Attempts at SOCIAL ENTERPRISE

PEF

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PEF


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Preface

Attempts At Social Enterprise, a two-in-one book of the Peace and Equity Foundation (PEF), narrates the foundation's strategic shift toward building and scaling up social enterprises (SEs) a decade after its founding in 2001.

The first part of the book, The Big Shift, recounts how and why PEF built a social enterprise ecosystem during the crucial five-year period from 2011 to 2015. Each stage and each component of social entrepreneurship was thoroughly described and scrutinized by PEF officers, advisers and partners.

The second part is the condensed version of *An Integrated Analysis of the Ten Social Enterprise Midterm/Endline Impact Assessment Studies.* This study covers the nature and rationale of the 10 SE projects, how PEF support was utilized, the interventions made, the project context, and the envisaged transformation in households and communities. The comparative analyses of the baseline and midterm conditions of SEs, the proponents, the households, and the community at large quantitatively and qualitatively measure the impact of our efforts.

While the first part of the book was an undertaking mostly of people within the foundation, the second part was conducted by external experts whose qualifications assured an objective assessment of PEF's programs and projects. However, it must be noted that this condensed version is a preliminary draft based on the abovementioned study without the final validation and clarification of the PEF Board of Trustees and executive officers as well as the proponents of these 10 projects. Addendums may have to be made in the future to accommodate possible comments from pertinent parties.

Since its founding, PEF has proven itself to be a competent, dynamic, proactive and steadfast steward in managing its endowment fund for poverty alleviation through SE development, basic social services, and culturally inclusive and sensitive development.

Our former chair, Archbishop Antonio Ledesma, explains that this focus on SE enables PEF and its partners to uplift the bottom poor by engaging households, organizations and communities in long-lasting and sustainable economic activities. Taking stock of the first five years of the decade, we can conclude that SEs, through improved production and marketing processes, and access to public services, improve the lives of households and communities.

Our Executive Director Bob Calingo argues that altering the foundation's development strategy is a game changer requiring the retooling of our fundamentals, including program focus and priorities, design and implementation of support packages, human resources, and measuring impacts.

First, we had to create our niche, since we were relatively new in SE and SE itself is something new in the Philippines. Then we had to build an SE ecosystem conducive for the growth and success of enterprises; SEs needed to take root in

unfamiliar and often untested territories. And finally, we needed to efficiently intertwine the various networks of peoples and organizations as well as appropriately select needed goods and services from a complex gamut of options.

Social entrepreneurship synthesizes the business model's primary motivation of profit and the social mission of civil society toward inclusive and sustainable development. To this, we could add another bottom line, and that is, environmental protection and conservation. The alleviation of communities require economic development and the resiliency against the vulnerabilities of poverty, on one hand, and of disasters and climate change impacts, on the other.

The impact study which was done by third party evaluators (PEF and its partners being the first two parties) is a testimony of the foundation's commitment to transparency, accountability and good governance. As I stated during our 15th foundation anniversary, "PEF is a private initiative for the public good. Despite being a private organization, it must not be exempt from the scrutiny of the public eye. The accountability and transparency that we demand of our public officials are principles that we ourselves must protect and cherish—and more importantly, practice. PEF is not a public office but our foundation is a matter of public trust."

This book would have not been possible without the contributions of the authors. For *Attempts at Social Enterprise*, I would like to acknowledge Joey Bermudez, Bob Calingo, Jing Karaos, and Archbishop Ledesma. And the internal team of PEF who prepared the case studies and provided the necessary materials for this publication.

For the impact study, I would like to thank our advisers for sharing their expertise in designing and conducting this kind of study: Dr. Emmanuel de Dios, Dr. Jeff Ducanes, Dr. Butch Lanzona, Dr. Lorelei Mendoza, Dr. Mary Racelis and Mr. Danilo Songco.

I would also like to acknowledge the following people and organizations for their invaluable support and cooperation in making this book possible: Antique Development Foundation Inc. (ADFI), Dancalan Ilog Waterworks and Agro Industrial Multi-purpose Cooperative (DIWAGRIMPCO), INSOL Development Foundation (INSOL), Laua-an Multipurpose Cooperative (LMPC), Magpet Agro-Industrial Resources Cooperative (MAGIRCO), Multi-Sectoral Alliance for Development-Negros (MUAD), Nagkakaisang Tribu ng Palawan (NATRIPAL), Philippine Agrarian Reform Foundation for National Development (PARFUND), Southern Partners and Fair Trade Center Inc. (SPFTC), and SUBASTA Integrated Farmers Multi-Purpose Cooperative (SUBASTA).

May this book contribute to our continuing education as development players and social entrepreneurs.

My gratitude to all.

MR. BENJAMIN D. ABADIANO
PEF Chair

The Big Shift

I. Creating Our Space

Introduction

Social enterprise (SE) integrates profit, the main motivation of traditional business, with the social mission of sustainable and inclusive development and of the equitable utilization of natural resources and the benefits generated while minimizing ecological impacts.

Founded in 2001, the Peace and Equity Foundation (PEF) promotes SEs to uplift poor communities especially in the countryside; thus, the eventual focus on C5: cacao, cane sugar, coffee, coconut and climate smart agriculture.

A decade later, it is still a relatively new SE player. 2011 to 2015 was an opportunity to build on the social enterprise ecology through capacity building, appropriate technology, innovative marketing and customized financing.

The foundation altered its development strategies. Closer scrutiny of the proposals and their proponents; assessing the appropriateness of structures, policies and processes of SE governance; addressing internal inadequacies; sound planning and proactive management—all these anticipate and minimize risks, build strategic partnerships, select and support projects with clearer focus, and ensure that SEs themselves and the PEF itself are sustainable.

PEF is strong in social development but weak on social enterprise. This results to uncertainty as social risks are given more focus than economic ones. SEs work within the free market economy, and they must compete with mainstream businesses to survive. In "SE-tizing" grants platforms, PEF realized that not everything is scalable and its investments must generate real and maximum impact in transforming lives. Furthermore, diversifying investments and revenue generation outside the trust fund must be explored.

PEF has conducted three baseline studies to evaluate its programs and projects. These are essential in planning the foundation's future directions. One challenge is to engender reliable and measurable indicators for creating livelihood opportunities and minimizing vulnerabilities of the poor.

Five years is not sufficient for a meaningful learning curve. Skill levels and experience are correlated, and the rise in one results to the rise of the other. PEF has learned from both its successes and failures. The groundwork has been laid for the next stage of scaling up SEs.

Why Social Enterprise?

Archbishop Antonio J. Ledesma, SJ DD
PEF Chair, 2008 to 2014 | From an interview, 08 February 2013

The decision of the Peace and Equity Foundation (PEF) to shift toward a social enterprise strategy is primarily rooted in sustainability as a concept and as a practice. In our first 10 years, many of the PEF-funded projects proved to be unsustainable. Social enterprise (SE) takes into consideration the elements of sustainability and viability in every aspect and level of the enterprise

The shift not only enables PEF and its partners to uplift the bottom poor. It spurs people, households and communities to engage in long-lasting economic activities. Social enterprise is not strictly a business model. Employment generation, profit sharing, more equitable distribution of resources, market linkages, and the like are part of the SE mission. In SE, there is horizontal and vertical integration.

PEF empowers small entrepreneurs, jump starts small businesses, and gathers small producers to market their products. Everyone benefits since SE has a multiplier effect. For example, a bakery project PEF supported employed as many as 30 people working in shifts. Aside from generating income, the project hired as many people as possible.

PEF also funded non-social enterprise projects, such as shelter construction in Cagayan de Oro as part of the foundation's mandate to help those in emergency situations. Part of our resources should be set aside for emergency and relief, and for advocating issues such as asset reform and community organizing. The main proportion of PEF funds should be allocated to social enterprise but there should be a smaller but significant amount set aside for these other concerns. We should strike a good balance in terms of our priorities.

Social enterprise is one way to generate jobs at the local level. One example is a community group that produces *buri* hats as a handicraft industry. These hats are woven by women in their homes. The marketing of the hats is centralized. Thus, any number of women can participate as production is home-based and there is a ready buyer.

In my talks and visits to the people we are helping to start social enterprises, I have realized that a social enterprise cannot be based on ready or set formula. SE also has to deal with human factors. You need leadership, you need discipline, you need preparation, and you also need outside help.

Social enterprise tries to transform the members of that enterprise not in terms of an employer-employee relationship, but in terms of collective discernment and companionship. It is more like a cooperative in that sense although not quite exactly. This is where there can be plenty of flexibility and experimentation.

In some cases, people involved in social enterprise need to have some form of charism. When I say charism, I mean that not everyone is born to run or to lead the social enterprise. This is not to say that not everyone can go into SE. We need leaders, people with charism, to initiate and shepherd, and to catalyze a multiplier effect in every SE endeavor.

Inclusive Growth through Strengthening of SE Competitiveness

Joey A. Bermudez
Adviser, PEF Finance & Investment Committee | *Social Enterprise Conference, 14 November 2014*

I am social entrepreneur. Like-minded colleagues helped me organize a non-bank financial institution that now lends very aggressively to the so-called "unbankable." These are segments of the population that mainstream financial institutions avoid with a passion. Our companies operate in the Philippines and in Canada where hundreds of thousands of Filipinos work and live.

In our journey toward sustainability, we have had to pay our dues. We have gamely swallowed our fair share of loan losses. These losses have a way of shrinking one's wallet, and more important, one's confidence. But we have survived, and we have continued to grow, and we've stayed on because we obstinately believe that the modus vivendi for engaging the unbankable sector in profitable and sustainable enterprises ought to be found and propagated.

We've stayed on because society demands nothing less of social entrepreneurs. Inclusive growth happens only when each participant in the value chain gets his or her just share of the value created in the chain.

What is just? Just is that which is commensurate to a person's contribution to the value creation process. Let me be more specific. When a worker contributes 10 percent of the input into the value chain and receives only five percent of the reward from the value chain, the growth achieved is unjust. When I talk about inputs, I'm not just talking about money or person hours. I'm talking about risks, opportunity costs, and the engagement of the human psyche.

In the situation I just described, some obviously get more than their just share of the economic output. This is called "elite capture" -- a phenomenon not exclusive to the Philippines but particularly true of societies that believe value chains should be left unregulated. In reality, these value chains, by default, are regulated by the most powerful players in the chain.

Traditional financing institutions gravitate toward the large borrowers and have no patience to deal with the administrative nightmare of dealing with small-ticket risks. Over the last several decades, I have heard banks say that they cannot lend to small farmers because these banks are unfamiliar with the risks. The same banks that said this exactly 30 years ago are still saying this today. And so it goes that those who help empower the various participants in the value chain end up empowering the most powerful.

If inclusive growth is about enabling the poor to grab their just share of value, we must engage the entire ecosystem that feeds the pockets of the poor. It is amazing that while microfinance institutions lend to the entrepreneurial poor, they totally ignore the borrowing requirements of the consuming poor. My company's involvement in the financing of blue-collar workers is an offshoot of this realization.

We saw that microfinance institutions in Metro Manila were adequately covering the micro-entrepreneurs yet no financial institution was addressing the consumer finance requirements of the poor -- the very same guys who actually patronize the products and services of micro-entrepreneurs. Who else but the minimum wage earners would buy the merchandise of ambulant vendors as well as small *carinderias* or enroll their children in start-up neighborhood schools? Give the minimum wage earner significant purchasing power and you will see a palpable rise in the sales volumes of micro-entrepreneurs.

We can romanticize social enterprises all we want. But the fact remains that they are high-risk. If they are high-risk, they must be allowed to use all the means to deal with the risks they face. There is nothing more foolish than demanding that social enterprises avoid profit-maximizing

behaviors. Why should they? What is wrong with achieving progressively higher returns on a high-risk investment so that profits can be plowed back into the production of social goods?

An enterprise must decide whether it is an enterprise or not. The fact that a social enterprise produces social goods does not detract from its inherent character as an enterprise. And the seeming dynamic tension between profit maximization and social entrepreneurship is rooted in the confused notion of double or triple bottom-line.

A business that looks at profit as anti-society is in serious trouble. The notion of double or triple bottom-line is true only in the short run. In the long run, the interest of society and the interest of enterprises must converge. In other words, there is only one bottom-line in the long run.

How can government provide an environment that enhances the competitiveness of social enterprises? I would like the social enterprise community to look at regulators straight in the eye and say, please, stay out of my eye. For once, government must stop acting like a compliance officer and start behaving like a coach. The answer to a growing social enterprise sector is not to formulate a set of rules that inhibit the sector.

That social enterprises exist is testimony to the failure of public institutions to lead the production of social goods. Government must stand behind, not in front of, social enterprises; to either cushion their setbacks in the face of formidable risks or push them into momentum as they crank their engines.

An environment that allows a healthy amount of risk-taking and an enlightened notion of reward and punishment will promote entrepreneurship. A performance management system that measures results not by quarters or years but by the progress made in the attainment of the corporate mission will promote social entrepreneurship. No social enterprise can be a company enamored with fancy accounting standards that obsessively measure business success through year-on-year profit growth. Short-term profit performance has absolutely nothing to do with the attainment of a company's mission.

Social enterprises have enough creativity and risk appetite to drive themselves to generate competitiveness and sustainability. Left alone they will survive. They will grow. They will flourish. Society has a way of rewarding the producers of social goods in the long run.

