



 **2012**
PEF ANNUAL REPORT



Since 2001, the Peace and Equity Foundation (PEF) has been the steward of an endowment fund for civil society-led efforts to reduce poverty. Today, PEF promotes social enterprises to help uplift poor Filipino communities through better household incomes, empowerment and

resiliency against climate change. PEF envisions self-sustaining households providing for their basic needs of life—food, water, shelter, health, education—and contributing to the socio-cultural growth, economic development and effective governance of their sustainable communities.

Contents

| | |
|--|----|
| Message from the Chairperson..... | 2 |
| Reflections on Building Social Enterprises..... | 4 |
| Building Blocks of a Social Enterprise Ecosystem..... | 10 |
| <i>Voices in Social Enterprise</i> | |
| Standing on their Own..... | 12 |
| The “Poor Man’s” Sugar..... | 16 |
| Working Hard for the Honey..... | 20 |
| All Sun, No Smoke..... | 24 |
| <i>Musharaka</i> for Peace..... | 28 |
| 2012 Performance Highlights..... | 32 |
| PEF SE Program Portfolio and Partnerships, as of 2012..... | 34 |
| Partnership Projects in 2012..... | 35 |
| Treasurer’s Report..... | 45 |
| Report of Independent Auditors..... | 48 |
| Audited Financial Statements..... | 50 |
| Board of Trustees..... | 54 |
| Management & Staff..... | 55 |



To be more effective in social development, PEF's role must evolve into "nurturing an entrepreneurial culture among NGOs and social enterprises."

Message from the Chairperson

Nurturing and Growing Social Enterprises

It has been more than a year since we started to build up PEF's institutional capacity to deliver some progress towards our new thrust on **social enterprise promotion and development**. With perhaps an over-enthusiasm on my part, I thought that PEF was prepared to hit the ground running on social enterprise initiatives. Realities on the ground, however, did not allow us to run or even do brisk walking.

We learned instead to take a few baby steps towards our goal of improving the economic well-being of households and communities through social enterprise. To guide our process, we developed a 30-month roadmap on how we will nurture and grow social enterprises.

The difficulty in developing social enterprises (SEs) that benefit the poor is partly due to the dearth of successful models in our country. Successful models, when carefully examined, could raise some questions on whether such models can be replicated in other communities and whether replicators can achieve higher rates of performance compared to the model.

There is clearly a demand for social enterprise financing: In 2012, we received **240 million pesos** worth of proposals. We look not only at financial requirements but also evaluate entrepreneurial capabilities and technology used. We even study and help define the target markets. In the case of a cacao processing project, for instance, we ask—are women

who shop in supermarkets the target buyers? Or is there a ready market for *tableya* (chocolate tablets) for roadside eateries that serve traditional *suman* and *sikwate*? Clearly defined markets assume great importance in start-ups, more so perhaps for social enterprises.

On one occasion, I joined some of our Board members in visiting partners in Panay Island. We confronted a wall of technology issues. I saw their muscovado processing enterprises and wondered: How will PEF help grow their social enterprises if they were still using 200-year-old crushers that extracted only 45% of raw sugar from the cane? In Indonesia, they can extract over 90% of the sugar. And in exchange for a sustainable social enterprise, are we willing to overlook environmental shortcuts? The mills we visited emitted worrisome amounts of carbon monoxide because they still used inefficient wood-burning stoves to cook the muscovado. How can we help reduce carbon footprint when producing more muscovado means more wood to burn?

The management and staff are currently responding to these issues by building what you call the ecosystem for **social enterprise development**. These include capacity building on business and financial planning, legal and marketing support, equity investments, production efficiency and carbon footprint reduction and mitigation.

At the Board level, we also organized the Social Enterprise Committee whose members have a wide range of expertise in enterprise management to guide our SE assistance.

If we see our current role as simply providing finance to social enterprise, then I am afraid that PEF will not be any much different from other finance providers. Perhaps to be more effective in social development, PEF's role must evolve into "**nurturing an entrepreneurial culture among NGOs and social enterprises,**" a culture that vigorously encourages innovation, thinking out of the box, receptiveness to new ideas, proactively building prototypes with potential for success. It is not difficult to imagine the tremendous impact such entrepreneurship shall bring to the rural communities where social enterprises are growing.

Moving Forward for PEF

Our final push is to hit Php1 billion in social enterprise investments by 2015. This near-future goal requires that PEF expand its capacity to handle very large investments. The Board already started discussions on putting up a new, more suitable organization to handle this responsibility—possibly an autonomous investment and holding company, which we hope to launch in 2014.

As envisioned, the proposed holding company will manage several subsidiaries charged with growing social

enterprises over time. Each subsidiary will have a distinct expertise, such as, development finance, marketing, business development and advisory services, and manpower services. Seed money for the holding company will come from PEF.

The tasks of undertaking baseline studies, capacity-building projects, learning events, case studies, and provision of grants and loans for start-up SEs will remain with PEF as the mother Foundation.

The Philippines' Macro Economy

The year ahead is seen by experts to be vibrant for the Philippine economy. How the fruits of an expanding economy are distributed to the bottom poor will remain a formidable challenge for the government.

Herewith are some disturbing facts according to an economics expert: seventy-six percent of the country's GDP growth was enjoyed by some 40 richest families. In Malaysia, the share of the elite in the economic growth is 5.6 percent, and in Japan, just 2.8 percent. We can see clearly that in our country, a huge disproportionate share of the fruits of economic growth is enjoyed by a very tiny minority while a majority of our people continues to live in the margin.

We at PEF need not wait for economic progress to trickle down to the poor. The rise of numerous and varied social enterprises that are fully engaged with the mainstream economy will help equitably distribute the growing economic pie. I find social enterprise promotion and development as a superior strategy to promote **inclusive growth**.

PEF's mission to nurture and grow social enterprises and promote technologies that are climate-smart will ensure that social and economic benefits likewise reaches the poor, the indigenous peoples and marginalized communities in Muslim Mindanao.

The Promise of Social Enterprise

Let us continue to strengthen our partnership with each other, and in creating wealth among the communities we serve. I urge you to join me in this vision where PEF, and its dynamic organization, will be the nucleus of vibrant, productive, and caring communities of social enterprises working for the poor.

May our God continue to bless our work with and for the poor.

Archbishop ANTONIO J. LEDESMA, SJ DD

Chairperson

Peace & Equity Foundation





Reflections on Building Social Enterprises

THIS REPORT marks 12 years of work by the Peace and Equity Foundation. Since 2001, we have pursued a central idea of reaching the poorest communities. It's an appealing turn of phrase, used not just by us but by other non-profits that maintain it, often routinely, and, at times, with a muddled sense of its meaning. It borders on cliché. But clichés are useful devices, too, because they contain kernels of truth.

From day one, our Foundation—the steward of a unique financial resource—understood that lessening poverty in communities always had to be about partnerships with the poor to build their capacities.

For 12 years, PEF has endeavored to invest in projects that we thought could enhance the poor's capacities.



In the first 10 years, a social development approach guided us. It was a fairly broad approach. PEF supported many projects all over the country: basic services, community organizing, advocacy, microfinance, environmental protection, agrarian reform communities, and so on. This was no mean feat. In all—in that decade—our Foundation moved Php1.2 billion to more than a thousand groups.

Toward the close of our first decade, however, PEF knew it was at a crossroads.

We were reeling from the effects of the 2008 global financial crisis on our core funds. Investment losses threatened our long-term ability to continue channeling resources to the poor. Although we have since recovered from those losses, the Board recognized that our assistance needed to be less expansive and more strategic.

That was when we carried out a close evaluation of both the Foundation's first-decade projects and the organizational structure in place to service those projects. It was a kind of collective discernment by the

Board. By one reckoning, we reached 320,000 households from 2001 to 2010—a remarkable achievement that did credit to our board, staff members and partners. More difficult to ascertain, however, was the lasting, measurable impact of many projects. Simply put, we didn't have sufficient baseline data to compare project results with the situation that prevailed before.

Our evaluation also found a weakness in how PEF previously identified project beneficiaries. The Foundation funded projects with an intention to target the very poor. Unfortunately, there were missteps in conceptualizing and delivering many of those projects. They missed their targets; beneficiaries reached were not necessarily the poorest.

The most encouraging finding came when we compared different project types across the board. A promising pattern: 50% of our projects had an economic activity—like lending, marketing, and trading—and *nearly all* resulted in a measurable impact on quality of life. They had the building blocks to become self-sustaining. We found it harder to see

equivalent results in other projects like water supply, basic organizing, or health that lacked clearly defined economic objectives.

The Foundation talked to many partners in the field and after getting a consensus, agreed to shift to a strategy of supporting 'social enterprises' from 2011 onwards.

When we decided to move most of PEF's resources to social enterprises, our intention was to give sharper focus, better targeting of poor beneficiaries, economic impact, and sustainability to our assistance.

We should explain that the Foundation continues to support non-economic projects like rehabilitation aid for victims of Typhoon Ondoy in Luzon, the earthquake in Negros Province, and Typhoon Sendong in Cagayan de Oro and Iligan. Part of the Foundation's mandate is to help those in emergency situations. We think this is a good balancing factor.

Part of our resources still should be set aside for emergency and relief support during natural calamities—and even advocacy for urgent issues like asset reform. We also think

community organizing might still be needed in some specific cases. The main proportion of PEF funds should be allocated to social enterprise but we reserve at least 20% of our funds—a smaller but still significant portion—for these other concerns.

Let's move on to the 2012 report, which is a snapshot of where we are in the second year of the Foundation's shift to social enterprises. Here's a quick look at the numbers: As of 2012, we have invested Php100 million in 29 social enterprise projects in Luzon, Visayas, and Mindanao, with a potential reach of 20,000 beneficiary households. The Foundation provides funds through loans, credit lines, and grants. We have discarded the one-size-fits-all formula of previous years; instead, our conditions now depend on the requirements of the business, including the funding amount, the schedule of releases, and the terms of repayment.

We even started equity investments in enterprises that can grow only through joint ventures with PEF. For instance, in order to

respect Islamic financing principles, the Foundation approved an equity infusion of Php1 million to Katiyakap, Inc. for a lending project for Muslim women entrepreneurs in General Santos City and Sarangani Province.

According to our work plan, 2012 was the 'design and pilot' phase (the previous year was 'strategy development').

It's just as instructive to talk about our emerging appreciation of the various social enterprises we're now helping. Someone asked our Board Chair, Archbishop Antonio Ledesma, whether the Foundation's social enterprise approach is, in fact, a business model. His answer: "No, it is not." Our Foundation's concern for the poor is not negotiable and always will be there. The social enterprises we support benefit the community, meaning they can't be 100% driven by profit.

Ownership, though, is not necessarily by the community. Other groups say it is social enterprise only if the community owns and controls the project. Our Foundation

does not believe in that. Instead, we hold to a real-world view that says the community cannot control and manage everything.

This accounts for the importance we place on the 'value chain' of the social enterprise. Value chain is another tool we adopted from business. Basically, a value chain refers to all the activities (the 'chain') that an enterprise and its workers do—from gathering raw material, processing, design, production, packaging, selling, distribution, collection, support to the final consumer—in order to deliver a valuable product or service for the market.

The Foundation reviews the entire value chain of every social enterprise we assist. We look for weaknesses and strengths because it's next to impossible for an enterprise to be strong at every point in the value chain. Where it is weak, an enterprise should find a partner strong in that part of the value chain. From our experience, social enterprise projects perform poorly when the community tries to do everything in the value chain.



Board member Emmanuel Areño, who is a regional coordinator of a coalition of NGOs in the Visayas, points to a project in Iloilo as a good example. This particular social enterprise turns out seafood products. It opted to outsource packaging and branding to an experienced for-profit group. Superior packaging led to longer shelf life and professional branding increased product appeal, attracting more buyers at a higher price. “So there is value added,” says Areño. “Before, there was none. The kind of packaging the community did was so bad that moisture seeped in. The product was easily perishable and a lot was wasted.”

Another example is the *muscovado* sugar production project of Laua-an Multi-Purpose Cooperative in Antique Province. This social enterprise received a financing package totaling Php8.4 million from our Foundation. The cooperative buys its sugar from planters in the area, processes it into *muscovado* and sells it to different outlets in Antique and neighboring towns.

Can we already talk of results in the social enterprises we are helping? It might be premature. Board member Chit Juan, a seasoned entrepreneur who is president of ECHOStore and founder of Figaro Coffee, Inc., thinks social enterprises need “patient” capital. “The models I have seen so far need both time and money to make them successful,” she says.

Happily, the initial steps have been taken.

Board members led by Archbishop Ledesma visited projects in Iloilo and found them to be examples of how we can help empower small entrepreneurs and start small businesses. They saw how social enterprise is a way for small producers to come together to market their products. There is a multiplier effect. Everyone benefits. A bakery

project they visited gives employment to 30 people. It’s working 24 hours by shifts. It produces income not only for the owners of the bakery but also for its workers.

