



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.

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# Chairperson's Message

Most Reverend Antonio J. Ledesma, SJ DD  
Archbishop of Cagayan de Oro City

For the Peace and Equity Foundation (PEF), 2013 has been a year of treading on the right path. When we set out to focus on social enterprises for 2011-2015, we had in mind the vision of poor households having sustainable livelihoods. And we intended to fulfill this vision through social enterprises.

Social enterprises hold the potential to work toward development initiatives and provide welfare service to groups and communities in the rural areas. They can integrate disadvantaged sectors to participate in and gain from growth. Social enterprises can promote inclusiveness by enhancing equality of opportunities—such as unbiased access to market and productive employment—and by sharing the benefits of growth.

Midway in its strategic plan for 2011–2015, PEF has been following its intended path of growing social enterprises toward becoming competitive and inclusive.

How are we doing? We have increased the endowment fund by close to 70 percent from Php1.249 billion in 2008. We are healthier than we were six years ago.

We have provided funding support to social enterprises and relevant projects. We are developing the capacities of social enterprise managers. Along the way, we have been gathering the lessons we have learned and sharing them with our partners. In 2013, we established

the Peace and Equity Holdings, a stable platform for PEF to anchor and implement its social enterprise strategy both for not-for-profit and for-profit enterprises.

But also we have had our struggles. Inclusiveness and competitiveness are big challenges. Our social enterprise partners must have the management system and capacity to achieve their social mission. Their being efficient has to be improved through technology development, appropriate financing, and compliance with business standards—means that are challenging to come by and achieve. We have learned that our social enterprise partners need resiliency and responsiveness to climate variability. We have to help open spaces for inclusiveness, so that we could adopt culturally appropriate initiatives even beyond what we have begun, with Shari'ah compliant lending. We have to help our social enterprise partners to be ready with major changes such as the ASEAN economic integration.

And so we shall move forward, banking on competitiveness as a means for inclusiveness and resilience. We recognize the steps we have taken and challenges we face. Above all this, we are reminded by the inspiration that binds PEF's work on social enterprises and beyond: the social good of helping poor households who have sustainable livelihoods and means to participate in the development of their communities.

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“We envision to develop self-sustaining households that contribute to the socio-cultural growth, economic development, and effective governance of their communities.”

Php 29 million  
80% of funds  
32 SE Projects

# 2011

Test SE models  
that work

Php 104 million  
80% of funds  
55 SE Projects

# 2012

Build the  
SE Ecosystem

Php 119 million  
83% of funds  
56 SE Projects

# 2013

Focus on "C5" and  
Manage Risks

# 2013 HIGHLIGHTS

**T**he year 2013 was more than a story of projects and investments. It was the reaffirmation of the Social Enterprise (SE) strategy approved in May 2011 and enhanced in 2012. The year 2013 saw the Foundation go steadily and confidently forward towards building communities of responsible impact investors, social entrepreneurs and resilient self-sustaining households. It was a year of harvesting the fruits of wise decisions planted in the two previous years.



For 2013, PEF invested Php144 million in 104 projects—including social enterprises, disaster risk reduction, and other development initiatives. Of this amount, more than Php119 million (83 percent) translated to 56 SE projects employing innovative approaches and building the capacity of SE organizations and entrepreneurs.

### Setting the Course for 2013

In November 2012, the PEF Technical Conference faced a tough reality. More than a year has passed since the Foundation launched its SE agenda in late October 2011. It would be 2013 in a few days. The end of the first phase of the SE strategy was only 1,147 days away.

Many questions were raised at the conference. What would 2013 be like? What investments would be needed? How far was PEF from its strategic direction of transforming communities? Was PEF on the right track? Was it still the right vehicle to grow SE? Did the staff need more competencies to sustain the Foundation’s mission? Were the SE partners prepared for the ASEAN Free Trade Agreement?

For answers, the Board reviewed the important events of 2011-2012, when the Foundation invested in 72 social enterprise projects, and partner cooperatives redeemed almost 200 hectares of coconut lands in behalf of their poor farmer members. It was also during this period when our partner, the Magpet Agro Industrial Cooperative, sold several tons of banana chips to China.

Those two years were definitely worth more than the money that went into the said projects.

The Board also asked what part of the PEF strategy had to be refined to grow or scale up social enterprises to transform communities.

Meanwhile, only three of the nine SE investments made in 2011 had growth potential, according to an SE mentor of PEF partners. Senen Bacani, PEF founding member and himself an agri-entrepreneur, would repeatedly advise that in SE, especially agriculture, “management of the fixed cost” is the formula for sustainability.

Thus, the general assembly set a synergistic five-point agenda, namely: **Competitive Social Enterprises Focused on Five Agricultural Commodities—Cane Sugar, Climate-Smart Agriculture, Coconut, Coffee, and Cacao (C5); Leveraging Focus and Options; Capacity Development for SE Entrepreneurs and Managers; Research and Knowledge Management; and PEF Internal Capacity Development Investment.**


### Competitive Social Enterprises

Five flagship commodities were chosen to hasten economic development in the rural areas, particularly in the agricultural sector.

- **Cane Sugar.** The Philippines’ sugarcane industry contributes no less than Php76 billion annually to the Philippine economy. We supported a block farming project of four cooperatives in Negros Occidental covering 220 hectares of sugarcane lands and benefiting 100 small sugarcane farmers. 
- **Climate-Smart Agriculture.** Through climate-smart agriculture and farming techniques, farmers can increase their productivity and income, become more sustainable, and make agriculture more resilient to climate change. Through the project, “Technology adoption: Greenhouses for cold climates,” we helped the La Trinidad Organic Practitioners in Benguet. 

“ Five flagship commodities were chosen to hasten economic development in the rural areas, particularly in the agricultural sector. ”



- **Coconut.** With 68 out of 79 provinces being coconut-growing areas, 25 million Filipinos directly or indirectly depend on the industry. In Bicol, we have offered Cocotech access to capital and technology to make new products from coir. In Zamboanga Sibugay, Lapuyan People's Multi-Purpose Cooperative redeemed 150 hectares of coconut land that had been mortgaged by small farmers. The cooperative co-managed the copra farms and allowed households to regain their land assets and to have a higher share of harvest. 
- **Coffee.** There are an estimated 25,000 coffee farmers in the country, and around 300,000 Filipinos depend on the coffee industry for their living. In Benguet, we assisted Atok Arabica Coffee Growers Marketing Cooperative with a loan and grant towards the establishment of a coffee growers' cooperative. 
- **Cacao.** Being the major source of cocoa powder and butter, this product is highly prized for its beans. The Subasta Cooperative in Davao was provided a loan and technical assistance to enable it to meet a huge order from an overseas chocolate bar maker. 

### Leveraging Focus and Options

We leveraged our resources for both financing and capability building. In partnership with the British Council, we supported the "I am A Change Maker" program. This provides capacity building activities and start-up funds to young social entrepreneurs. In Bukidnon, we partnered with the Federation of Matigsalog Tribes, holder of the

largest ancestral lands in the Philippines, to plant cacao, coffee, and protect watersheds. The Bank of the Philippine Islands Foundation supported the Matigsalog Federation's enterprise training and supported its ecotourism promotion program.

### Capacity Development for SE Entrepreneurs and Managers

We invested in building capabilities among our partners to enable them to move their SEs to higher levels, as well as in developing SE institutions and leaders. In Cotabato and Davao cities, we took the role of equity investor (or Rab al Mal) to support organizations that advocate Shari'ah-compliant lending. To equip us for this, we joined a study tour in Indonesia organized by the Al Qalam Institute in Ateneo De Davao University. From that study tour, our Executive Director, Roberto Calingo and the Al Qalam Institute Director, Mussolini Lindasan became more convinced about the critical need for Institution Building. Learning from Shari'ah scholars that Shari'ah-compliant communities follow a 7-7-7 pattern, we were convinced of the need for seven years of scholarly advocacy, seven years of purification and institution building and seven years of trial implementation or scaling up.