Of course, social enterprises can use some help. But it must be the right kind of help. Not the kind that just messes up the rules of engagement in a playing field that they have painfully worked hard to master. In the course of achieving competitiveness, social enterprises can create inclusive growth by promoting ecosystems not dependent on unjust value chains.

Executing the Strategy

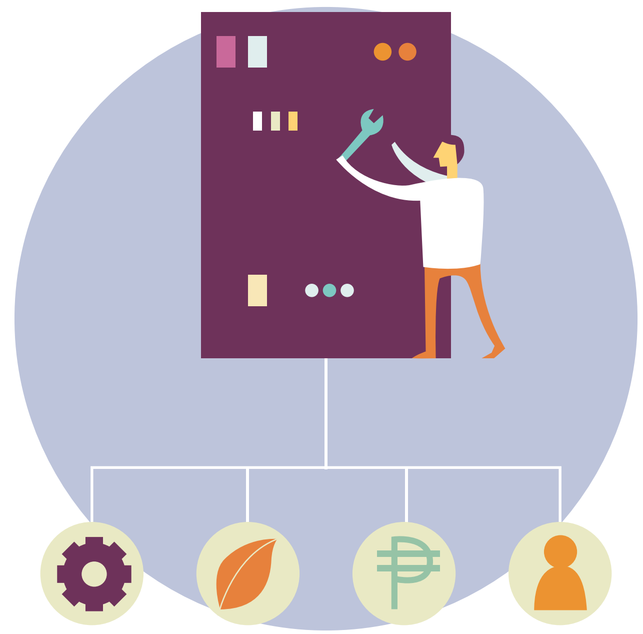
Roberto "Bobby" Calingo
Executive Director

Peace and Equity Foundation (PEF) is a social enterprise organization. Our aim—to borrow from former chair, Archbishop Antonio Ledesma—is to give households a steady foothold on sustained livelihoods and incomes through social enterprises. What is a social enterprise? It is a real-world business that, in order to have social benefits, also needs to make money.

In truth, we are latecomers. The Filipino social enterprise sector began taking shape toward the end of the 1990s. PEF essentially stayed on the sidelines of that sector during its first ten years.

In 2009, we took a long, hard look at our impact on poor communities. We found significant, measurable impact on quality of life in projects that had economic enterprise or business programs such as lending, marketing, or trading. The consequence was a decision to favor social enterprises.

Altering our development strategy was a game changer. We faced the unfamiliar practice of using the power of business to bring about social and environmental change. It meant retooling our fundamentals: the focus of our assistance and prioritization of beneficiaries, the design



and delivery of support to partners, measurement of impact, and even the skills of the people we hired.

The period 2011-2015 saw PEF investing ₱572 million in 179 social enterprise projects with a direct impact on about 111,000 households all over the country. Beyond the numbers, what have we learned in promoting, managing, and growing social enterprises?

FOCUS

When we decided to move into social enterprise, we had little—if any—social enterprise experience. For the most part, our experience was in assisting the social development and advocacy projects of our partner organizations. There was some experience in giving grant assistance to livelihood projects. Some of these projects went into cost recovery and marketing of products and services to sustain operations; however, the overriding mandate was to support a social vision. There really was no emphasis on enterprise development but on promoting social advocacies.

Although PEF assisted several livelihood projects nationwide in the past, none of them were conceived as enterprises that could drive growth and progress in a particular industry or community. They were mainly small economic activities like relending and small marketing.

FOCUS is the first important issue in our move to social enterprise. We focus on rural areas, that is to say, in agriculture. We sharpen the focus further on five commodities (C5), namely, coconut, cane sugar, cacao, coffee, and what we call 'climate-smart' agriculture practices. The focus on these five commodities stemmed from an evaluation, midway through our SE strategy, that agri-business was the most effective model to push economic development in rural areas. We see these five commodities as flagship commodities with the highest potential and PEF channeled about ₱70 million into 26 C5 projects.

PREPAREDNESS

How PREPARED were we to build viable social enterprises? For our partners, the question really was whether they could go into commercial-level activities, bearing in mind that a livelihood project was not the same as a commercial project. A commercial project needed to factor in quality, volume, price, and delivery.

The market also could be unforgiving. When the market learned that a product was from a nongovernment organization or nonprofit, it might give that NGO's product or service a try. However, should the product be faulty, the delivery poor, or the price too high, the market likely would not make a repeat purchase.

Many NGOs were either unprepared for this kind of market environment or unwilling to adjust to it. Frequently, it was a question of mindset. These NGOs considered advocacy work as primary and could not identify or relate with doing business and making money. In those instances when they did sell something, it was only to help them sustain and grow their advocacy. This difference in mindset made it difficult to encourage these NGOs to go commercial because they placed significantly higher value on social objectives.

We did have partner NGOs willing to go into commercial activities. However, some of them had internal systems unsuitable for running an enterprise. We still had to provide so many inputs in certain areas like policy-setting and even staffing.

Other NGO partners had adequate internal systems already—especially the co-operatives—but many of them were not very efficient since some of their production processes were subsidized. They had little exposure to a commercial market; they were not prepared to use scaling up and market competitiveness as primary drivers of the enterprise.

Internally, PEF also began to rethink its mission as a development support organization. For the first 10 years, it was primarily a grant-making organization, with most assistance allocated to advocacy. There were livelihood and microfinance projects but these were not the kinds of projects that could become social enterprises. Our emphasis on grants meant that a significant proportion of our investments were not recoverable.

There also were weaknesses in PEF's own internal systems, specifically, in the way we developed projects, pinpointed problems, and spotted opportunities. None of these were suited to building businesses.

Our staff members also lacked preparation. While we recruited new staff members, we tended to hire development workers with some livelihood knowledge but not much enterprise experience. The trouble was that we could not find suitable people "off-the-shelf". We spotted some people from the commercial banking sector but we could not afford their asking salaries. Moreover, they did not have the right social orientation so they would not have stayed long with us anyway. We had to train our staff members from scratch. We had to convert people who were socially motivated and inject in them economic advocacy and skills. It has not been easy teaching our people how to manage businesses.

Essentially, we had to fix the inadequacies in our internal systems. What we did was to retain our grants-based platform but to "SE-tize" it. We migrated our grants-based system—tweaked it a bit—and used it to build social enterprises.

PEF AND PARTNER RISK

PEF's history and past experience made it strong as a social development organization but weak as a builder of social enterprises. We performed poorly when doing economic assessments. Our economic projects became high-risk endeavors because we saw only the social risks.

As a result, we failed to put in proper measures to mitigate possible business risks. In some cases, our financial exposure to projects escalated significantly because we did not spot a problem in the partner's assessment of the enterprise. Either the enterprise started losing money or its costs escalated, making it difficult for the partner to repay the money we put in. We were forced to infuse additional funds to avoid collapse.

It is paramount that we improve our ability to anticipate and plan for business RISKS in our assisted social enterprises.

SUPPORT SYSTEMS

We had to develop the support system for our partner NGOs largely from outside. We had to commission external consultants to craft and deliver the training we provided to partners because we did not have the in-house capacity.

The problem with consultants is that, for the most part, they are not practitioners. Our support systems still need the services of mentors who actually are involved in developing or running businesses, but it has been hard for us to tap these people. This is because our networks generally are social networks and not enterprise networks.

This explains why our support systems remain relatively insufficient.

REGULATORY ENVIRONMENT

An important issue is the regulatory environment for social enterprise. We have many laws that promote enterprises in rural areas but the policies are not aligned and—at times—even contradictory.

For example, there is an incentive policy to help grow social enterprise projects. However, once a project becomes a business entity, it begins to encounter a multitude of regulations and requirements. NGOs that are still "testing the waters" of social entrepreneurship find themselves forced to "swim" economic regime waters even though they are not yet ready.

STANDARDS

Another issue concerns standards, especially for food products. There is a need for our partners to be registered with the Food and Drug Administration (FDA) since they mostly make food and health products.

Both the regulatory environment and the standards affect the competitiveness of social enterprises. An ideal situation would be along the lines of the United Kingdom's social investment tax relief, which allows people to deduct 30 percent of the cost of their investment in social enterprises from their income tax liability. In Malaysia the government has allocated the equivalent of US$5 million to boost the number of social enterprises to 1,000 by 2018 from around 100.[1]

ASEAN INTEGRATION

We have been slow in addressing drawbacks in regulations and standards affecting social enterprises. In the meantime, ASEAN's Common Effective Preferential Tariff scheme went into effect in 2010. With the dismantling of tariffs, many lower-cost products from our ASEAN neighbors

1 Zweynert, A. (2016, 15 September). Exclusive: Fears for social entrepreneurs in Britain as Brexit looms large. *Reuters*. Retrieved from http://www.reuters.com.

have started entering the domestic market. The only commodity protected in this country is rice. Filipino social enterprises still cannot compete with their ASEAN counterparts exporting similar products like chocolates, coffee, sugar, and many more.

MILESTONES

The period 2011-2015 was a learning period both for PEF and its partners. We paid a high price for this learning phase not just in terms of the money invested in projects but also in our baseline study to determine whether social enterprises really benefitted communities and households.

We are among the first NGOs in the country that invested substantially in research to measure our efficiency and impact. From this research, we learned that our targeting is correct in terms of beneficiaries and areas. We also found a need to improve the way we developed enterprises, particularly in the amount of support we gave and the timeliness of the support.

We learned to focus our assistance, in contrast to our previous practice of investing in everything. To be sure, we will continue helping livelihood projects and non-economic activities—advocacy, shelter, and basic services such as water and lighting—but we will manage them more sustainably. The returns in such projects are low; it is enough for us to recover the capital. Remember that the benchmarks for such projects are very different from those of economic projects.

Of the five agricultural commodities we prioritized (C5), only cane sugar and coconut have gained traction largely because they are "stand-alone" commodities. The others like cacao and coffee need to be intercropped with coconut.

I should explain that our early strategy was to develop stand-alone commodities. That was not feasible and, in that respect, we did not help in the growth of the cacao and coffee industries. The problem of these industries is that there is very little planting going on. In the Philippines, the amount of hectares planted to coffee and cacao is dwindling. Instead, for these crops, we supported buying and value-adding enterprises, which admittedly was not strategic. Although we were helping the planters, we were not addressing the root cause of the industry's problem: the lack of hectarage.

Our focus on coconut and cane sugar has resulted in some headway in sugar. We are doing block farming in what is generally acknowledged as among the few successful cases of block farming in the sugar industry. In the areas where we succeeded, we expanded the farm area. We now have a template for scaling up social enterprises both in coconut and sugar cane. This is why the next five years will be focused on scaling.

We also are improving our support systems, including the recruitment of field workers. We now hire people from development banks who know the work that we do. We are deepening our workforce bench.

Our due diligence process has been modified. Side by side with our strength in social development, we enhanced our capabilities in enterprise development, a move endorsed by the PEF Board and the general assembly. This is a big step because we now have economic benchmarks for developing economic programs. Currently, we focus on a few enterprise sectors for scaling up and we no longer try to scale up everything. Not everything is scalable.

We should have done this during the 2011-2015 period but we did not have the social enterprise experience back then. Now, we do and we have a fairly good idea of the next steps to take to grow our strategy.

Measuring SE Impact

Anna Marie A. Karaos, PhD
Trustee, 2011-2016

In its 2011-2015 Strategic Plan, the Peace and Equity Foundation (PEF) sought to craft a monitoring and evaluation system that would measure the attainment of its objectives based on a clear set of impact and outcome indicators. My fellow trustees and I have long sought answers to some very critical questions that would have a bearing on how we chart PEF's future directions. Among the most important questions we asked were:

- For every peso PEF invested, how much did household income increase? Was there evidence that PEF should continue supporting social enterprises (SEs)?
- What were the instances wherein households and SEs grew together? Or left each other behind? Was there any distribution of value?
- How many households were reached? How many moved out of poverty? How much was the increase in their incomes?

It was clear to us that the answers to these questions must be based on reliable data which can be obtained through impact studies. Without these studies, any answers would remain only speculative. Our personal observations may be useful but I liken these to a few pieces of a jigsaw puzzle, they cannot paint an entire picture of the real scenario of our SE programs.

IMPACT STUDIES

We have endeavored to conduct impact-oriented studies, in particular baseline studies, for the past years. The studies were intended as our first steps in conducting an "outcome evaluation" that can be completed after the maturity of our projects. So far, we have done three baseline studies, the first in 2012 involving 3,000 households, and the second in 2014 covering 1,500 households. A mid-term study on the first batch consisting of 2507 households was conducted in 2015 to monitor and measure changes, if any, in the respondent households' quality of life.

All the impact-oriented studies used control and experimental groups as part of the methodology.

This was important to control for variables affecting changes in sample selection and to account for changes at the household and community levels that could not be attributed to our SE efforts. We also did a baseline to establish a profile of existing businesses at the community level.

LEARNINGS

We at PEF can now reduce the number of indicators to the most critical ones because of our experience in conducting impact-oriented studies. With the Foundation's first batch of SEs, we should be able to identify and present common factors that could make an SE either fail or succeed. We should now be able to spot signals or red flags that can tell whether a social enterprise will experience problems later, and have inkling on the nature of these challenges.

Social enterprises have their own business cycles. They have unique peak seasons in terms of income and benefits. One important lesson we learned was that PEF has been trying to fit all the enterprises into one business cycle when we did the baseline studies. A particular business cycle might not be applicable to all SEs. It is probable that PEF has not yet analyzed the data sufficiently to understand the variations in the business cycles of SEs.

