary/> (2011, February).

## Production System



For production, the company followed a system of commitment. Production targets were set based on the *nanays'* commitments at the beginning of each month. One mother committed two hours a day while another committed four hours. This commitment depended on their responsibilities at home. At the end of the day the women reported their outputs to the members of the management committee. At the beginning of the month,

they met and discussed their commitment levels and signed up depending on their availability.

There were three levels of weavers Rags2Riches depending on the women's skills. The first level was rug-maker followed by rug and bag maker while the third and highest level was rugs, bags, and higher-end bags maker and product development.

The three categories based on the women's available time to weave were as follows:

- 1<sup>st</sup> category – those who can devote two hours of making rugs and bags a day
- 2<sup>nd</sup> category – those who can devote four hours of making rugs and bags a day
- 3<sup>rd</sup> category – those who can devote six hours of making rugs and bags a day

The women could transfer at anytime to another category if they had the time and if they wanted to.<sup>50</sup>

Before the company came in, the women wove the rugs any way they wanted. With certain standards in place, the weavers had to follow a system for quality control. New weavers had to apprentice with seasoned rug makers so they could learn the techniques of weaving correctly.

"We reject pieces that do not conform to standards," Cynthia says. "It is more difficult to weave this kind of rug and the finished product can be rejected if it does not pass quality control."<sup>51</sup>

## Production Process

In most manufacturing companies, the production process starts with the idea or design for the target market. In Rags2Riches, the process started from the finished product. According to Nelson Baclayao, Rags2Riches director for production and community relations, the women weavers needed to see a sample of the product that they would weave so they could copy or imitate the product. When training the *nanays*, he showed the finished product and helped the women to identify the defects of the product and the reasons why a product did not pass quality standards (for example, the sides of a bag were not even, or it had stains, and so on).

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<sup>50</sup> Fernandez, Reese (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Fernandez is the president of Rags2Riches, Inc.

<sup>51</sup> Fernandez, Reese (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Fernandez is the president of Rags2Riches, Inc.

The women also had to be taught quality control, basic sewing, pattern making and basic design. "While the women were skilled, these skills and their finished products needed polishing. Some of the items were not aligned when you fold them or the zippers of the bags were not sewn firmly. Those are basic standards in quality control," Nelson explained.<sup>52</sup>

### Compensation and Rewards

Helping the Payatas women become more profitable was Rags2Riches' main goal. With this end in mind, the labour cost of women who wove rugs ranged from 30–50 percent of the retail price depending on the members' skills and willingness to produce the rugs. Bag weavers earned about 20–50 percent of the retail price, depending on the skills needed to create the bag.<sup>53</sup> Early on, the company employed an incentive system where the harder the *nanays* worked, i.e. the more products they made, the more they earned. The basis for the labour costing was the time and motion study done at the beginning of product development. This did not yet take into account the increased pace of the women after some time. Rags2Riches did not lower the time and motion basis of the women's labour cost.

Aside from making sure that the *nanays* received more, Rags2Riches also provided training and education to the community. This extracurricular learning programme was called Rags2Riches Activation for Community Enterprises (RACE). It gave the members "an edge in their lives and careers whether they decide to stay in Rags2Riches or move on to another endeavour."<sup>54</sup>

### The Cooperative

Empowering the communities by allowing them to own the production side of the business was Rags2Riches' long-term goal. To this end, the company started a cooperative fund that the community could use for scholarship programmes, loans, health insurance, and other programmes that would benefit the community and its members.

In September 2008, Rags2Riches helped the women of Payatas set up a cooperative, hoping that the women would have full ownership of the business by year-end.<sup>55</sup> The women, however, were not yet ready for the new set-up. The women had been organised as the women of Rags2Riches, and according to Reese, the women loved that. But they did not want the cooperative. The women were divided: some wanted it while the others did not. Cooperatives had been set up before but none had worked. It was difficult for them to elect their officers or leaders. The women argued a lot. The drafting of the papers of the cooperative took two years.

In November 2009, the Payatas women's cooperative became official, adopting the name "Rags2Riches Producers Cooperative". The name was an output of the cooperative development

<sup>52</sup> Baclayo, Nelson (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 24. Baclayo is the director for production and community relations of Rags2Riches, Inc.

<sup>53</sup> Rags to Riches Frequently Asked Questions. Retrieved from <http://rags2riches.ph/v2/?s=faqs> (2011, February)

<sup>54</sup> Ibid.

<sup>55</sup> Constantino, Angel. *From Rags to Riches*. Retrieved from <http://ls.ateneo.edu/module.php?LM=articles.detail&eid=1265418011905 &id=1201505284217>. (2011, February)

seminar that the women attended from September to October as partners of the Philippine Business for Social Progress with funding from the *Tipid Sulit Pinas* Campaign of Smart.

Through the Cooperative Development Training, the women understood the value of being a cooperative, the systems being enforced in the community and Rags2Riches' plans as an organisation among others.<sup>56</sup>

With the establishment of the cooperative and the election of their officers, the members would manage the production aspects of the business while Rags2Riches would remain in charge of product development, marketing and sales. The long-term vision of Rags2Riches was that the mothers would be accountable for the resources and reinforce community building. The corporation would become like a holding company supervising the various cooperatives that would be formed when their operations grew.

In February 2011, the women started managing their own labour costs. The company had transferred the daily management of the cooperative to them. Whenever Rags2Riches created or suggested a system to them, the women reviewed and discussed it many times, and they decided what was best and that was what they implemented.

The women, however, were still undergoing training on how to handle the materials, how to do inventory, (and so on). In effect, under this set-up, Rag2Riches would buy the products from the cooperative. It would pay for the women's labour but not the materials. The challenge for them was that the company had placed a profit for the cooperative. The women could take the profit, save it, then give each *nanay* the cost of her labour. This they could compute by themselves.

All the members of Rags2Riches within Payatas were invited to join the cooperative. So far, only 54 out of 450 women had signed up to be part of the cooperative because of their geographic location and interests. On the other hand, those who did not want to be part of the cooperative had the choice of remaining as Rags2Riches community suppliers.<sup>57</sup>

## Looking to the Future

### R2R Going Global

Rags2Riches' fame had grown after receiving several awards (see Annex 3) and so had its business. Its products had been exported to Singapore and there were inquiries from Japan, the United States and Austria.

Rags2Riches planned on expanding its local and international markets. It was looking at having retail outlets nationwide and worldwide. Rags2Riches products were available at the ECO store in Singapore. Negotiations were under way for the company's products to be made available in key cities in Asia and in Europe (Paris, Milan and Switzerland).

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<sup>56</sup> Abrera, Simeon Miguel, (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Abrera is Rags2Riches Community Relations Officer.

<sup>57</sup> Fernandez, Reese (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Fernandez is the president of Rags2Riches, Inc.

There were already orders for the Tree Bags from ECO stores in Singapore, Hong Kong, Zurich and locally in stores like Firma, and Echostore at the Fort. More orders meant more work and more jobs for the communities.<sup>58</sup>

While marketing, advertising and distribution internationally would require a different approach, Reese did not consider these as problems but as challenges. "We are talking to different distributors and we are balancing what the market can buy and how much we can sell this product," she explained. "It's a little easier abroad because we just need our RIIR brand. [There is pressure] since a lot of people want to buy our products internationally. The production is really our concern."<sup>59</sup>

## Expanding Partner Communities

With the mounting demand for Rags2Riches products, production also needed to be increased. To do this, Rags2Riches started working with other communities, a step that the group foresaw from the beginning. Bam Aquino, another founding member and currently board member, clarified this move:

*When we started Rags2Riches, our goal really was not just to affect one community [but also] to work with the different communities, to bring out the best products that they have. Rags2Riches or R2R can affect multiple communities and be able to help these communities by getting what they are really good at, with what they are proud to do with what they have been doing for some time.*<sup>60</sup>

In 2009, Gawad Kalinga Molave and St. Mary's were added as Rags2Riches' partner communities. With the addition of these two communities, the total number of rug weavers had reached 100.<sup>61</sup>

By 2010, six more communities joined Rags2Riches: the Sucat community under Ms. Lou Reyes; Gawad Kalinga in Merville, Paranaque; Gawad Kalinga Paradise Heights in Tondo; the Canlubang community in Nuvali, Laguna; Taytay and Baseco communities in San Beda and the Novaliches community under SSDM.<sup>62</sup> The company was preparing for more communities to undergo training to support its global growth. It planned to set up a logistics system that would pass through its partner communities in the south, to get the rugs, bring the raw materials and to

<sup>58</sup> Laurel, Rajo. Stylebible.ph. (2010 June 25). The Treebag Bag Launch for R2R. [Blogpost] Retrieved from <http://blogs.stylebible.ph/ rajosblog/2010/06/25/the-treebag-bag-launch-forr2r/> (2011, February).

<sup>59</sup> Fernandez, Reese (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Fernandez is the president of Rags2Riches, Inc.

<sup>60</sup> Fernandez, Reese. (2009, September 14). Rags to Riches [Video]. Retrieved from <http://www.youtube.com/watch?v=3b-eozVqIJU&NR=1>

<sup>61</sup> GoodNews Pilipinas. (2010, October 9). Homemade Rugs Changes the lives of Payatas Women. *Inquirer.net*. Retrieved from <http://newsinfo.inquirer.net/breakingnews/metro/view/20101009-296827/Homemade-rugs-changes-the-lives-of-Payatas-women>. (2011, February).

<sup>62</sup> Abrera, Miguel (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Abrera is the community relations officer of Rags2Riches, Inc.

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deliver these to its major distributors.<sup>63</sup> As of May 2011, Rags2Riches had 24 partner communities.

The roadmap for the future of Rags2Riches was clearly laid out as Mark explained:

*We see a future point in time where we will just be exploding this model throughout all of the different areas in the Philippines. We see ourselves as a social business enterprise, linking all these communities, building all of these cooperatives, and networking with them ... Rags2Riches is a social business enterprise creating social statements and style.<sup>64</sup>*

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<sup>63</sup> Fernandez, Reese (2011). Interview with Meldy Pelejo. Cubao, Quezon City. Jan. 17. Fernandez is the president of Rags2Riches, Inc.