“I believe social enterprise is one way to generate jobs at the local level in our country,” observes Archbishop Ledesma. “Our technical staff tell me that every social enterprise we support actually can absorb as much as Php25 million in capital. Right now, we’re financing each with only Php5- to Php10-million worth of loans because our capacity is limited. A social enterprise potentially can double in size in five years time. That means it’s possible for the enterprise to double the number of people it employs.”

A project in Antique Province produces woven *buri* hats. This enterprise gives community women a chance to produce handicraft in their homes. Marketing is centralized. Any number of women that are committed to producing the *buri* hats can join. It’s a fine example of how a small group can help their neighbors become more productive.

Board members say they always look forward to visiting projects because field experience is more convincing and—in a sense—also more revealing.

“I learn so much from talking to people who are trying to start a social enterprise,” says Archbishop Ledesma. “People tell me their concerns about quality control, about the punctuality and the discipline among members, about competition from other groups. These are concerns of any business. But, coming from people in the community, they emphasize the special challenges of putting up a social enterprise.”

Such challenges helped to teach us a number of important points as we endeavor to grow social enterprises. Our Foundation had three significant learnings in 2012. First, we learned that we couldn’t simply throw money at the problem. Growing social enterprises is more than a matter of financing, especially among our ‘traditional partners’—the NGOs, coops, and people’s





organizations. There is lag time before a community can acquire values, such as workplace discipline and quality control, to sustain a social enterprise. To grow social enterprises, PEF must invest heavily in capacity building. This requires additional and different skills from staff members. At the Board level, we organized a Social Enterprise Committee whose members have a wide range of expertise in enterprise management.

Second, PEF has to find its own 'space' in the social enterprise community. Our Foundation should establish its niche among the increasing number of players in social entrepreneurship. This niche—we also might call it competitive advantage— involves being able to match an appropriate social enterprise assistance package to the right community partner. Promoting our 'space' in social entrepreneurship requires a clear advocacy message and plan. It's how we can communicate the Foundation's 'brand' of social enterprise.

Third, our Foundation needs to study further the so-called 'missing middle'—community groups that

have graduated from microfinancing but are still relatively too small for commercial bank financing. We should look for and work with emerging new players in social enterprise that also are the missing middle, including for-profit groups and joint ventures. Establishing partnerships with such groups will be challenging, since they likely will have different outlooks on creating and distributing value to the community.

One thing the Foundation knows now is that a social enterprise cannot sprout from a ready-made formula. There are human factors to deal with. Community social enterprises need leadership; they need discipline; and they need preparation. They also need outside help from go-between partners like Insol Development Foundation, Inc. We gave Insol an Php8-million loan earmarked for relending to micro-entrepreneurs in Luzon and the Visayas. Insol provides added technical support by helping to process the papers of these social enterprises and linking them with markets. Groups like Insol perform the role of midwives of social enterprise.

Our Foundation needs such midwives because a social enterprise is not simply a business enterprise. In black and white terms, businesses are there solely for profit. But a social enterprise—while it operates like a business and takes into consideration market forces—is there for employment generation and for social development of a community.

The Foundation, with its focus on social enterprise, "has the power to change people, the community and the country," says Board member Chit Juan. It reminds us "to combine our good intentions with an astute business eye to ensure sustainability of our enterprises."

Board member Emmanuel Areño speaks for all of us in the Foundation when he says the potential good of social enterprises is exciting. "I've travelled to many islands and far away communities in rural areas," he says. "There's so much potential in terms of natural resources. These are not harnessed to the point that they're left there, untouched. Outsiders take advantage of these resources—at the expense of the poor who are the owners of these resources."

The Foundation steadily learns to address this unfairness through its focus on social enterprises.

Regardless of how we eventually will manage our funding portfolio, the bottomline remains the same: The social enterprises we help now are transforming community people through collective discernment and companionship. There remains ample room for flexibility, and continuous innovation and experimentation. And if all goes according to work plan, we can look forward to developing a critical mass of a hundred profitable social enterprises by 2015 with a reach of 100,000 households. It's a stirring prospect! ■



Building Blocks of a Social Enterprise Ecosystem

Customized Financing

Many PEF partners with growing social enterprises say financing is their biggest problem. In 2012, we saw that appropriate financing—the right amount of capital at the right time, coupled with diligent review of cash flow—partly determines when and how a social enterprise will grow.

The Foundation rolled out innovative financing instruments to suit varying needs of partners. These included bridge-financing a purchase order from a government contract, a guarantee fund for housing and microenterprise development, credit lines to ensure the timely availability of capital, and equity financing consistent with Islamic lending principles. PEF is open to non-traditional projects, such as credit programs for “missing-middle” enterprises, integrated rice-duck farming and other organic farming activities, housing and water services provided through social enterprises, and investment in for-profit businesses.

Appropriate financing helps a social enterprise satisfy consumer demand. For example, a cooperative for disabled persons can profit immensely from a captured market—multi-million peso government contracts for classroom furniture that

the law reserves for disabled groups—but cannot always do so because it lacks enough revolving capital.

Adequate financing is an important stimulus to the growth of a social enterprise. It is very clear, though, that money alone cannot scale up social enterprises.

Capacity Building

In 2012, PEF carried out a Social Enterprise Mentoring Program to build the capacities of 16 promising social enterprises. Mentoring focused on several key knowledge areas, such as helping a partner identify ways to increase the sustainability of its social enterprise through mentoring in Value Chain Analysis. Other knowledge areas included:

- Setting and pursuing realistic goals (through Resource Analysis);
- Ensuring proper project funding (Cash Flow);
- Safeguarding against what could go wrong (Risk Management);
- Professionally managing the enterprise (Human Resource); and
- Keeping the entrepreneurial spirit alive (Entrepreneurship and Value Adding).

Among the identified social enterprise projects, five are mature and poised for faster growth. These are Magpet Agro-Industrial Resources Cooperative in North Cotabato (banana chips production), Philippine Agrarian Reform Foundation for National Development in Agusan (integrated rice-duck farming), Laua-an Multi-Purpose Cooperative in Antique (muscovado production), Bigay Buhay Multi-Purpose Cooperative in the National Capital Region (production of school desks/tables) and the Nagkakaisang Tribu ng Palawan (honey gathering and processing).

Appropriate Technology

The Foundation’s social enterprise partners must begin earnestly investing in technologies that are more cost-efficient, less polluting and more reliant on renewable energy. Many of the projects we help use outdated equipment, like 200-year-old sugarcane crushers. Some food processing enterprises have wood-fed cooking facilities that not only imperil forest resources but also produce plenty of harmful emissions. Others produce wastewater that is simply dumped, untreated, into the ground. We also have some social enterprises with unsafe or unsanitary workplaces.



It would be too costly for PEF and its partner social enterprises to develop new technologies. Fortunately, we can look to the large number of tried-and-tested appropriate technologies in the country that are ready for adoption. For example, we also can ask for expert help on specific technologies from local and international aid groups. Filipino experts can now be tapped more easily through various industry associations, including even the academe and government institutions. PEF is working with groups like the International Institute of Rural Reconstruction (IIRR) and Philippine Rice Research Institute (PhilRice) on technologies in system for rice intensification and palay drying.

We believe the right mix of hard and soft technologies will make social enterprises more competitive.

Market Promotion and Development

Social enterprises need established markets for their goods. It's the best and only way they can thrive. Mature enterprises—say, a farmers' group producing organically cultivated rice, honey, and vegetables—needs stable buyers. A start-up on the other hand must learn first the basics of consumer preferences, government licensing regulations, and quality standards.

The Foundation itself took stock of market forces in 2012, learning along the way just how volatile they could be. For instance, Magpet Agro-Industrial Resources Cooperative exports banana chips to China, one of the world's fastest growing consumer markets. An ongoing dispute between the governments of the Philippines and China on the Spratly Islands disrupted that market.

To take advantage of market demand, a social enterprise has to make reliable deliveries of goods on time at a competitive price. In Mindanao, a novel rice-duck farming project can't increase the number of rice duck farmers, because it depends on Luzon suppliers for ducklings. A duck breeding farm is needed.

Markets also drive quality control, or in the case of a social enterprise in Iloilo making seafood products, the lack of it. That enterprise used to do packaging so badly that products spoiled easily. It wised up and outsourced packaging to an experienced for-profit group. The result: enhanced product appeal and higher retail prices. This experience underscores an important point in market development, that for-profit groups can be valuable partners, too. Lately, we helped farmer cooperatives pursue profitable business relationships with a market

consolidator for their goods. Working with for-profits has prompted PEF to apply due diligence and flexibility in the kinds of transactions suitable for these groups.

The Foundation saw in 2012 a continuing need to understand how markets work and how social enterprises can respond to consumer expectations.

Compliance and Standards

In 2012, PEF and the Initiatives for Dialogue and Empowerment through Alternative Legal Services, a partner business development service provider, began documenting the legal support needs of five social enterprise partners.

Issues identified included, among others, compliance with regulation and registration rules, taxation, or preparing the requirements for setting up a new corporate entity that will allow an NGO to go into business. Other issues we are dealing with are agrarian reform legislation, real property acquisition, contractual transactions, and labor laws.

Social enterprises must resolve these legal concerns squarely. Otherwise, they will face them time and again. For its part, the Foundation should enhance its legal due diligence when evaluating proposals and assisting new partners to grow their social enterprises. ■



Standing on their Own

RAIN DRENCHES dozens of new wooden classroom chairs stacked four high in the driveway of the old building. Under the trees, hundreds of short flat wooden pieces are piled in untidy heaps. A handful of workers, all with some type of disability, cuts, smoothens and paints the wooden pieces.

Reyson Urbino, 29, uses a jerry-rigged machine to even out the surface of pieces that will become armrests. Fine wood dust covers his hair and face. He doesn't like it much. *"Iyong alikabok ang mahirap talaga dito (Wood dust is our big problem here),"* he says. But he's learned to cope with it.



For six months now, he's been doing piece-work for Bigay-Buhay Multi-Purpose Cooperative, a coop for people with disabilities. Reyson is a paraplegic. The coop offered him the job—even though he didn't have any woodworking experience—because it had no opening for computer technician, the job he originally applied for. Reyson has a degree in computers.

Reyson lost the use of his legs when he was 17 years old. He was boarding a fast-moving bus when he lost his grip and fell. A *hilot* (traditional healer) couldn't do anything for him. Reyson's disability is permanent. He used crutches for several years until he became too heavy and had to give them up for a wheelchair. "I knew how it was to walk so it was heartbreaking at first," he tells with a hint of sadness. "In time, I accepted it; what else could I do? At least I'm alive."

Alive—and married for a year now, to a woman from Dumaguete he met online. Reyson and his wife occupy a small room in the same building where he works, which helps to keep their living costs low. He's the sole breadwinner.

The coop pays Reyson only 30 centavos for every piece he finishes sanding. It's a pittance, but it's a livelihood. On a good week, he thinks he can finish about a 1,000 pieces. He's not sure how much he actually earns. Although a thousand pieces compute to only Php300 a week, Reyson reckons the lowest he makes is Php600+ a week. Sometimes, he says, his weekly take is Php1,200.

Reyson's employer, Bigay-Buhay, acknowledges its low pay rates. Still, some of its workers get a bit more. For instance, a 39-year-old amputee who also does sanding earns five times as much per piece than Reyson because he works on desktops, which are bigger and require more skill. Another worker is the coop's warehouse custodian. He has a dislocated spinal column from an accident many years ago. The coop pays him a salary of roughly Php6,000 a month—small but with vicious scrimping, enough, says the 49-year-old, to support three children who are all taking college courses.

Bigay-Buhay needs to rein in production costs because its profit margins are so slim, explains coop chairman Alsee Bello, 35.

Most of the coop's business comes from contracts with the Department of Education (DepEd). By law, DepEd awards to disabled groups 10% of its yearly budget for classroom furniture. In the last two years, Bigay-Buhay received over Php25-million worth of contracts from the Department. It has completed, and fully collected, on half of the contracts although Bello says the coop still doesn't know if it made a profit on these contracts. "*Pinag-aaralan pa namin* (We're still evaluating them)."

One problem: Bigay-Buhay sometimes makes mistakes on its costing. Bello tells of one DepEd contract where they failed to include the cost of delivering to island communities (he claims the coop wasn't informed of this). The coop spent extra money hiring boats. One of the boats sank with all its load because of stormy weather. The coop had to hire divers to retrieve the classroom chairs.

Another problem, Bello says is that DepEd has lowered the ceiling for the unit cost of classroom chairs—even though the cost of wood and other material go up constantly—to a point where "*talo na kami* (we won't make money)." And, he adds, they often can't compete when bidding for new contracts because of stiff competition.

Bigay-Buhay's biggest barrier is the lack of working capital, or really the lack of it. "We don't have enough revolving capital to work continuously and finish our orders, especially our government contracts," says Bello. "We all know how long it takes to collect payment from government offices." With their capital tied up in collectibles, the quality of their products and delivery schedules are often affected.