It makes sense to compare beneficiaries with non-beneficiaries so that we can identify changes influenced by a social enterprise. However, in terms of measuring desired changes, we need to narrow down indicators to a few strategic ones.

One good conclusion from the mid-term study is that SEs contribute not only to income increases but also to creating opportunities for raising income or identifying other sources of income. Another favorable conclusion is that SEs help to minimize the vulnerabilities of the poor. We need to further translate these conclusions into measurable indicators.

The creation of opportunities and the minimization of vulnerabilities are mutually reinforcing concepts. Opportunities and vulnerabilities are inversely related. As the poor's opportunities increase, their vulnerabilities decrease. For example, opportunities open access to assets that are useful in times of crises and disasters. PEF should investigate ways to incorporate these concepts and findings into its performance indicators.

There are rich data for providing indicators of impact from PEF's first five-year period as a social enterprise organization. We need to mine the data further so that we can gather enough evidence on the impact of SEs on poor communities.

We are trying to achieve scale to increase the number of households impacted by our SE programs and projects. And when we say we want to scale up, we want to see successful and fully grown SEs making profound and positive differences on as many households in the value chain as possible. This is the reason why we started the SE program in the first place, and the vision of where we want to go.

SE Strategy: Taking Stock of the First 5 Years

Benjamin D. Abadiano
PEF Chair, 2014 to present

In 2011, we were a new player in the field of social enterprise (SE). The big challenge for the Peace and Equity Foundation (PEF) was to find working SE models and replicate them. We travelled the country in search of these models and for partners that could propel the SE agenda. We saw promise in nine projects and invested in them. This became our "*unang taya*" (initial gamble) to the idea itself and to the enterprises that needed support.

At the same time, we saw gaps in handling real business concerns by our traditional partners who ventured into SE. We recognized the importance of capacity building for sustaining the enterprise and surfaced the role of the private sector in tapping SEs for their supply chains. Hence, we firmed up the enterprise ecosystem that partners could tap to grow their enterprises. These include capacity development, networking, technology, marketing, and appropriate financing. Close to ₱572 million funded 179 projects to help enterprises navigate through quality control, pricing, innovation, and competition.

Midstream into the five-year strategy we paused and reflected: What would truly hasten economic development in rural communities? More than ever, agriculture remained the best option. For PEF, five flagship commodities held the biggest potential. We channeled about ₱70 million to 26 projects on cacao, cane sugar, coffee, coconut, and climate smart agriculture practices, otherwise known as "C5". The models we have developed aim to show impact in the lives of sugarcane farmers through block farming, and of coconut farmers through new product lines such as geo-nets for bio-engineering and village-level virgin coconut oil processing.

While testing models, setting up the ecosystem, and focusing the portfolio, we also invested heavily on capacitating our partners to make them investor-ready and thrive in a very competitive market. We structured capacity building into modules covering areas critical to the growth of an enterprise. Through the Accelerating Capacities of Enterprises or ACE Program, the partners were taught by experts and seasoned practitioners on growth planning, business management, and risk analysis. Eight partners and 24 managers completed the four-month course and acquired a combined investment of ₱85 million after giving their "pitch" on the business plan to the PEF Program Committee.

Toward the end of the SE strategy in 2015, we revisited the first enterprises and households included in a baseline survey we conducted in 2012. What we found were better product pricing, improved production processes, and access to potable water—early signs that the social enterprise generated additional income for workers and suppliers from the community. Newly-acquired skills improved their confidence to new market opportunities. It is encouraging to know that this time, we hit the mark in targeting the right poor households.

What have we learned? Let me point to three important insights. One, we found out that the one-size-fits-all formula might not work as each SE is unique. Customized financing provides the right amount of investment at the right time, coupled with the right scheme and the right instrument. Two, we realized governance affects the potential of an SE to scale up. Setting up the appropriate structure, policies, and processes is necessary to strengthen the accountability of the partners in running the SE. And, three, we discovered that SEs can create or expand both opportunities and risks for households as they engage with the mainstream market. Stronger support systems are needed to better monitor and sustain benefits to the community.

Clearly, these are on-the-ground realities that continue to challenge us. How to effectively spot, screen, and scale up social enterprises must be sharpened in the way we develop projects. At the end of the day, we need to ask ourselves: How do we know that we are getting there? When can we say that an SE is truly successful?

Of course, a five-year span is too short a period for us to say that we have become SE experts. In the next five years, we will sharpen our focus to scale up SEs not only on C5, but also on basic social services and Islamic financing. We will reinforce and diversify our leverage with social investors to meet the increasing investment requirements, level up the business management acumen of partners, and firm up our internal systems, processes, and competencies.

We will enhance our pipeline development process by tightening due diligence requirements to ensure that enterprise proposals pass the criteria that will lead to real impact investments. The alignment of the Foundation, the SE Institute, and the Holdings Company will be the underpinning pillar in this campaign. We will diversify our investments to generate sustainable revenues to support our programs over a long-term horizon, and manage downturns. To rely largely on the performance of our investments in stocks and bonds may prove riskier now since these are vulnerable to volatilities and uncertainties.

Following the election of a new Philippine president, we anticipate that a new political environment will impact on SEs at all levels. The future holds opportunities; the economy remains good as of this writing. Barring any major financial crisis, the country will continue to reap positive returns. It is up to us to translate these returns into programs that create an inclusive growth environment for the marginalized sectors, strengthen the entrepreneurial skills of our partners, and attract impact investors to our innovative projects. With the new management structure in place, a flexible cross-functional team is primed to cater to the evolving needs and challenges of our stakeholders.

Our Foundation's experience and lessons have laid the groundwork for the next stage. The potentials of social enterprises remain exciting. Early indicators that social and economic benefits, indeed, reach the poor are inspiring. I am optimistic that the next round will bring us closer to our mission of creating positive change in the lives of the communities we serve—one scaled up social enterprise at a time.

II. Building The Ecosystem

Introduction

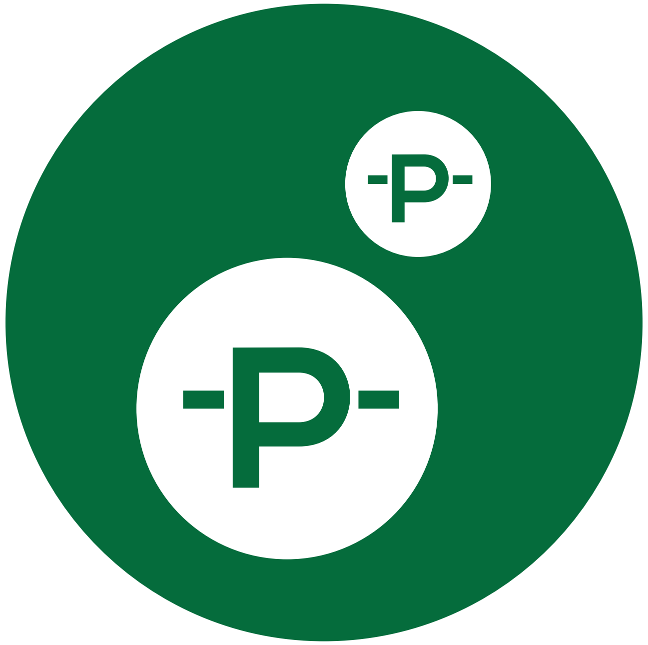
For the Peace and Equity Foundation (PEF) to effectively support social enterprises (SEs), it must have a basket of goods to offer partners and communities. One of the most important lessons learned in its two decades of existence is that a one-size fits all formula is bound to fail.

Each stage and each component of social entrepreneurship must take into consideration the physical, and the socio-economic-cultural-political characteristics of the targeted geographic area, as well as the governance structure, systems and processes of the proponent. Financing, capacity building, networking, technology, marketing and other interventions must be specifically designed and implemented, factoring in complex internal and external variables at play.

SE projects gestate in partnership with organizations or networks of organizations that, in turn, are within the bigger external environment. Strategic focus of interventions brings out the strengths, and tempers the weaknesses of these organizations. Furthermore, it harnesses opportunities while minimizing risks and threats.

Social enterprise has a short history in this country and when PEF started out in 2001, it had to do its own mapping of the SE ecosystem. The dearth of models and best practices meant that PEF had to be hands-on as it learned from experience. There were hits and misses but the foundation benefitted as its knowledge base is enlarged, and its learning curve progressing in an upward trend. Despite much progress made, PEF must work with other groups and individuals since some interventions may not be within the domain of the foundation's core competencies.

PEF has forged strong and strategic partnerships for SE programs and projects. Non-profit entities account for more than half of that partnership. Engagements aside from civil society, especially with national government agencies and local government units, result to synergy and the efficient utilization of shared resources.



Lesson #1:

Appropriate Financing

Customized financing provides the right financing scheme and instrument to ensure that funds—whether grants or loans—are both sufficient as well as given and collected at the right time. It is suited to the needs and nature of the partners and household/community participants and factors in external variables. Small farmers in Negros organized themselves into working clusters to access financing, harness shared resources, effectively capacitate themselves, and tap markets. This strategy maximized production and yielded more profits. In thinking outside the box, they aggregated themselves into blocks.

Every Peso Wisely Lent and Spent

Multi Sectoral Alliance for Development – Negros

For small Filipino farmers, access to financing is almost always non-existent because they are viewed by traditional creditors as high-risk. Sadly, even cooperatives, which are supposed to carry less risk as they are organized, have limited access to affordable financing sources. The Peace and Equity Foundation (PEF) heavily invests in agricultural social enterprises (SEs) as they can bring about meaningful improvements in the lives of the rural poor.

In years of taking calculated risks, PEF realized that appropriate financing for agricultural SEs requires a big investment—it has to be adequate, otherwise it would fail. Aside from being sufficient, funding should be timely. The release of funds must be done before the planting season for soil preparation and other pre-planting activities. It is also unwise to ask farmers to pay for loans before the harvest because most would not be able to pay to and end up unjustly penalized.

Sugarcane is a priority crop of PEF and bulk of the projects are in the Negros Island. In 2015, PEF allocated ₱13 million for cane sugar, representing 27 percent of C5 grants.[2] In partnership with the Multi-Sectoral Alliance for Development-Negros (MUAD), PEF organized four farmer organizations that adopted Diversified Block Farming (DBF) practices: Crossing Ibos Farmers' Cooperative, Dancalan Ilog Waterworks and Agro-Industrial Multipurpose Cooperative, Sampak Small Farmers Association, and Tabugon Livestock and Poultry Raisers Association. Each group received approximately ₱6 million pesos worth of assistance in the form of loans, grants and credit line. The fund covers four block farms totaling 220 hectares and involving 108 farmers. It aims to achieve improvements in four areas: professionalized farm management, diversified skills enhancement, integrated farming, and asset creation. The grant portion of the fund is used for coaching and mentoring on enterprise management, financial literacy, and technology demonstration on model farms.

By organizing small farmers into blocks, economies of scale will reduce production costs, increase production yield, and achieve better efficiencies. However, a sizable amount of investment is needed to move sugar cane SEs to a viable scale of 75 tons per hectare. These resources should be enough to cover human, technological, and business investments.

Each farmer-participant enrolls two to three hectares of farmland to the cooperative. When the total number of hectares reaches 55, a block farm is started. Each block farm, with 20 to 26 participants, signs an agreement with the cooperative to manage the land for three years.

The loan allocation and drawdown scheme are based on the sugarcane crop production cycle; thus, enabling farmers to meet their obligations, avoid loan penalties, and tap financing that otherwise would not be available for them. With financing schemes suitable to sugarcane farmers, production techniques can be significantly improved in both the immediate and long terms.

In the beginning, farmers' organizations met difficulties and delays in loan disbursements due to their limited capacity to comply with financial and narrative reports and other PEF requirements. MUAD individually coached the farmers on how to prepare these reports. This also capacitates them so that they can do their reports independently in the future. This proved to be a time-consuming process, given that the reports are technical in nature.

Only one of the four block farms generated positive results and could receive another funding on their growth plan in 2015. The other three were tasked to prepare a remedial plan to complete the cropping cycle.

2 C5 stands for PEF's four priority crops—coconut, cane sugar, cacao and coffee as well as climate smart agriculture. In 2015, PEF spent 46 million pesos for C5 compared to 26 million pesos for non-C5 projects.

What went wrong? One major factor is pole vaulting, or trading of sugar cane outside the usual farmer-cooperative contracts. In hindsight, farmer groups attributed this problem as an internal weakness that could have been avoided during the selection of farmers to be included in each block. The farmer's commitment and financial position must be carefully evaluated to minimize the tendency to pole vault. Another factor is the unavailability of labor and hauling trucks during planting and harvesting season. Also, the effects of the El Niño weather phenomenon in Negros drastically resulted to lower than expected yields.

With the project still underway and despite the setbacks, PEF hopes to achieve gradual but sustained improvements in the areas previously identified—institutional support, client development, asset creation, and technology demonstration. In social enterprise, patience is a virtue; stumbling blocks must be properly addressed and in doing so, something negative positively contributes to the learning process.

Lesson # 2:

Capacity and Structure

Effective governance enhances the potential of a social enterprise (SE) to scale up as appropriate structures, policies and processes capacitate and strengthen partners in running SEs. With local and global markets in mind, a business entity's first move was quality control at its very source—the farming villages that harvest coconuts and process raw virgin coconut oil (VCO). Only when a reliable supply of standardized high quality processed VCO is assured can a successful marketing plan be implemented. No amount of marketing can sustainably sell an inferior product. The consumer is the final arbiter of a product's quality, or the lack of it.