<sup>64</sup> Fernandez, Reese. (2009, September 14). Rags to Riches [Video file]. Retrieved from <http://www.youtube.com/watch?v=3b-eozVqIJU&NR=1>)

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## ANNEX 1

### RIIR Catalogue of Rajo Laurel's First Collection

The first collection of the RIIR Designer Line by Rajo Laurel is made up of purses, totes, yoga mat carriers, and wine bottle holders (catalogue courtesy of Rags2Riches).

**RIIR**  
Rags2Riches

*Rajo Laurel*  
1015 Villena St., cor. Makati St.  
Poblacion, Makati City

*Tivana*  
Greenbelt 3  
Ayala Center, Makati City

*Echelles*  
Serendra  
Bonifacio Global City, Taguig City

**MAIN ENVELOPE CLUTCH (Plain)** 1 (8.5" x 11") - P159  
**TONY TOTE** 2 (10" x 14") - P159  
**PAIGE CLUTCH** 3 (8.5" x 11") - P159  
**JANE PURSE** 4 (8.5" x 11") - P159  
**MARLEY VANITY KIT (Small)** 5 (8" x 9.5") - P159  
**WINE BOTTLE HOLDER** 6 (10" x 14.5" x 9") - P159  
**MISHEM VANITY KIT (Large)** 7 (9" x 12") - P159  
**CENTRA BAG** 8 (10" x 12.5") - P149  
**ZONE BAG** 9 (10" x 12" x 8") - P159  
**TI LAPTOP SLEEVE** 10 (10" x 12.5") - P159  
**MAIN ENVELOPE CLUTCH (With Lurex)** 11 (2.5" x 10.5") - P159  
**MAKI LAPTOP SLEEVE** 12 (10" x 13.5") - P159  
**JEREMY TOTE** 13 (10" x 14" x 5.5") - P1799  
**GRACEY BAG** 14 (8.5" x 12.5" x 4.5") - W199  
**UNIV EYEGGLASS CASE** 15 (6" x 3.5") - P149  
**REISE YOGA MAT BAG** 17 (12" x 25" x 5") - P159

**R2R Showroom**  
Unit 3B, Cubao Expo,  
Araneta Center, Cubao, QC.

[www.rags2riches.ph](http://www.rags2riches.ph)

info@rags2riches.com  
mobile +632 982323888  
+639174859265  
**rags2riches**

Each item and design is limited and could run out of stock. Any returns involving sales or exchanges is allowed, for purchases older than 6 months. Items damaged by negligence will not be accepted.

Photography: Rajo Laurel, Design: Rajo Laurel, Design: Rajo Laurel

**ANNEX 2**

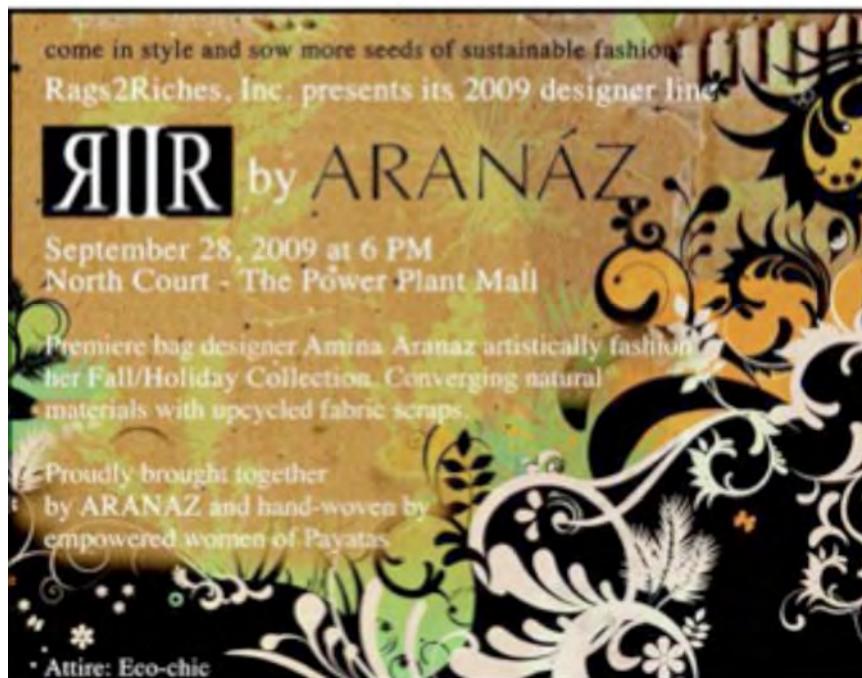
**Invitation to RIIR Second Collection by Amina Aranaz-Alunan**



**ANNEX 3**

**Invitation to 2009 Fall/Holiday Collection by Amina Aranaz-Alunan**

**FALL/HOLIDAY COLLECTION 2009**



**ANNEX 4**

**Amina Aranaz-Alunan's 2010 Spring Summer Collection of Bags**

SPRING/SUMMER COLLECTION 2010



## ANNEX 5

### About Rags2Riches, Inc.

#### **From waste, to wealth, to world-class**

Rags2Riches Inc. ([www.rags2riches.ph](http://www.rags2riches.ph)) is a social business enterprise creating high-end designer fashion masterpieces and home accessories that are ethical and eco-friendly. Rags2Riches empowers women of poor communities, and recycles scrap cloths discarded by garments factories around the Philippines.

**Rags2Riches is committed to establish a pattern-changing, scalable, and sustainable business that values and invests on:**

#### **People**

**Communities:** Rags2Riches aims to empower communities from marginalised sectors, improve the lives, and secure the future of families in these communities through building socially responsible and sustainable community-based enterprises.

**Experts:** Rags2Riches innovatively fosters partnerships with renowned fashion designers, runway models, fashion directors, marketers and entrepreneurs.

**Market:** Rags2Riches engages the market of high-end eco-conscious icons and socialites who are empowered to know the people behind their products and to choose purpose over mere purchase.

#### **Planet**

**Products:** Rags2Riches also respects and advocates respect for the environment through "upcycling" discarded cloth scraps.

**Process:** The process is also the product as Rags2Riches ensures that from the production to the market, the steps are both ethical and eco-friendly.

#### **Profit and Positive Influence:**

**Advocacy:** Rags2Riches aims to be a viable and sustainable social business enterprise that would inspire and influence other businesses to do well by doing good. Rags2Riches also aims to engage the market in creative recycling and advocating for fair trade.

**Marketability:** We want each buyer to buy the product, open it, feel its beautiful texture, and know that he/she just contributed to a good cause. Each product comes with the Rags2Riches story of transformation and a handwritten signature of the mother who made the product.

**Sustainability:** Rags2Riches aims to be a model and successful example that proves that social business enterprises could be a financially viable company, a worthy investment, a promising career option, and a world-changer, all at the same time.