In 2012, the coop received help from Peace and Equity Foundation, which gave it a Php5-million loan, later increased to an Php8-million





credit line. The loan is payable with a 7 percent annual interest. The coop is comfortable with this interest rate and is confident of paying it back on schedule. “We do have a reputation to protect,” says Bello. He believes the bridge financing will tip the scales in the coop’s favor by giving it the capital to pay for material and labor on time, and in the quantity and quality required. The loan comes bundled with a modest grant to give financial management training to Bigay-Buhay officers.

There’s also hope that 60 to 70 households of persons with disability will benefit directly with a regular monthly income. Bello says the target monthly wage for every person with a disability is at least Php5,000. It’s not immediately clear whether the low rate the coop pays its piece-workers will

give this kind of income. Some might even call the rates exploitive. A PEF project officer surmises that the coop looks at it from a different perspective: It’s giving jobs to people who almost never get hired because of their disability (despite his college diploma, Reyson Urbino has not once been hired by any of the companies he applied to).

A visit to the coop’s workplace brings up the issue of workplace safety, which seems minimal. The old concrete building that Bigay-Buhay occupies to make classroom chairs was abandoned by the local government. It lets the coop use it rent-free for as long as it wants. The place is cluttered with machinery and material. A carpet of powdery wood dust blankets the floor. Proper ventilation is missing and none of the workers use special

protection. Flammable chemicals are haphazardly stored with not a single fire extinguisher in sight. The place already caught fire once from an electrical short-circuit.

That does not matter much to Reyson, who’s only grateful that Bigay-Buhay gave him a job. Reality tempers his expectations for the future. “I don’t know what’s going to happen to me,” he says. “But I’ll keep on looking for a job. I keep on hoping someone will hire me to work on computers. That’s what I’m really looking for.”

He finishes sanding a wooden piece and picks up another, shifting a bit to ease a cramp in his back. *“Basta ang mahalaga e hindi ako pabigat. Ayokong naka-istambay sa bahay (The important thing is that I’m not a burden. I don’t want to be useless).”* ■



The “Poor Man’s” Sugar

FOR THE last eight years, Jessie Natan, 51, has been producing *muscovado* sugar in his farmyard in Laua-an town, Antique, the poorest province in western Visayas.

Muscovado—the name could be from the Portuguese *açúcar mascavar*—is dark brown and slightly coarse. It used to be called the “poor man’s” sugar. Produced directly from sugarcane juice, it’s in high demand locally and abroad as a healthy, organic alternative to white sugar.

Jessie makes his living entirely from muscovado. He figures he made a profit of almost Php300,000 during the last production season. “*Maganda ang kita sa muscovado* (I earn well in muscovado),” he says with a slight smile. “I finished only high school but my children go to college.” His oldest is a 26-year-old nursing student. The others pursue various college courses.



Jessie employs three people, including a ragged-looking woman who might be in her mid-50s. He buys his raw sugarcane from farmers in the area. He has limited working capital so he doesn't pay them in cash. Instead, they get a share of the muscovado. The farmer who supplies him the raw sugarcane gets six sacks, for example.

In Antique, muscovado production usually begins in November. This season could last until May, depending on the weather. "I produce 300 to 500 sacks per season," says Jessie. "A company in Manila buys it at Php55 per kilo and handles the repacking and selling. I pay for transporting to Manila."

Like many small entrepreneurs who don't have access to bank financing, Jessie built his muscovado mill with interest-free government loans, which also paid for better equipment later. Recently, he upgraded his mill again, this time by borrowing Php220,000 from Insol Development Foundation.

"I agreed to pay it back in one year at 3% interest per month. Without the loan, I wouldn't know where to get the money. I used it mainly to construct the flooring." By keeping his facilities upgraded, Jessie says he can maintain the quality of his muscovado so that it continues to satisfy buyers' standards.

"Before, my muscovado had too much *bilog-bilog* (sediment). I could only sell at Php16 per kilo. *Lugi ako* (I'd lose money)." The buyer used to dictate the price. But now, because of consistently better quality, Jessie can nudge the price higher.

Maintaining quality muscovado always will call for big capital, says Jessie. He yearns for a new sugarcane crusher made in India. "The one I'm using is made in England but it's at least a 100 years old. *Panahon pa ng Espanyol* (It's from the Spanish colonial era)."

He can't afford to be complacent. There are many muscovado producers in Antique. His edge is the quality of

his finished product. "My muscovado is clean," Jessie points out proudly, adding that his sugar matches that produced by Laua-an Multi-Purpose Cooperative, which runs one of the bigger and better muscovado mills in Antique.

LIKE Jessie, the Laua-an Multi-Purpose Cooperative (MPC) knows only too well the issue of muscovado quality—or, rather, how difficult it is to maintain it.

The coop operates its own Php6-million muscovado mill in Barangay Casit-an. The coop built it in 2009 with government and private loans. But after operating its new mill for only a month, Laua-an MPC learned with dismay that its muscovado was sub-standard. It found out the hard way: A customer ordered 250 sacks but rejected the entire lot because the sugar had too many impurities. The coop lost money on that order. It has since tightened quality control.

*Insol Development Foundation, Inc. received an Php8-million loan from PEF for relending to small entrepreneurs in Luzon and the Visayas.

Today, the coop says it provides work during the muscovado season to some 40 workers and buys raw sugarcane from a pool of 480 farmers. In the next five years, the coop hopes eventually to buy sugarcane continuously, at a fair price, from 2,500 farmers. For the coop, the potential in muscovado sales could be as high as Php60 million a year.

It's a fairly ambitious target. To gear up, Laua-an MPC sought a partnership with Peace and Equity Foundation. PEF approved an Php8-million credit line to finance purchase orders and to improve packaging.

"The credit line means we can service orders quickly," explains Ernesto Espanola Jr., coop manager. The PEF project can boost their yearly income from muscovado by at least 10%. And—equally important—500 sugar farmers, farm laborers, and wage earners will earn directly from it. It also will increase business for seven

Antique cooperatives to be tapped as marketing outlets.

Eventually, Laua-an MPC wants to operate its mill 24/7 during the muscovado season to generate steady income for workers and farmers. Espanola thinks this can dissuade their sugar farm workers from hiring themselves out as lowly paid *sacadas* (migrant laborers) in the sugar plantations of other provinces like Negros.

The coop isn't quite there yet.

Seven young men, wearing disposable surgical masks, use shovels to stir the wet muscovado on the coop's huge stainless steel tabletops in a process called *naglalamas*. Fred Espino, 50, called "maestro" because he teaches coop workers how to cook the muscovado, says the young men will do this for the better part of an hour.

It's strenuous work that pays them each Php200 a day. When the muscovado mill isn't operating, some of them drive tricycles or do farm

work. Some are *sacadas*. Some of them are already married. Some are still teenagers. Espino earns a little better: Php300 for an 8-hour shift.

How much work can coop workers get in the mill? "If there's an order, the work is continuous," says Espino. "We work even on Sundays." Coop manager Espanola tells of a one-time order of 115 tons of muscovado from Alter Trade Corporation, a regular client. The unusually huge order meant several months' steady income for coop workers. "They bought new rubber shoes, new clothes, new bicycles," he recalls.

What encourages Laua-an MPC is that "demand for muscovado today won't stop," says Espanola. He sets his sights on selling to Asian countries in the next few years. "Our coop can compete," he declares. "The country will go into open trade with ASEAN in 2015. We're preparing for that so we can fight in the regional market. We're very optimistic." ■



Working Hard for the Honey

*BATAKS PERFORM 'lambai rituals' [that honor the] spirits of honeybees with prayers, dances, songs, and instrumental music. Tagbanuas believe that a hive is a gift to the finder by the guardians of the forest, hence offer prayers and thanks to these guardians.**

Nagkakaisang mga Tribu ng Palawan (United Tribes of Palawan) or Natripal is an indigenous people's organization with members from the Tagbanua, Batak, and Palau'an communities, the ethnic groups of Palawan Province. In 2012, Peace and Equity Foundation approved Php800,000 in assistance to Natripal. Most of the money is a loan to boost Natripal's wild honey livelihood project and another Php100,000 grant went to training of gatherers on proper honey harvesting.

* *Traditional Knowledge and Practices in Harvesting Wild Honey by Indigenous People of Palawan, the Philippines.* Powerpoint presentation. Ella, Arsenio B., Emmanuel P. Domingo and Florena B. Samiano. College, Laguna, the Philippines: Forest Products Research and Development Institute, Department of Science and Technology, 20 November 2012. http://www.apafri.org/activities/TFRK2012/TFRK/6th%20afternoon/11.6pm/4%20ABELLA_wild%20honey_YANGLING_CHINA.pdf (accessed 24 April 2013, 11:35 AM, GMT +08:00).





PEF sat down for a face-to-face chat with Natripal officers Rodrigo Emag, president, Loreta Alsa, livelihood manager, and Isagani Santos, R&D coordinator, on among others, the worrisome decline in production by *Apis cerana* (*pukyutan*) and *Apis dorsata* (*ligwan*), the main honeybees found in Palawan.

Tell us about your livelihood activities.

Livelihood activities help our members to look after resources in their ancestral domains. Indigenous peoples here earn income mostly from non-timber forest products, basically almaciga**, rattan, and wild honey. For wild honey, we set up a centralized marketing system.

We sell the honey mainly to individual traders and a few contractors. Our indigenous communities do the harvesting. Natripal processes it and handles the selling. Because there's no middle-man we can buy it from them at a higher price. We pay the community Php80 per kilo. But we pay that price only if the honey meets our quality standards. If not, we lower the price slightly.

How much honey do you produce every year?

The main problem with wild honey is that it's seasonal. It comes when flowers are in bloom. In 2010, we produced 11 metric tonnes [11,000 kilograms]. Before, we reached only 2 tonnes, 3 tonnes. It increased that year because an NGO loaned us capital to buy more honey from gatherers.

With wild honey, the amount produced by bees fluctuates very much. In the last five years, we got very high volume, low, much higher, then down to almost zero—which is

** Almaciga resin - Raw material used for the production of varnish and paints. Also known as *manila copal*, or *agathis philippinenses*.



what happened to us in 2011. We got only 670 kilograms in 2011.

In 2012, we produced only half a tonne [500 kilograms]. The fluctuation is really very large. We've done mitigating measures like planting blooming flowers that are 'lovable' to bees. But we'll see the effect of that in the next ten years only.

Walk us a bit through the wild honey project that PEF is assisting.

In the past, we successfully repaid large loans. PEF saw we had a good record of honoring agreements and said it could help with capital to increase our production of honey.

Why did we propose a wild honey project? Because we expected the volume of honey to go up suddenly. That's our experience in 2010. That year we didn't expect the volume to be so huge. If only we had enough capital that year, we could have bought enough to produce 30 tonnes or even 40 tonnes. And we think we could have sustained that.

Right now, we're not sure what production volume we can reach. We really can't predict it. The most serious problem is we can't get any supply of wild honey. PEF asks if we still need the money or whether it is too big or small. But the thing is, there's just no honey to buy! We have a credit line of almost a million but we're not using it because the honey just isn't there.

If there's no honey to gather, where do your members get income?

We shifted to almaciga, even though it wasn't part of the original project design. When we rolled out the project, we discovered that it's more stable to engage in almaciga, rather than wild honey. So it's now part of the project.



We have six community associations participating in almaciga gathering and production. In one year, maybe we can produce 30 metric tonnes. Right now, we haven't canvassed any buyers although there's one exporter who told us he was interested.

Going back to wild honey, why is the supply so erratic?

Because weather greatly affects honey production. Bees need forests that have good vegetation and blooming flowers that can give them plenty of nectar. That's what they convert to honey.

Rain patterns keep on changing. We've had too much rain during the honey-gathering season—from February until maybe June—and flowers didn't bloom. When bees have nothing to eat, they can't produce honey. Agricultural insecticides also affect honey production. Bees don't like the smell of chemicals in insecticides, like gasoline, and other chemicals farmers spray on trees.

This year, the government's weather forecasting office said the weather might be good. But it's hard to be optimistic. According to indigenous wisdom, a very large harvest of wild honey [like what we experienced in 2010] happens only every 25 years. We really can't predict what will happen. ■



All Sun, No Smoke

IN TULUNAN, Cotabato Province, nearly half of households have no access to electricity. They pay a lot for light—as much as Php350 a month for kerosene to light their homes and small businesses. What they get in exchange is poor, inefficient illumination, and, significant carbon pollution¹.

And they pay in other ways. Women and children in these households who breathe kerosene fumes could be inhaling the equivalent of smoke from 2 packs of cigarettes a day².

¹ See <http://articles.latimes.com/2012/nov/30/science/la-sci-sn-kerosene-wick-lamps-produce-both-light-and-hazardous-soot-20121130>.

² See <http://www.rpc.com.au/information/developing-countries/fuel-based-lighting.html>.





This motivated Kamanepa³ Multi-Purpose Cooperative, a farmers' co-op in Tulunan, to launch a social enterprise in 2009 to sell solar energy lamps to households. Peace and Equity Foundation and the Philippine Government's Department of Energy⁴ provided financing assistance. PEF and Kamanepa were previous partners in micro-lending and organic rice trading projects.

"We saw [in solar energy] a social and business opportunity that can help not just our members but the community," explains Cesar Gran, 46, Kamanepa chairman. "Solar lamps can help students do their homework. The lamps also protect the environment and help mitigate climate change."