Also profiled in this section is a health company that services poor communities while keeping itself financially afloat. Faced with dwindling donations, a non-profit organization transformed one of its programs into an income generating corporation that proved to be more sustainable in the long run. A mobile clinic reaches out to poor communities where residents pay minimal fees in installment for affordable and quality health care packages. Furthermore, the mobility of health facilities ensures access to health care as beneficiaries need not spend time and money to go to the clinic as the clinic goes to them.

Preparing for Growth

Greenlife Coconut Products Philippines Inc.

Even social enterprises (SEs) that show great growth potential fail to make the most of existing market opportunities because of their limited capacity to expand. This is particularly true for SEs in the agriculture sector.

Green Life Coconut Products Philippines Inc. started as a sole proprietorship in Quezon Province in 2001, and was incorporated in 2014. It is pursuing an expansion program backstopped by a capacity building program to develop competencies within the organization and among the farmers that it works within villages. By enhancing the skills and knowledge of coconut farmers and virgin coconut oil (VCO) processors, Green Life prepares them to tap the domestic and global markets.

Based in Tayabas, Quezon, Green Life produces an array of coconut-based products, including coco sugar, coco vinegar, VCO soap, coco jam, and other coconut-based specialty products, as well as furniture made from coconut wood. These VCO products have a diverse variety of health, medicinal, and culinary uses. Green Life sources most of its raw VCO from village-level processors in nearby communities. To ensure a constant supply of raw VCO, it partnered with micro-entrepreneurs to establish a community-based raw VCO processing plant at a low setup cost of ₱650,000, which includes the housing structure and equipment. The raw VCO processed at this plant becomes a standardized and high-value coconut product.

Green Life is working with the Peace and Equity Foundation (PEF) on a project to improve the quality of VCO processing by building the capacity of six village VCO processors as their supply base. These processors directly or indirectly employ about 120 workers from coconut farming communities. The business model recognizes that family incomes will increase with value adding rather than just selling whole coconuts.

Green Life took a loan to help them improve VCO processing, comply with standards, and secure certifications as producers of fair trade and organic goods. Under the program, Green Life will purchase the entire output of VCO village processors that will go through organic certification. With this, coconut farmers are encouraged to upgrade their standards, get hold of a stable market, and command higher prices. This, in turn makes a more vibrant local economy and creates new and better opportunities for the communities involved.

As part of the project, Green Life assists farmers in the management of their farms by setting up a recording system of maps, diaries, seeding and harvests; and pest management. These help identify areas where farmers need sustainable interventions and planting practices to increase coconut harvest yields.

Indeed, Green Life is true to its vision of being " a leading producer of high value and high quality coconut products in a natural way that will create jobs for the farmers and help the development of the coconut industry."[3]

3 https://www.greenlifecocoph.com/our-story

Propelling an NGO's Transition to a Business Company

HealthDev Integrative Clinics, Inc.

Healthcare in the Philippines has been criticized for being both unaffordable for and inaccessible to the poor. This is exacerbated by the little trust that Filipinos have of existing healthcare services. Fortunately, organizations like HealthDev Integrative Clinics, Inc. (HDIC) are helping address these problems.

HDIC started as a program of the HealthDev Institute (HDI), a non-stock, non-profit organization, before it became a stand-alone clinic in 2007. The Medical-Dental Clinic and Laboratory are the primary components of the Health Service Provision Program (HSP) of the Institute.[4] Located at the campus of Ateneo de Manila University (ADMU), it provides comprehensive alternative health care program that is safe, effective, research-based, personalized and systematic.[5]

This is a good case study of a health-oriented NGO faced with dwindling resources from donors and funders, and the shift of its health program as a separate business corporation to sustain its mission and operations.

HDI staff members were given separation pay and were asked to reapply to HDIC, undergoing the usual screening process within a probationary period. HDI provided a seed capital of half a million pesos and donated all existing clinic equipment and fixtures to HDIC.

As a former NGO that transitioned its vital program into an independent business entity, HDIC could comply with all government requirements. The management focused on installing internal systems including periodical reviews to ensure the new company's sustainability.

HDIC caters to two market segments—ABC (high and middle income groups) and DE (low income group) through the campus-based ADMU clinic and the mobile clinic, respectively. Both clinics are interdependent in sustaining the social and economic value of the services HDIC provides.

The clinic offers medical (family medicine, specialty care, physical therapy, acupuncture, comprehensive dental services, etc.), laboratory and diagnostic services. Clienteles include

4 http://www.healthdevclinics.com/about-us

5 *Ibid.*

students and employees (and their beneficiaries) of ADMU, NGOs, and other affiliated organizations. Payments are received around 60 days or less depending on the package and scheme.

The mobile clinic applies a different approach. HDIC partnered with the Kasagana Ka Development Center, Inc. (KDCI), a social development NGO that seeks to create vibrant economic and social infrastructures in urban poor communities,[6] to identify qualified beneficiaries including employees of small and medium scale industries. With the K-Kalusugan program, HDIC visits KCDI branches and offers healthcare packages that community members pay in installment. KDCI pays half of the total amount of availed services to HDIC and settles the other 50 percent within the next 30 days after payments come in. The Peace and Equity Foundation (PEF) provided a loan to help improve the service capacity of the new mobile clinic. This was used to purchase its first automated equipment in the laboratory.

With the mobile clinic, HDIC is able to reach out poor communities needing quality healthcare services through tailor-fit packages and payment mechanisms based on their financial capacity. And unlike in the case of the ADMU clinic, patients need not travel as the clinic goes to them.

The increase in demand for the services in both clinics raises the problem of an inadequate number of health professionals. HDIC also recognizes the difficulty in maintaining low service/package fees given the rise in maintenance costs of equipment and supplies.

Nonetheless, the HealthDev business model is proven to work; they restructured from a foundation to a business entity, rebuilt their capacity, complied with government requirements, tested the market, and offered packaged services that respond to their clientele.

To date, the clinics have provided health services to 14,820 client beneficiaries and their dependents. HDIC is still learning, checking and studying their market to find out what they need and how to deliver the necessary corresponding services. Indeed, HDIC lives up to its motto of "helping people, enriching lives".

6 http://www.kasagana-ka.org/

Lesson # 3:
Industry Network

Networking with other development players from civil society, business, grants agencies, local and national government, among others, is crucial in leveraging for financial resources and services. An innovative climate-smart agricultural technology using ducks to naturally control pests in rice fields while aerating and fertilizing them at the same time has gained traction as it spread from one province to an entire region and even outside. More importantly, the practice has converted many disciples from among local and national government, civil society, and funding agencies. The great interest it generated resulted to a multiplier effect as the project is replicated manyfold given the multiplicity of funding resources.

A small producer of coconut husk fiber needed to acquire the technology to rubberize coconut husks as this value-added product was in high demand for the manufacture of mattresses, insulation and furniture padding. Government agencies helped secure funding to farmers producing coconut husks, and facilitated an exchange deal with a foreign company to supply rubberization equipment at a bargain price in exchange for supplying the finished product. This small enterprise now earns more than P12 million pesos annually and benefits more than 6,000 marginalized farmers. Different stakeholders have been aggregated to leverage financing. As an adage goes, the opposite of not working is networking.

Unang Taya, Taking Risks on SE Ideas

Philippine Agrarian Reform Foundation for National Development Inc.

Agrarian Reform Beneficiaries (ARBs) must be able to yield full productivity of their acquired lands under the Comprehensive Agrarian Reform Program (CARP). The CARAGA Region 13 [7] is a rice producing area compelling ARBs in this region to yield substantial increases in rice production.

The Philippine Agrarian Reform Foundation for National Development Inc. (PARFUND) is a social enterprise that envisions a community where farmers and farm workers can enhance quality of life with land they truly own by supporting their initiatives for resource tenure, productivity and rural democratization.[8]

In assisting ARBs in rice production, PARFUND focused in improving rice yield via technology transfer, trainings, and seminars.

PARFUND introduced the Integrated Rice Duck Farming System (IRDFS) that incorporates duck raising as a crucial element in rice farming. It uses ancient agro-ecological principles to increase production yield without requiring expensive inputs.

The IRDFS technology was developed in Japan in the late 1980s by Takao Furuno. It is a strategy used by Japanese farmers to attain rice sufficiency by using ducks and altering the conventional way of rice farming. Ducks are used in fertilization, cultivation, and pest and weed control; thus, stimulating the rice plant to produce more. This technology was transferred to PARFUND through Jose Apollo Pacamalan who was trained in the Philippines, Japan and South Korea.

How does duck-farming aid in rice production? Around 150 21-day old ducklings per hectare of rice land is released in a newly planted rice field. Ducks then eat the weeds, snails, insects and pests in the rice paddies. Subsequently, as ducks roam around probing the paddies, their webbed feet stir up the soil and water, resulting to land stimulation and aeration. Ducks wastes also become natural organic fertilizers. This

7 The Caraga Region (Region XIII) in northeastern Mindanao includes the five provinces of Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur and Dinagat Islands; and the six cities of Butuan, Cabdbaran, Surigao, Tandag, Bislig and Bayugan.

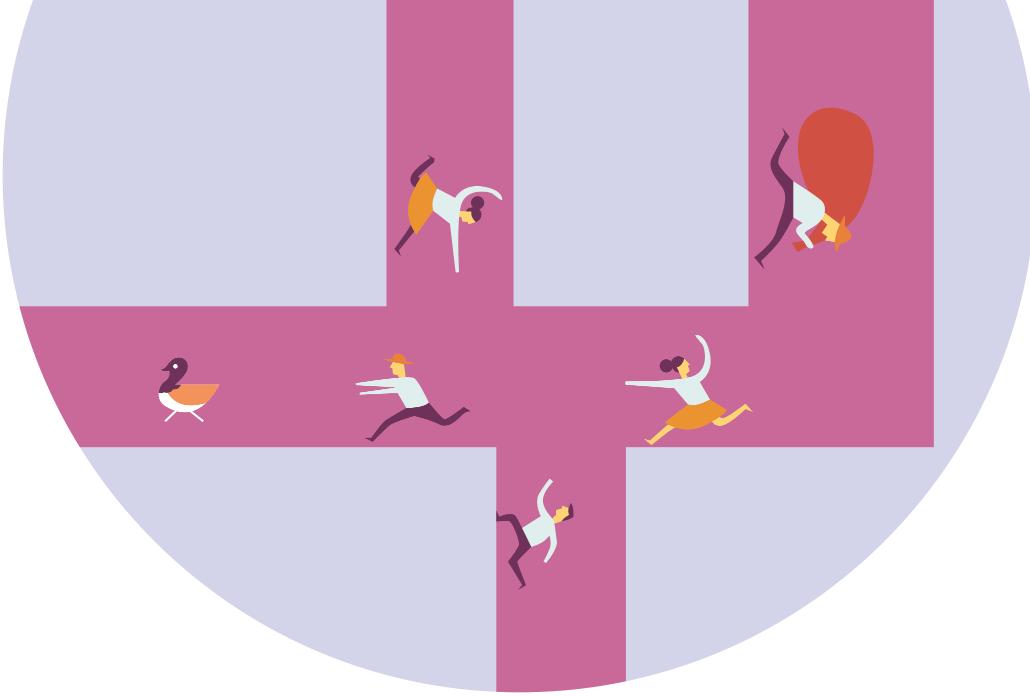
8 https://www.facebook.com/pg/PARFUNDInc/about/?ref=page_internal

intervention results to a 15 percent decrease in input cost that translates to a 30 percent increase in farmers' annual gross incomes, and up to 15 percent average net income per farmer.

As a promoter of climate-smart agriculture, Peace and Equity Foundation (PEF) extended a ₱6.7 million loan to PARFUND to aid in the establishment of a duck center to address the shortage of ducklings. For a five-year period (2012-2016), the project aimed to cover the duckling requirement of 1,800 hectares of lands for 1,800 IRDFS farmers-adapters with corresponding technical, financial, and marketing support of around ₱2.16 million.

Crucial to the implementation of the project, PARFUND propagated a province-wide implementation of the IRDFS through partnerships with local government units (LGUs), donors, and media. Group of farmers were trained and landlords were convinced to change their ways of traditional rice farming and adopt IRDFS.

Following the partnership between PEF and PARFUND, and a subsequent front-page news article in the Philippine Daily Inquirer (June 24, 2013), PARFUND's IRDFS triggered massive interest in the rice-duck technology among farmers, LGUs in Mindanao, and other international agencies. Funding for the



technology flowed continuously. A German doctors' organization provided ₱8.67 million grant to use IRDFS in controlling the spread of schistosomiasis (a snail-caused disease). Interchurch Organization for Development Cooperation (ICCO) gave a grant of ₱8.37 million to upscale the organic rice/duck industry in a value chain approach. Keidanren Nature Conservation Fund (KNCF) contributed a ₱1.66 million grant to expand IRDFS in the preservation of Lake Mainit's ecological biodiversity. The Butuan LGU, Oiko Credit, Pres Climate Action Project (PCAP), and Philippine Tropical Forest Conservation Fund (PTFCF) support the technology with additional funding.

In March 2014, the International Conference on Rice Duck Farming took place in Bukidnon and was attended by both local and foreign farmers. Regional government officials pledged their support to the industry and expressed trust that IRDFS will lead them to greener and more environmentally sound provinces.