We also funded the study tour and training of Muslim leaders and scholars in Yogyakarta and Jakarta, Indonesia, and community dialogues on Shari'ah financing in Davao and Cotabato City.

### Research and Knowledge Management

We identified certain issues that SEs often encounter with impact investors, recognizing that the growth of SEs are often influenced by them.

Some impact investors put much more value on their returns on portfolio over the potential social impact of certain projects. In managing their risks, others impose conditions that eventually limit the SEs' capacity for innovation. Still other investors lack the vision, or the appropriate policies and tools to sustain the growth of social enterprises.

In addressing these issues, we studied this investment climate and undertook case studies of certain development foundations offering "special purpose vehicles" in implementing programs for poverty reduction. The studies asked how PEF could fulfill its mandate to grow social enterprises.

We found that the Foundation would be unable to grow and scale up social enterprises despite its more than 10 years of experience in development financing if it used only its current menu of tools and capabilities. Its loan and grant instruments and its program assessment processes were inadequate in coping with new demands and realities confronting social entrepreneurs. We realized that the Foundation must develop new competencies and structures to help SEs cross what all eventually pass through, the so-called "valley of death." It must increase its credit lines and equity financing, and it must also strengthen its due-diligence and mentoring capabilities.

### **Internal Capacity Development Investment**

Following the above conclusions, we took a key financial step to become an emerging impact investor in social enterprises. In 2013, we incorporated the Peace and Equity Holdings Company, only a dream in 2011.

In financing, we acquired equities in the GlowCorp and the Hybrid Social Solutions and in small water cooperatives.

The Foundation's characterizing traits in 2013 became *unang taya* (i.e., to be among the first to invest in social enterprises that hold potential but need assistance) and *tusong may puso* (i.e., to be astute in choosing which social initiatives to help and take risks for). We offered such investment support to SEs that were not sensitive to market realities and faced delays in payments and account restructuring.

To reiterate the Foundation's bias towards both social mission and the diligence needed for a market and business-driven enterprise strategy, we sought always to find a balance between *kuwento* (i.e., story and impact) and *kuwenta* (i.e., business design and financial sustainability).

We set as our target that by 2015 we should see at least 100,000 self-sustaining households through our *kuwenta-kuwento* investments.

In achieving our mission, we saw the value of risk management and have thus incorporated it into our plans as well as assisted our partners in doing the same. We engaged in May 2013 a risk management advisor (RMA) who would sustain our risk management activities and deepen these from entity-wide to unit-land process/transaction levels. We started and continue to develop a *risk dictionary* that defines the identified top risks in the context of PEF. We also expanded the role of the Audit Committee to oversee PEF's implementation of these new policies.

### **Responding to the Unexpected**

The PEF staff was having its annual technical conference in preparation for 2014 when Typhoon Yolanda (international name: Typhoon Haiyan) struck in November 2013. The human and natural disaster the super-typhoon brought over, in addition to those caused earlier by

Typhoon Santi in Bulacan and the October 2013 earthquake in Bohol, jolted PEF to the terrible realities of climate change and natural disasters. And while we were sending noodles and sardines to partners hit by Typhoon Yolanda, we remembered another typhoon, the Typhoon Sendong in 2011, of which we noted we still had to build 3,174 houses for its victims.

In December 2013, the PEF made it a policy to mobilize 30% of its unrestricted fund to support projects aimed at mitigation of such calamities. The Board approved the implementation of a major rehabilitation program in the Visayas. Also, together with the Micro Finance Council of the Philippines, National Confederation of Cooperatives and Pinoy Me, PEF sponsored a national forum for investors on the effects of calamities and disasters. The forum saw a good attendance from investors and other organizations.

### **Learning the Lessons and Moving On**

The developments in the year 2013 were an affirmation of the Foundation's well-thought-out strategy: social enterprise as a poverty alleviation approach. It also showed the environment that encourages the growth of these enterprises. We proved that *social enterprises* could reach a level where they could make a positive impact on people's livelihoods, but that they need funds, a supportive policy and ecological environment, management capacity, innovation, and linkages.

Thus PEF looks forward to 2014 with greater capacity and an expanded repertoire of tools and instruments to scale up its C5 projects, and to integrate the principles of SE, risk management and disaster risk reduction into its projects. These and further new learnings should help lay the groundwork for the Foundation's next strategic stage, which is 2016-2021.

## PE Holdings Company: Investing to Grow and Scale up SEs

The Peace and Equity (PE) Holdings Company, created by the Foundation in 2013, aims to offer business and management services, including equity investments, to social enterprises moving beyond the "valley of death" that most SEs cross in their life cycle. The SEs may be those currently being nurtured by the Foundation under its C5 program, or new enterprises looking for innovative and transparent impact investors and not simply funding sources.

The holdings company has an authorized capital of Php500 million and a Board of Directors with members carefully selected from development and SE practitioners.

Knowledge management is one key result area shared between the Foundation and the holdings company. Vitaliano Nañagas, banker-entrepreneur and board member of the holdings company, stressed this need. "We have to have a knowledge management objective," he said. Thus this new experience must be documented so the Foundation would know in the future the reasons for its investments, and why it succeeded or failed.

As an impact investor, the holdings company will implement the mandate of being *unang taya* (i.e., to be among the first to invest in social enterprises that hold potential but need assistance) to social enterprises that have the promise of creating self-sustaining households, even as it manages the risks of being an impact investor. "Expect losses; growing two of five SEs we support will be an achievement," reminded Senen Bacani, member of the holding company's board of directors and awarded as Entrepreneur of the Year in 2006 by SGV & Co. Bacani keeps reiterating: manage fixed costs!

Martiniano Magdolot, a farmer-entrepreneur-practitioner and respected civil-society leader in Mindanao, is cautious about the need to balance social mission and business proposition. He emphasizes that the SE must have a clear social mission.

With the creation of the PE Holdings, 2013 was an important milestone for PEF. It is also a breath of fresh air in the space occupied by more seasoned impact investors. 2014 is a year to look forward to.

GROWING SOCIAL  
ENTERPRISES:

*Focus on*  
C5





## Subasta Integrated Farmers Multi-Purpose Cooperative: Big dreams for cacao farmers in Davao

**C**hocolate is one of the world's most exciting foods. From Central America—where the earliest settlers called the drink “bitter water” and revered cacao as a gift from the gods—chocolate as a drink and food additive has gained popularity as well as exotic appeal over the centuries and across the globe.

Today, one of the world's finest chocolate bars traces its cacao to a small barangay in the Philippines. The Askinosie Davao White Chocolate Nibble Bar, which gets much praise in the world market, is handcrafted by a company from Missouri in the USA. Askinosie sources its beans from the Subasta Cooperative in Davao City.



The cooperative, with more than 100 farmer-members today, is one of Davao's more successful farmer groups growing, processing, and marketing cacao products. The Subasta cooperative supplies cacao to local specialty processors and also exports to international buyers, including Askinosie. It has also started to sell planting materials and fertilizers to other farmers in local communities.

The cooperative was started in March 2009 by 27 cacao producers in Davao. These farmers had attended activities of the Farmer Field School sponsored by the SUCCESS Alliance, an organization working towards improving the lives of cacao farmers and is supported by the US Department of Agriculture (USDA). The farmers established the cooperative when they realized the need to work together, share knowledge and resources, and build their own support systems.