After repaying the first loan, Kamanepa applied for new financing to extend the solar energy project for three more years (2012 to 2015). Peace and Equity Foundation approved Php3.5 million for the extension. The target is to make available at affordable terms different types of solar energy light products to a total of 730 households. "Our solar project now covers six municipalities," says Jorge Mondia, 48, co-op manager. "We've provided solar lamps to around 300 households. Some families even bought two units." Most buy the units in cash. Those who can't are given up to six months to pay in installments at less than 20 pesos a day. Mondia says the co-op repossesses the units of those who fail to complete their payments.

³ *Kahugpungan sa mga Mag-uuma sa New Panay ug La Esperanza*, a farmer's co-op based in Tulunan and founded in 1986.

⁴ Through funds from the Global Environment Facility and the United Nations Development Programme.

Solar Lantern Loan

12 months / 1 year Amortization Schedule

| | | | |
|------------------------|-----------|--|------------|
| Processing fee: | | 1st Quarter (3 mos. / monthly payments) | |
| Service fee - 6% | = ₱ 285 | Principal | ₱ 996 - |
| insurance 2.00/1000 | 115 | interest | 95 - |
| CBU | 200 | | ₱ 491 - |
| Down payment | - ₱ 600 - | 2nd Quarter (3 mos. / monthly payment) | |
| | | Principal | ₱ 996 - |
| | | interest | 71.25 - |
| | | | ₱ 467.25 - |
| | | 3rd Quarter (3 mos. / monthly payment) | |
| | | Principal | ₱ 996 - |
| | | interest | 49.50 - |
| | | | ₱ 443.50 - |
| | | 4th Quarter (3 mos. / monthly payment) | |
| | | Principal | ₱ 996 - |
| | | interest | 23.75 - |
| | | | ₱ 419.75 - |
| Spot Cash | | | |
| 1 Lantern | ₱ 5,400 | | |
| 1 Panel | 2,200 | | |
| | 3,200 | | |





The co-op then resells these at a discount mostly to co-op members.

Kamanepa officers say the solar lamps are a boon to households with livelihoods. Co-op manager Mondia points to those with *sari-sari* (neighborhood variety stores), roadside barbecue stalls, and *carinderia* (ambulant eatery). “They can keep on selling at night because they have bright solar lamps. Fish vendors tell us they now sell almost all of their fish because the solar lamps show customers whether the fish is still fresh or not. Rice farmers also say their workers can continue threshing the rice even in the evening.”

Co-op chairman Cesar Gran tells of a friend, a public school teacher, who bought a solar lamp from the co-op because of the daily 1-hour power outages in her neighborhood. Now, she can continue making her lesson plans for the next day’s classes. Gran also says that during these outages, neighborhood stores with solar lamps from Kamanepa are the only ones that manage to stay open.

In the long term, the cooperative sees its social enterprise continuing to build the community by improving livelihoods and enhancing family welfare. Says Mondia: “After 10 years, we hope our solar energy project will result in children with good classroom records. That will be the legacy from their parents and from Kamanepa. That will be the foundation for the next generation of leaders of our community.” ■





Voices in Social Enterprise

Musharaka for Peace

IT MIGHT be easy to underestimate Rebecca Timan. She's soft-spoken and unassuming, almost shy.

A 40-year-old Filipino Muslim mother of three, she runs a small “sari-sari”—a neighborhood convenience store—to help make ends meet. She drew on resolve, patience, and self-sacrifice to put it up. *Nag-ipon ako. Meron akong mga singsing. Isinangla ko para i-kapital. Iyon ang ginawa ko para makapagpatayo ng sari-sari.* (I saved. I had some rings. I pawned them to get capital. That's what I did to set up my store.)

Getting capital to finance and keep her store running is always difficult, says Rebecca. As devout Muslims, she and her husband can't turn to the usual money-lenders. “We don't borrow from them because they charge interest.”

Islam prohibits any economic activity involving *riba*—Arabic for “interest”—explains Yolanda Nawal. She’s the administrative and finance officer of Katiyakap, Inc., a Moro nongovernment organization that’s piloting a social enterprise project based on Islamic financing principles in General Santos City, South Cotabato, and Sarangani. Peace and Equity Foundation finances Katiyakap’s project through a Php1-million equity investment with support from the Netherlands Catholic Organization for Relief and Development.

Rebecca is among the project’s first batch of ‘clients’ (Katiyakap never calls them ‘borrowers’). Because she knew her sari-sari store could never earn enough for her family’s needs, she applied to Katiyakap for help in acquiring a motorized tricycle. After interviewing Rebecca, Katiyakap approved her request and purchased a brand new motorcycle and sidecar for her at a total cost of Php102,000.

Rebecca pays for the tricycle through a “cost-plus” arrangement. For the next three years, she’ll pay back the cost of the tricycle plus a 30% mark-up in fixed, monthly installments. *Kaya naming bayaran pero siyempre, magsikap dapat* (We can afford the repayment but we really need to work hard), says Rebecca.

Her husband now operates the tricycle. He earns anywhere from Php100 to Php200 a day, mostly by ferrying passengers to and from General Santos City’s fish port, a bustling, 32-hectare complex that employs hundreds of workers. Still, there are days when her husband’s earnings drop to zero, probably because of competition from so many other tricycles operating in this city.

So far, Katiyakap has approved financing for 12 small business ventures. In addition to tricycle service, they include dealing in construction material, coconut and



corn farming, trading in rice and coffee, processed tuna production, buying-and-selling of dry goods, goat-raising, and vulcanizing and motorcycle repair. Katiyakap doesn’t require collateral; it uses accepted Islamic financing instruments

like cost-plus, profit sharing, and instalment leasing.

When it proposed the project to PEF, Katiyakap admitted that Islamic financing remains misunderstood among many Filipino Muslims. “This is why the first thing we ask before we

approve a client's application is 'Do we really know the client?'" explains Nawal. "Before they can get financing from us, they need to have a certificate from their *Imam*. Are they practicing the Islam religion? Next is good moral character. Those qualities assure us they will honor their obligations." All clients go through a strict orientation on Islamic values, financing literacy, small business management, sharia laws governing business operations, and even basic fire and safety practices.

PEF isn't charging interest on its equity investment in Katiyakap's social enterprise project, a first for the Foundation. Instead, PEF has agreed to a profit-sharing relationship with Katiyakap to comply with Islam's Shari'ah laws.

Wahida Abtahi, Katiyakap president, calls their project a "rare opportunity" for a Muslim organization. "That's why we're very careful that our clients really have the will to pay back or else we will end up bankrupt and the trust of funders toward the Muslims will dwindle."

So far, Katiyakap's clients have shown themselves worthy of the trust. The repayment rate is reportedly 99 percent. There also are clear indications that the project is having a measurable impact on quality of life.

Allan and Lea Albores, a couple in their mid-20s, own a vulcanizing shop in Purok Bangsa Moro on the outskirts of General Santos City. A couple of months ago, Katiyakap helped them buy an air compressor and other tools for about Php15,000. The new equipment has made a world of difference: Their income has jumped

fivefold—from about Php200 to as much as Php1,000 a day. In front of their shop, a brand new refrigerator stands prominently, filled with ice and cold drinks for sale. Once they repay the Katiyakap money, the young parents of two small children hope Katiyakap will help them buy a welding machine.

Twenty-eight-year-old Yahyah Maslet teaches Grades 1 to 6 classes in a public elementary school in General Santos City. He also volunteers his time teaching advanced-level Arabic at an Islamic religious school in the same city. He is married and has a 6-month-old child. Katiyakap helped him acquire a motorized tricycle for Php90,000, which he operates in between classes. By his estimate, he takes home about Php300 a day. "I'm so grateful because this is such a big help to us," he says. "Before, we were so cash-strapped; I didn't even have enough for transportation fare to go to my classes."

Katiyakap's project is unique in being the first attempt of its kind at such a scale. "This has never been done before in our country. Even

our Amanah Islamic Bank still hasn't captured fully Islamic financing principles," says Yolanda Nawal. Other financing institutions have taken notice. A big multi-purpose cooperative with 27 branches in Mindanao asked Katiyakap to teach them how to operate an Islamic financing window. And even the manager of the local Al Amanah Branch approached Katiyakap for information on how it is running the project.

Nawal is all for replicating their social enterprise experience. *Sana i-copy cat nila kami* (I hope they copy-cat us), she says. Despite having a relatively sizeable Muslim population, the Philippines trails behind in Islamic financing practice, estimated at over US\$1.5 trillion globally. *Malaki ang magagawa ng Islamic financing para maiangat ang kabuhayan ng Muslim* (Islamic financing can do much to improve the lives of Muslims), Nawal says. *Kaya i-copy cat nila ang ginagawa namin dahil talagang makakatulong tayo*. So let them copy what we're doing because we really can make a difference). ■



2012 Performance Highlights

Peace and Equity Foundation invested Php84 million on 24 social enterprise projects in 2012—an increase of 87% over the previous year. These enterprises are estimated to potentially benefit 12,000 households.

PEF also continued to provide badly needed relief and rehabilitation aid to victims of natural calamities under its Climate Change Adaptation Fund. A total of Php17 million funded 22 projects, including a rehabilitation program for urban entrepreneurs affected by Typhoon Ondoy in Luzon and a project for emergency response in Cagayan de Oro and Iligan cities in the aftermath of Tropical Storm Sendong. More than 7,000 disaster-affected families were assisted by PEF’s Relief and Rehabilitation Program.

Social enterprises accounted for 72% of total funding assistance in

2012. This was followed by disaster relief and rehabilitation, 17%; capacity building support, 8%; and other project types, 6%. A complete list of projects is included in the next section of this report.

Other operational highlights for 2012 include the following:

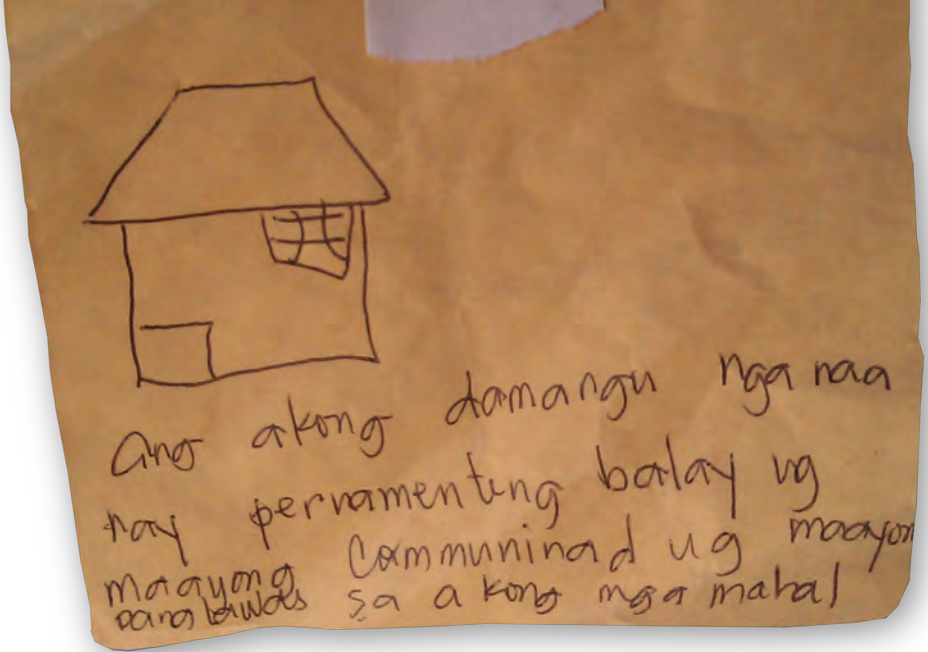
- Opened new financing windows to support non-traditional partners that included business development service providers and for-profit businesses that can help grow social enterprises;
- Pilot-tested Islamic lending program in three areas in Mindanao (South Cotabato, Sarangani & General Santos);
- Started capacity building and mentoring for 16 social enterprises;

- Put together the building blocks for a ‘Social Enterprise Ecosystem’ capable of supporting the Php84-million portfolio of projects (as referred to in another section, it includes legal, capacity-building, marketing, investment, technology, and standards components);
- Started baseline data to measure the impact of 12 PEF-assisted projects;
- Supported several small but focused-learning events that drew in 5,000 people (compared with only 200 participants of a 2011 Social Enterprise Conference);
- Provided technical expertise to the World Health Organization (Regional Office in Manila)



and Department of Health in updating the map on poverty and neglected tropical diseases (NTD) and documentation of best practices, some of which will provide SE solutions on NTDs.