To date, PARFUND's IRDFS model has opened several development opportunities in the CARAGA region including climate change adaptation, organic farming promotion, and the control of the spread of schistosomiasis. Its benefits have trickled down to the *penoy/balut* (fertilized duck eggs) industry, and duck meat production and processing.

PARFUND eventually became a corporation. However, due to organizational issues, PARFUND ended project operations.

PARFUND's IRDFS was proven to be an innovative and viable business model and a successful case of technology transfer benefitting small farmers while promoting climate-smart and sustainable agriculture.

Leveraging Partners for Growth

Juboken Technologies

Financing social enterprises (SEs) is often difficult because they are considered high-risk investments. To overcome this financing obstacle, a Bicol-based SE, Juboken Technologies, leveraged its production knowhow and pool of local partners to sustain and grow its business.

Juboken processes coconut husks sourced from local farmers into coconut fiber, an effective material for controlling soil erosion. Through its bioengineering arm, Juboken pioneered the use of coco fiber nets or coconets in slope protection, river and shoreline rehabilitation, and erosion control. It markets its products in the Philippines and other countries in Asia and Europe. Juboken's main competitors are coconut fiber producers from Sri Lanka and India, which offer much lower prices.

To sustain the business, Juboken sought to diversify the uses of the coconut fiber it produced. In other countries, coconut fiber is processed with natural rubber latex. This rubberization process gives the coconut fiber resilience and ability to conform to a person's body shape. The resulting product is used to produce bed mattresses, car seat insulation, and padding for furniture upholstery. However, Juboken could not afford to import the rubberizing equipment.

Juboken solved this problem with help from the Department of Trade and Industry (DTI), which negotiated a deal with a Chinese company. The Chinese company would sell to Juboken rubberizing equipment at a bargain price in exchange for a constant supply of rubberized coconut fiber from Juboken.

Juboken started by building a steady network of suppliers of coconut fiber. It worked with the Philippine Coconut Authority (PCA) and the Department of Agriculture (DA) to help ten farming cooperatives in Bicol produce coconut fiber. The participating government agencies brokered funding from the Spanish Government. Juboken would provide training as well as seed capital to the cooperatives to run their production facilities. However, the proposed no-collateral government loan did not materialize due to the delay of acquisition of the rubberizing equipment as it took time to raise the necessary funds. Juboken could only support three of the ten

cooperatives. The rest of the cooperatives had to temporarily halt the operation of their coconut fiber facilities.

Having acquired the rubberizing technology, Juboken approached the Peace and Equity Foundation (PEF) to support the project. Based on Juboken's projections, each participating cooperative will realize gross revenues of ₱180,000 a month. Of this amount, ₱10,000 will go to the coconut farmers producing the husks.

Juboken has a thorough understanding of the coconut industry and its associated technologies. It has strong links with cooperatives as suppliers and the government for technology endorsement such as DTI, DA and the Department of Public Works and Highways (DPWH). These linkages have given it access to a steady supply of raw materials. Juboken's strength is in bringing together different stakeholders to leverage financing. These partnerships reduced Juboken's financial pressures, improved its cash flow, and lessened its costs. Juboken succeeded in developing a community of weavers that provide opportunities for women to participate in economic activities, a market for the technology, and in enlisting investors that believe in the product.

Today, Juboken is a small-sized enterprise of 25 employees with yearly revenues exceeding ₱12 million that directly benefit some 6,000 families.

Lesson # 4:
Technology Efficiency

The proper combination of hard and soft technologies that are appropriate and customized, cost-efficient, less polluting and more reliant on renewable energy makes social enterprises more competitive. A small cooperative in Abra received foreign funding for the acquisition of a mechanized muscovado processing facility in 2012 and after a few successful years, that very facility ceased operations. Organizational weaknesses, the absence of a second-tier leadership, the atavistic tendency of old habits that die hard, and inefficient technology were some problems cited. PEF's timely intervention of effective plant operations management, hiring the necessary expertise, and technological improvements and innovations reversed the decline and restored the facility's sustainability and viability. In social enterprise, as in making muscovado making, the right mix matters.

Learning by Doing

Kabinnulig Para ti Panagdur-as ti Abra, Inc.

The Peace and Equity Foundation (PEF) is a learning organization on social enterprise (SE). And what better way to learn SE, than by doing SE? This is the story of the first SE venture directly managed by PEF.

In behalf of one of its members, the Cordillera Network of Development NGOs (CORDNET), a self-sustaining, pro-active, culture sensitive and technologically-equipped network working in partnership with other stakeholders to facilitate the continuing development of the Cordillera region,[9] sought PEF's assistance in rehabilitating a muscovado sugar processing plant in Abra that has not been operational for months.

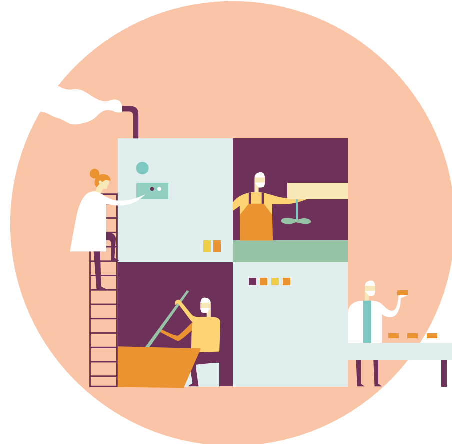
The Kabinnulig Para ti Panagdur-as ti Abra, Inc. (KAPPIA) is a people's organization that mobilizes small development-oriented groups adapting suitable livelihoods technologies, upholding cultural beliefs, and practicing fair trade.

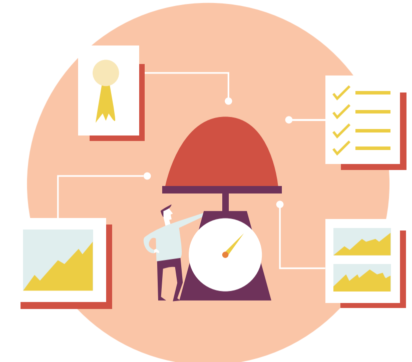
With assistance from the Japanese Embassy, KAPPIA was able to build a muscovado processing facility and purchase the necessary equipment such as cane crusher and cane juice filtering system.[10] The operation of this facility in 2012 was expected to raise the levels of production as well as to increase the income of the sugarcane farmers in Abra.[11] This facility is the first mechanized muscovado plant in the area.

Sugar is not a major crop in Abra, but muscovado processing remains to be an important economic activity in the province given the absence of milling stations. Interest in this commodity started in 2012 from the Abra provincial government's One Town-One Product (OTOP) program. However, the local industry appeared static with farmers inclined to do backyard muscovado cooking and relying on local public markets to sell it.

Under Sr. Celerina Zabala's leadership, KAPPIA's enterprises performed well. The eventual absence of Sr. Celerina left a leadership vacuum that functionally debilitated the organization. The muscovado processing plant, the largest asset of the organization, faced the threat of being pulled out by the Japanese Embassy. There is a valuable lesson here: organizational strength includes the presence of well-trained second-tier leaders that are ready to take-over at any given time.

9 http://cordnet.org/about/
10 http://www.ph.emb-japan.go.jp/pressandspeech/press/pressreleases/2012/46.htm
11 *Ibid.*





PEF's assistance was sought in rehabilitating the plant and in ensuring the sustainability of its operations. The Abra Techno-Demo Farm is the first SE managed by PEF. The Foundation took over plant management and operations, assigned technical staff (i.e. an engineer and a food technologist), and put in technological improvements. Rather than the usual operations, PEF took this chance to modify muscovado sugar processing practices and to try stretching known standards as a model building initiative.

A traditional muscovado processing plant usually has a master cook who is acknowledged as the one who knows the secret behind good quality muscovado. As PEF would soon find out, the secret recipe varies according to the master cook's *tantya* or estimate. The Foundation tried to document this in quantifiable terms as reflected in the manual.

While PEF was looking at ways to make the muscovado processing plant more efficient, CORDNET was helping KAPPIA prepare for the eventual transfer of plant operations. During the implementation stage, important discoveries surfaced. They are, as follows:

- There is not enough sugar cane in Abra to be sourced and efficiently processed in the plant.
- The plant design and facilities are inefficient, making the muscovado processing costly. But it can be modified with the right amount of investment.
- KAPPIA needed to further strengthen their organization and source more sugarcane before they can be able to run the business.

Despite these setbacks, achievements have been made. PEF standardized muscovado processing, tested food safety measures, improved equipment efficiency, documented a quality muscovado sugar recipe that is clean and sediment-free, produced a cubic meter of vinegar, acquired halal certification, and trained in Good Manufacturing Practices. PEF is now ready to share the knowledge with other SEs.

By July 2016, PEF could turn-over the management of the plant back to KAPPIA. PEF made a commitment with CORDNET and KAPPIA that once they are ready to continue managing the plant, the Foundation was willing to invest further in remodeling the organizational structure toward production efficiency. This, in turn, translates to more income for community members.

Lesson # 5:
Market Competitiveness

Early markers of impact suggest that social enterprises (SEs) can create and expand both opportunities and risks for farmers, small entrepreneurs and other stakeholders as they engage with mainstream markets. Stronger support systems are needed to better monitor and sustain benefits to households and communities. A marketing venture set up by the farmers themselves not only freed producers from the shackles of traders controlling the prices for their commodities, it was also able to tap new and nontraditional markets, which would have not been reached by the usual commercial traders.

A cooperative in Mindanao which started in 1989 with 54 thousand pesos now has an asset base of almost a hundred million pesos. While supporting 2, 5000 families, it has become the largest cooperative in its province, and a leading manufacturer and seller of banana chips in the country. It is a success story and like other success stories, it is constantly faced with challenges and setbacks both internal and external. Since an SE has no or little control of external threats, this SE invested heavily in improving organizational management and in firming up its marketing strategies taking into account the various economic, social and political variables that affect the domestic and import markets.

Fostering Sunrise Industries

Global Organic and Wellness Corporation

The ability to identify gaps in and respond to the market is key to any enterprise's success. Global Organic and Wellness Corporation (GlowCorp)—a marketing company set up by eight farmer groups—leveraged the health benefits of commodities grown in the Philippines to become a social enterprise (SE) competing successfully in the global market for organic products. As a marketing entity, it needs to keep abreast with the market trends of its community produce and position the product well to ensure continuous growth.

Muscovado sugar producers, organic rice growers, and NGOs founded GlowCorp in 2009 and registered it the following year to increase the bargaining power of farmers versus traders who had access to the market and, therefore, controlled commodity prices. GlowCorp provides a steady market for its farmer members, increases market share for organic products, and promotes fair trade practices.

GlowCorp also provides technical assistance in market matching, quality control, organic certification, and packaging. Profits are given back to shareholder-producers through dividends and technical support.

Organic rice and muscovado sugar are sunrise industries. The global appetite for organic food and drinks was estimated at US$40 billion in 2014.[12] GlowCorp seeks to take advantage of this market opportunity by helping small farmers upscale their production to develop new and non-traditional markets. GlowCorp posted steady increases in its organic rice and muscovado sugar sales, from ₱1.3 million in its first year of operation to ₱32 million in 2013. It took only three years for GlowCorp to become profitable.

GlowCorp's products are sold in over 300 retail outlets in supermarkets, groceries, and malls in key cities of the Philippines. Its distribution network includes SM Supermalls, the country's largest chain with 58 shopping malls nationwide. In addition, GlowCorp sells muscovado sugar to South Korea and organic rice to Hong Kong. GlowCorp has participated in international trade fairs in Dubai, Hong Kong, and Germany.

12 http://orgprints.org/29790/19/sahota-biofach-2016-Global-OFD.pdf

GlowCorp's structure and presence all over the country are to its advantage. Since its incorporators are producers, it has ready access to the supply of these commodities at competitive prices. In 2014, GlowCorp supported 2,500 farming households, which helped the company generate sales of ₱47 million and a gross income of ₱7.6 million.

GlowCorp knows its market very well. Its organic products are sold in high-end markets like Rustan's and Metro Gaisano. GlowCorp regularly taps experts to maintain high standards for organic production and monitors supply sources to ensure organic standards are met.

One constraint for GlowCorp is some of its suppliers and shareholders do not have organic certification. GlowCorp is teaching them on the importance of the certification process and introducing them to the practice of the Internal Control System for Organic Certification. GlowCorp is still in the process of completing its certification.

Marketing expertise is essential. In its first year of operations, GlowCorp had low sales, but sales eventually picked up with the guidance of marketing experts.

Lack of sufficient financing to support its growth plans remains a challenge. In 2013, GlowCorp secured a credit line of ₱6 million from the Peace and Equity Foundation (PEF). Its goal then was to realize sales of ₱50 million, which proved to be too ambitious. GlowCorp has since revised its targets, taking into consideration its capabilities and limitations.

This SE aims to expand its areas of operation to cover 6,500 farming households and double sales from ₱62.5 million in 2015 to ₱122 million by 2018. GlowCorp's target is to increase income by 25 percent yearly. It also aims to increase its market share of natural and organic products from one to five percent. GlowCorp seeks to develop new, non-traditional markets for natural and organic products. With the ASEAN Economic Community now a reality, GlowCorp intends to link with regional networks to cooperate with farmers from other ASEAN countries.