But first they had to go through rigorous training. The Department of Agriculture and the Land Bank of the Philippines were there to help.

"We had to undergo training at the Mars Cacao Development Center in Malagos," says Ernesto Coquilla, chairman of the cooperative's Board of Directors. The Mars Cacao Development Center, a project of the international chocolate company Mars, Inc., offers free training on the growing, rehabilitation, and post-harvest handling of cacao trees.

During the training sessions, the farmers learned new agricultural practices. For example, they learned it was important to choose only the best seed varieties in order to achieve the best possible type of yield, Coquilla says. They were oriented on the merits of using organic fertilizers, which encouraged them to gradually eliminate chemicals from their operations.

When representatives of Askinosie Chocolates came to visit in 2013, they were so impressed with the cooperative's



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commitment toward good agricultural practices, the firm’s representatives gave cash incentives to encourage the farmers to pursue this commitment.

The training sessions also taught the farmers more about the technology of cacao production and bean processing. “That was where we acquired the technology to make top-quality fermented cacao acceptable in the world market,” Coquilla adds.

At first, the cooperative sold only wet cocoa beans to the Puentespina Farms. Later they decided to dry and ferment their own beans. As their operations grew, they bought their own facilities to improve efficiency and production capacity.

The cooperative’s domestic sales have continued to rise. Coquilla reports a growing number of buyers from Manila, Leyte, Cebu, and Bohol. “We are in a good position,” he says.

Seeing the fulfilment of its initial goals, the cooperative now aims for bigger goals. For starters, it wants to acquire certification from international accreditation institutions, which is essential for success in highly developed export markets. “When we sent our products to Italy, they asked us for product certification,” he says.

Processing of such a certification may take up to five years, Coquilla says. In the meantime, the cooperative asks help from experts in the University of the Philippines in Los Baños, which sends teams every year to test the cooperative’s products and ensure they remain of the highest quality and are bacteria-free.



In 2012, the cooperative received a huge order from Askinosie Chocolates. In order to meet the order for 12 metric tons (MT) of cacao, the cooperative needed a capital of Php1.2 million. Hence, PEF provided a much-needed Php800,000 loan, thus augmenting the cooperative’s working capital. The cooperative succeeded in shipping the order on time, building its good reputation and strengthening its relationship with the American company.

PEF has provided other kinds of assistance to the cooperative. It regularly facilitates learning workshops for social enterprises, including a mentoring program, which Coquilla says is very helpful. “We need more of those,” says

Coquilla referring to the six-module program. With the cooperative’s growth, it needs to fine-tune its management systems and procedures.

The cooperative has even bigger dreams. It now wants to make chocolates itself. An important step toward this direction was made recently, when the Department of Agriculture turned over to the cooperative a processing facility for making *tablea* chocolates. The cooperative members were ecstatic with this development.

“We are getting into chocolate-making!” Coquilla says.

With such foresight, passion and dedication to quality, the cooperative may soon see the fulfillment of its ambitious target—to put chocolate bars labelled *Made in Davao* in the international market. Indeed, sweet dreams are made of these.

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The Negros Block Farming Project:

## Building 'bigger' farms in Negros Occidental

**T**ravellers across the province of Negros Occidental see hectares upon hectares of land planted to sugarcane. After all, the province is the Philippines' top sugar producer, contributing more than half of the country's total sugarcane production.

The industry is dominated by large-scale and commercial producers. But small producers are trying out new schemes to survive the harsh competition. In Negros Occidental, one fresh approach is block farming.



This scheme was started in four barangays by Multi Sectoral Alliance for Development–Negros (MUAD–Negros), together with Crossing Ibos Farmers Credit Cooperative, Dancalan Ilog Waterworks and Agro-Industrial Multi-Purpose Cooperative, Sampak Small Farmers Association, and Tabugon Livestock and Poultry Raisers Association. Each farmer-participant enrolled two to three hectares of his or her farmland to the cooperative or association. When the total hectareage has reached 55 hectares, which is equivalent to the size of a small hacienda, a Professionalized and Diversified Sugarcane Block Farming Enterprise is started, i.e., a block farm.

Each block farm has 20 up to 26 farmer-participants. Farmer-participants sign an agreement with the cooperative giving it full authority to co-manage the farmer’s enrolled land for three years, says MUAD executive director Reynic Alo.

The block farm is planted mostly to sugarcane, but a small section is planted to other crops. “For the first year, the design for farm utilization is 90% sugarcane and 10% banana and energy crop for sustainable charcoal production. This is then changed to [a ratio of] 85%-15% in the second and third years,” adds Alo.

The scheme operates as cooperative farming but has features of corporate farming as well. For instance, participating farmers are paid wages but are also considered part-owners of the enterprise, sharing in the enterprise’s risks and rewards. They slowly learn to become agri-entrepreneurs. Block farming is also a means by which small farmers gain experience in managing bigger farms.

Farms of three hectares or less are very costly for a single farmer to manage. If a farmer does not have enough capital for the needed inputs, such farms are not very productive and cannot compete with 30-hectare-sized farms with adequate capitalization. Small farmowners also rarely get any bank financing.

“Block farming offers a model of technology development and financing for small planters,” Alo says. A loan extended is sure to be paid, which makes the group of small planters “more bankable.”

For its part, PEF provides production capital for 55 hectares per farmer organization and offers incentives for farmers that will produce the highest tonnage of sugarcane. PEF also funds the business development services provided by MUAD. Also, PEF helps the farmers organization’s technicians to attend training opportunities, e.g., sugarcane farmer training courses by other institutions like the Sugar Industry Foundation Inc.

“One of the scheme’s goals is for farmers to be competitive and resilient, and strong enough to face challenges affecting the sugar industry. One of these challenges is the expected drop in sugar prices when imported sugar floods the local market during the full implementation of the ASEAN Free Trade Agreement starting 2015,” Alo says.

It may be too soon to see the scheme’s impact on farm productivity and farmer incomes, but Alo has already observed certain positive effects. For one, crop performance has improved. When farmers did not have enough funds to buy fertilizers, crop growth was often poor. The standardization of certain processes such as having the right plant population, planting high-yielding varieties, proper nutrient management, and good cultivation also helped ensure higher yields. At the same time, funds are being used more effectively and efficiently and as planned. Government agencies, such as the Sugar Regulatory Administration, Department of Agriculture, Department of Agrarian Reform, and local government units, support the scheme.

The net result has been the professionalization of the management system of the farmers’ organization. According to Alo, these can only “encourage more small planters to adopt the block farming scheme.”



Coco Technologies Corporation:

## Community nets profit

**I**n the 1990s, the dean of a small college learned to his dismay that his region of Bicol, although rich in agricultural resources, was among the poorest places in the country.

Faced with dismal statistics, Justino Arboleda, dean of the College of Agriculture in Bicol University and an agricultural engineering graduate from the Tokyo University, did not merely draft policy recommendations but put himself to work.

Scanning his surroundings, he saw the one thing his dirt-poor region was rich in. This coconut-production region's perennial waste was the coconut husk.





Arboleda estimated that the region destroyed or threw away at least 8 billion coconut husks every year. And yet, coco fiber has been identified by the Food and Agriculture Organization of the United Nations as one of the fibers of the future, along with sisal, jute, and abaca. These fibers have been found to be good substitutes for materials produced from fossil or mineral resources.

Coco fiber is not only a sustainable material. It is also very versatile. It may be made into doormats, mattresses, seat cushions, and construction materials. It absorbs moisture, pressure, sound and odor, which makes it ideal for insulation. It can even be used as fertilizer. It also has antifungal and antibacterial properties.