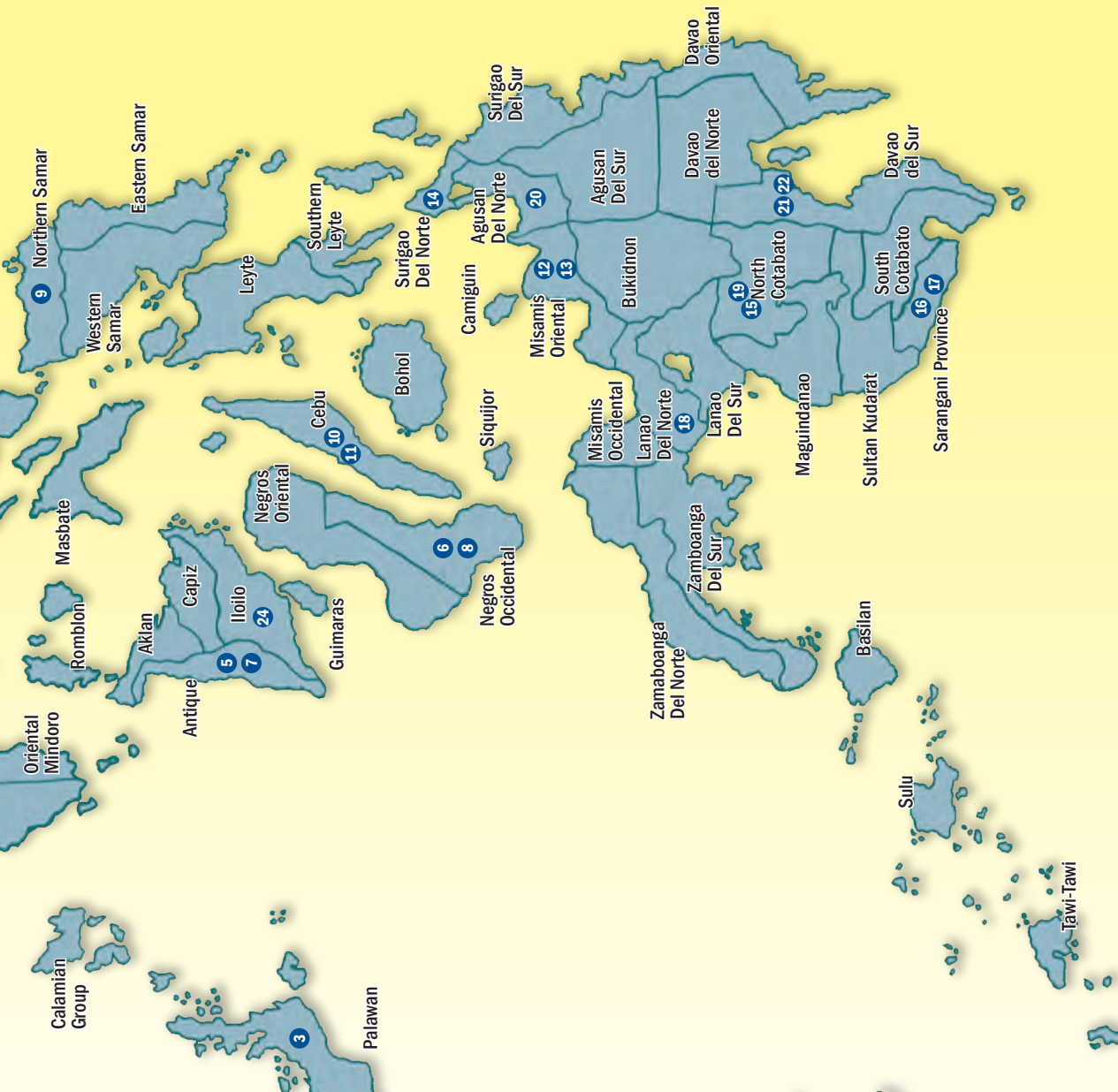
Next year, PEF will focus on multiplying successful pilot projects. It will implement a plan that will double the number of assisted social enterprises and increase total investments three-fold. By the end of 2013, the Foundation's funding portfolio is anticipated to consist 80% of social enterprise projects, with an emphasis on agri-products, and 20% on relief and rehabilitation. PEF also will complete a review of its monitoring, evaluation, and other support systems, as well as strengthen human resources. ■



Where SE Grows: PEF SE Program Portfolio and Partnerships, as of 2012

| Partner, Project | Location |
|---|-------------------------|
| 1. Bigay Buhay Multi-Purpose Cooperative Manufacturing of DepEd school chairs & tables (also in Region 3 and Samar) | National Capital Region |
| 2. Insol Development Foundation, Inc. Business development services and financing for expansion of micro-enterprises (also in Batangas, Bulacan, Laguna, Rizal, Antique) | National Capital Region |
| 3. Nagkakaisang Tribu ng Palawan Wild honey gathering and processing and household solar lighting⁶ | Palawan |
| 4. Sibol ng Agham at Teknolohiya Community micro hydro enterprise modeling⁶ | Nueva Vizcaya |
| 5. Antique Development Foundation, Inc. Financing of purchase order of SM Kultura | Antique |
| 6. Dancalan Ilog Waterworks and Agro-Industrial Multi-Purpose Cooperative Potable water supply system | Negros Occidental |
| 7. Laua-an Multi-Purpose Cooperative Muscovado processing and trading | Antique |
| 8. Multisectoral Alliance for the Development of Negros Goat breeding center and hi-breed goat farming | Negros Occidental |
| 9. Nortehanon Access Center and Seed Producers Association of North Samar Propagation of climate change adaptable palay seed varieties⁶ | Northern Samar |
| 10. Pagtambayong Foundation Social housing units for low income employees | Cebu City |
| 11. Southern Partners and Fair Trade Foundation Market access for fair trade products & capacitating small farmer producers | Cebu |
| 12. Foundation for Growth, Organizational Upliftment of People Livelihood revolving fund for typhoon victims⁶ | Cagayan de Oro |





| | |
|--|-------------------|
| 13. Ipuan Farmers Multi-Purpose Cooperative Supply of coconut lumber for temporary shelters^c (also in Iligan City, Lanao del Norte) | Misamis Oriental |
| 14. Islas Ecology Development Advocacy Foundation Electric tricycle technology replication and fabrication^{b,c} | Surigao del Norte |
| 15. Kahugpungan sa mga Mag-uuma sa New Panay ug La Esperanza Multi-Purpose Cooperative Solar home system lending facility^{b,c} | Cotabato |
| 16. Katiyakap, Inc. Shariah lending^c | General Santos |
| 17. Katotohanan, Pagkakaisa at Serbisyo-Small Enterprise & Economic Development, Inc. Financing the missing middle to scale up microfinance^c | General Santos |
| 18. Maranding Women Investors Multi-Purpose Cooperative Re-financing livelihood of typhoon-affected families^c | Iligan City |
| 19. Magpet Agro-Industrial Resources Cooperative First-fry banana chips processing and trading^c | North Cotabato |
| 20. Philippine Agrarian Reform Foundation for National Development Duck breeding center for the integrated rice duck farming system^c (also in Agusan del Sur, Surigao del Norte) | Agusan del Norte |
| 21. Subasta Farmers Multi-Purpose Cooperative Purchase order financing for dried cacao beans exporting^c | Davao City |
| 22. Hybrid Social Solutions, Inc. ^a Solar lighting for households^{b,c} | Mindanao-wide |
| 23. Negosyong Pinoy Finance Corporation ^a SME Financing: High impact and high output projects for social entrepreneurs | Nationwide |
| 24. Grand Innovation Industries ^a Prototype fabrication of the revised model of Philmech flatbed dryer | Iloilo |

^a Registered for Profit. Entities (RPEs) are new partners of PEF. Investments in RPEs require extra diligent processing to ensure that they have an existing or potential impact in PEF's vision to build self-sustaining households. Investing in RPEs is part of PEF's learning agenda.

^b In partnership with the Department of Energy

^c In partnership with the Catholic Organization for Relief and Development (CORDAID)

Partnership Projects in 2012

(in Php)

Social Enterprises

| Partner | Project | Target Outreach | Term Loan | Grant | Credit Line | Equity | Total |
|--|---|------------------------------------|-----------|-----------|-------------|-----------|-----------------------------|
| LUZON | | | | | | | 26,764,854 (32%) |
| Bigay Buhay Multi-Purpose Cooperative | Financing of Purchase Order for Manufacturing of DepEd Chairs & Tables | 60 employed PWDs | | 75,000 | 8,000,000 | | 8,075,000 |
| Hybrid Social Solutions, Inc. | Access to Energy for all Filipinos: Expansion of Solar Lighting | 2,000 households (HHs) | | | | 5,000,000 | 5,000,000 |
| Inner City Development Cooperative | Rehabilitation Program to Urban Entrepreneurs Affected by Typhoon Ondoy | 200 members | 1,000,000 | 100,000 | | | 1,100,000 |
| Jollibee Foundation | Farmer Entrepreneurship Program: Bridging Farmers to the Corporate Supply Chain | 600 HHs | | 500,000 | | | 500,000 |
| Nagkakaisang Tribu ng Palawan | Wild Honey Production Expansion and Lighting Project | 120 HHs | 681,000 | 119,000 | | | 800,000 |
| Negosyong Pinoy Finance Corporation | High Impact Project and High Output Projects for Social Entrepreneurs | 150 small and medium entrepreneurs | | | 10,000,000 | | 10,000,000 |
| Sibol ng Agham at Teknolohiya | Community Micro Hydro Enterprise Modeling | 400 HHs | 530,000 | 759,854 | | | 1,289,854 |
| VISAYAS | | | | | | | 28,922,922 (34%) |
| Antique Development Foundation, Inc. | Financing of Purchase Order of SM Kultura | 50 weavers | 500,000 | | | | 500,000 |
| Dancalan Ilog Waterworks and Agro-Industrial Multi-Purpose Cooperative | Expansion and Improvement of Potable Water Supply System | 1,200 HHs | 2,700,000 | | | | 2,700,000 |
| Grand Innovation Industries | Prototype Fabrication of the Revised Model of Philmech Flatbed Dryer | 48 HHs | | 468,922 | | | 468,922 |
| Laua-an Multi-Purpose Cooperative | Strengthening Laua-an Muscovado Enterprise and Packaging Improvement for Muscovado Processing and Trading | 400 sugarcane farmers | 3,900,000 | 500,000 | 4,000,000 | | 8,400,000 |
| Nortehanon Access Center and Seed Producers Association of North Samar | Promoting Climate Change Adaptable Palay Seed Varieties in Northern Samar | 1,300 farmers | 6,038,000 | 1,816,000 | | | 7,854,000 |

| Partner | Project | Target Outreach | Term Loan | Grant | Credit Line | Equity | Total |
|---|--|---------------------------|-------------------|------------------|-------------------|------------------|------------------------------------|
| Pagtambayayong Foundation | Social Housing Units for Low Income Employees of Mactan Export Processing Zone 2 | 40 employees | | | 5,000,000 | | 5,000,000 |
| Southern Partners and Fair Trade Foundation | Building Market Access for Fair Trade Products & Capacitating Small Farmer Producers | 480 farmers | 1,000,000 | | 3,000,000 | | 4,000,000 |
| MINDANAO | | | | | | | 28,758,859 (34%) |
| Foundation for Growth, Organizational Upliftment of People | Housing Support Livelihood Revolving Fund for Victims Affected by Typhoon Sendong | 825 HHs | 300,000 | 169,200 | | | 469,200 |
| Ipuan Farmers Multi-Purpose Cooperative | Supply of Coconut Lumber for Temporary Shelters in Cagayan de Oro and Iligan | 60 farmers | | | 1,000,000 | | 1,000,000 |
| Islas Ecology Development Advocacy Foundation | E-Trike: Replicate Technologies and Build Partnership Models on Social Enterprise Solutions for Renewable Energy | 60 drivers | 1,571,250 | 150,000 | | | 1,721,250 |
| Kahugpungan sa mga Mag-uuma sa New Panay Kag La Ezperanza Multi-Purpose Cooperative | Solar Home System Lending Facility | 725 HHs | 3,451,900 | 86,000 | | | 3,537,900 |
| Katiyakap, Inc. | Profit Sharing Micro-Financing for Women Entrepreneurs of SOCSARGEN (South Cotabato, Sarangani & General Santos) | 64 members | | 216,000 | | 1,000,000 | 1,216,000 |
| Katotohanan, Pagkakaisa at Serbisyo - Small Enterprise & Economic Development, Inc | Scaling Up Microfinance Project | 75 micro-entrepreneurs | | | 10,000,000 | | 10,000,000 |
| Maranding Women Investors Multi-Purpose Cooperative | Re-financing Livelihood of Families Affected by Typhoon Sendong in Iligan City | 1,200 micro-entrepreneurs | 500,000 | 100,000 | | | 600,000 |
| Philippine Agrarian Reform Foundation for National Development | Duck Breeding Center for the Integrated Rice Duck Farming System | 1,800 farmers | 6,690,709 | 2,167,800 | | | 8,858,509 |
| Subasta Farmers Multi-Purpose Cooperative | Purchase Order Financing for Dried Cacao Beans Exporting | 80 cacao farmers | 800,000 | | | | 800,000 |
| Touch Foundation, Inc. | Micro-Savings and Credit Assistance for Cagayan de Oro Enterprising Poor | 75 HHs | 350,000 | 206,000 | | | 556,000 |
| | | 12,012 HHs | 30,012,859 | 7,433,776 | 41,000,000 | 6,000,000 | 84,446,635 \$ 2,057,165 |