Glowcorp needs to beef up its value chain. In terms of supply, the focus must be on ensuring quality of produce and acquiring certifications. On its operations, Glowcorp should address gaps in efficiency, organizational capacity, and knowledge of its market while looking at the possibility of shifting to a more stable niche market.

Anticipating Economic/ Market Shocks

Magpet Agro-Industrial Resources Cooperative

New market opportunities are opening—from lifting trade barriers to online market platforms developed every day. The market is dynamic, and social enterprises (SEs) must always look at possible risks, and examine new trends and insights. SEs must continuously discover potential markets, update products, and upgrade processes that pass international standards. With these in mind, Magpet Agro-Industrial Resources Cooperative (MAGIRCO) is on the right track.

MAGIRCO, an SE based in North Cotabato, was organized in 1989 to help farmers get better prices for their agricultural produce. The cooperative consolidated local farmers' produce and negotiated with buyers for volume-based incentives and competitive prices. The cooperative began by trading in copra and rubber and eventually expanded to wholesale trading and banana chips manufacturing. The cooperative is in an area with soil suitable for agriculture and weather that is conducive to growing bananas. MAGIRCO uses *cardava* bananas, a variety that does not need intensive maintenance. To date, it has 342 members, and its assets have grown from ₱54,000 in 1989 to ₱99 million in 2013. It is now the leading cooperative in North Cotabato.

MAGIRCO buys up to 40 metric tons of bananas daily from the local community, which includes some 1,600 indigenous Manobos tending over 500 hectares of ancestral lands. The cooperative provides local employment by hiring banana peelers and paying them ₱100 to ₱600 a day. Collected banana peels are returned to their suppliers to be used as organic fertilizer for their banana farms.

MAGIRCO acquired government accreditations and is the only Hazard Analysis and Critical Control Point (HACCP)-certified processing plant of fried banana chips in North Cotabato. The HACCP certification is a seal of quality. MAGIRCO also is compliant with standards set by the Bureau of Food and Drugs, and the Environmental Management Bureau (EMB).

Notwithstanding these advantages, MAGIRCO constantly faces constant operational and business challenges, especially in maintaining the price-quality-volume combination that would allow it to be most profitable. Lack of operating capital has prevented it from operating at optimum production levels, with operations sometimes not exceeding 32 percent of the rated capacity. It produces 10,000 to 15,000 kilos of banana fry, against its capacity of 40,000 kilos. As a result, it cannot lower its production costs sufficiently for it to obtain bigger margins.

There are a lot of banana chips producers in the Philippines; and with MAGIRCO's current capacity, the cooperative must choose to develop either selling first fry banana chips in China, or focus supplying domestically with second fry banana chips. The cooperative eventually chose the first option. Since they are producing largely unsweetened banana chips that are further processed by their clients, the product carries a different name/packaging and MAGIRCO has limited interaction with the end-consumers.

MAGIRCO later worked on expanding its operations and manufacture of sweetened banana chips (second fry), which enjoy larger demand domestically and globally in about 30 countries, including the United States and countries of the European Union. Statistics from the Department of Trade and Industry (DTI) show that the export value of banana chips has been increasing by 15 percent every year since 2009.

Expansion calls for financing support to acquire new facilities and equipment. With Peace and Equity Foundation (PEF), MAGIRCO looked into its production and inventory management, as well as pricing. With the guidance of engineers, it was recommended that MAGIRCO redesign processes and mechanize its operations to optimize efficiency. MAGIRCO also needed to increase its manpower count to more than 300 people to meet production demands.

It will have to look into all aspects of its internal operations to ensure that it is compliant with all government regulations. Financial diligence is a must. Weak internal systems and controls already have resulted in tax delinquencies of almost ₱11 million due to unremitted value-added taxes.

During the project lifetime, political and trade relations of the Philippines and China soured. China stopped importing products from the Philippines, including MAGIRCO's banana chips. This proved that establishing the market is not enough, equally important is maintaining it. And that the risks in trade relations between countries are getting more and more significant in the success or failure of a business that exports.

By strengthening itself as a viable SE, and by knowing how to adapt to the exigencies of a fickle and volatile market, MAGICRO is savoring the fruits of its labor and investments. Success tastes like the sweetened banana chips it produces.

III. DEVELOPING THE SUPPORT SYSTEMS

Introduction

Support systems are formal and informal networks of people, goods and services (e.g., financing, capacity building, research) and organizations needed for an organization's sustainability, growth and capacity to fulfill its goals. For the Peace and Equity Foundations (PEF), support systems are essential in the sustainability of its partners as well as its own, and the viability and success of its programs and projects.

Three interrelated components are discussed in this chapter: human capital, financing, and risk management.

PEF promotes a culture of learning including exposure to best practices, implements a team approach to synergize expertise, and will recruit from the business sector with expertise in investments and enterprise solutions. These will augment the two core competencies of the professional staff: adeptness in industry trends and practices and in evaluating proposals based on the governance, track record and competencies of the proponents and other criteria.

Corollary to the strategy of scaling up SEs is financial sustainability by keeping the peso value of endowment fund intact, sufficient earnings to cover budget outlays and expenditures, and streamlining guidelines and benchmarks for disbursement.

Responsible risk-taking culture within PEF ensures the prudent and strategic use of its endowment fund. The proactive approach anticipates and plans for potential risks rather than merely reacting to them; thus, the staff must be able to identify spot signals of potential problems.

These support systems enable PEF to include more households in its value chain. Scaled-up SEs translate to equity and inclusive development.

Looking for the Right Talents

The Peace and Equity Foundation (PEF) invests in building the social enterprise (SE) knowledge and skills of its professional staff. The Foundation requires two core and non-negotiable competencies from its staff members: recognizing specific industry practices and trends; and, properly evaluating proposals submitted by groups seeking Foundation funding and support.

In terms of recognizing industry practices, Foundation staff members should become adept at finding geographic areas that produce the greatest volume of specific commodities. They should have the skills to conduct a value-chain analysis by looking at every activity required to create a product or service and identifying ways to increase the efficiency of the chain. They must determine who the players are in each activity of the chain and who gains the most among the players. They should also know what it takes to become a competitive player in the industry.

In evaluating proposals submitted to PEF, staff members are guided by a set of criteria that includes governance, competencies of the project leaders in running the enterprise, enterprise performance, and future prospects. The desired skills set for staff members includes experience in analyzing financial reports and projections, spotting strengths and weaknesses of the applicant enterprise, recommending appropriate interventions, and determining the development outcomes for SE participants.

The skills required of SE workers are varied and complex. When PEF refocused toward SE promotion, it became difficult for its staff members to evolve into "nurturing an entrepreneurial culture, a culture that vigorously encourages innovation, thinking out of the box, receptiveness to new ideas, proactively building prototypes with potential for success" *(PEF 2012 Annual Report)*. The Foundation was essentially a grant-giving institution during its first decade of operations. The experience of most of its staff members came from working in organizations that provided grants and soft loans.

In 2012, the PEF Board and management realized that no one staff possessed all the skills required of a SE worker. Most staff members were strong either in business development or in social development, but not necessarily in both. As a stopgap measure, the Foundation commissioned consultants—individuals and organizations—to provide highly technical services needed to build SEs.

Some of the consultants were experts in specific industries such as coconut, coffee, cacao, cane sugar, Islamic financing, and basic services like health and water. Other consultants were practitioners in specific business operations

like procurement of raw materials, inventory management, financial management, sales, marketing, business planning, and risk management. The Foundation will continue to tap the services of consultants and industry experts. It also will set up a program for expert volunteers and talented interns.

The Foundation has invested in staff development by exposing its professional staff to effective SE models in the Philippines and abroad. Staff members also learned best practices in social impact investment from knowledge leaders and practitioners.

Looking forward, the Foundation will implement a team approach in conducting appraisal, project implementation, and monitoring and evaluation of the SE projects it assists. This approach will maximize strengths and minimize weaknesses of the Foundation's professional staff. This approach is expected to improve the performance of PEF's SE investments. PEF will recruit more staff members from the business sector as these new recruits can bring with them—and impart to existing staff members—skills, knowledge, and experiences in rigid processes such as due diligence, structured investments, and enterprise solutions.

The Foundation is promoting a culture of learning among its workers to inculcate the appreciation and understanding that learning happens all the time and education is a continuing process. This encourages staff members to approach daily work activities with the intention of learning something constructive. This creates synergy and a multiplier effect as individual learning is channeled into organizational learning through coaching by supervisors and experts, customized training, and use of performance tools that encapsulate lessons and best practices.

Financing the Strategy

During the second half of 2010, the first decade of operations of the Peace and Equity Foundation (PEF), an independent group conducted a comprehensive evaluation of the Foundation's strategies, programs, and projects. Part of the evaluation process included recommendations on the future role that PEF will play during its second decade. After careful deliberation, the Board decided to focus on promoting social enterprises (SEs) as the Foundation's core interest and strategy for the period 2011 to 2020.

While the Board members were excited about implementing the first phase of the SE strategy covering the five-year period 2011-2015, they were also anxious to find out if sufficient funds would be available to implement the strategy. The Board tasked the Finance and Investments Committee (FinCom) to determine whether the Foundation's present and future resources could generate the funds required to implement the strategy.

The FinCom set out the following objectives to form part of the financial strategy:

- To keep the peso value of the Endowment Fund (or Restricted Fund) intact; a provision of percent on the beginning value of the Fund is to be appropriated annually from earnings to cover inflation;
- To ensure that earnings from investments are sufficient to fund the annual budgeted outlays and actual expenditures including contingencies and the three percent provision for inflation; and,
- To agree on certain guidelines and benchmarks in disbursing investments in social enterprises as well as expenses for management and administration.

Learning and Insights Over the Five-year Period

Strategic Actions

- Clear and simple articulation of the objectives of the financial strategy convinced management and staff that these objectives are measurable and doable.
- Setting benchmarks and guidelines in the disbursement of funds for projects, programs, and administrative expenses encouraged people to be prudent and strategic in the use of resources.
- Engagement of financial experts as members of the FinCom provided the Foundation with invaluable knowledge and perspectives on financial markets. Good relationships with leaders of the investment and banking community in the country allowed members of the FinCom to be well-informed about conditions in the local and global financial markets.

Tactical Moves to Implement the Financial Strategy

- Engaging the services of six to seven fund managers to manage the available for sale financial assets spreads the risk of imprudent management of the funds. Fund managers refer to subsidiaries or units of financial institutions and are selected after passing a rigid screening process. Performance evaluation of each fund manager is done annually.
- Allocating a portion of the Endowment Fund to long-term equity investments in local companies. Such investments are made, monitored, and managed by the FinCom using a set of criteria and benchmarks.
- Discussions among members of the FinCom on the short and medium term behavior of the financial markets provide a basis to review and revise the portfolio mix to conform to changes in the markets.
- Periodic review of investments in individual equities was conducted to ensure a proper balance of investments in different sectors of the economy represented in the stock market such as: property, holding companies, consumer, industrial, etc.
- Limiting investments in multi-year bonds by fund managers to a maximum of five-year duration reduces the risks of extreme volatility in interest rates.
- Requiring fund managers to provide regular reviews and their forecasts of market and economic conditions in the short and medium term is useful in formulating changes in the portfolio mix and currency mix of the investments.

Implementing the financial strategy for the past five years proved to be effective in generating sufficient resources required by the SE strategy. The annual average of the return on investment (ROI) is 7.93 percent or P793.57 million over the five-year period that ended 2015.

In the next five years, the FinCom will undertake a diversified mix of portfolio that will generate sustainable revenues over a long-term horizon. Earnings will not just come from one group of securities but will be composed of various sources: available for sale financial securities (equities, fixed-income securities and preferred shares), local and foreign long-term hold equity investments, and real estate investments.

As PEF Executive Director, Roberto Calingo, explained, "Given its considerable endowment fund, PEF can and should sustain itself as a vibrant, dynamic and responsive partner in the long-term precisely given the nature of poverty as a long term concern. Any problem cannot be solved if that problem's lifespan is longer than the means by which it can be solved."

Embedding Risk Management

The Peace and Equity Foundation (PEF) has been carrying out enterprise risk management (ERM) policies and practices since 2012. With inputs from the Institute of Internal Auditors Philippines, PEF developed an integrated ERM framework to ensure that risks are managed consistently to achieve its vision, mission and preserve its values. The framework ensures a responsible risk-taking culture within the organization.

The Foundation's ERM includes the identification, assessment, handling, overseeing, and control of events and situations to avert or lessen the effect of potential uncertainties in achieving the organization's missions and objectives. ERM also provides some guiding principles for the Foundation's board and management in charting the course of PEF.

The strategic focus on the promotion of social enterprises (SEs) brings in risks that are new for PEF; therefore, the management decided to embed ERM at the institutional level. Decisions to do fewer but high-impact projects, considering climate change effects on crops, and monitoring trade policies are some of the ways for PEF to mitigate risks.

PEF deals with risks across the organization, from senior management down to fieldwork staff member; and looks at all facets of the organization: setting strategy, action plans, governance, stakeholder communications, and measuring results.

It is preferable and beneficial for the Foundation to anticipate and plan for potential risks, instead of merely reacting to unexpected events. Among the principal tools PEF uses is its Risk Register, derived from a list of the most important external and internal risks facing the organization. The register serves as a master document that helps PEF track issues and address problems as they arise. PEF orients all staff members on its ERM framework through a yearlong series of trainings and workshops. Annual unit plans clearly state risks and identify controls.