Taking a leap of faith on this humble local material, Arboleda dipped into his own savings and those of his siblings, and started a backyard coco husk processing facility. In 1994, he started Juboken Enterprises, a pilot coconut fiber company that produced bio-degradable anti-erosion material from coconut husk fiber.

The rest, as they say, is history.

With the success of its pioneering effort, Juboken established the Coco Technologies Corporation (Cocotech) to put the industry into the mainstream by developing and marketing new products from coir and peat, such as peat blocks for plant nurseries, fiber rolls for wall proof and roof insulation, and geo-nets for erosion control. Cocotech now supports key coco coir production in Bicol, retailing 90 percent of the total production of Juboken Enterprises, the largest buyer of coco coir in the area.

Today, Cocotech runs a 7,000-square meter facility and employs 2,000 households. Together with another investor, the Foundation for a Sustainable Society, Inc. (FSSI), it has breathed new life into the coconut industry. It has demonstrated the potential of small social enterprises to develop and create impact in local communities.

Demand for coco fiber has grown in the world market as more countries come to realize its properties. However, the Philippines still accounts for only a very small slice of this market. Sri Lanka, the world's biggest exporter of coco coir, sold some 150,000 MT in 2010, roughly 30 times the volume the Philippines exported in the same year.

Even so, the rejuvenated industry has made a strong positive impact not only on the local economy but also on the participating families themselves. Arboleda says that in areas which have been working with Cocotech for some years, he has noted a growth in the number of sari-sari stores and canteens selling cooked food, and the emergence of better-built houses. "For most communities, our project has improved their quality of life," he says.

And since most families spend nearly everything they earn on food, they usually have little or nothing left to finance the children's schooling, buy some clothes or medicine, or pay the electric bill. Thus families who earn extra income by twining or weaving coco fiber are now able to cover these expenses.



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The growing industry needs all the help it can get from government as well as from institutions like PEF, says Arboleda. PEF, with whom Cocotech has maintained a long-term partnership, can offer access to capital and provide management services like cash flow management, as well as assistance to strengthen its community supply chain.

"We are moving from being a *sari-sari* store to a department store, but our management system is still of a *sari-sari* store's. Our systems need to grow," Arboleda says.

Meanwhile, the government through the Philippine Coconut Authority has launched its own programs to help rejuvenate the coconut industry. Most recently, President Benigno Aquino III issued an executive order for the Department of Public Works and Highways (DPWH) to use coco-coir nets to prevent erosion along highways and critical slopes.

However, Arboleda says the government must work harder. He says the Department of Agriculture distributed over 100 decorticating machines all over the country. While in 2013 the Philippine Coconut Authority set aside Php160 million to purchase machines that could help boost coco coir productivity, the benefits of such technologies have yet to be tapped fully. The machines, which are used to separate coco fiber from the husk, are lying idle today because the farmers who received them lack the necessary capital for operations. Arboleda says the local coco coir industry can get off the ground only with an insightful and comprehensive plan.

With stronger government support, the determined efforts of social enterprises like Cocotech might just make the world sit up and notice the true value of this precious life-giving tree.

PEF is committed to make this happen.







Atok Arabica Coffee Growers Marketing Cooperative:

## Blending opportunities and challenges

**A**fter water, coffee is the most consumed drink worldwide. In the Philippines, coffee is more than that. It is a high-value crop grown mainly by small farmers.

The small town of Atok in Benguet province gets its name from the local phrase *nay patok shi chonto* (“on the mountain top”).

Atok is located high in the Cordillera mountains. Its high elevation and well-drained soil makes Atok ideal for growing coffee, which was introduced by Spanish missionaries. Growing coffee has since become a common backyard practice. Coffee often shares space with other plants in a farmer’s yard like alnus, avocado, and sayote.



Coffee has also become associated with certain cultural practices. When a man marries in Atok, he is expected to plant coffee trees around his new house. More than being a morning beverage, coffee means healthy living, something to serve to visitors, fostering good relationships and, most important, signifies dignity and honor.

Atok is slowly gaining a reputation for its splendid Arabica coffee variety. Today the town grows four types, namely Arabica typica, red bourbon, yellow catura and granica. Its local brand is Atokape, roasted and packed in the town by the Atok Arabica Coffee Growers Marketing Cooperative (ACOGMAC).

It started in 1995 as the Atok Coffee Growers Association with 30 members. It went into hiatus for some years, and returned in 2009 with its new and expanded name. Today the cooperative has 237 individual members.

The Cooperative now supplies green coffee beans—those that will be for roasting—to key coffee producers such as Gourmet Café in Cavite and Café Kalsada in Manila.

Coffee-growing is an important source of livelihood in the Cordillera. To sustain it, the Cooperative has helped raise the buying price of green coffee beans, which middlemen had controlled for so long. Now the cooperative consolidates all the available beans in the area, fetching for each member a price of Php180 per kilo per ton as against Php120 per kilo by retail. One of its prime buyers is the ECHOstore, also a PEF partner in scaling up the coffee industry.

The cooperative sees several challenges, however. Private traders remain a strong competition. Some traders would come up to a farmer and offer to pick up the farmer's green beans in exchange for cash. "We cannot compete with that," says Oliver Odiem, the cooperative manager. "We can't blame farmers who need cash for their daily expenses."

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Private traders remain a strong competition. Some traders would come up to a farmer and offer to pick up the farmer's green beans in exchange for cash.

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Another challenge for ACOGMAC is on how to capitalize on its being a homegrown Cordillera enterprise so it can profit from traders' growing preference for green, rather than roast coffee. This will open the cooperative to opportunities in the coffee industry beyond Cordillera.

Pests like stem borers and berry borers are also a potential threat. Odiem says that pests could be managed better by the timely pruning of shade trees. This can also increase yields. A coffee tree can produce about 200 grams of green beans but it could produce 2 kilos if pruned. Coffee growers should learn good growing practices, including pruning, capping and fertilizing, Odiem says.

Yet another challenge is to encourage young people to go into coffee farming. Not too many young people want to pursue coffee farming because the process is long and back-breaking. "The younger generation would rather work in front of the computer or go to the city," Odiem says.

Odiem says that each 250-gram pack of Atokape is evidence of cooperation among different government agencies and non-government organizations. The Department of Agriculture-Cordillera Administrative Region assisted in the formation of the cooperative while the Department of Trade and Industry provided the roasting and packaging equipment as well as market linkages. The Cordillera Highland Agricultural Resource Management provided management guidance, and PEF provided loan assistance as well as a substantial grant for capacity building. "PEF assistance gave us hope," says Odiem.

As the old generation struggles to pass on its coffee-growing culture to the new generation, more people in Atok are now optimistic that producing coffee, despite its problems and challenges, is becoming a rewarding proposition to Atok's indigenous population. Perhaps, all it will take is a bit of reframing: this good old cup of coffee could be seen as a potential pot of gold.



## Magpet Agro Industrial Cooperative: Cashing in on chips

A farmers' cooperative in the North Cotabato province took a risk and a gamble by undertaking entrepreneurship with a conscience—and is now reaping its rewards. The Magpet Agro Industrial Cooperative (MAGIRCO) was organized in 1989 by Eufronio Zamoras and Jesus Kionisala. They put up the cooperative as a way of consolidating the local farmers' products and negotiating with buyers for volume-based incentives and better prices.

MAGIRCO started by selling raw rubber clumps, then went into copra trading, and later became a provincial supplier of cooking oil to a major cooking oil manufacturer. In 2009, it entered another arena: the production of export-quality “first-fry” banana chips. These chips are sold in bulk to exporters, who in turn process them for “second frying” and sweetening before shipping them to foreign markets.



MAGIRCO started by selling raw rubber clumps, then went into copra trading, and later became a provincial supplier of cooking oil to a major cooking oil manufacturer.