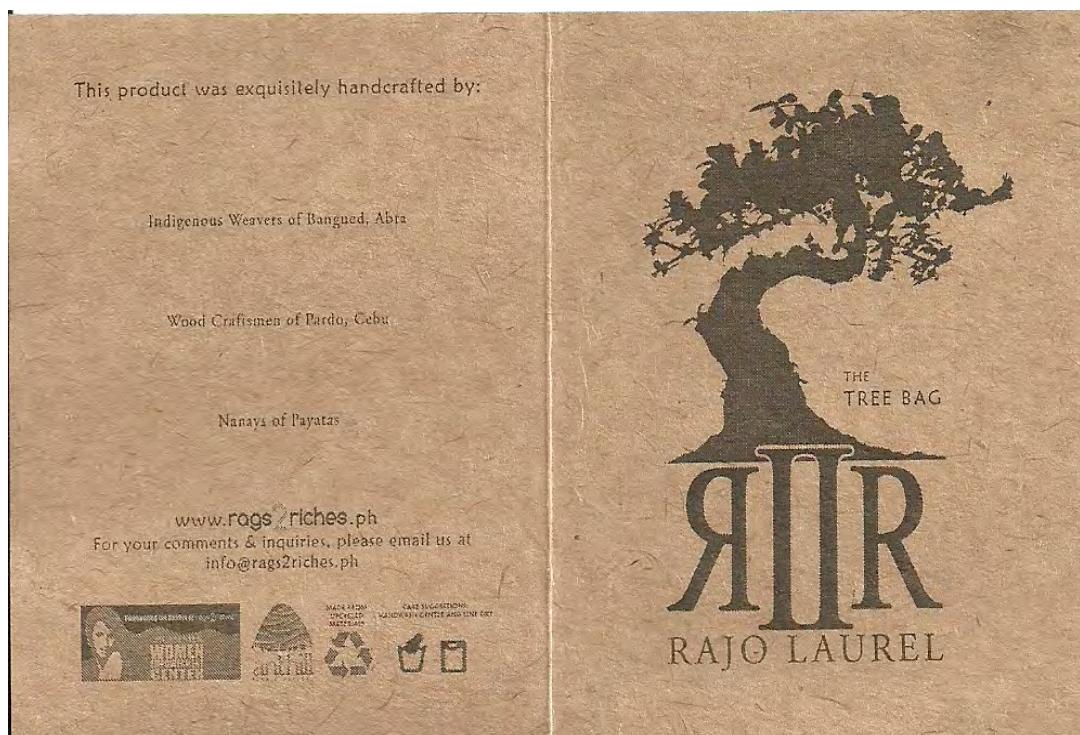
## ANNEX 6

### Sample Tags

a) RIIR products tag

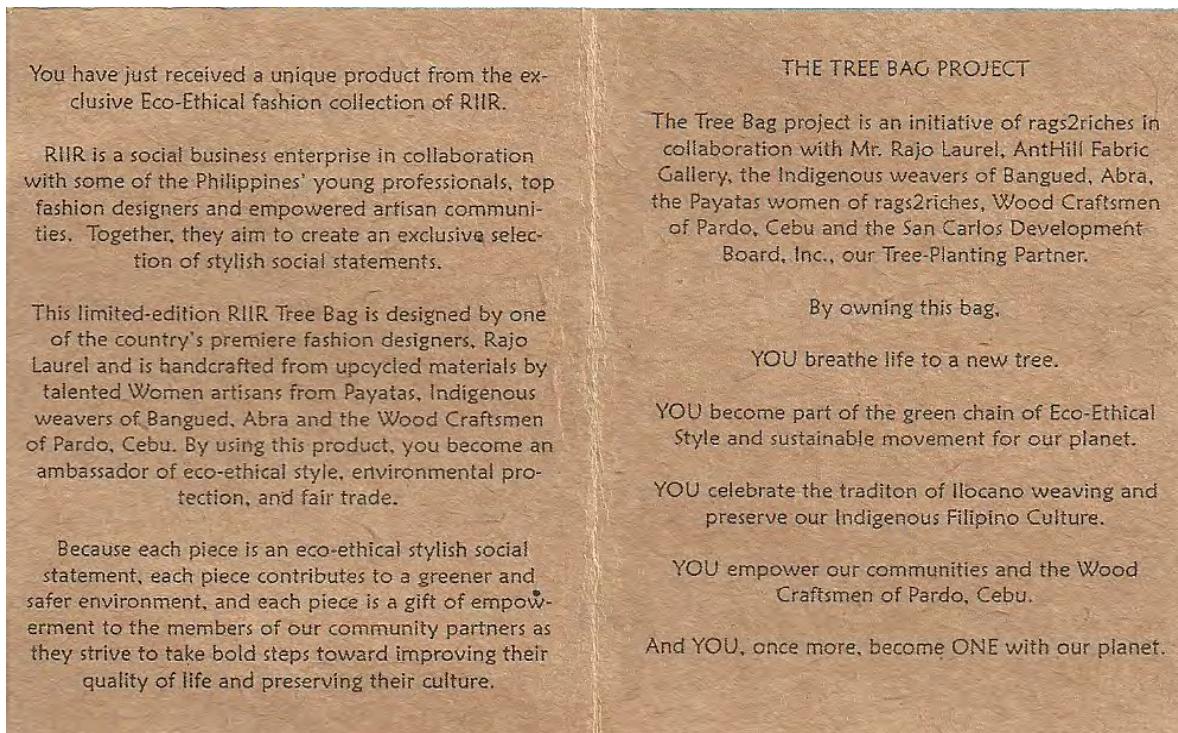


b) Money Tree bag tag front & back cover pages



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### c) Money Tree bag tag inside pages



## ANNEX 7

### **Rags2Riches Manifesto**

*My lifestyle is life giving.*

*I refuse to live in any other way. I believe that we should never compromise beauty for life or life for beauty. They come together, and they are perfect together.*

*I live an Eco-Ethical lifestyle. I am a stylish, Eco-Ethical advocate.*

*I believe in recognising the names and faces of the hands that made the products I enjoy. I want to know that the products that enrich my lifestyle also enrich and empower the lives of the community artisans who make them.*

*I am not a worshipper of faceless brands. I respect and admire the humanity woven into every fabric and fiber of the products I love.*

*I believe that while fashion changes with seasons, style is timeless. And when style is fused with Eco-Ethical values, then it becomes Eternal.*

*Eco-Ethical style is more than a fashion statement, it is a social statement. This stylish social statement makes me a stylish advocate.*

*I believe in celebrating a beautiful and stylish lifestyle without scarring the planet in any way. My beauty and stylishness is a reflection for the beauty of the planet made even more beautiful by my decisions.*

*I live and breathe Eco-Ethical products. Upcycling uplifts me. Organics makes me ecstatic. My stylish lifestyle gives life to the planet.*

***I live the Eco-Ethical lifestyle. I live and celebrate Rags2Riches.***

## ANNEX 8

### Invitation to Money Tree Bag Launch on June 24, 2010



#### The TREE BAG Project

The RIIR by Rajo Laurel Tree Bag is a unique product from the exclusive Eco-Ethical fashion collection of designer brand, RIIR.

RIIR is a social business enterprise in collaboration with some of the Philippines' young professionals, top fashion designers, empowered artisan communities and another social enterprise, Anthill Fabric Gallery. Together, they aim to create an exclusive selection of stylish social statements.

This limited-edition RIIR Tree Bag is designed by one of the country's premiere fashion designers, Rajo Laurel and is handcrafted from upcycled materials by talented Women artisans from Payatas, Indigenous weavers of Bangued, Abra and the Wood Craftsmen of Pardo, Cebu. By using this product, you become an ambassador of eco-ethical style, environmental protection, and fair trade.

Because each piece is an eco-ethical stylish social statement, each piece contributes to a greener and safer environment, and each piece is a gift of empowerment to the members of our community partners as they strive to take bold steps toward improving their quality of life and preserving their culture.

## ANNEX 9

### The Rags2Riches Management Committee

#### Therese Clarence Fernandez-Ruiz

##### **President, Board Member, Founding Partner (full-time)**

Reese Fernandez is an honours graduate of BS Management 2007, Ateneo de Manila University. She is one of the founders of the Social Entrepreneurship Challenge of the Ateneo Management Association; a first of its kind in the university. She is also one of the 2010 Rolex Young Laureates, 2010 TOWNS Awardee and one of the 20 Global Young Social Entrepreneurs selected by the International Youth Foundation, in partnership with Nokia.

#### Nelson Baclayo

##### **Production Director**

A graduate of BS Architecture 1988 from the Saint Michael International Institute of Technology, Nelson handles R2R's production and product development departments. Nelson was the logistics and merchandising manager of Relzbach Ventures, Inc. in 2009. He was also the product development, procurement and quality control, division manager of La Cora Creatives, Inc. from June 2006 to 2009. After more than 15 years in the bag-making and apparel industry, he joined R2R in January 2010.

#### Joe Mark Pardinas

##### **Sales and Marketing Manager**

Joe Mark graduated Cum Laude, with the degree of BS Management Honors Program at the Ateneo de Naga University last 2007. He is a licensed real estate broker under the Real Estate Brokers Association of the Philippines (REBAP), and served as an executive assistant to the president in a real estate company. From being a student and a fresh graduate, Joe Mark exemplified excellence in marketing, sales and entrepreneurship, through being active and engaged in MarkProf (chosen as One of the Top 25 Marketing Management Trainees of the Philippines) and being a member of the Metro Naga Chamber of Commerce and Industry. He recently represented the Philippines in a World Leadership Conference held at the Singapore Management University, in June 2009.

## **Michelle Marie Smith**

### **Sales and Marketing Associate**

Michelle is a graduate of BS Psychology last 2010 from the Ateneo de Naga University. In her graduation, she was also awarded the Bro. Sergio Adriatico, SJ Service Award. During college she also earned several units in AB Political Science and Management. She has an excellent communications skills being part of a debate team which competes in the national level. She is also socially involved in Camarines Sur being the president of Rotaract Club of Naga-Camarines Sur.

## **Helen Guerrero**

### **Finance and Human Resource Officer**

A graduate of University of Pangasinan in 1982, Helen handles R2R's finance and all other administrative matters. Helen was the accounting manager of Mapecon Philippines, Inc. from 2008 to 2009. She also handled various positions in Montemar Beach Club, Inc. from 1997 to 2008. After her more than 25 years of working as an accountant to various companies, she joined R2R in January 2010.

## **Simeon Miguel Abrera**

### **Community Relations Officers**

Miguel graduated with the degree in (AB) Social Sciences at the Ateneo de Manila University last 2007. He also served as a Jesuit Volunteer right after graduation. Miguel has a wealth of social involvement experiences from college and from work. He was a leader in socially oriented organisations in the Ateneo de Manila University. He is also currently taking Masters in Sociology, at the University of the Philippines, Diliman.

## **The Rags2Riches Board of Directors and Founding Partners**

**Timothy Agulto** – Xavier Valedictorian, Hapinoy (ADMU '03)

**Xavier Alpasa S.J.** (Chairman of the Board) – Previous executive director of Simbahang Lingkod ng Bayan, president, Loyola College of Culion, Outstanding Alumnus, UST, TED 2009 Global Fellow

**Bam Aquino** – Previous Chairman of National Youth Commission, Asia 21 Fellow, Hapinoy (ADMU '99)

**Angeline Benavides-Bulan** – Executive in a multi-national financial institution (DLSU '91)

**Judith Caballero** – Chairman of the Payatas Producers Cooperative, Empowered Woman Leader in Payatas

**Reese Fernandez** (President) – 2010 Rolex Young Laureate, 2010 TOWNS Awardee, 2008 YouthActionNet Top 20 Global Young Social Entrepreneurs, Ateneo Model Scholar (ADMU '07)

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**Timi Gomez** – Executive in a multi-national company (DLSU '06)

**Maan Lim** – Entrepreneur, Loyola University Chicago MBA graduate, strategic manager (ADMU '92)

**Memey Mendoza** – Executive in one of the country's top Telecommunications company (UP '98)

**Mark Ruiz** (Vice-Chairman of the board) – Top 10 Outstanding Young Leaders of the Philippines (Asia 21), Hapinoy (ADMU '99), PLDT Awards for Enterprise

## **ANNEX 10**

### **Awards and Recognitions**

**April 2008:** University of San Francisco Business Plan Competition, Social Enterprise Award Winner.

**August 2008:** The Body Shop Foundation Grant £10,000 (US\$15,162).

**September 2008:** Vice Chairman of the Board Mark Ruiz recognised as one of the Top 10 Young Leaders of the Philippines by Asia Society.

**November 2008:** President Reese Fernandez chosen as one among 20 outstanding social entrepreneurs of the world for the 2008 YouthActionNet(R).