* At Php41.05, 31 December 2012

Social Enterprise Support

| Partner | Project | Total |
|---|--|----------------------------|
| LUZON | | 8,778,270 (92%) |
| Asian Social Enterprise Incubator | Economic Study on Utilizing Waste Vegetable Oil as Fuel for Public Utility Jeepneys | 400,000 |
| Association of Rural Community Workers, Inc. / Philippine Rice Research Institute | Maximizing Rice Biomass for Household and Commercial Industrial Renewable Energy Applications | 499,850 |
| Ateneo de Manila University Development Studies Program | Conference on Enabling Social Enterprises: Harnessing Opportunities for Social Impact | 200,000 |
| Bato Balani Foundation | Sponsorship of WIWAG® Business Weeks Training Program for Entrepreneurs | 380,000 |
| Bosc Sustainable Enterprise and Economic Development, Inc. | Capacity Development for Enterprise Flagship Projects | 600,000 |
| Initiatives for Dialogue and Empowerment through Alternative Legal Services, Inc. | Assessing the Legal Capacity of Social Enterprises and Small Entrepreneurs | 700,000 |
| International Institute of Rural Reconstruction | Pilot Project on System of Rice Intensification in Guinyangan, Quezon | 950,000 |
| John J. Carroll Institute on Church and Social Issues | Research on Documentation of Practices of Social Enterprises in Delivering Health Care Services | 629,300 |
| Nagkakaisang Tribu ng Palawan | Skills Training on Honey Harvesting and Social Enterprise Interactive Mentoring Program-Roll-out | 159,720 |
| Organization for Partnerships, Teamworks and Initiatives on Opportunities for Nature Stewards, Inc. | Value Chain Studies on Philippine Coffee and Cacao Industry Sectors | 935,000 |
| Oriental Mindoro NGO/PO Network | Strategic Planning for Social Enterprise | 20,700 |
| Palawan Network of NGOs, Inc. | Social Enterprise Interactive Mentoring Program-Roll-out | 45,200 |
| Philippine Partnership for Development of Human Resources in Rural Areas | Value Chain Study of Key Food Root Crops and Tubers | 300,000 |
| Philippine Social Enterprise Network, Inc. | Conference on Enabling Social Enterprises: Harnessing Opportunities for Social Impact | 100,000 |
| PinoyME Foundation, Inc. | ME Naman! Pinoy Micro-Entrepreneurs' Convention | 250,000 |
| PinoyME Foundation, Inc. | Snapshot Value Chain Analysis of Duck for Integrated Rice Duck Farming System | 148,500 |
| Pusod, Inc. | Community Energy Assessment of a Community in Taal Lake Area | 160,000 |
| VRV Management and Property Consultancy | Social Enterprise Interactive Mentoring Program for PEF SE Partners | 2,300,000 |
| VISAYAS | | 165,060 (2%) |
| Laua-an Multi-Purpose Cooperative | Social Enterprise Interactive Mentoring Program Roll-out | 75,500 |
| Nortehanon Access Center and Seed Producers Association of North Samar | Social Enterprise Interactive Mentoring Program Roll-out | 89,560 |

| Partner | Project | Total |
|--|--|----------------------------------|
| MINDANAO | | 584,980 (6%) |
| Al-Qalam Institute for Islamic Identities & Dialogue with Ateneo de Davao University | Research and Dialogues on Shari'ah Lending | 100,000 |
| Federation of Matigsalug-Manobo Tribal Council, Inc. | Technical Planning Assistance to Develop Social Enterprises | 135,000 |
| Ipuan Farmers Multi-Purpose Cooperative | Lakbay-Aral on Rice Duck Farming Project | 50,000 |
| Islas Ecology Development Advocacy Foundation | E-Trike Project Launch: Replicating Technologies and Building Partnership Models on Social Enterprise Solutions for Renewable Energy | 70,000 |
| Lapuyan Multi Purpose Cooperative | Social Enterprise Interactive Mentoring Program Roll-out | 65,100 |
| Magpet Agro-Industrial Resources Cooperative | Social Enterprise Interactive Mentoring Program Roll-out | 45,880 |
| Maragusan Banana Growers Multi-Purpose Cooperative | Farmers Field Trip on Cacao Production | 50,000 |
| Philippine Agrarian Reform Foundation for National Development | Social Enterprise Interactive Mentoring Program Roll-out | 69,000 |
| Total | | 9,528,310 \$ 232,115* |

* At PhP 41.05, 31 December 2012

Guarantee Financing

| Partner | Terms |
|------------------------------------|---|
| Pinoy ME Foundation | Up to Php 80 million guarantee cover for microfinance borrowers nationwide |
| Social Housing Finance Corporation | Php 23 million guarantee cover for housing resettlement of 3,000 families affected by Typhoon Ondoy in Cagayan de Oro through community homeowners associations |



Disaster Risk Reduction, Relief & Rehabilitation

| Partner | Title | Total |
|---|--|----------------------------------|
| Luzon | | 4,128,243 (24%) |
| Bigay Buhay Multi-Purpose Cooperative | Relief Assistance for Typhoon Habagat Victims in the National Capital Region | 17,841 |
| Climate Change Congress of the Philippines | Cagayan de Oro Watershed Hazard Mapping | 1,659,902 |
| Kasagana Ka Development Center, Inc. | Relief Assistance for Client Beneficiaries Affected by Typhoon Habagat | 100,000 |
| National Council of Social Development Foundation | Relief Assistance for Client Beneficiaries Affected by Typhoon Habagat | 100,000 |
| Oriental Mindoro NGO/PO Network | Relief Assistance for Families Affected by Typhoon Habagat in Baco, Mindoro | 50,500 |
| Partnership of Philippine Support Service Agencies Inc. | Social and Technical Preparation to Support Urban Housing to Access Financing from Government | 2,000,000 |
| Philippine Partnership for the Development of Human Resources in Rural Areas-Luzon | Raising Knowledge and Awareness of Civil Society Organizations on Climate Change Adaptation Models in Addressing Poverty Reduction | 50,000 |
| Simbahang Lingkod ng Bayan | Relief Assistance in Northern Luzon | 150,000 |
| Visayas | | 125,000 (1%) |
| The Julio & Florentina Ledesma Foundation, Inc. | Relief Assistance for Negros Earthquake Victims | 125,000 |
| Mindanao | | 12,651,924 (75%) |
| Agri-Aqua Development Coalition-Mindanao | Relief Assistance in the Cities of Cagayan de Oro and Iligan in the Aftermath of Tropical Storm Sendong | 110,000 |
| Agri-Aqua Development Coalition-Mindanao | Solar Lighting System for Typhoon Pablo Victims in Compostela, Davao del Norte | 277,537 |
| Archdiocesan Commission on Social Apostolate-Archdiocese of Cagayan de Oro | Relief Assistance for Flash Flood Victims in Camiguin | 50,000 |
| Archdiocesan Commission on Social Apostolate-Archdiocese of Cagayan de Oro with Growth, Organizational Upliftment of People, Inc. | Social/Community Mobilization on Community Mortgage Program Off-Site Relocation Project for Survivor Families of Typhoon Sendong | 1,688,925 |
| Balay Mindanaw Foundation, Inc. | Relief Assistance for Families Affected by Typhoon Sendong | 379,000 |
| Growth, Organizational Upliftment of People, Inc. | Social/Community Mobilization on Community Mortgage Program Off-Site Relocation Project for Survivor Families of Typhoon Sendong | 2,409,225 |
| Kasilak Development Foundation, Inc. | Relief Assistance for Families Affected by Typhoon Pablo in Davao del Norte | 200,000 |
| Mahintana Foundation, Inc. | Conference on Disaster Risks and Climate Change: A SOCSARGEN Action Agenda | 250,000 |
| Philippine Partnership for the Development of Human Resources in Rural Areas-Mindanao | Relief Assistance for Victims of Typhoon Pablo | 200,000 |
| Sentro sa Maayong Magbalantay, Inc. | Early Recovery and Disaster Preparedness towards Community Integration of Children Affected by Tropical Storm Sendong | 156,900 |
| Touch Foundation, Inc. | Social/Community Mobilization on Community Mortgage Program Off-Site Relocation Project for Survivor Families of Typhoon Sendong | 2,887,237 |
| Xavier Science Foundation | Seed of Hope: Resettling the Sendong Victims to Xavier Ecoville | 3,590,550 |
| Xavier University | Social/Community Mobilization on Community Mortgage Program Off-Site Relocation Project for Survivor Families of Typhoon Sendong | 452,550 |
| Total | | 16,905,167 \$ 411,818 |

* At Php41.05, 31 December 2012

General Development Support

| Partner | Project | Total |
|---|---|----------------------------------|
| Luzon | | 236,250 (4%) |
| Ateneo School of Government | Share Care Extra Gift Donation Campaign Public Bazaar | 16,250 |
| Pagkakaisa ng Kababaihan para sa Kalayaan, Inc. | Capacity Building for a Cooperative Group of Former Triumph Women Workers | 170,000 |
| Tumandok Craft Industries | Support to Participation to Manila Fame Show | 50,000 |
| Visayas | | 60,000 (1%) |
| Iloilo Code NGOs, Inc. | Knowledge Exposition and Learning Forum on Good Governance | 60,000 |
| Mindanao | | 1,617,000 (23%) |
| Agri-Aqua Development Coalition-Mindanao | Planning on Upscaling Community Economic Enterprises in the Six Provinces of Mindanao | 117,000 |
| Philippine Cooperative Center | 11th National Cooperative Summit | 500,000 |
| Mindanao Coalition of Development NGO Network | Strengthening Mindanao CSO Response in Climate Change Adaptation and Disaster Risk Reduction and Management | 1,000,000 |
| National | | 5,008,125 (72%) |
| League of Corporate Foundations | CSR Expo 2012 | 300,000 |
| Caucus of Development NGO Networks | Social Development Celebration 2011-2012 and 5th National Congress | 4,708,125 |
| Total | | 6,921,375 \$ 168.608* |