Today, MAGIRCO has 342 members and an asset base of Php100 million. It can also rightfully claim to have helped raise the standard of living of thousands of farmers and workers in North Cotabato in the course of its 25 years of operation.

MAGIRCO General Manager Emmanuel “Bobot” Zamoras, son of co-founder Eufronio, recently steered the cooperative toward the use of more earth-friendly and socially-conscious practices which would make his father proud.

The cooperative now buys up to 40 metric tons of bananas of the cardava varieties daily from the local community. The local communities include some 1,600 indigenous Manobo who tend to some 500 hectares of ancestral lands.

MAGIRCO also provides local employment, primarily by hiring banana peelers and paying them rates from Php100 up to Php600 a day. Banana peel accounts for more than half the weight of each fruit and MAGIRCO produces over 24,000 kilos of banana peel daily. Instead of treating it as waste, however, the cooperative returns it to its suppliers for use as organic fertilizer for their banana farms.

Farmers earn extra income from MAGIRCO, which buys their palay husk to use as fuel for its furnace. The carbonized husk, like the banana peel, is not treated as waste but is given free to outlying communities for their fertilizer needs. The mills’ furnace itself is an interesting innovation using a conveyor system fashioned from recycled jerry cans.

MAGIRCO members also supply the copra that is converted to cooking oil, which is used to fry the chips.

MAGIRCO and PEF enjoy a long-standing and productive relationship. The cooperative earlier availed of PEF loans which it has since fully paid. Currently, PEF maintains a Php3-million credit line for MAGIRCO, helping the latter raise its working capital. It has also given the cooperative a grant for a study on plant improvements including carbon emissions. This has enabled MAGIRCO to run a smoother operation and set a premium price for produce sold by its members.

Bobot Zamoras believes that much still needs to be done. He says the MAGIRCO factory is not running at full capacity. “We can process 40,000 kilos daily, but now we are only doing 10,000 to 15,000 kilos.”

Zamoras is also exploring new potential markets for MAGIRCO, specifically the production of second-fry or sweetened banana chip for export.

Banana chips from the Philippines are exported to countries in Asia, Europe, and North and South America. According to the Department of Trade and Industry, the export value for banana chips has been increasing by 15 percent every year since 2009. The sector reported revenues of USD36 million in 2011. The country only has 35 banana chip processors so there is room in the export market for a company like MAGIRCO, Zamoras believes.

Zamoras dreams of MAGIRCO becoming a world-class export organization run by a group of socially conscientious individuals, and a responsible business that helps raise the living standards of the local communities around it. PEF is proud to be its partner.

“

Banana chips from the Philippines are exported to countries in Asia, Europe, and North and South America.

”

# Partnership Projects in 2013

Total (in Php) 144,451,702			
Partner	Core Activity	Island	Total
<b>Social Enterprises – C5 Sectors</b>			<b>69,340,135 (48%)</b>
<b>Cane sugar</b>			<b>27,006,560 (39%)</b>
Crossing Ibos Farmers Credit Cooperative <sup>a</sup>	Block farming	Visayas	6,092,140
Dancalan Ilog Waterworks and Agro-Industrial Multi-Purpose Cooperative <sup>a</sup>	Block farming	Visayas	6,092,140
Multi Sectoral Alliance for the Development of Negros, Inc. <sup>a</sup>	Block farming	Visayas	2,638,000
Sampak Small Farmers Association <sup>a</sup>	Block farming	Visayas	6,092,140
Tabugon Livestock and Poultry Raisers Association <sup>a</sup>	Block farming	Visayas	6,092,140
<b>Climate Smart Agriculture</b>			<b>24,965,775 (36%)</b>
Agro-technical Assistance and Livelihood Opportunities in the North, Inc. <sup>a</sup>	Market promotion: Organic rice	Luzon	1,300,000
Cordillera Network of Development NGOs and POs	Market development: Heritage rice	Luzon	625,000
Global Organic and Wellness Corporation <sup>a</sup>	Linking farmers and enterprises to market	National	6,380,000
Got Heart Foundation	Linking farmers and enterprises to market	Luzon	472,000
Institute for Philippine Cooperatives and Social Enterprise Development	Cooperative strengthening training for organic farming	Luzon	858,167
La Trinidad Organic Practitioner Multi-Purpose Cooperative <sup>a</sup>	Technology adoption: Greenhouses for cold climates	Luzon	2,150,000
Magpet Agro Industrial Resources Cooperative	Technology assessment: Carbon emission of banana chips plant	Mindanao	30,500
Nortehanon Access Center <sup>a</sup>	Technology training: System for rice intensification	Mindanao	161,530
Palawan Center for Appropriate Technology <sup>a</sup>	Community-based enterprises for Palawan Biodiversity Corridor	Luzon	8,000,000
Pambansang Kilusan ng mga Samahang Magsasaka	a) Sustainable agriculture national forum; b) Agriculture-based social enterprise support	Luzon	2,880,000
RMAF Magsaysay Institute for Transformative Leadership	Learning exchange: System for rice intensification	National	1,041,578
Social Action Center, Prelature of Infanta, Quezon <sup>a</sup>	a) Seaweed production; b) Research: Seaweeds	Luzon	967,000
Southern Partners and Fair Trade Center, Inc.	Social enterprise mentoring	Visayas	100,000

<sup>a</sup> In partnership with CORDAID Enterprise Sector  
<sup>b</sup> In partnership with CORDAID Emergency Response Sector  
<sup>c</sup> In partnership with Department of Energy  
<sup>d</sup> In partnership with Bank of Philippine Islands Foundation



Poor households in Bicol benefit from twining coconut coir into ropes, which are woven into geo-nets. Geo-nets are intended to solve soil erosion of road embankments.





**Ms. Amanda Burrell, British Council Country Director and Mr. Roberto Calingo, PEF Executive Director signed an MOU for the PEF-British Council Partnership: I am a Changemaker - Social Enterprise Ideation Camp . The program seeks to develop young people's ingenuity and provide a venue for exchange of ideas and collaboration on innovative social solutions.**

Partner	Core Activity	Island	Total
<b>Coconut</b>			<b>13,160,000 (19%)</b>
Capiz Small Coconut Farmers Marketing Cooperative	Copra processing and trading	Visayas	2,500,000
Coco Technologies Corporation	Technology adoption: Coconuts for bioengineering	Luzon	10,000,000
Lapuyan People's Multi-Purpose Cooperative	Farm equipment (counterpart fund)	Mindanao	360,000
<b>Coffee</b>			<b>2,830,000 (4%)</b>
Atok Arabica Coffee Growers Marketing Cooperative <sup>a</sup>	Processing and marketing	Luzon	1,830,000
Philippine Coffee Alliance, Inc.	Coffee growers business planning	Luzon	100,000
Philippine Coffee Board, Inc.	Enterprise management training	National	900,000
<b>Cacao</b>			<b>1,377,800 (2%)</b>
Chokolate de San Isidro <sup>a</sup>	Cacao trading	Mindanao	1,300,000
Subasta Integrated Farmers Multi-Purpose Cooperative <sup>a</sup>	Technology development: Cacao beans passive solar dryer experimentation	Mindanao	77,800