**December 2008:** Rags2Riches won Business In Development [BID] Challenge Philippines, with a grant of ₱100, 000 (around US\$2000), a Planter's Bank Special Award for Web Hosting Service, and was chosen to represent the Philippines in the BID Global Competition held at Amsterdam, Netherlands, on January 2009.

**January 2009:** Rags2Riches, Inc. won 1st prize in the Business in Development (BID) Challenge International competition with a grant of €20,000.

**June 2009:** Rags2Riches won the Starbucks Grant, worth US\$24,000 to be used for modules and educational materials for the Rags2Riches communities: REAP (Rags2Riches Enterprise Activation Program).

**October 2010:** With Rags2Riches, Reese Fernandez-Ruiz received the TOWNS Awards 2011 — The Outstanding Women in Nation Service Award, for empowering more than 500 women from different marginalised communities in the Philippines.

**November 2010:** Rolex Awards for Enterprise awarded, Reese Fernandez-Ruiz as one of the Five Young Laureates for 2010. Reese introduced her new project, the Eco-life Laboratory that will house the research and development for more sustainable materials.

## CHAPTER 11

### UPLAND MARKETING FOUNDATION, INC.: “BRIDGING THE GREAT MARKET DIVIDE”

“We believe that our existence is really based on social objectives. For sustainability, we have to earn profits.” This was how Ramon Derige, founding president of the Upland Marketing Foundation, Inc. (UMFI), explained the shifts in strategies adopted by their social enterprise since its establishment in November 2000 (Dacanay, 2011).

The Upland Marketing Foundation, Inc. (UMFI) was a marketing intermediation<sup>1</sup> non-governmental organisation (NGO). It was one of the few NGO initiatives that had made significant inroads in the mainstream market. Working on the theme — “Bridging the Great Market Divide”, UMFI had worked over the last decade to assist community-based enterprises (CBEs) add value to their produce and bring these to the marketplace. In recent years, UMFI had also given increased attention to helping CBEs penetrate the markets in their local areas. UMFI saw these CBEs as key actors in local economic development.

In 2007, an evaluation team gave UMFI the accolade — “Development cooperation needs more UMFI around the world”. (Canlas, Ryazanov and Moleta, 2007.) Indeed, UMFI’s efforts to develop CBEs and value chains for selected products had been noteworthy. However, it had also faced many challenges, particularly in dealing with huge and powerful retail chains in the mainstream market. UMFI also continued to struggle with viability issues.

#### Inception and Purpose

The Upland Marketing Foundation, Inc. (UMFI) was an NGO acting as a marketing intermediary for agricultural and agri-based products from rural communities. UMFI started in 1992 as the

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<sup>1</sup> In social entrepreneurship, intermediary organisations “... provide access to services that are otherwise beyond the reach of marginalised groups.” This could include access to markets or financial services. (Dacanay ed. 2004). Marketing intermediary (general definition): “Many producers do not sell products or services directly to consumers and instead use *marketing intermediaries* to execute an assortment of necessary functions to get the product to the final user. These intermediaries, such as middlemen (wholesalers, retailers, agents and brokers), distributors or financial intermediaries, typically enter into longer-term commitments with the producer and make up what is known as the marketing channel, or the channel of distribution.” ([www.britannica.com](http://www.britannica.com), 2011).

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*This case was written by Rosalinda M. Roy under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

Upland Marketing Program of the Philippine Business for Social Progress and the Upland NGO Assistance Committee (UNAC). The UNAC was a partnership of social development and academic institutions assisting NGOs aiming to serve upland communities effectively.

UNAC was composed of the following organisations:

- Philippine Business for Social Progress
- Philippine Partnership for the Development of Human Resources in Rural Areas
- Kalahan Educational Foundation
- Institute for Philippine Culture of Ateneo de Manila
- Social Development Resource Center of La Salle
- Institute of Agroforestry of the University of the Philippines – Los Banos
- Philippine Association for Inter-Cultural Development
- Tanggol Kalikasan

UNAC espoused and promoted the idea that upland resource management could be achieved through the following:

- a) land tenure to assure the communities that the land and resources that they were caring for could not be taken away from them at anybody's whim;
- b) agro-forestry and reforestation to ensure land productivity; and
- c) marketing to make certain that any surplus in production within the community could be sold in the market and converted into cash.

The Upland Marketing Program (UMP) was created because UNAC saw the need to establish a marketing arm for the produce coming from the various projects being undertaken by its members<sup>2</sup>.

At its inception, the UMP identified and implemented three strategies to help the UNAC's upland community partners, called community-based enterprises (CBEs): market information dissemination, training, and market linkage. Under the third strategy, organisations of small producers were linked to potential buyers of their produce. However, it was soon observed that the linkages usually did not go further than the first transaction.

"The CBEs were either late in the deliveries, brought poor quality products, and/or delivered below the ordered amount. Despite this, the communities were expecting to get higher than market prices for their products. The buyers were disappointed and frustrated." (Guarin, 2004.)

This prompted the programme to play a more active role in the market linkage process by acting as the "go-between" between the CBEs and the market. The UMP tried to ensure that market

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<sup>2</sup> At the time of the case, UMFI remained an active member of UNAC and was seen by the network as its marketing service NGO.

requirements were met by the CBEs, while also trying to make sure that the CBEs got fair economic returns.

Rene Guarin, former executive director of UMFI, further related (Guarin, 2004) that in this early period, UMP realised that trade was mainly in terms of commodities trading, e.g. for rattan. Trading of commodities, however, tended to lead to over-extraction of valuable forest resources, but did not provide fair economic returns for the communities or households engaged in the activity. At the same time, UMP was also providing marketing assistance to other forest-based enterprises, specifically, processed food products. Marketing of processed food products was eventually seen to be more beneficial to CBEs. This was mainly because the pressure on forest resources was not as great. Only a minimal amount was needed to produce a viable volume for trade. For example, the volume of Mountain Fresh jams and jellies distributed by UMFI allowed the Kalahan indigenous communities to continue their practice of harvesting fruits in the forest at sustainable levels.

Hence, around 1994, the programme decided to put more emphasis on the processing of edible forest products vs. the trade of raw materials extracted from the forest. On the whole, it was assessed that long-term economic benefits for the communities would be better and more sustainable. Aside from preventing over-extraction of resources, it was also observed that consumer purchase of processed or branded products was not solely based on price, and that processed or branded products tended to have shields against price fluctuations.

This shift to a product strategy brought with it a new set of concerns. Just like for commodities, the better and more stable markets were found in the urban centres, especially Metro Manila. However, the new strategy called for a different way of engaging the market, by building and sustaining contacts with supermarket chains and other retailers. This entailed, among others — waiting in line along with other suppliers before one was entertained by the buyer, doing battle for shelf space, following strict schedules for deliveries of products and pick-up of returns, etc. In effect, the programme would need to play a very active role as "go-between" and would serve as distributor of the products of the CBEs in the upland areas. UMFI's first Executive Director Rene Guarin described the challenge as follows:

"The new situation shifted the problem from poor economic returns to affordability of market access for the communities. Because access to the market required establishing frequent transactions with the retailers, and supermarket chains were located in urban centres, marketing became expensive for communities that were located far from these urban centres." (Guarin, 2004)

With this in mind, the UMFI was established in November 2000, and spun off as an independent outfit in 2003. It identified its target group as "marginalised communities of indigenous peoples, agrarian reform beneficiaries and fisher-folks", an expansion of the original UNAC/UMP target group of upland communities. UMFI sought to create impact on these target groups through its work with the CBEs, which were also seen to generate employment opportunities for landless agricultural workers.

## Social Enterprise Model

"Our main stakeholders are the cooperatives and the people's organisations from marginalised communities, who serve as our producers and suppliers," Grace Tacuyog, former Deputy Executive Director of UMFI. (Dacanay, 2011)

Inspired by the theme "Bridging the Great Market Divide", UMFI framed its vision statement as:

"Serving CBEs by providing mechanisms for local economic development in marginalised communities through the generation of income and employment opportunities that are anchored on the processing/value-addition and marketing of local materials into high value and marketable products to local and mainstream markets."

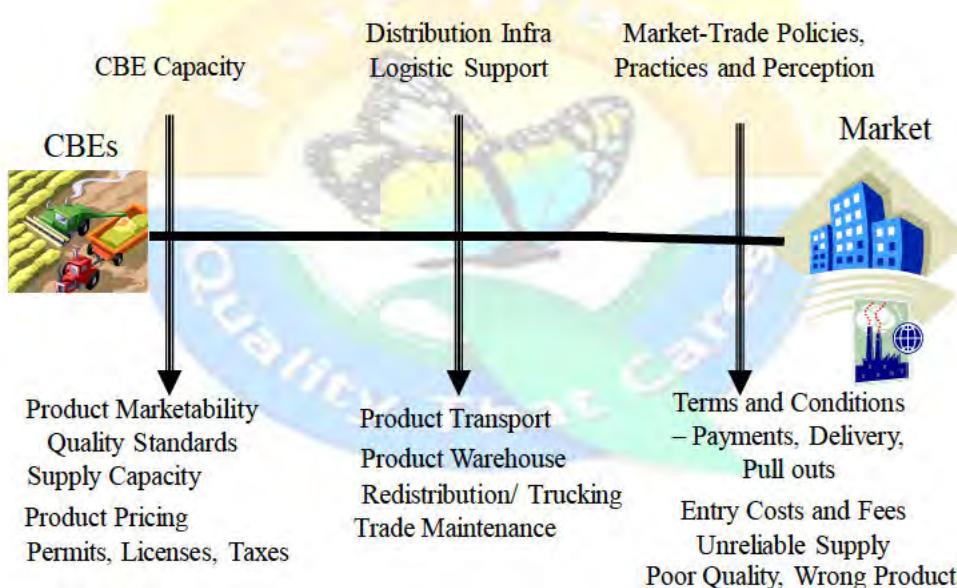
To help reach this vision, UMFI defined a three-pronged role (mission statement), as follows:

- Provider of affordable access to appropriate technology, stable financial resources and growing markets to CBEs
- Provider of high-quality and healthy products to consumers
- Advocate of fair trade in the mainstream markets

The vision and mission statements actually resulted from a re-casting done in the mid-2000s. The re-casting reminded UMFI that its core business was not just one "that views communities as sources of products that are to be marketed". Instead, it needed to "transform CBEs into mechanisms that develop or tap opportunities that effect local economic development" (Guarin, 2004), in line with the original spirit in which the UMFI and its precursor were established.