Within PEF, ERM is an on-going process of identifying, monitoring, and reporting risks to assess and improve the partner-organization's performance. Partnering risk is a leading concern for PEF and one way to respond to this challenge is by cascading ERM to the partners. ERM must be present in both PEF and its partners.

Four SE partners underwent comprehensive ERM training for their board, management and staff. One SE partner in sugarcane production identified pole vaulting, or trading outside the contract between farmer and cooperative, as a potential risk and it made plans to properly address it. During the harvest season, pole vaulting occurred and the SE suffered loses but these were minimized

From PEF's experience, an effective ERM subscribes to the principle of the "tone at the top" or leadership by example. This refers to "management's leadership and commitment toward openness, honesty, integrity, and ethical behavior. It is the most important component of the control environment. The tone at the top is set by all levels of management and has a trickle-down effect. If the tone set by management upholds honesty, integrity and ethics, employees are more likely to uphold those same values."[13]

Also important are the defined roles and responsibilities of the Board that has the ultimate responsibility, the presence of approved policies, guidelines and procedures, a focal risk person or a risk champion, and an independent assessor. It needs strong leadership support in shaping the mindset and risk-aware culture of PEF. ERM is included in the performance competence assessment of the staff and is adequately considered in every activity PEF undertakes.

ERM is the proverbial ounce of prevention that is better than a pound of cure.

13 https://internalaudit.boisestate.edu/internalcontroltone/

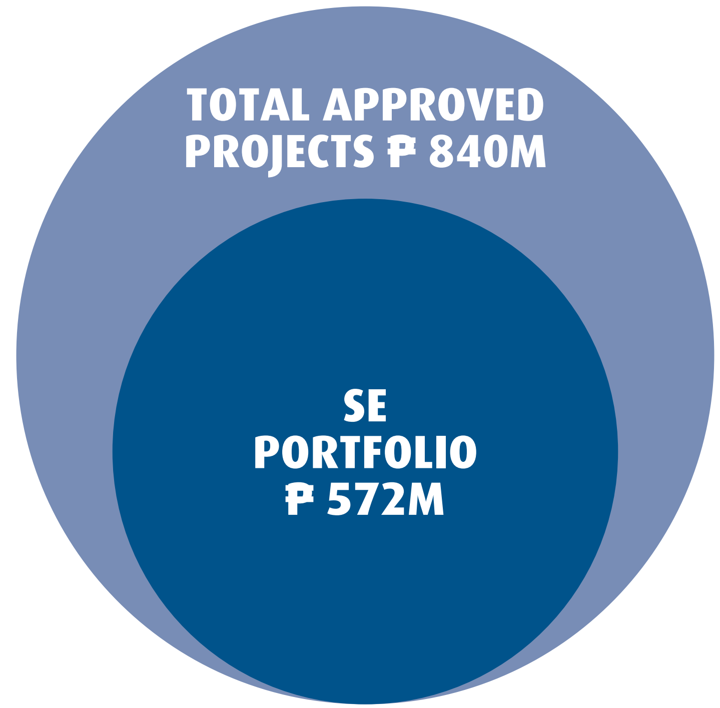
A PEF social enterprise (SE) partner, Multi-Sectoral Alliance for Development (MUAD)-Negros, underwent a two-day capacity development intervention on enterprise risk management (ERM) to establish and sustain ERM within MUAD.

MUAD participants got an overview of ERM and how it should be integrated in their plans and its social enterprise business model.

At the end of the workshop, MUAD identified the top ten risks, established the appropriate risk appetite and tolerance level to achieve the project objectives of increased farmers' income, education of farmers, and protection of croplands.

2011-2015

Quick Facts and Figures



2011-2015

840 million total portfolio

572 million SE portfolio

412 total projects

179 SE partners

111 thousand households

20 SE managers trained

THE NEXT CYCLE

Scaling-up Social Enterprises

In 2015, the Foundation began the process of putting together a re-calibrated strategic plan that is grounded on what we have learned in our first attempt of nurturing social enterprises.

For the next cycle, we will:

- **SHARPEN** our focus through six key actions that will scale up SEs not only on C5, but also on basic social services and culturally-inclusive financing. We will leverage with social investors to meet the increasing investment requirements; level up the business management acumen of partners; and improve our internal systems, processes, and competencies.

- **ENHANCE** our pipeline development process by tightening due diligence requirements to ensure that enterprise proposals pass the criteria that will lead to long-term impact. We will include risk assessment to understand the enterprise operations and to identify capacity gaps.

- **DIVERSIFY** our investments of the Endowment Fund to generate sustainable revenues to support our programs over a long-term horizon and manage downturns. Largely relying on investments in stocks and bonds that are subject to volatilities and uncertainties may prove to be far riskier now.

PEF has three distinct but mutually reinforcing implementing structures to achieve this goal – the Foundation itself as the primary gateway for organizations moving into SE; the PE Holdings company as investor in for-profit organizations whose SE ventures are matured to achieve scale; and the SE Institute for capacity building to make the enterprise and entrepreneurs investor-ready.

Revisiting Our First SE Communities

AN INTEGRATED ANALYSIS OF THE 10 SOCIAL ENTERPRISES

Midterm/Endline Impact Assessment Studies

Introduction

The Peace and Equity Foundation (PEF) builds and scales up social enterprises (SEs) as its strategy to enable poor households to become self-sustaining. Through financing, capacity building, technology development, establishing linkages, enhancing market competitiveness and other appropriate interventions, PEF supports and enables specific projects of its SE partners to generate benefits for individuals, households and communities. The benefits include increased sales, revenues, income and assets; and better access to basic services like water. They may spill over to non-beneficiary households and the larger community.

This part presents the results of a study that links enterprise-level information with household-level and community-level information to determine whether PEF resources were utilized efficiently to meet the goals and targets of selected SE programs and projects. It ascertains if and how PEF-supported interventions enabled SE partners to produce the desired and promised outcomes of the projects, bring about change to key outcomes for households; and generate community or spillover effects. The analysis is two-pronged, one on the specific SE, and the other on PEF.

The analysis used data about the SE and its host community obtained from reports, focus group discussions (FGDs), and key informant interviews together with data from the household survey of beneficiaries and non-beneficiaries of the ten selected SE partners. The midterm household survey of November 2015 is a follow-up on the baseline household survey conducted in 2012.

This integrated analysis is being undertaken to better understand PEF's strategy and achieve two objectives: (1) to provide inputs to program implementation[1] and (2) to produce an overall evaluation of PEF's work in facilitating poverty reduction. An Independent Review Board, composed of experts with extensive experience and expertise in designing and conducting impact assessment studies with specific focus on poverty measurement and poverty alleviation, provided overall technical guidance on the study design and procedure. The advisers also made recommendations on how outcomes are to be analyzed and the statistical methods to be used.

The analysis for Batch 1 was completed in March 2016 and consists of four SE partners and their project—one is a non-government organization (NGO) while the three others are cooperatives. The analysis for Batch 2 was completed only in

1 This can consist of recommendations that pertain to project focus, type of intervention, suggested indicators to be measured and monitored, specific policies and steps that PEF and/or its partner organizations may execute to achieve the end-of-project objectives.

January 2017 and includes six SE partners and their projects. Of these six partners, five are NGOs, and one is a cooperative.

This study is divided into three parts: (1) Introduction, (2) The Social Enterprises, Their Projects and the Outcomes, and (3) Conclusions & Recommendations. The first part is a brief description of PEF's assistance to the ten SEs. The second part, the main body of this book, is a narrative of how it was utilized, what interventions were made, the project context, the envisioned transformation in households and communities, and a comparative analysis of the baseline and midterm conditions. The last part answers the fundamental question if and how PEF's SE programs helped households and communities realize sustainable incomes, productive assets, access to essential services, and resiliency.

The analysis does not include the information on how the SEs were managed and the current status of these SEs. Taking off from the results of the impact study, PEF shall look at what happened to the SEs to address this particular gap.

The ten social enterprise partners are: NATRIPAL, MAGIRCO, LMPC, DIWAGRIMPCO, MUAD, PARFUND, INSOL, SPFTC, SUBASTA and ADFI.

PEF's support to **Nagkakaisang Tribu ng Palawan (NATRIPAL)** made its honey enterprise more competitive and sustainable. This was important since 92 percent of NATRIPAL's 2011 income came from honey production and NATRIPAL was the sole buyer for 79 percent of its supplier-beneficiaries.

PEF's assistance to **Magpet Agro-Industrial Resources Cooperative (MAGIRCO)** enabled it to purchase more bananas from North Cotabato farmers. It improved MAGIRCO's operational efficiency, particularly the use of energy and the adoption of a more efficient frying method. Currently, PEF is supporting research and development efforts for second-fry banana chips production and marketing, including exportation.

With PEF support, the **Laua-an Multi-Purpose Cooperative (LMPC)** became the nucleus of the local muscovado processing and trading industry, and was able to widen its network. Its strategic position as producer of sediment-free muscovado sugar opened its entry to export markets like South Korea.

PEF supported **Dancalan Ilog Waterworks and Agro-Industrial Multi-Purpose Cooperative (DIWAGRIMPCO)** in the rehabilitation and extension of its three-kilometer pipeline and in improving the distribution efficiency of its water supply system. This sustained the cooperative's supply of potable water to households and commercial ventures in three barangays in the municipality of Ilog.

PEF enabled the **Multi-Sectoral Alliance for Development-Negros (MUAD)** to utilize its 15-hectare land in Calatrava, Negros Occidental to establish a high-quality goat breeding center to complement the existing native goat-raising livelihood of the farmers in the area.

PEF supported the **Philippine Agrarian Reform Foundation for National Development (PARFUND)** to start the Integrated Rice Duck Farming System (IRDFS) in Agusan del Sur and establish key partnerships with consolidators as markets for IRDFS products like organic rice, duck meat and duck eggs. Unfortunately, some farmers abandoned the rice-duck technology after the project sustained heavy damage from Typhoon Seniang and later by the dry spell of El Niño.

PEF support for the **Innovative Solutions Development Foundation (INSOL)** enabled it to serve its clients who engaged in retail trading, with a few involved in agriculture-related businesses. INSOL provided loans to at least 265 enterprises. The loans were used for equipment upgrade, the purchase of additional raw materials, and the improvement of operations.

PEF extended financial support to **Southern Partners and Fair Trade Center (SPFTC)** to conduct trainings in ten farming communities targeting around 480 households. The training covered fair trade, organic farming practices, high quality desiccated coconut practices, and coconut charcoal processing. SPFTC also provided grants to farmers to acquire equipment and supplies needed to pass certification requirements.

PEF helped the **SUBASTA Integrated Farmers Multi-Purpose Cooperative (SUBASTA)** supply 12 metric tons of fermented cacao to Askinosie Chocolates, an American company, which eventually became its client.

PEF's loan to the **Antique Development Foundation Inc. (ADFI)** financed the purchase order of SM Kultura to pay the weaver beneficiaries on time pending payment from SM; thus, ensuring continued supply and incentivizing the weavers. By 2014, Ayala Foundation replaced SM Kultura as ADFI's market.

The assistance provided to PEF's SE partners varied in amounts and types, i.e., financing, technology, capacity building, etc., depending on specific project needs and demands. In many cases, the assistance provided by PEF was in the form of financing. The various types of assistance are as follows:

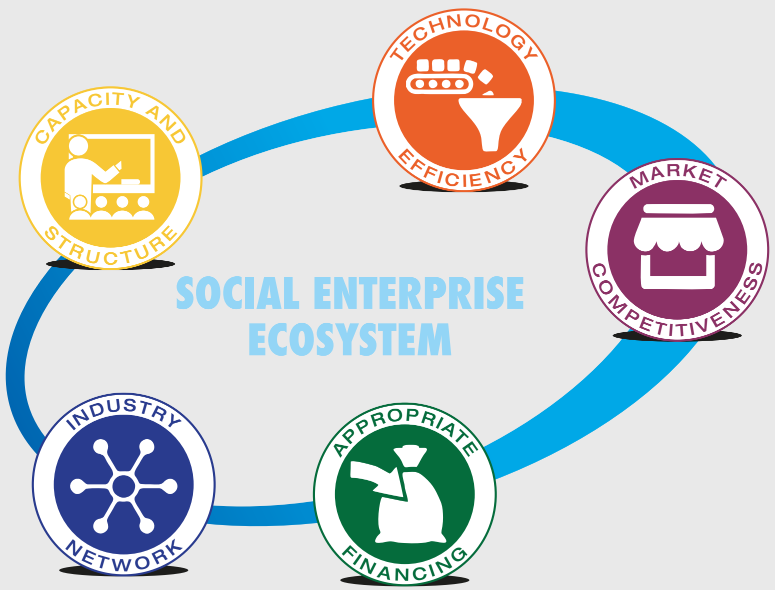
Financing: PEF provided NATRIPAL, MAGIRCO, LMPC, SUBASTA and ADFI loans for the purchase of more products from communities to meet order requirements. PEF's credit line served the financial needs of INSOL's micro-entrepreneurs, and the rehabilitation and extension of the DIWAGRIMPCO pipeline.

Technology: PEF provided technical assistance that identified system problems and increased operational efficiency including the acquisition of equipment like MAGIRCO's electronic truck scale, and DIWAGRIMPCO's flow meters and testers. PEF introduced the IRDFS rice-duck farming and high-quality hybrid goat breeding and improved SPFTC's plant capacity.