Partner	Core Activity	Island	Total
<b>Social Enterprises – Non C5 Sectors</b>			<b>49,480,955 (34%)</b>
<b>Basic Social Services</b>			<b>14,476,500 (29%)</b>
Alternative Planning Initiatives	Community organizing: Housing	National	300,000
Barangay Alapang Multi-Purpose Cooperative	Technology assessment: Hydrological study	Luzon	200,000
Health Innovation Multi-Purpose Cooperative	Health services and pharmacy; mini-clinic	Visayas	750,000
Kauswagan Water and Sanitation Service Cooperative	Technology assessment: Hydrological study	Visayas	100,000
Muslim Tboli United Farmers Association	Potable water system (Level 2)	Mindanao	181,500
New Bataan Water Services Cooperative <sup>a</sup>	Water system: Rehabilitation of damaged pipes	Mindanao	5,920,000
San Lorenzo Ruiz Socio-Economic Development Foundation, Inc.	Community housing: Land acquisition for urban poor	Mindanao	6,075,000
Visually Impaired Brotherhood for Excellent Service	Licensing for massage therapists; Installation of equipment	Luzon	950,000
<b>Renewable Energy</b>			<b>12,214,900 (25%)</b>
Extension Farmers Multi-Purpose Cooperative <sup>ac</sup>	Technology adoption: Solar lighting	Mindanao	1,000,000
One Renewable Enterprises, Inc. <sup>ac</sup>	Technology adoption: Solar lighting	Mindanao	10,000,000
RMAF Magsaysay Institute for Transformative Leadership	Learning exchange: Renewable energy (Solar energy)	National	1,214,900

<sup>a</sup> In partnership with CORDAID Enterprise Sector

<sup>b</sup> In partnership with CORDAID Emergency Response Sector

<sup>c</sup> In partnership with Department of Energy

<sup>d</sup> In partnership with Bank of Philippine Islands Foundation

Partner	Core Activity	Island	Total
<b>Shari'ah/Islamic Financing</b>			<b>9,251,155 (19%)</b>
Al-Qalam Institute for Islamic Identities and Dialogue in Southeast Asia	Training, conference and learning exchange (3)	Mindanao	1,021,155
Federation of United Mindanawan Bangsamoro Women Multi-Purpose Cooperative <sup>a</sup>	Various micro enterprises	Mindanao	3,815,000
Kadtabanga Foundation for Peace and Development <sup>a</sup>	Small community-based enterprises	Mindanao	3,815,000
Al Wataniya Credit Cooperative <sup>a</sup>	Corn production	Mindanao	600,000
<b>Others (Research, Capacity Building, Other Non-C5 Products/Services)</b>			<b>13,538,400 (27%)</b>
Association of Foundations	Case study: Standards and processes of local funding institutions for partner civil society organizations	National	100,000
Bato Balani Foundation, Inc.	Training: Business management	Mindanao	500,000
Bol-anon United Sectors Working for the Advancement of Community Concerns, Inc.	Social enterprise mentoring	Visayas	145,000
British Council Philippines	I am a Changemaker Competition for young social entrepreneurs	National	850,000
Cordillera Network of Development NGOs and POs	Market promotion: Panagbenga trade fair	Luzon	90,000
EchoSi Foundation	IP woven products marketing	Mindanao	400,000
Federation of Matigsalug-Manobo Tribal Council, Inc. <sup>d</sup>	Strategic planning and pilot testing: Ecotourism	Mindanao	490,600
Fonus Cebu Federation of Cooperatives	Mortuary/Funeral services	Visayas	10,000,000
Initiatives for Dialogue and Empowerment through Alternative Legal Services, Inc.	Legal case studies on social enterprises	National	712,800
PinoyME Foundation, Inc.	Microenterprise convention	Luzon	250,000

**Guarantee Financing of up to Php 80 million for microfinance borrowers nationwide in partnership with PinoyME Foundation**

Natural Calamity	Partner	Island	Total
<b>Disaster Risk Reduction, Relief and Rehabilitation</b>			<b>21,498,617 (15%)</b>
<b>Relief Assistance</b>			<b>15,887,933 (74%)</b>
Typhoon Pablo (December 2012)	Agri-Aqua Development Coalition-Mindanao (Compostela Valley) <sup>abc</sup>	Mindanao	2,448,000
	Grow Lambo Multi-Purpose Cooperative (New Bataan, Compostela Valley) <sup>ab</sup>	Mindanao	3,250,000
	Nabunturan Agrarian Reform Communities Integrated Cooperative (Nabunturan, Compostela Valley) <sup>ab</sup>	Mindanao	3,250,000
	National Confederation of Cooperatives: Frontliners Relief Support <sup>ab</sup>	Mindanao	150,000

<sup>a</sup> In partnership with CORDAID Enterprise Sector

<sup>b</sup> In partnership with CORDAID Emergency Response Sector

<sup>c</sup> In partnership with Department of Energy

<sup>d</sup> In partnership with Bank of Philippine Islands Foundation



**A total of Php 5.3M supported  
14 relief efforts reaching  
25,000+ households**

Natural Calamity	Partner	Island	Total
Typhoon Quinta (December 2012)	Iloilo Code NGOs, Inc. (Iloilo City)	Visayas	151,703
Habagat (August 2013)	Barangka Credit Cooperative (Marikina)	Luzon	50,000
Typhoon Maring (August 2013)	Institute for Philippine Cooperatives and Social Enterprise Development (Bataan)	Luzon	433,000
	National Confederation of Cooperatives (Visayas wide)	Visayas	50,000
	National Council of Social Development Foundations of the Philippines (Laguna)	Luzon	100,000
Bohol Earthquake (October 2013)	Bol-anon United Sectors Working for the Advancement of Community Concerns Inc. (Bohol)	Visayas	265,000
Typhoon Yolanda (November 2013)	Alliance for Land & Livelihood for the Rural & Urban Poor (Cebu), Inc. (Cebu City)	Visayas	350,000
	Caucus of Development NGO Networks: Frontliners relief support	National	119,000
	Climate Change Congress of the Philippines	Visayas	250,000
	Gelacio Yason Foundation Family Farm School (Mindoro Oriental)	Visayas	200,000
	Health Innovation Multi-Purpose Cooperative (Bantayan Island, Cebu)	Visayas	300,000
	Iloilo Code NGOs, Inc. (Panay wide)	Visayas	600,000
	Kasilak Development Foundation Inc. (Tabango, Leyte)	Visayas	132,866
	National Confederation of Cooperatives: Frontliners relief support	Visayas	1,000,000
	Negosyong Pinoy Finance Corporation (Samar)	Visayas	385,500
	Nortehanon Access Center (Marabut, Eastern Samar)	Visayas	623,584
	Omaganhan Farmers Multi-Purpose Cooperative (Tabango, Leyte)	Visayas	500,000
	People Development Institute (Coron, Palawan)	Visayas	250,000
	Tibud sa Katibawasan Multi-Purpose Cooperative	Visayas	300,000
Uswag Development Foundation, Inc. (Aklan)	Visayas	300,000	
Others	Health Innovation Multi-Purpose Cooperative: Cordova oil spill	Visayas	52,000
	Institute on Church and Social Issues: Tullahan, Quezon flooding	Luzon	127,280
	Maguindanaon Development Foundation Inc.: Maguindanao flooding	Mindanao	250,000

<sup>a</sup> In partnership with CORDAID Enterprise Sector

<sup>b</sup> In partnership with CORDAID Emergency Response Sector

<sup>c</sup> In partnership with Department of Energy

<sup>d</sup> In partnership with Bank of Philippine Islands Foundation

Natural Calamity	Partner	Island	Total
<b>Rehabilitation (Livelihood, Housing &amp; Other Basic Services)</b>			<b>5,610,684 (26%)</b>
Typhoon Sendong (December 2011)	Extension of Community Mortgage Program Guarantee Financing for Displaced Households in Cagayan de Oro <sup>b</sup>		
	a) Foundation for Growth, Organizations Upliftment of People <sup>b</sup>	Mindanao	469,471
	b) Social Action Center - Archdiocese of CDO <sup>b</sup>	Mindanao	998,219
	c) Technology Outreach and Community Help Foundation, Inc. <sup>b</sup>	Mindanao	479,074
Typhoon Labuyo (August 2013)	Cordillera Multi-Purpose Cooperative	Luzon	250,000
Typhoon Yolanda (November 2013)	Caucus of Development NGO Networks	National	120,000
	Initiatives for Dialogue and Empowerment through Alternative Legal Services Inc.: Start up fund for access to benefits and claims after disaster	National	505,000
Others	Panaghugpong sa mga Gagmay ng Bayanhang Grupo sa Oriental Multi-Purpose Cooperative: Micro-Watershed Development and Rehabilitation for Climate Change Adaptation <sup>d</sup>	Visayas	220,000
	Iloilo People's Habitat, Inc: Bridge fund for DRRM livelihood and housing	Visayas	2,568,920