UMFI's social enterprise model may be illustrated using Figures 1–4 (UMFI, as cited in a 2010 evaluation report):

**Figure 1: Setting-up a Social Enterprise  
Identifying the Primary Barriers for Entry**



In Figure 1, UMF traced the “great market divide” separating producers and micro-enterprises in the communities from the market, or the primary barriers for market entry facing CBEs. These related to bringing the products to the market(s), meeting the market’s quality and supply requirements, and negotiating for fair terms and conditions. The size of these CBEs and their limited resources and skills made them ill-equipped to deal with the bigger players in the market, ranging from the traders at the local level to the huge chains which were quickly starting to dominate the retail landscape.

Given this environment, UMF aimed to help CBEs become vehicles for local economic development. As shown in Figure 2, UMF hoped to help CBEs with appropriate technology; with timely, adequate and stable financial resources; and with access to stable and growing markets.

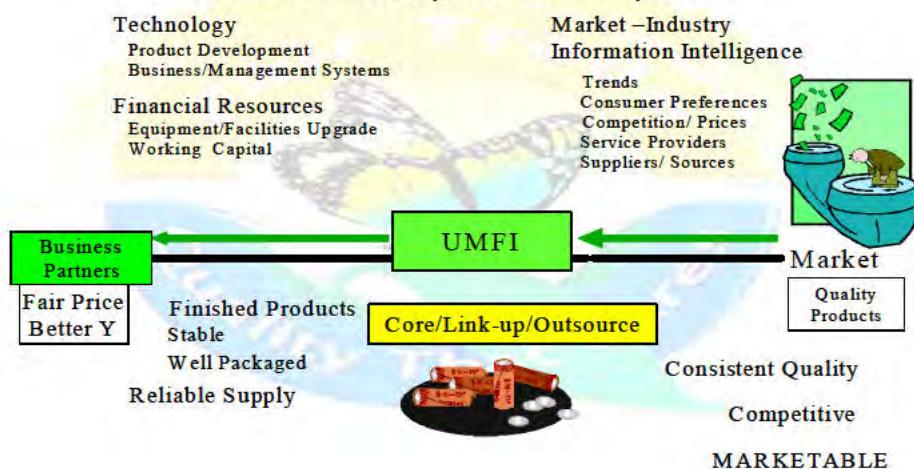
**Figure 2: UMF Development Model**



UMF's envisioned role was illustrated in Figure 3. Aside from performing marketing intermediation functions, UMF operationalised its mission statement by providing capacity-building for its CBEs via product and organisational development, establishment of production standards and quality assurance system, as well as facilitating the CBEs' access to financing. Beyond this, UMF had adopted value chain management<sup>3</sup> as a major strategy that provided an anchor for enterprise development (See Figure 4 on page 11).

<sup>3</sup> Value chains “encompass the full range of activities and services required to bring a product or service from its conception to sale in its final markets — whether local, national, regional or global. Value chains include input suppliers, producers, processors and buyers. They are supported by a range of technical, business and financial service providers”. From USAID Briefing Paper on The Value Chain Framework.

**Figure 3: Setting-up a Social Enterprise  
Market → Enterprise Development**



UMFI's primary relationship with CBEs was on technical assistance for enhancing market access through improvement in the product (production process, packaging and labelling) and through the marketing and distribution of products, mainly to Metro Manila. It had defined a set of strategies/services to operationalise the frameworks above, consisting of the following:

- CBE development. UMFI assisted partner-CBEs in systems development, product and research development, and market development. For market development, UMFI employed both mainstream market development ("modern trade" segment, i.e. supermarkets/retail chains) and local market development (within the CBEs' area).
- Re-packing/processing of CBE products to make them ready for market outlets.
- Value chain management, i.e. providing value-added inputs and activities along the chain.
- Providing access to financing, both via the Social Enterprise Finance Facility (a facility started in 2008 to serve as a link between development-oriented financial institutions and CBEs) and other financing agreements with development institutions.

Noting an increasing trend among urban consumers' patronage of supermarkets, UMFI sought to develop relationships with the big retail chains in the country. These retail chains included SM, Shopwise, Robinson's, Puregold, Landmark and Cherry Foodarama.<sup>4</sup>

UMFI also provided services to development organisations, both non-governmental and governmental, in product development, distribution and marketing. One major partner was the Department of Agrarian Reform – Bureau of Agrarian Reform Beneficiaries Development (DAR – BARBD), which it assisted in the development of agrarian reform communities.

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<sup>4</sup> The top three supermarket chains in the country were SM Supermarket, Robinsons Supermarket and Rustan Supermarket. These three accounted for 71 percent of the gross revenues of the leading supermarkets in 2006 as listed in the Philippines' Top 1000 Corporations. (Macabasco, 2009). Rustan's also operated Shopwise. Puregold and Cherry Foodarama were relatively smaller chains. As of March 2010, Landmark had only two outlets.

## Evolution: Phases in Strategy Formation and Results

Over the last decade, UMFI had crafted its strategies to respond more effectively to the evolving situation and needs of its primary stakeholders — the CBEs, and to market trends and requirements.

### 2001 – 2003: Experimenting as Intermediary of CBEs with the Mainstream Market<sup>5</sup>

#### *Building of Internal Organisation for Distributorship in Consumer Trade*

The period from 2001 to 2003 was characterised by the strengthening of UMFI's internal organisation as UMFI embraced its role as distributor of CBEs' products. In order to effectively and efficiently perform this role, UMFI upgraded its people, systems and facilities. Among others, it hired people with experience in the consumer trade industry, bought two delivery vehicles, and computerised its financial management system. With these improvements, UMFI was quickly able to expand its market outlets from 45 in year 2000 to more than 150 outlets by 2003.

#### *Developing Product Lines: Expansion to Lowland and Coastal Communities*

UMFI had to market a volume large enough to make the extensive distribution system profitable. UMFI had by then expanded its assistance to include lowland and coastal communities, exploring new products and assisting CBEs to produce the required quality for distribution in the supermarkets.

According to Ramon Derige, chairperson of UNAC and founding president of UMFI:

“There have been no major changes in our orientation. In the beginning, it was to help poor upland communities develop and market their products. We expanded partner-producers from upland to include lowland and coastal to maintain our market hold in supermarkets. We needed more quality products and bigger volumes which could not be supplied solely by upland communities.” (Dacanay, 2011)<sup>6</sup>.

Mel Fonollera, UMFI operations manager, was among the people hired from the consumer trade industry<sup>7</sup>. According to Mel, the main products at the start were products of partner-CBEs. These included as jams and jellies processed from forest products and sold under the Mountain Fresh brand by the Kalahan Educational Foundation, and DSF sardines, produced by the Dipolog School of Fisheries.

#### *Partnership with SMEs*

As UMFI assisted CBEs, several privately-owned small and medium enterprises (SMEs) also approached them for the distribution of their products. In an effort to expand the range and volume of products that it could offer to the retail chains, and to realise economies of scale for its distribution system, UMFI eventually partnered with some SMEs. These SME products

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<sup>5</sup>Specifically the “modern trade” segment, i.e. supermarkets, other modern retail outlets, as opposed to the traditional wet markets.

<sup>6</sup> Interview by Marie Lisa Dacanay, 2010.

<sup>7</sup> Mel Fonollera first joined UMFI from 2002 to 2003. He left UMFI, though was involved as an occasional consultant through the years, and re-joined as a full-time staff in 2009.

included canned laing, *burong hipon* (fermented shrimp), pancit canton and organic vinegar. Over a certain period of time, canned laing, the biggest seller, was accounting for 75 percent of UMFI's sales. By 2003, it was still accounting for 42 percent of UMFI's sales, effectively serving as UMFI's "champion product". As a whole, the proportion of products from SMEs to CBEs was 80:20 during the 2001 – 2003 period.

However, UMFI encountered problems in marketing these SME products. These ranged from low sales/slow turnover in the market (e.g. pancit canton) to the supplier's inability to produce enough to meet sales demand (e.g. the *burong hipon*). UMFI also encountered problems with the biggest seller — canned laing. An over-estimation of the market had led to over-ordering and substantial sales returns, which led to misunderstandings and an eventual breakdown of ties with the supplier.

#### *Prospects for Organic Rice*

While UMFI was grappling with these problems, and in particular facing the potential loss of a substantial percentage of its revenues with the pull-out of the canned laing, sales staff noticed an emerging trend in the retail outlets — 2-kg packs of commercial rice were selling well. This gave UMFI the idea of marketing its partners' organic rice to the retail chains in such sizes. With help from the Philippine Development Assistance Program (PDAP), the Pecuaria Development Cooperative, UMFI's first major partner for organic rice, was assisted in packaging its produce in smaller packs. UMFI sold the product under the brand name Healthy Rice.

### **2004–2006: CBE Development/Positioning of UMFI in the "Healthy Products" Segment**

#### *Reframing of Development Framework and Strategies*

The period from 2004 to 2006 saw a reframing of UMFI's development framework, vision/mission and strategies. While maintaining its business agenda of marketing CBE products to mainstream markets, UMFI refined its perspective of CBEs and changed its articulation of the UMFI-CBE partnership and roles. From being viewed primarily as sources of products for the market, communities/CBEs were now seen as potential partners in local economic development — "mechanisms that could anchor and initiate local economic activities through the processing and marketing of raw materials to both the national and local markets". (Guarin, 2004.)

In terms of market positioning, UMFI saw an opportunity to tap into the growing segment of consumers looking for products that were deemed healthy. UMFI sought to position itself as a distributor of "healthy products".