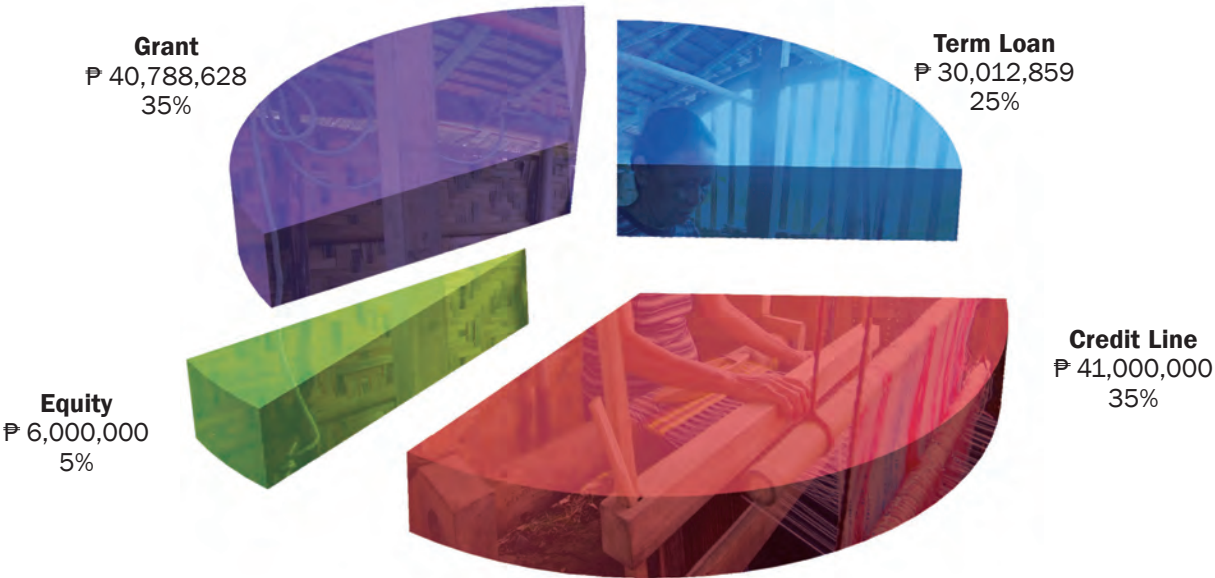
* At Php41.05, 31 December 2012



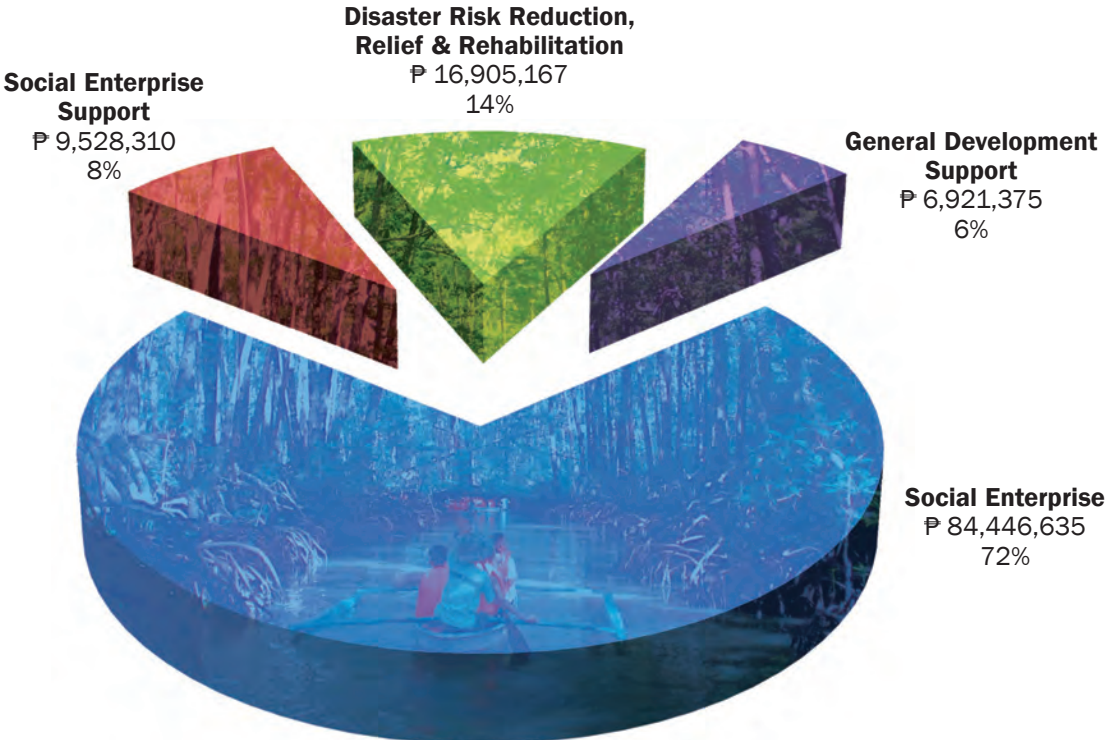
Distribution of PEF Social Investments in 2012

(Total in 2012 = ₱ 117,801,487)

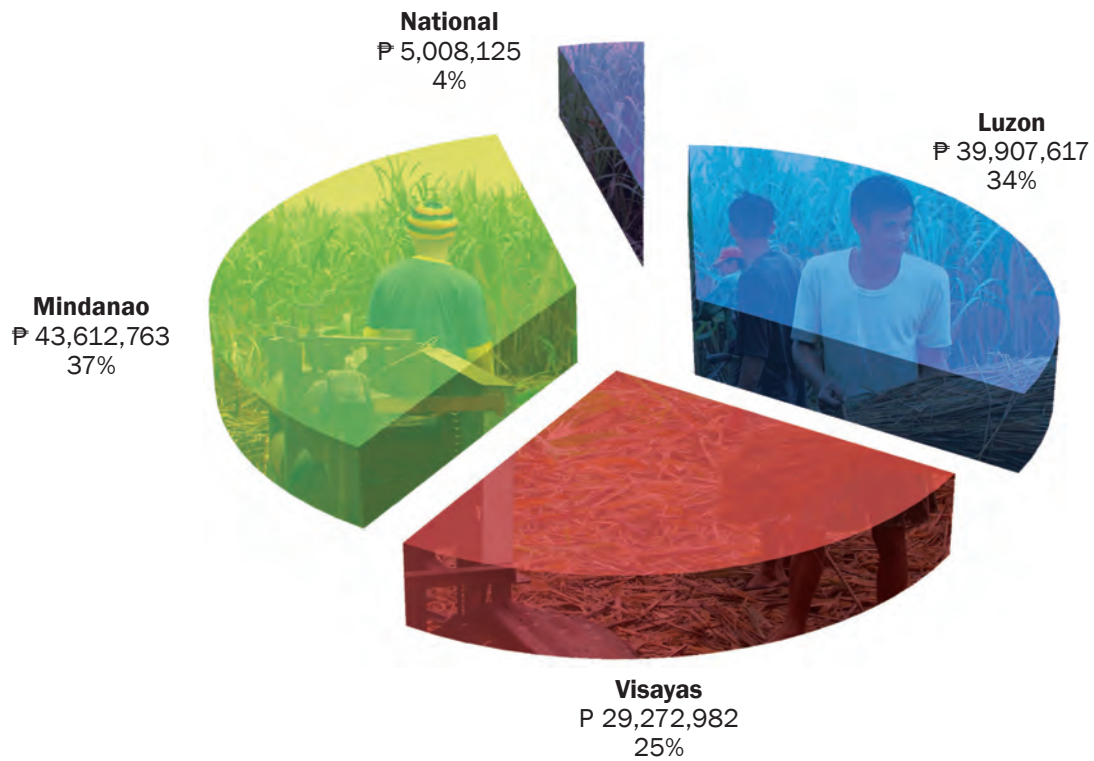
By Financing



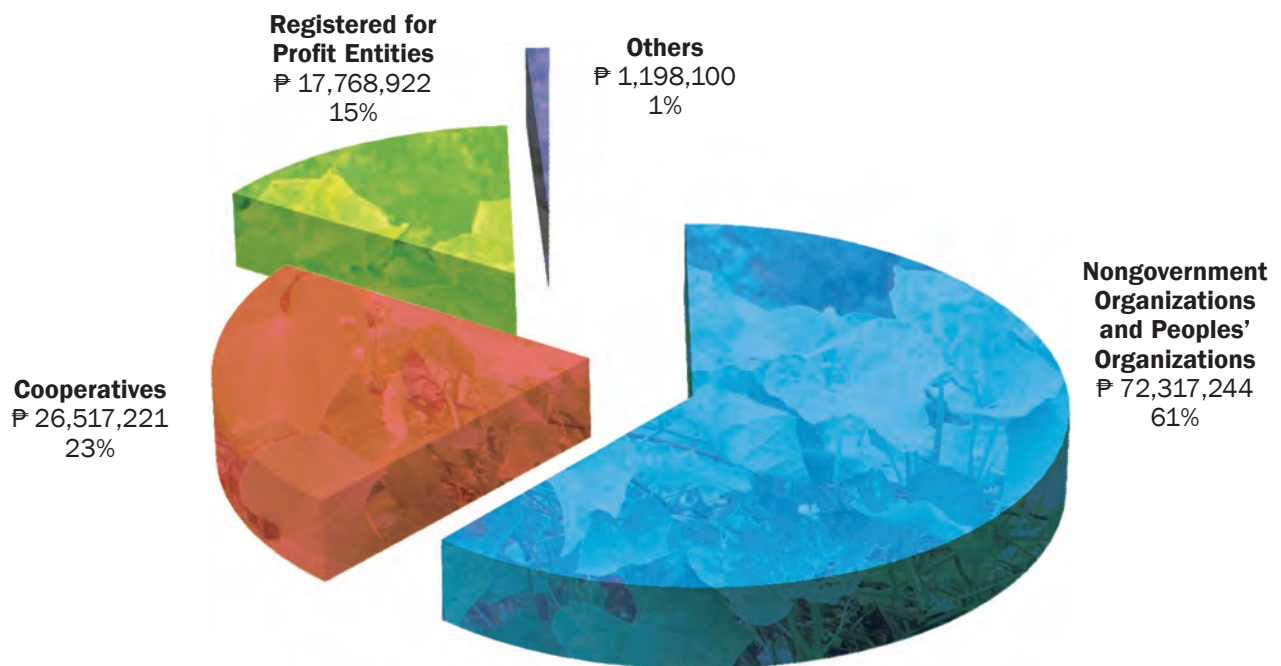
By Project Type



By Location/Region



By Type of Partner





The Foundation's total assets stood at Php2.25 billion, an increase of 9% from the previous year. Our biggest asset is in investments of Php2.06 billion, which accounts for 92% of our total assets.

Treasurer's Report

For the period January-December 2012

PACITA U. JUAN

I am pleased to report on the financial position of Peace and Equity Foundation ('PEF'; 'the Foundation') at the end of year 2012.

PEF's second decade of operations began in earnest in the year 2012. The year also marked the first full year that PEF implemented its new thrust on social enterprise promotion and development. Prudent stewardship and

management of our resources helped us achieve a new milestone when the Foundation's fund balance crossed the Php2-billion mark.

The Foundation's total assets stood at Php2.25 billion, an increase of 9% from the previous year. Our biggest asset is in investments of Php2.06 billion, which accounts for 92% of our total assets. Total loans receivable from project

partners is Php107 million net of provision for loan loss of Php36 million.

Total liabilities amount to Php194 million, 88% of which represents funds held in trust, or Php171.9 million. Such funds are for multi-year programs, to be disbursed in loans and grants in future periods. The funds were provided by two entities: 1) the Netherland’s Catholic Organization for Relief and Development Aid (CORDAID) with a year-end balance of Php146.2 million for the Mindanao Partnership for Peace Program and the Climate Change Program, and 2) by the Department of Energy for the renewable energy project in the amount of Php25.7 million. These are funds leveraged from institutions to allow PEF to increase its Social Enterprise investments.

PEF’s fund balance stood at Php2.056 billion, up by 8% from previous year. The restricted portion of the fund balance is in the amount of Php1.825 billion—an amount representing the original endowment fund of Php1.318 billion plus provision for inflation of Php507 million at an average rate of 3% per year since the endowment fund was established in 2001. The unrestricted portion of the fund balance is in the amount of Php231 million which the Board considers as a reserve fund. The reserves can be availed of in the event that future years’ income from investments are insufficient to meet future disbursements for grants, loans, and expenses. The reserves are also available for relief and

rehabilitation to respond to the needs of victims of natural calamities, subject to approval by the Board.

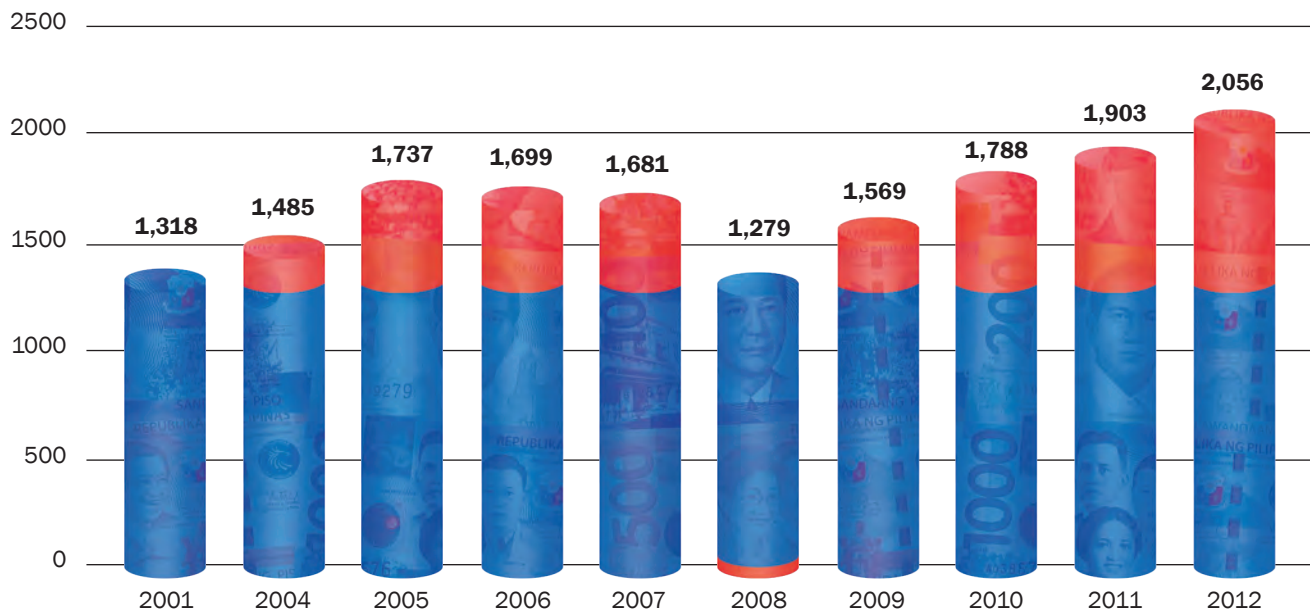
In 2012, PEF’s total amount of income earned is Php130.76 million. Ninety-four percent of this amount was realized from investments. The remaining six percent or Php7.45 million was earned from project loans and other income.

Total expenses incurred for the year was Php75.64 million, an increase of 33.2% from previous year. We spent a total of Php36.84 million for direct project assistance in the form of grants and Php12.74 million for project development, monitoring and evaluation, and technical assistance. We spent an additional Php1.20 million for institutional support, Php4.93 million for research and baseline survey, and Php1.08 million for advocacy and public information. PEF counterpart for donor-funded programs totalled Php1.13 million. We also spent Php11.89 million for general and administrative expenses. Depreciation, provision for impairment losses and foreign currency losses totalled Php5.83 million.