Partner	Core Activity	Island	Total
<b>General Development Support</b>			<b>4,131,995 (3%)</b>
<b>Conferences/Trainings/Product Promotions</b>			<b>2,646,995 (64%)</b>
Caucus of Development NGO Networks	Conference/exhibit: Social Development Week	National	1,607,050
Coalition for Bicol Development	Conference: Network members	Luzon	403,945
League of Corporate Foundations	Conference: Corporate Social Responsibility Expo 2013	National	300,000
Partnership of Philippine Support Service Agencies	Governance training: Grassroots Leaders	Luzon	86,000
Sustainable Cooperation for Equitable Enterprise Development Inc.	Conference: Economic Development of the Bangsamoro	Mindanao	250,000
<b>Organizational Development</b>			<b>1,485,000 (36%)</b>
Cordillera Network of Development NGOs and POs	Network development	Luzon	334,000
National Confederation of Cooperatives	Consolidation of cooperative banks	Luzon	112,000
National Council of Social Development Foundations of the Philippines	Technical competence and organizational capability	National	435,000
Philippine Cooperative Center	Cooperative finance and bank consolidation	National	200,000
Western Visayas Network of Social Development NGOs Inc.	Network development	Visayas	404,000

<sup>a</sup> In partnership with CORDAID Enterprise Sector  
<sup>b</sup> In partnership with CORDAID Emergency Response Sector  
<sup>c</sup> In partnership with Department of Energy  
<sup>d</sup> In partnership with Bank of Philippine Islands Foundation

**Guarantee Financing of Php 23 million for housing resettlement of 3,000 families affected by Typhoon Sendong in Cagayan de Oro through community homeowners associations**



**PEF, with Got Heart Foundation, showcases enterprises by partner communities in the annual Corporate Social Responsibility Week.**

# Treasurer's Report

Pacita U. Juan

**T**he Foundation's first five-year plan to implement the strategy on Social Enterprise (SE) promotion and development will end in 2015. At the beginning of 2013, PEF passed a little more than the halfway mark in implementing the five-year plan. I am glad to report that sufficient funds have been made available to implement the SE strategy.

**Where the funds were used in 2013.** PEF disbursed a total of Php155.63 million for the following purposes:

- SE investments received by partner organizations totalled Php93.23 million. These disbursements were in the form of project loans, special deposits, and equity investments.
- Grants extended to SE and other general development programs amounted to Php25.6 million.
- Expenses incurred for capacity building and technical assistance totalled Php4.4 million.
- Cost in developing new projects and monitoring project performance in the amount of Php14.5 million.
- Php 3.3 million was spent for research, industry studies, baseline survey, and SE advocacy.
- General and administrative expenses amounted to Php14.6 million.



Percentage allocations for fund disbursements each year are set by the Board of Trustees as shown in the table below. Actual disbursements for the year 2013 are within the defined guidelines.

Parameters	Internal guideline on fund disbursements	Actual fund disbursements for 2013
Loans, grants, and investments to partners	Minimum of 65%	76%
Program management	Maximum of 15% to 20%	12%
Knowledge management and Research & Development	Maximum of 5% to 10%	2%
Administrative expenses	Maximum of 10%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>

In 2013, the Foundation invested in the common stock of wholly-owned Peace and Equity Holdings, Inc. The holding company will manage investments in several subsidiaries that aim to grow social enterprises. The authorized capital stock of the holdings company is Php500 million. The initial investment of the Foundation is Php31.25 million.

**How the expenditures were funded.** A total of Php223.45 million was generated from the following sources:

- Income from investments in marketable securities such as stocks and bonds amounted to Php155.7 million.
- Principal payments and interest on loans plus dividends received from partner organizations totalled Php55.75 million.
- And some Php12 million are from donors namely: Catholic Organisation for Relief and Development and

the Department of Energy for the renewable energy project.

**Growth in fund balance.** The fund management objective is to maintain the real value of the endowment fund by increasing the value of the restricted fund by 3% each year. The Foundation's total provision for inflation amounted to Php54.7 million raising the restricted fund balance to Php1.88 billion at the end of the year. This amount is 43% more than the value of the original endowment fund of Php1.318 billion established in 2001.

**Goals in fund management.** The goal in fund management is to ensure the long-term continuity of the fund as a sustainable source to finance the Foundation's programs and services undertaken to accomplish its mission.

The following are the policies and guidelines established to accomplish the above goal:

- Investing the endowment fund by engaging competent fund managers. The Foundation regularly evaluates the risk characteristics of the different securities such as stocks and bonds and makes adjustments to the investment portfolio in the light of changes in economic conditions.
- Limiting disbursements for operations and assistance to partners to the amount of the investment earned by the endowment fund, interest income, and reflows generated from partner organizations.
- Limiting administrative expenses to 10% of total fund disbursements each year.

Barring any explosion in the world's financial markets that are of nuclear proportions, PEF's prudent management of the fund will ensure that enough resources are available to implement succeeding phases in the execution of the SE strategy.

# Report of Independent Auditors



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ey.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 Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc., which comprise the parent company statements of financial position as at December 31, 2013 and 2012, and the parent company statements of comprehensive income, statements of changes in fund balances and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Parent Company Financial Statements*

Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of parent company 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 parent company financial statements based on our audits. We conducted our audits 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 parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company financial statements.

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

### *Opinion*

In our opinion, the parent company 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.



### **Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is 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.

*Maria Veronica Andresa R. Pore*

Maria Veronica Andresa R. Pore

Partner

CPA Certificate No. 90349

SEC Accreditation No. 0662-AR-2 (Group A),  
March 26, 2014, valid until March 25, 2017

Tax Identification No. 164-533-282

BIR Accreditation No. 08-001998-71-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225202, January 2, 2014, Makati City

April 7, 2014



# Audited Financial Statements

**Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.**  
**STATEMENTS OF FINANCIAL POSITION**  
**(With Comparative Figures for 2012)**