In his business plan as a student in the MESODEV programme of the Asian Institute of Management<sup>8</sup> (2004), Rene Guarin summarised the strategic shifts in the table that follows:

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<sup>8</sup>Master in Entrepreneurship for Social and Development Entrepreneurs was a real-time masteral course (i.e. students were expected to apply learnings to their social enterprises) offered by the Asian Institute of Management under the then Asian Center for Entrepreneurship.

	<b>Old</b>	<b>New</b>
Strategy – Capability and Competency	Focused on product development, distribution-oriented and use of conventional sales.	Community-Based Ventures Sector – industry focus for local economic development.
Key Competency	Ability to get new products and introduce these to outlets. Ability to manage and grow the enterprise. Ability to deal with distribution partners.	Ability to develop community ventures that are within a growing industry. Ability to manage and harness local resources and potentials to effect local economic development.
Strategy – Resources	Focused on developing product quality, recipes, business systems and product-specific promotions-advertising.	Focus on developing specific industry sectors like markets for "healthy" consumer products.
	Ability to obtain and manage funds and activities to market products.	Ability to obtain and manage data on industry wide or sector-focused business opportunities. Ability to obtain and manage investment funds for CBEs.

#### *Emergence of Organic Rice and Muscovado Sugar as Champion Products*

UMFI conducted a product review and shifted marketing efforts accordingly. The growing local market for organic produce boosted the share of organic rice, collectively marketed as "Healthy Rice", from 22 percent of total sales in 2003 to 49 percent in 2004. Muscovado sugar, deemed as a healthy alternative to white refined sugar, registered a major jump, from 3 percent of sales in 2003 to 9 percent in 2004. Organic fruit-based, no-preservative jams and jellies accounted for 5 to 6 percent of sales over the two-year period. Other "healthy products" included bottled sardines, honey, canned laing and calamansi concentrate. Kaong/nata de coco was the only product carried that was assessed as having no healthy features and attributes.

The fast movement of organic rice and muscovado sugar in the market led to their becoming entrenched as "champion products". The increase in supply for these two champion products was also made possible by UMFI's expansion of partner-CBEs. In 2005, Healthy Rice registered ₱12.27 million (US\$301,700) in sales and accounted for 75 percent of UMFI's total sales. Muscovado sugar netted ₱2.14 million in sales, accounting for 13 percent of total sales. By 2006, muscovado sales had surged to ₱10.9 million, representing 41 percent of sales. On the same year, Healthy Rice registered an increase to ₱14.3 million, representing 54 percent of total sales.

In all, sales of organic rice increased by 600 percent, and muscovado sugar by a whopping 3,800 percent, over the period from 2003 to 2006. By 2006, sales of the two products were accounting for 95 percent of total sales. In the meantime, sales of other products had declined (though sales

of sardines reached more than ₱1 million in 2005), and canned laing and nata de coco/kaong were completely discontinued. Total sales more than doubled from ₱9.25 million in 2003 to ₱25.6 million in 2006.

### **2007-2010: Value Chain Management in Key Economic Subsectors/Local Market Development**

From 2007 to 2010, UMFI continued to highlight its champion products and to follow its strategy of working with CBEs to supply products to serve the urban markets. In 2010, there were 23 CBEs regularly supplying organic rice, muscovado sugar, bottled sardines and other products to UMFI for distribution to the mainstream supermarket outlets.

Within this period, sales of the champion products, Muscovado and Healthy Rice, plus a new addition, High-Fiber Rice (rice covered with hull), accounted for almost 100 percent of UMFI's sales<sup>9</sup>:

<b>Product</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Muscovado	14,561,963	11,110,993	15,239,471
Healthy Rice	17,935,471	22,457,889	20,221,774
High-Fiber Rice	1,682,749	2,080,268	3,265,175

Source: UMFI Product Contribution Report as cited in 2010 Evaluation Report.

By this time, the rice products had expanded to include the originally-marketed white and brown organic rice, to specialty products like red rice (from the Pecuaria Development Cooperative), black rice (from Don Bosco Foundation for Sustainable Development, Inc.'s BIOS or biodynamic agriculture farms), and the unhulled High-Fiber rice. The rice product lines from these and other suppliers, such as KOOL-NE in Nueva Ecija and Kooperatiba Sto. Nino in Sultan Kudarat, were marketed under the brand "Farms and Cottages".

On the other hand, sales of Muscovado declined in 2008 due mainly to heavy rains that hit Sultan Kudarat, the area of one major supplier. By 2009 though, sales had bounced to slightly more than the 2004 level.

Alongside distribution to the mainstream market, UMFI implemented a strategy to supply the local markets, i.e. the markets that were within reach of the communities themselves. These local markets were made accessible to the CBEs through the Enterprise Development Centers (EDCs). EDCs were intended to provide product development and distribution services to local CBEs. Two EDCs, one in Mindoro and another in Nueva Vizcaya, were operating in 2010.

Within this period, UMFI had also aimed to establish formal linkages with market channels supporting and promoting fair trade mechanisms in the mainstream markets. UMFI had identified the Philippine Supermarkets Association, Inc, Advocates for Philippine Fair Trade, PAC Community Consortium, and Echo Store as targets for this advocacy. This strategy however was

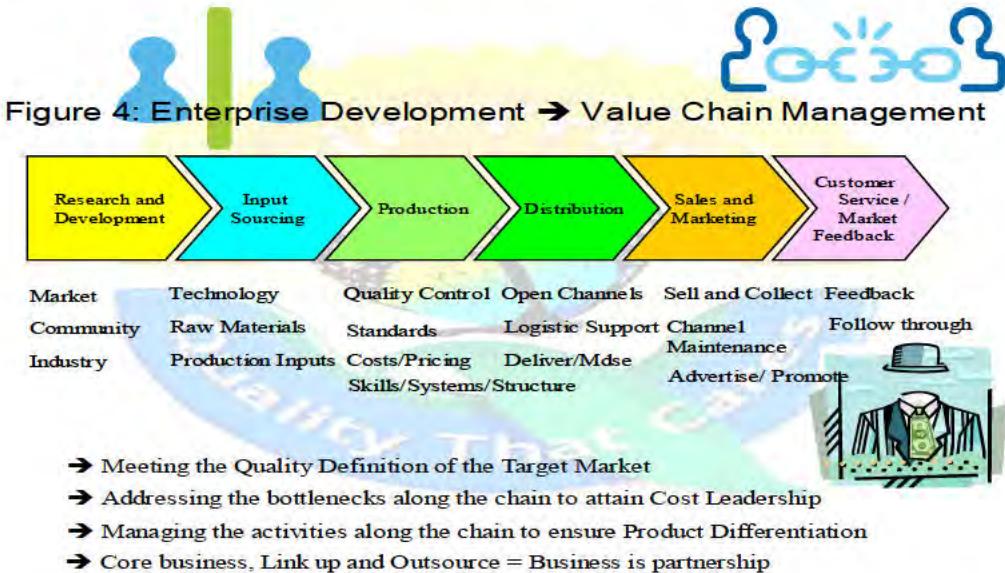
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<sup>9</sup> Sales of the three products as shown in this table actually exceed the sales revenues indicated in the audited financial statements, possibly because of sales returns and allowances and other adjustments.

not fully implemented as UMF's focus for the period was geared towards securing the financial resources required to sustain supply of CBE products.

## Value Chain Management

UMF had identified value chain management as a major strategy and area of concern in its operations. UMF sought to pay attention to different aspects of the value chain, as shown in Figure 4.



Value chain development and management were of particular concern with respect to UMF's champion products. For the greater part of the last decade, these had been organic rice and Muscovado sugar.

As of mid-2010, the champion products had made the following contribution to UMF's business and social impact (2010 evaluation report).

### Contribution of Champion products (Rice and Muscovado Sugar)

Impact/Contribution Indicators	Rice/Organic Rice	Muscovado Sugar	Others	Total
No. of Beneficiaries	1,068	1,152	767	2,987
% share to total	35.75%	38.57%	25.68%	100%
Estimated No. of Women (as of 2009)	401	102	574	1077
% share to total	37.23	9.47	53.30	100
Sales in ₩ (2003 – April 2010)	109,630,038	63,809,862	17,189,303	190,629,203
% share to total	57.51%	33.47%	9.02%	100%

From 2003 to 2009, sales of Healthy Rice had grown by an average of 58 percent per year and muscovado sugar by an average of 137 percent per year. Sales of High-Fiber Rice (rice with hull), introduced in 2007, grew by an average of 41 percent over the two-year period.

Sales of Dipolog School of Fisheries (DSF) products (bottled sardines) had actually grown by an average of 59 percent per year on the strength of a nearly 600 percent growth from 2004 to 2005. However, sales had declined steadily since then. All other products experienced negative average annual growth rates<sup>10</sup>. The poor performance of these products — bottled sardines, jams and jellies, honey, and calamansi concentrate — was due to different factors linked mainly to limited capacity to meet volume and price requirements of the market. For example, as shared by Mel Fonollera, DSF's problem had always been limited supply. On the other hand, Kalahan Educational Foundation (KEF) could not "produce (the Mountain Fresh jams and jellies) at economies of scale" that would enable them to compete price-wise. Selling prices for Mountain Fresh were now approaching those for imported brands. Also, the price increases that KEF had to institute for Mountain Fresh already went beyond the 10 percent price increase limit per year mandated by the big chains. DSF was now only sold in the Cherry Foodarama outlets, while Mountain Fresh was now limited to Landmark Supermarket.

UMFI's process of selecting champion products was supposed to be guided by certain tools. One was the "Rapid Appraisal Tools (RAT) for CBE"<sup>11</sup>, and the other was a set of criteria specifically used for coco sugar and dairy products. A comparison of these tools was shown in Annex A. These tools were not yet developed when organic rice and muscovado sugar became champion products. For these first two champion products, separate studies were made after their fast movement on the shelves of supermarket outlets was observed.