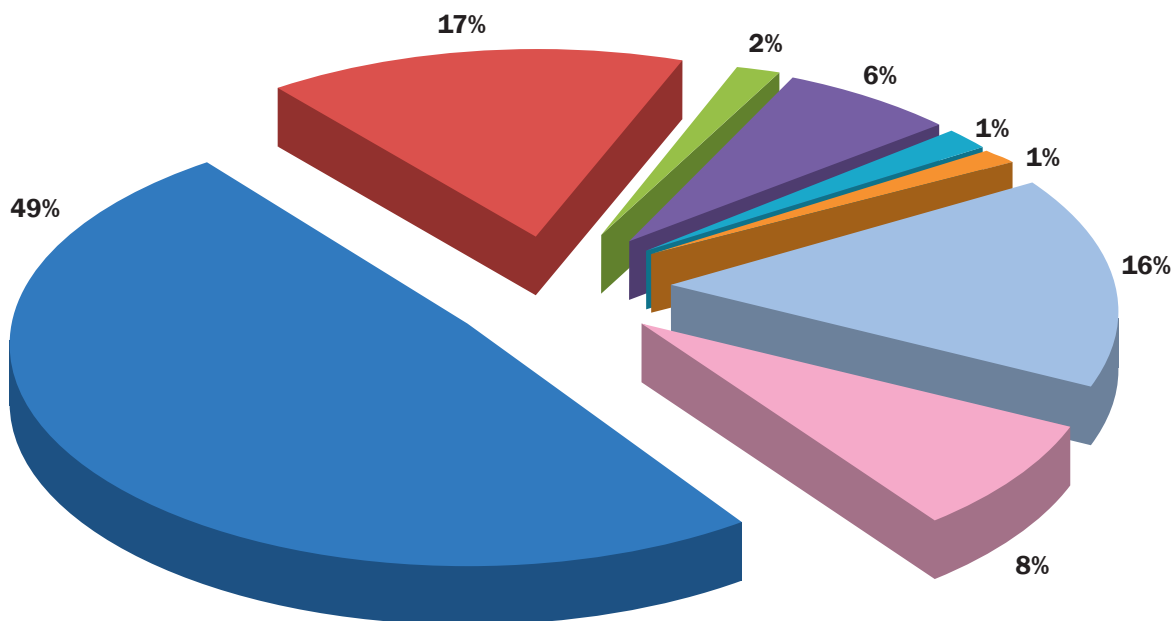
Our financing strategy remains anchored on the following objectives:

- Protecting the value of the original corpus fund of Php1.318 billion with adjustments for inflation;
- Continuous build-up of reserves over and above the original corpus fund enough to cover at least three

VALUE & GROWTH OF PEF FUND BALANCE (2001-2012, in million pesos)



EXPENSES (Year 2012)



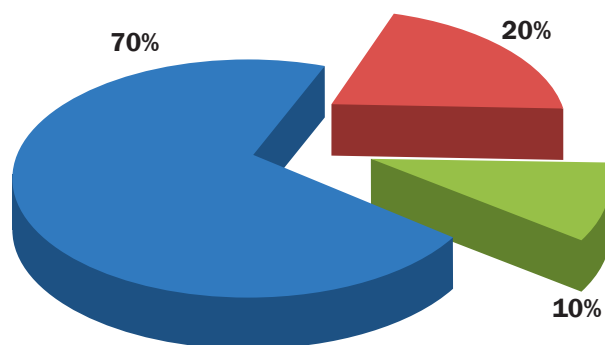
- Grants
- Project development, monitoring and evaluation, and technical assistance
- Institutional support
- Research and baseline survey
- Advocacy and public information
- PEF counterpart for donor-funded programs
- General and administrative expenses
- Depreciation, provision for impairment losses and foreign currency losses

years of operations in the event of “financial crisis/ depression”;

- Keeping disbursements within the benchmarks set by the Board, as follows: project loans and investments to partners of not less than 70% of the income inflows for the year, program management of not more than 20% and general administrative expenses of not more than 10%; and
- Entering into co-financing partnerships with donors and investors having a shared agenda on social enterprise promotion and development.

The PEF Board will continue to implement prudent financing strategy, at the same time maintain enough flexibility to introduce minor changes in the strategy in the event that conditions in the external environment and circumstances internal to PEF may warrant a review of the current strategy. ■

GUIDELINES ON ANNUAL DISBURSEMENTS



- Loans and investments to partners
- Program management
- Administrative expenses



Report of Independent Auditors



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www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc., which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in fund balances and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





- 2 -

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. as at and for the year ended December 31, 2011 were audited by other auditors whose report dated March 7, 2012 expressed an unqualified opinion on those statements.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 24 and 25 to the financial statements, respectively, are presented for purposes of filing with the Bureau of Internal Revenue and are not a required part of the basic financial statements. Such information is the responsibility of the management of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670008, January 2, 2013, Makati City

March 14, 2013



A member firm of Ernst & Young Global Limited

Audited Financial Statements

Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.
STATEMENTS OF FINANCIAL POSITION
(With Comparative Figures for 2011)

| | December 31 | |
|--|------------------------|-----------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 5) | ₱ 15,276,043 | ₱ 52,286,114 |
| Receivables (Note 6) | 69,586,887 | 59,722,334 |
| Available-for-sale financial assets (Note 7) | 2,059,343,328 | 1,871,025,409 |
| Other current assets (Note 8) | 21,504,919 | 405,192 |
| Total Current Assets | 2,165,711,177 | 1,983,439,049 |
| Noncurrent Assets | | |
| Receivables - net of current portion (Note 6) | 46,750,655 | 41,413,884 |
| Property and equipment (Note 9) | 32,829,060 | 33,519,554 |
| Investment properties (Note 10) | 4,911,814 | 8,057,603 |
| Other noncurrent assets (Note 18) | 601,033 | 412,404 |
| Total Noncurrent Assets | 85,092,562 | 83,403,445 |
| TOTAL ASSETS | ₱ 2,250,803,739 | ₱ 2,066,842,494 |
| LIABILITIES AND FUND BALANCES | | |
| Current Liabilities | | |
| Account payable and accrued expenses (Note 11) | ₱ 11,708,980 | ₱ 4,265,589 |
| Grants payable (Note 12) | 10,919,218 | 10,286,810 |
| Funds held in trust (Note 13) | 171,865,103 | 149,708,932 |
| Total Current Liabilities | 194,493,301 | 164,261,331 |
| Fund Balances (Note 22) | | |
| Restricted | 1,824,934,753 | 1,771,781,314 |
| Unrestricted | 231,375,685 | 130,799,849 |
| Total Fund Balances | 2,056,310,438 | 1,902,581,163 |
| TOTAL LIABILITIES AND FUND BALANCES | ₱ 2,250,803,739 | ₱ 2,066,842,494 |

See Notes to Financial Statements at www.pef.ph.

Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.
STATEMENTS OF COMPREHENSIVE INCOME
(With Comparative Figures for 2011)

| | Years Ended December 31 | |
|---|-------------------------|----------------------|
| | 2012 | 2011 |
| REVENUES | | |
| Investment income (Note 7) | P 123,223,384 | P 201,134,280 |
| Interest income (Notes 5, 6 and 8) | 3,088,915 | 3,474,719 |
| Others (Note 17) | 4,450,076 | 4,986,650 |
| | 130,762,375 | 209,595,649 |
| EXPENSES | | |
| Grant expenses (Note 12) | 36,835,685 | 15,189,133 |
| Project expenses (Note 14) | 21,087,672 | 10,824,239 |
| General and administrative (Note 15) | 11,893,820 | 10,133,517 |
| Depreciation (Note 9) | 2,518,788 | 2,658,424 |
| Provision for impairment losses on receivables and investment properties (Notes 6 and 10) | 2,420,268 | 8,745,042 |
| Foreign currency losses | 885,028 | 447,341 |
| | 75,641,261 | 47,997,696 |
| INCOME BEFORE INCOME TAX | 55,121,114 | 161,597,953 |
| PROVISION FOR INCOME TAX (Note 19) | | |
| Final tax on investment income | 11,892,893 | 12,093,548 |
| NET INCOME | 43,228,221 | 149,504,405 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Net unrealized valuation gain (loss) on available-for-sale financial assets (Note 7) | 110,501,054 | (35,342,020) |
| TOTAL COMPREHENSIVE INCOME | P 153,729,275 | P 114,162,385 |

See Notes to Financial Statements at www.pef.ph.

Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.
STATEMENTS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Figures for 2011)

| | Unrestricted Funds | | | Restricted Funds | | | Grand Total |
|---------------------------------|----------------------|-----------------------|--|------------------------|---|-----------------|-----------------|
| | Members Contribution | Cumulative Net Income | Net Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 7) | Endowment Fund (Note1) | Provision for Cost of Inflation (Note 22) | Total | |
| Balances at January 1, 2011 | ₱ 100,000 | (P 19,801,792) | ₱ 87,944,537 | ₱ 1,318,371,694 | ₱ 401,804,339 | ₱ 1,720,176,033 | ₱ 1,788,418,778 |
| Net income | - | 149,504,405 | - | - | - | - | 149,504,405 |
| Total comprehensive income | - | - | (35,342,020) | - | - | - | (35,342,020) |
| Provision for cost of inflation | - | (51,605,281) | - | - | 51,605,281 | 51,605,281 | - |
| Balances at December 31, 2011 | 100,000 | 78,097,332 | 52,602,517 | 1,318,371,694 | 453,409,620 | 1,771,781,314 | 1,902,581,163 |
| Net income | - | 43,228,221 | - | - | - | - | 43,228,221 |
| Total comprehensive income | - | - | 110,501,054 | - | - | - | 110,501,054 |
| Provision for cost of inflation | - | (53,153,439) | - | - | 53,153,439 | 53,153,439 | - |
| Balances at December 31, 2012 | ₱ 100,000 | ₱ 68,172,114 | ₱ 163,103,571 | ₱ 1,318,371,694 | ₱ 506,563,059 | ₱ 1,824,934,753 | ₱ 2,056,310,438 |

See Notes to Financial Statements at www.pef.ph.

Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.
STATEMENTS OF CASH FLOWS
(With Comparative Figures for 2011)

| | Years Ended December 31 | |
|--|--------------------------------|---------------|
| | 2012 | 2011 |
| REVENUES | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱ 55,121,114 | ₱161,597,953 |
| Adjustments for: | | |
| Depreciation (Note 9) | 2,552,408 | 2,697,902 |
| Provision for impairment losses (Notes 6 and 10) | 2,420,268 | 8,745,042 |
| Unrealized foreign exchange loss | 885,028 | 447,341 |
| Investment income (Note 7) | (123,223,384) | (201,134,280) |
| Interest income (Notes 5, 6 and 8) | (3,088,915) | (3,474,719) |
| Gain on reversal of impairment losses (Notes 6 and 17) | (2,347,078) | (3,306,462) |
| Gain on disposal of investment properties (Notes 10 and 17) | (754,211) | - |
| Gain on disposal of property and equipment (Notes 9 and 17) | (7,547) | (735,996) |
| Operating loss before working capital changes | (68,442,317) | (35,163,219) |
| Decrease (increase) in: | | |
| Receivables | (14,307,524) | 10,363,205 |
| Available-for-sale financial assets | (77,816,865) | (169,971,048) |
| Other current assets | (21,099,727) | (61,129) |
| Other noncurrent assets | (188,629) | (104,810) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 7,443,391 | 2,388,811 |
| Grants payable | 632,408 | (1,796,241) |
| Funds held in trust | 22,156,171 | 24,406,792 |
| Net cash used in operations | (151,623,092) | (169,937,639) |
| Investment income received | 123,223,384 | 201,134,280 |
| Income taxes paid (Notes 7 and 19) | (11,892,893) | (12,093,548) |
| Interest income received | 2,121,925 | 3,051,758 |
| Net cash flows generated from (used in) operating activities | (38,170,676) | 22,154,851 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investment property (Note 10) | 3,900,000 | - |
| Proceeds from sale of property and equipment (Note 9) | 11,762 | 1,334,358 |
| Additions to property and equipment (Note 9) | (1,866,129) | (173,702) |
| Acquisitions of investment properties (Note 10) | - | (3,023,958) |
| Net cash flows generated from (used in) investing activities | 2,045,633 | (1,863,302) |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (885,028) | (447,341) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (37,010,071) | 19,844,208 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 52,286,114 | 32,441,906 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5) | ₱ 15,276,043 | ₱ 52,286,114 |

See Notes to Financial Statements at www.pef.ph.

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 Seated, left to right: **Roberto Calingo, Cauchie Garcia, Araceli Esconde, Amparo de Asis, Ricardo Torres**
 Not in photo: **Ricardo Soto, Ulysses Diva, Danylle Pascual**

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Manager, Support Services

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Oscar A. Gomez**
 Manager, Knowledge Management
**starting February 2013*
***until August 2012*

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 Manager, Advocacy
**until July 2012*

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 Program Coordinator
 Mindanao Partnership Program for Peace

Danylle C. Pascual
 Project Officer
 Mindanao Partnership Program for Peace

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Pia V. Villapando
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Ma. Lucita P. Satiembre
 Finance Assistant

Veneracion Verona Q. Viajar
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 Human Resources & Administrative Officer
**until March 2012*

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