	December 31 2013	December 31, 2012 (As restated; Note 2)	January 1, 2012 (As restated; Note 2)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents (Note 4)	P41,119,231	P15,276,043	P52,286,114
Receivables (Note 5)	106,089,888	69,586,887	59,691,564
Available-for-sale financial assets (Note 6)	1,952,802,423	2,059,343,328	1,871,025,409
Other current assets (Note 7)	25,445,105	21,504,919	405,192
<b>Total Current Assets</b>	<b>2,125,456,647</b>	<b>2,165,711,177</b>	<b>1,983,408,279</b>
<b>Noncurrent Assets</b>			
Receivables - net of current portion (Note 5)	32,729,392	46,750,655	41,444,654
Property and equipment (Note 8)	31,545,597	32,829,060	33,519,554
Investment properties (Note 9)	4,911,814	4,911,814	8,057,603
Investment in Peace and Equity Holdings Inc. (Note 10)	31,250,000	-	-
Other noncurrent assets (Note 18)	607,538	601,033	366,329
<b>Total Noncurrent Assets</b>	<b>101,044,341</b>	<b>85,092,562</b>	<b>83,388,140</b>
<b>TOTAL ASSETS</b>	<b>P2,226,500,988</b>	<b>P2,250,803,739</b>	<b>P2,066,796,419</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Current Liabilities</b>			
Account payable and accrued expenses (Note 11)	P16,830,415	P11,708,980	P4,265,589
Grants payable (Note 12)	8,821,429	10,919,218	10,286,810
Funds held in trust (Note 13)	153,322,410	171,865,103	149,708,932
<b>Total Current Liabilities</b>	<b>178,974,254</b>	<b>194,493,301</b>	<b>164,261,331</b>
<b>Fund Balances (Note 22)</b>			
Restricted	1,879,682,796	1,824,934,753	1,771,781,314
Unrestricted	167,843,938	231,375,685	130,753,774
<b>Total Fund Balances</b>	<b>2,047,526,734</b>	<b>2,056,310,438</b>	<b>1,902,535,088</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>P2,226,500,988</b>	<b>P2,250,803,739</b>	<b>P2,066,796,419</b>

*The Notes to these Financial Statements (FS) and the Consolidated FS as of 31 December 2013 are available at [www.pef.ph](http://www.pef.ph).*

**Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**(With Comparative Figures for 2012)**

	<b>Year Ended December 31</b>	
	<b>December 31, 2013</b>	December 31, 2012 (As restated; Note 2)
<b>REVENUES</b>		
Investment income (Note 6)	<b>₱155,694,957</b>	₱123,223,384
Interest income (Notes 4, 5 and 7)	<b>4,141,242</b>	3,088,915
Others (Note 17)	<b>2,607,917</b>	1,936,770
	<b>162,444,116</b>	128,249,069
<b>EXPENSES</b>		
Grant expenses (Note 12)	<b>25,571,285</b>	36,835,685
Project expenses (Note 14)	<b>22,265,420</b>	21,087,672
General and administrative (Note 15)	<b>14,576,237</b>	11,893,820
Provision for impairment losses on receivables - net (Note 5)	<b>13,336,954</b>	73,190
Depreciation and amortization (Note 8)	<b>2,839,411</b>	2,518,788
Foreign currency losses (gains) - net	<b>(36,568)</b>	885,028
	<b>78,552,739</b>	73,294,183
<b>INCOME BEFORE INCOME TAX</b>	<b>83,891,377</b>	54,954,886
<b>PROVISION FOR INCOME TAX</b> (Note 19)	<b>8,661,226</b>	11,892,893
<b>NET INCOME</b>	<b>75,230,151</b>	43,061,993
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Other comprehensive income to be subsequently reclassified to profit or loss</i>		
Net unrealized valuation gain (loss) on available-for-sale financial assets (Note 6)	<b>(84,003,288)</b>	110,501,054
<i>Other comprehensive income not to be subsequently reclassified to profit or loss</i>		
Remeasurement gain (loss) on defined benefit plan	<b>(10,567)</b>	212,303
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>(84,013,855)</b>	110,713,357
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱8,783,704)</b>	₱153,775,350

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**Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.**  
**STATEMENTS OF CHANGES IN FUND BALANCES**  
**For the Year Ended December 31, 2013 and 2012**

	Unrestricted Funds					Restricted Funds			Grand Total
	Members' Contribution	Cumulative Excess of Revenues over Expenses	Revaluation Reserves on AFS (Note 6)	Remeasurement gain loss on defined benefit plan (Note 2)	Total Unrestricted	Endowment Fund (Note 1)	Provision for Inflation (Note 22)	Total Restricted	
Balances at January 1, 2012, as previously reported	₱100,000	₱78,097,332	₱52,602,517	-	₱130,799,849	₱1,318,371,694	₱453,409,620	₱1,771,781,314	₱1,902,581,163
Effect of adoption of revised PAS 19 (Note 2)	-	(46,075)	-	-	(46,075)	-	-	-	(46,075)
Balances as at January 1, 2012, as restated	100,000	78,051,257	52,602,517	-	130,753,774	1,318,371,694	453,409,620	1,771,781,314	1,902,535,088
Net income, as restated	-	43,061,993	-	-	43,061,993	-	-	-	43,061,993
Other comprehensive income, as restated (Note 2)	-	-	110,501,054	212,303	110,713,357	-	-	-	110,713,357
Provision for cost of inflation	-	(53,153,439)	-	-	(53,153,439)	-	53,153,439	53,153,439	-
Balances as at December 31, 2012, as restated	100,000	67,959,811	163,103,571	212,303	231,375,685	1,318,371,694	506,563,059	1,824,934,753	2,056,310,438
Net income	-	75,230,151	-	-	75,230,151	-	-	-	75,230,151
Other comprehensive loss	-	-	(84,003,288)	(10,567)	(84,013,855)	-	-	-	(84,013,855)
Provision for cost of inflation	-	(54,748,043)	-	-	(54,748,043)	-	54,748,043	54,748,043	-
Balances at December 31, 2013	₱100,000	₱88,441,919	₱79,100,283	₱201,736	₱167,843,938	₱1,318,371,694	₱561,311,102	₱1,879,682,796	₱2,047,526,734

*The Notes to these Financial Statements (FS) and the Consolidated FS as of 31 December 2013 are available at [www.pef.ph](http://www.pef.ph).*

**Peace Equity Access For Community Empowerment (PEACE) Foundation, Inc.**  
**STATEMENTS OF CASH FLOWS**  
**(With Comparative Figures for 2012)**

	<b>Year Ended December 31</b>	
	<b>2013</b>	December 31, 2012 (As restated; Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱83,891,377</b>	₱54,954,886
Adjustments for:		
Provision for impairment losses (Note 5)	13,336,954	73,190
Depreciation and amortization (Note 8)	2,839,411	2,518,788
Unrealized foreign exchange loss (gain)	(36,568)	885,028
Interest income (Notes 4, 5 and 7)	(4,141,242)	(3,088,915)
Investment income (Note 6)	(155,694,957)	(123,223,384)
Gain on disposal of investment properties (Notes 9 and 17)	-	(754,211)
Gain on disposal of property and equipment (Notes 8 and 17)	-	(7,547)
Operating loss before working capital changes	<b>(59,805,025)</b>	(68,642,165)
Decrease (increase) in:		
Receivables	(34,855,362)	(14,307,524)
Available-for-sale financial assets	22,537,617	(77,816,865)
Other current assets	(3,940,186)	(21,099,727)
Other noncurrent assets	(17,072)	(22,401)
Increase (decrease) in:		
Accounts payable and accrued expenses	5,121,435	7,443,391
Grants payable	(2,097,789)	632,408
Funds held in trust	(18,502,470)	22,189,791
Net cash used in operations	<b>(91,558,852)</b>	(151,623,092)
Investment income received	155,694,957	123,223,384
Income taxes paid (Notes 6 and 19)	(8,661,226)	(11,892,893)
Interest income received	3,177,912	2,121,925
Net cash flows generated from (used in) operating activities	<b>58,652,791</b>	(38,170,676)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in Peace and Equity Holdings Inc. (Note 10)	(31,250,000)	-
Additions to property and equipment (Note 8)	(1,596,171)	(1,866,129)
Proceeds from sale of investment property (Note 9)	-	3,900,000
Proceeds from sale of property and equipment (Note 8)	-	11,762
Net cash flows generated from (used in) investing activities	<b>(32,846,171)</b>	2,045,633
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>36,568</b>	(885,028)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>25,843,188</b>	(37,010,071)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>15,276,043</b>	52,286,114
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱41,119,231</b>	₱15,276,043

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