Marlon Palomo, chair of KOOL-NE (a Nueva Ecija-based partner of UMFI for organic rice since 2003), shared that UMFI had indeed been active in value chain development. UMFI had assisted KOOL-NE and its partner farmers in the following ways:

- Facilitation of capital both for agricultural loans and for the trading and milling operations (either from UMFI or, in later years, from UMFI's partner, the Federation of Peoples' Sustainable Development Cooperative or FPSDC);
- Assistance in organic certification of farms;
- Oversight in the milling process to ensure product quality;
- Repacking of rice for retail; and
- Marketing to the retail chains, as part of the "Healthy Rice" line under the "Farms and Cottages" brand.

In terms of financing, there was a tripartite agreement among KOOL-NE, UMFI and FPSDC. Under this agreement, FPSDC released advances to KOOL-NE in the form of loans, KOOL-NE provided organic rice to UMFI valued at agreed-on prices, and UMFI directly paid back FPSDC for the amount owed by KOOL-NE. Marlon Palomo shared though that there were times when UMFI's payments to FPSDC would be delayed, creating complications down the line.

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<sup>10</sup> Except products newly-introduced in 2009, i.e. Muzcafe, F n C Kaong and F n C Honey.

<sup>11</sup> Published by Upland NGO Assistance Committee 2007.

A major factor for many CBEs' problems in meeting the delivery and price requirements of the market was UMFI's inability to "provide immediate payments to the suppliers (which) caused the suppliers to stop production or purchase of raw materials during harvest season" (Canlas et. al.). UMFI had tried to address this situation by facilitating access to financing for CBEs and trying to negotiate for better payment terms with the retail chains.

The arrangement with FPSDC was among the schemes facilitated by the Social Enterprise Finance Facility (SEFF), introduced in 2008, with the recognition that financing was a key component of value chain development. However, other schemes — particularly those that involved UMFI's contracting the loans itself and engaging directly in financing to CBEs — did not prove to be financially viable, at least within the short term. This was apparently because the SEFF did not provide for sufficient spread between the interest cost on loans and the building-in of financial charges in transactions with partners. Because of this, the financing extension part of SEFF had been put on hold at the time of the case research.

Looking at value chain development as a whole, UMFI, KOOL-NE and other social enterprises and social enterprise resource institutions were involved in a collective effort to develop the organic rice value chain in Luzon. This effort was spearheaded by the Interchurch Organisation for Development Cooperation (ICCO), whose value chain development programme coordinator was Rene Guarin, former executive director of UMFI. The Luzon initiative was mirrored in a parallel group for the Visayas-Mindanao cluster and a similar effort for muscovado sugar.

Among the plans for the development of the organic rice value chain in Luzon were the provision of assistance to producers for organic certification, and to CBEs for the installation of internal quality control systems. The group members were also awaiting the results of a research commissioned by ICCO that was expected to provide direction on the promotion of organic rice in the market. This was being done amidst discussions on whether the organic rice market in the Philippines had already reached a plateau, or whether there was still room to grow the market.

Finally, UMFI also had a Research and Development (R&D) department which was engaged in product development and quality control. In 2010, the department was developing an assortment of new products, e.g. various types of coffee mixes, "Pinoy ice tea", brown rice pancake mix, red rice energy drink, black rice bihon, and coco sugar. The development of new products was biased towards using raw materials produced by CBEs. However, UMFI's financial difficulties had made it difficult to pursue R&D activities, which by nature required investments. Hence, by the early part of 2011, R&D had been put largely on hold. The exception was for coco sugar, which had generated market inquiries from abroad.

## **Local Market Development**

The Local Market Development approach was developed in line with the observations that it would not be possible for all CBE products to gain access to supermarkets in Metro Manila, and that transport costs of products to Metro Manila were very expensive. The idea was for UMFI to provide market outlets in key nodal points where there were sufficient CBE products which could be traded locally.

The main vehicle for local market development was the Enterprise Development Center or EDC. The EDC was intended to provide capacity-building and linkage assistance to CBEs, and featured

a store/display centre for products. In the process, the EDC was intended to generate income and thus become self-sustaining.

EDCs were operational in Oriental Mindoro and Nueva Vizcaya. On the whole though, local market development did not yet account for a significant part of UMFI's operations.

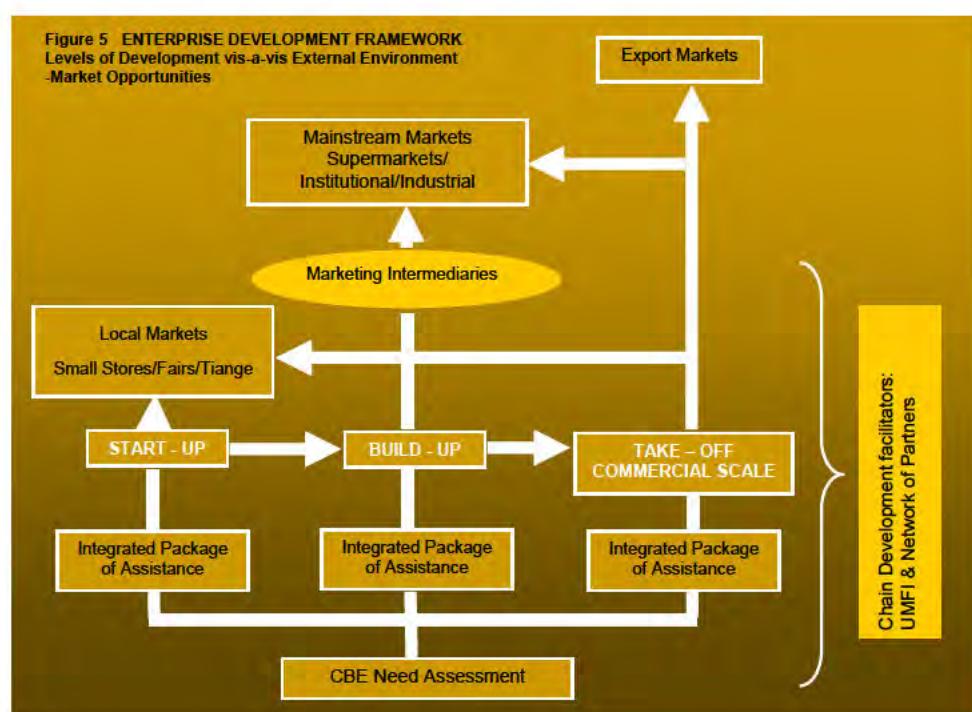
### **Partner-CBEs**

As of 2010, there were 23 CBEs regularly supplying organic rice, muscovado sugar, bottled sardines and other products to UMFI for distribution to the mainstream supermarket outlets. There were 21 CBEs that supplied products to local markets through the EDCs: 14 were in Oriental Mindoro and seven were in Nueva Vizcaya. These CBEs engaged close to 3,000 individual producers. Of these individual producers, about a third had experienced substantial and regular income increases directly resulting from their relationship with UMFI.

In order to systematically define the package of assistance necessary for each CBE, as well as to accurately determine expectations for the market, UMFI had established a classification scheme for its partner-CBEs. Based on various organisational, systems, product and financial factors, CBEs were classified into three stages: start-up, build-up, and take-off or commercial scale.

UMFI seemed to have made significant inroads towards the strengthening of CBEs and the markets for their products. However, an evaluation team in 2010 noted that "many of the CBEs visited face common problems that threatened competitiveness of their products. These include high production and marketing costs, unstable supply of raw materials, poor infrastructure facilities, low productivity, etc. Marketing costs are high due to distance. These costs increase their prices making them uncompetitive in the market."

Looking at these, the 2010 evaluation team had proposed that UMFI conduct a needs assessment of CBEs. This was intended to help UMFI better define the integrated package of assistance needed and partners required to provide the services at each level, in line with the framework found in Figure 5:



For those CBEs in the build-up and take-off stages who were supplying the mainstream markets, one main bottleneck lay in the long payment periods/delayed payments from UMFI. This arose in turn from delays in payments to UMFI by the supermarkets. This had created stresses to the system, and to the viability of the CBEs and UMFI, over the last couple of years. It was a situation that UMFI was continually seeking to address.

## Performance of Business Operations

Table 1 provides details of UMFI's business performance from 2004 to 2009. Business operations mainly covered the distribution and sale of products, which had accounted for 94 to 99 percent of business revenues over the years, with interest and other miscellaneous income accounting for the balance.

As a development institution, UMFI also generated grants and other support funds. These were used for various programme support activities including value chain development, market development, CBE development, etc. These are not included in the financial statements shown in Table 1.

Sales increased by almost three-fold over the period from 2004 to 2009. However, gross income from sales was only at 17 to 20 percent of sales until 2008 (hence cost of goods sold was at 83 to 80 percent of sales). In 2008, the cost of sales was brought down to 75 percent when UMFI was able to institute higher selling prices at the height of the rice crisis. The year 2008 was also the first year that a positive income was registered for business operations.

Although the gross margin percentage was sustained for 2009, a huge interest expense kicked in for the year, and general and administrative expenses ballooned, leading to a net loss of ₱1.8 million for the year. Another factor for the loss was damage to stocks due to a major typhoon that hit the country (Typhoon Ondoy). The docking system of the SM chain also appeared to impact negatively on UMFI operations<sup>12</sup>. These were unfortunate developments, since prior to this, UMFI had actually managed to keep expenses at around 25 percent of sales since 2006. Together with the increase in gross margin due to higher selling prices, these could have led to continued income in business operations.

UMFI had continued to grapple with problems arising from the policies of the large supermarket chains, specifically the long payment cycle of around 90 days<sup>13</sup>. This in turn led to delayed payments and advances to CBEs, leading to a vicious cycle of delayed production and delivery of products to market. UMFI had managed to negotiate for 60-day payment terms with most suppliers, and 45-day payment terms with the SM chain, the largest and most powerful

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<sup>12</sup> This refers to the delivery system to SM and its internal distribution system. UMFI had previously been able to deliver goods directly to the SM branches. During this period, SM changed the system such that deliveries had to be made to a central site, i.e. a "dock", with SM itself taking care of the delivery to its branches. UMFI noted that returns increased during this period, and theorised that the UMFI goods were not flowing well to the SM branches. To address this, UMFI had deployed merchandisers in the branches who would ensure that the branches were receiving adequate supplies.

<sup>13</sup> An analysis of the aging of receivables in the 2010 evaluation report showed that for 2008 and 2009, receivables of over 90 days accounted for 32 percent and 35 percent of total trade receivables, respectively, up from only 4 percent in 2008.

supermarket chain in the Philippines. Products placed with the latter, however, were on consignment, meaning that there would be significant sales returns if turnover was slow.

Compounding the problem on payment terms was the fact that unlike big consumer goods companies, UMFI did not deploy "refillers" to the stores — personnel who could ensure that product units were brought out of the stockrooms to refill empty shelf space as items were bought.

UMFI's cash cycle — the total period for conversion of inventory to cash — was an unwieldy 172 days, a period that it was targeting to bring down to 60 days.

## Moving Forward

In view of difficulties with the retail chains — i.e. the long cash cycle and UMFI's weak bargaining power vis-à-vis the chains, UMFI intended to develop other markets. Specifically, it was looking at hotels and restaurants. UMFI recognised that the hotel and restaurant industry was difficult to enter. It would have different standards on quality, delivery and price, and entering this market would require a different set of organisational skills and resources. However, UMFI felt that it was necessary to explore this market in order to widen the client base and hopefully provide a respite from the long terms offered by the retailers.

Coco sugar, derived from coconut, was a new product that seemed to have good prospects both in the local and export markets. Initially, UMFI already had an order of 9 tons from the United States. USDA organic certification had been obtained for the sugar. So far, UMFI had only one CBE partner for this — the Misamis Oriental-based Linabu Agrarian Multi-Purpose Cooperative. Coco sugar had a low glycemic index and was deemed particularly attractive to the "healthy products" market. It was also fetching a price twice that for Muscovado. Ruben Evangelista, current executive director of UMFI, was upbeat about this emergent champion product. He explained that when the market for coco sugar would have been established, UMFI would have to build the value chain by doing backward integration, specifically assisting other CBEs to join the chain.

As it faced the many challenges ahead, UMFI was also evaluating its organisational focus and structure. Options proposed by the 2010 evaluation team included the following:

- **Remain as UMFI**, but departmentalise specific families of tasks, responsibilities, and personnel capacities. This would also mean the separation of operating budgets, and the establishment of the departments' share of the institutional targets.
- **Create a corporation** to handle the business operations. The corporate entity would house the following: Sales and Marketing, Research and Development, Logistics/Warehouse, and Enterprise Development Centers. UMFI as a non-profit organisation would have the following: Social Enterprise Financing Facility, Programs Management, Donor Relations, CSO Networking/Social Marketing, Training/Capability Building, and Publications and Communications.

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UMFI management said that this was under discussion, and the direction may eventually be towards the separation of the enterprise and non-enterprise operations.

The next few years comprised another interesting phase for UMFI as it tried to figure out how to survive and grow in the evolving market environment. Whatever shifts it would make in its strategies, UMFI was clear about its mission of helping community-based enterprises as engines for local economic development.

Table 1: UMF1 Business Performance, 2004–2009

	<b>2004/Note 1</b>	<b>% of Sales</b>	<b>2005/1</b>	<b>% of Sales</b>	<b>2006</b>	<b>% of Sales</b>	<b>2007</b>	<b>% of Sales</b>	<b>2008</b>	<b>% of Sales</b>	<b>2009</b>	<b>% of Sales</b>
<b>Sales</b>	<b>10,094,211</b>		<b>17,089,544</b>		<b>25,762,512/ Note 2</b>		<b>34,050,994</b>		<b>34,802,221</b>		<b>36,946,903</b>	
Cost of Sales (includes other Direct Cost and Indirect Cost)/ Note 3	8,228,173	0.82	14,170,577	0.83	20,708,345	0.80	27,649,254	0.81	26,060,842	0.75	27,433,551	0.74
<b>Gross Income from Sales *</b>	<b>1,866,038</b>	<b>0.15</b>	<b>2,918,967</b>	<b>0.17</b>	<b>5,054,167/ Note 4</b>	<b>0.20</b>	<b>6,401,740</b>	<b>0.19</b>	<b>8,741,379</b>	<b>0.25</b>	<b>9,513,352</b>	<b>0.26</b>
<b>Revenues</b>					<b>5,393,266</b>		<b>6,838,331</b>		<b>8,957,721</b>		<b>9,648,321</b>	
Income from Sales *					5,054,167/ Note 4		6,401,740		8,741,379		9,513,352	
Interest					130,299		126,096		205,990		38,065	
Others					228,800		310,496		10,352		96,904	

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	2004>Note 1	% of Sales	2005/1	% of Sales	2006	% of Sales	2007	% of Sales	2008	% of Sales	2009	% of Sales
<b>Expenses</b>	<b>5,304,417</b>	<b>0.53</b>	<b>6,239,251</b>	<b>0.37</b>	<b>6,548,901</b>	<b>0.25</b>	<b>8,403,745</b>	<b>0.25</b>	<b>8,768,480</b>	<b>0.25</b>	<b>11,480,156</b>	<b>0.31</b>
Selling					4,645,308	0.18	6,012,388	0.18	5,815,753	0.17	6,284,856	0.17
General and administrative					875,225	0.03	910,446	0.03	958,562	0.03	2,420,030	0.07
Interest on loans					1,028,368	0.04	1,480,911	0.04	1,842,008	0.05	2,775,270	0.08
Income tax expense									152,157		-	
<b>Net income (loss)</b>	<b>(3,438,379)</b>		<b>(3,320,284)</b>		<b>(1,155,635)</b>		<b>(1,565,414)</b>		<b>189,241</b>		<b>(1,831,835)</b>	

Notes to Table:

1. All figures for 2004 and 2005 are from unaudited financial statements. Reflected expenses for 2004 and 2005 only include sales and marketing expenses and expenses subsidised by the consultancy fund. Unless otherwise indicated, all other figures are from audited financial statements.
2. From an unaudited financial statement. Cost of Sales is computed based on this sales figure less Income from Sales reflected in the audited financial statement.
3. Includes repacking cost, packaging materials, packaging designs, shipping cost, toll packing fee, insurance, depreciation and other provisions.
4. ₦5,137,059 in an unaudited financial statement, from which the sales figure was drawn.

Sources: UMFI Audited Financial Statements: 2009 with comparative 2008, 2007 with comparative 2006; UMFI unpublished documents: financial statement worksheets, 2004–2006; 2007 Evaluation Report; 2010 Evaluation Report.

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**ANNEX A**  
**Selection Criteria For CBEs And Products**

<b>Characteristics of CBEs to be developed (based on RAT for CBE)</b>	<b>UMFI Product/Sector Selection Criteria (UPSC) (Applied to coco sugar and dairy products)</b>															
1. Ensures community participation (in all or any of the following) <ul style="list-style-type: none"> <li>a. Ownership</li> <li>b. Management</li> <li>c. Business Operations</li> </ul> 2. Located within the community 3. Utilising resources grown or that can be grown in the community (the local material should be the main ingredient of the product) 4. Employs local people (priority must be given to the local residents and in some cases exclusive to the locals)	1. Market potential or presence of strong market - international 2. Market potential or presence of strong market - national 3. Market potential or presence of strong market - export 4. Significant margins to all actors and/or potential actors along the chain 5. Increase Income for farmers/producers/processors 6. Increase or wide coverage of beneficiaries 7. Support from the LGUs, Government agencies, NGOs 8. Promotes environmental concerns and fair trade principles 9. Involvement of private entities and sectors 10. Horizontal-vertical alliances of the actors															
<b>Scoring:</b> The over-all score is grouped into ranges that will represent the feasibility of the proposed food processing enterprises or farm production/agribusinesses. The scoring will be based on the following level of importance for each of the component:	<b>Scoring Guide:</b> 5 highest value (Most significant criteria) 1 lowest value (Least significant criteria) <b>Information Guide:</b> 1=Supported with facts, presence of research and study 0.5=Actual experience, information from actors 0.1=informal information															
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">Industry Production</td> <td style="width: 33%;">Food Processing</td> <td style="width: 33%;">Farm Production</td> </tr> <tr> <td>Product</td> <td>15%</td> <td>20%</td> </tr> <tr> <td>Infrastructure</td> <td>20%</td> <td>25%</td> </tr> <tr> <td>Market</td> <td>25%</td> <td>25%</td> </tr> <tr> <td></td> <td>40%</td> <td>30%</td> </tr> </table>	Industry Production	Food Processing	Farm Production	Product	15%	20%	Infrastructure	20%	25%	Market	25%	25%		40%	30%	
Industry Production	Food Processing	Farm Production														
Product	15%	20%														
Infrastructure	20%	25%														
Market	25%	25%														
	40%	30%														

Source: 2010 Evaluation Report.

# **Case Collection on Philippines (2012)**

## **Social Entrepreneurship in Asia: Working Paper No. 2**

This is the second working paper in the series on Social Entrepreneurship in Asia published by the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP). The collection of cases on social entrepreneurship in the Philippines was borne out of a three year partnership between the National University of Singapore Business School, Ateneo de Manila University and Gawad Kalinga in a collaboration on curriculum development in entrepreneurship for sustainable development.

This collection brings together 10 cases on 12 social enterprises to explore a wide range of issues in social entrepreneurship, such as the triple bottom-line, hybrid business model, intervention strategy, stakeholder management and social impact measurement. More importantly, this collection gives readers rich insights into the social entrepreneurship landscape in the Philippines. Through the cases, it becomes clear that social entrepreneurship holds great promise in addressing social issues like poverty alleviation through market-based interventions.



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