Market competitiveness: With PEF supported research, the crisis of MAGIRCO's decreasing sales to China, its major market for first fry banana chips, became its opportunity to venture into second fry or sweetened banana chips production that was in demand in the United States and Europe. LMPC's improved packaging of its *Pahinis* product made it more competitive; and PARFUND was able to produce and market new products like duck egg and duck meat.

Linkages: LMPC gained an additional market, South Korea, through its linkage with SPFTC that, in turn, had increased the markets for desiccated coconut and coconut charcoal in Cebu.

Capacity Building: PEF enabled partners to formulate their organizational plans, identify enterprise risks, and train their key personnel through mentoring activities (i.e., MAGIRCO, PARFUND, LMPC). It supported the training of NATRIPAL members on proper procedures to gather honey of better quality SPFTC village processors and farmers in fair trade practices and organic practices that led to organic certification; MUAD farmers on goat breeding; and PARFUND farmers for the rice-duck IRDFS technology.



The 10 Social Enterprise, Their Projects and the Outcomes

This section is a detailed explanation of the assistance provided by the Peace and Equity Foundation (PEF) to its social enterprise (SE) partners and how it was utilized during the period of the study. The SE projects are summarized with the project context including a brief background on the proponent and when available, the external variables affecting the project; the theory of change or an understanding of how the project when pursued will lead to key outcomes for the SE; a profile of the beneficiary households of the SE's project and the communities affected; and, a comparative analysis of the baseline and midterm conditions for the SE, on one hand, and the households and the community, on the other.

ICONS LEGEND

PEF Interventions

Theory of Change

Comparison of Baseline and Midterm Conditions of the Social Enterprise

Comparison of Baseline and Midterm Conditions of the Households and Community

1 NATRIPAL
Wild Honey

Nagkakaisang Tribu ng Palawan (NATRIPAL) was established in 1989 to address the problems of cultural integrity, tenurial security, economic exploitation and environmental abuse in indigenous people's communities or IPCs (NATRIPAL, n.d).[2] Its social entrepreneurship arm, Operasyon Negosyo Natripal, supports the IPC-based economic activities in Palawan that utilize non-timber forest products. NATRIPAL also undertakes activities that contribute to the goals of IP rights recognition and the protection of ancestral domains in cooperation with local government and the private sector.[3]

Wild honey gathering and trading is NATRIPAL's major livelihood activity since 1996 accounting for 92 percent of its total income in 2011 (PEF, 2012). However, certain aspects of the enterprise needed improvement.

A Memorandum of Understanding (MOU) between the National Commission on Indigenous Peoples (NCIP) and PEF resulted in the identification and development of IPCs' enterprises (NATRIPAL was eventually selected among the enterprises) that sustainably use the resources found in their ancestral domain. According to the initial assessment, NATRIPAL was unable to buy the entire quantity of honey gathered as it lacked working capital. Thus, honey gatherers were also forced to sell to traders whose prices are lower than NATRIPAL's by about ₱200 per container.[4]

2 Nagkakaisang Tribo ng Palawan (n.d). Retrieved from http://ip-led.ph/natripal in 28 February 2016
3 National government agencies include NCIP, Department of Trade and Industry (DTI), and Department of Science and Technology (DOST). Katutubong Samahan sa Pilipinas, Inc. (KASAPI), Palawan Council for Sustainable Development (PCSD), Episcopal Commission on Indigenous Peoples (ECIP), Non-Timber Forest Products-Exchange Programme and Task Force (NTFP-EP / TF), Legal Assistance Center for Indigenous Filipinos (PANLIPI), Palawan NGO Network, Inc. (PNNI), and Anthropology Watch (AnthroWatch) are from the private sector.
4 Peace and Equity Foundation (Natripal Initial Project Outline) (2012).

PEF Interventions

In 2012, PEF extended a grant to address NATRIPEL's purchasing constraints and sustain its wild honey business. PEF provided NATRIPAL an initial credit line of ₱500,000 and an additional ₱500,000 in 2015 for the purchase of more wild honey.

A grant was used to train 255 (out of a target of 360) honey gatherers, processors and buyers living in ten out of twelve communities (Gayosa, 2015).[5] The syllabus included proper honey harvesting techniques and NATRIPAL's policies on environmentally sound and sanitary wild honey gathering. More information about the honey gatherers was obtained and potential honey sources were mapped out during the training.

Theory of Change

NATRIPAL's purchase of significantly greater quantities of good quality wild honey can contribute to its own competitiveness and sustainability, and improve incomes of IPC households and the community in general.
The higher prices offered by NATRIPAL will also attract more indigenous people (IP) selling to it, thus increasing the number of beneficiaries.
For every kilogram of honey traded, ₱1.5 goes to NATRIPAL funds.

Comparison of Baseline and Midterm Conditions of the Social Enterprise

NATRIPAL served three of the seven tribal groups in Palawan and purchased honey only from gatherers who underwent its training, and observed the proper honey gathering procedures. Cash payment was given immediately but if NATRIPAL was short on cash, the payment was delayed and would be given to gatherers once honey gathered was sold. NATRIPAL's certification of authenticity differentiated its product and firmed up its niche in the market. Its market included Echostore and the province of Antique. Improved technology and packaging, standardized sanitary process, enhanced product prices and expanded markets were the industry changes introduced by NATRIPAL.

5 Gayosa, A. (2015). Working with IPs (Evaluation of Peace and Equity Foundation's Projects with Four Indigenous People's Organizations from 2012 to 2015 (Draft paper commissioned by PEF).

Between 2012 and 2015, NATRIPAL increased the purchasing price of honey per kilogram by ₱20 for Class A and ₱10 for Class B. In 2013, equal quantities (50 percent each) of Class A and Class B were bought.[6] Classes were determined according to moisture content, as follows: Class A (24-25 percent), Class B (27-28 percent) and Class C (29 percent and above).

There was an increase in the total volume of honey purchased, especially in 2013, possibly facilitated by PEF's credit line. The SE obtained a positive net income of ₱115,000 in 2013 compared to a net loss of ₱390,000 in 2012.[7] In 2014, the SE's net income doubled to ₱286,000. Hence, there was an improvement in the SE's financial position between the baseline and the midterm.

NATRIPAL probably had an oversupply of stock honey because of the limited number of buyers and this might partly hinder the SE from expanding and serving more IP communities. It could venture into other activities like collecting of wax to make candles. There were also related risks such as the hazards in honey gathering; poaching and uncontrolled gathering of wild honey by people outside the IPCs; and competition from unscrupulous traders and peddlers who sold regular honey as wild honey. These unregulated activities affected the price and the market of the IPs' wild honey.

PEF has offered to help NATRIPAL obtain its Food and Drug Administration (FDA) certification so it can enter new markets. However, NATRIPAL needs to improve its processing plant and update its local permits and its registration with the Securities and Exchange Commission (SEC).

6 Data file containing quality of honey bought for 2012 and 2014 was corrupted. NATRIPAL is trying to recover it as of this writing.

7 The SE's poor performance in 2012 can be attributed to inadequate blooms for the bees because of the climate situation, e.g., too much rain caused little foliage for the bees and less honey was produced. Although the PEF credit line was already approved in 2012 it was only availed of in 2013 by NATRIPAL. This points to a natural variability in the honey production cycle.

Comparison of Baseline and Midterm Conditions of the Households and Community

In the barangay, income generating activities were in agriculture, fishery and commerce. Honey gathering and handicraft producing IP households received regular income because of a ready market in traditional outlets and NATRIPAL. However, there was the perception that NATRIPAL's marketing effort had little value added as households claimed that they could find better markets themselves.

Basic social services like basic education and health (i.e., Philhealth membership) as well as in public works (electricity and water) were available through government supported programs. However, IP households did not adequately avail of such services because of low awareness and little understanding of the mechanics of such programs.

NATRIPAL'S beneficiaries at the community level were honey gatherers or harvesters, consolidators tasked to store the honey and deliver it in bulk to NATRIPAL for processing, and IP associations tapped to organize the communities involved. More than 80 percent of beneficiary households belonged to the Tagbanua tribal group.

During the baseline study period, the poverty incidence among NATRIPAL's beneficiary households was 71 percent (for n=253) with an average monthly income of ₱2,776. Among adult members, 69 percent had primary education only while five percent did not have any formal schooling. In 2012, 84 percent of households had forestry-related livelihoods with honey (47 percent), almaciga wood (18 percent) and rattan (18 percent) as the top products. Wild honey gathering might not be the primary income source among IP households but the practice was an integral part of their cultural heritage. The community needed livelihood assistance (e.g., training with fund support) and there was an increasing demand for handicrafts-making as an alternative to honey gathering.

From 2012 to 2015, there was a notable increase in the number of community members supplying honey to NATRIPAL from 86 to 159; and also an increase in the average honey sales per annum among the beneficiary households from ₱2,420 to ₱5,960. The total income of the beneficiaries also increased from ₱2,776 in 2012 to ₱6,500 in 2015.

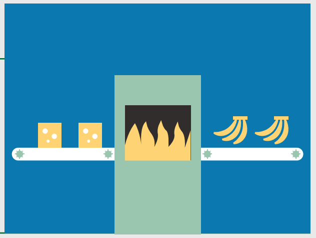
The community's primary concern was poor road conditions making market access difficult and costly. A Cardbank-LGU motorcycle project attempted to address the need for transportation and there is also an on-going construction of a farm-to-market road.

According to beneficiaries, the presence of NATRIPAL provided them a regular market for their honey harvests much better when honey was either sold to traders at a lower cost or ended up as spoilage caused by the absence of buyers.

Beneficiaries said that they appreciated the training NATRIPAL provided them.[8] By the midterm, 50 percent of beneficiaries (n=222) claimed that their knowledge and skills improved while 47 percent claimed no difference in their knowledge and skills level. People also cited certain aspects that were opposed to their traditional knowledge and practices. For example, gloves used for sanitary purposes were useless since they just get torn in the process of getting honeycombs. Also, gatherers did not heed the advice of taking a bath prior to harvesting since the scent of soap would attract a swarm of bees; endangering their lives and wellbeing. They, however, agreed that the harvesters should use plastic bags and containers to carry the produce, and avoid squeezing the honeycomb to prevent contamination.

The IPs considered the government's banning of the *kaingin* or slash-and-burn system of farming as harmful to their culture. They need to be convinced of the environmental hazards caused by *kaingin* and flashfloods so they would not revert to this practice.

8 University of San Carlos - CSRE (2014). Community Baseline Study (Commissioned by PEF).



2 MAGIRCO
Banana Chips

The Magpet Agro-Industrial Resources Cooperative (MAGIRCO) started with rubber trading in 1989. Later, it ventured into copra trading since coconut is a main crop in Magpet and its neighboring towns in North Cotabato. In 2009, MAGIRCO commenced its banana chips production after it obtained a loan from the Department of Agriculture (DA) for its production building and facilities.

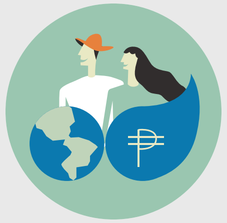
PEF Interventions

In 2012, PEF approved a ₱3 million credit line to MAGIRCO as working capital for the purchase of more bananas from the community. PEF also assisted in the technological assessment of the plant's energy and oil use to make operations more efficient. PEF provided funding for the acquisition of an electronic truck scale and capability building to strengthen the management of the enterprise. More recently, PEF provided support to MAGIRCO for the development of its second-fry production. This shift from first fry banana chip production to second-fry (sweetened) banana chips production was envisioned as MAGIRCO's way to access new markets since the latter was in demand in the United States and Europe.

Theory of Change

The financing for working capital will aid MAGIRCO in absorbing more banana products from farmers. As the SE expands, farmers and consolidators will have a steady market for their banana harvests. The employment of plant workers, mostly women coming from farming communities of the Manobo tribe, will continue. Benefits may also be in the form of patronage refund[9] for its members.

9 Patronage refund is the term for how co-ops send profits back to their owners. Essentially, each owner gets back part of the profit from their own purchases (http://www.viroquafood.coop/you-own-it/patronage-refunds)



Comparison of Baseline and Midterm Conditions of the Social Enterprise

Aside from PEF, MAGIRCO had a network for financing which included the Philippine National Bank (PNB) and the Land Bank of the Philippines (LBP), and for capacity building assistance and technology development including the DA and the Department of Trade and Industry (DTI). Establishing market linkages was its major challenge since Koki Foods and PEF were its only outlets. Given this value chain, PEF's support to MAGIRCO was invaluable.

The value of sales and purchases progressively increased since 2011 with an average of 4.6 tons of bananas per year. Net profit almost tripled from 2011 to 2013 (₱302,000, ₱812,000 and ₱467,000 for 2011, 2012 and 2013, respectively) until it plunged to ₱258,000 in 2014. Majority of MAGIRCO's first fry banana chips product went to China and the political tensions between China and the Philippines led to the dramatic decrease in China's buying volume.

Meanwhile, after MAGIRCO requested for support during the Accelerating Capacity of Enterprise (ACE) Program in 2014, a loan was approved for the research and development component of their second fry production. A full-time food technologist was hired to oversee the production and guide the shift to second fry. A PEF-hired engineer introduced technological improvements by assessing the plant's operations and processes. Upon her recommendation, a conveyor to load rice hull to the burner was installed. PEF also funded the acquisition of an electronic truck scale; thus, freeing workers from having to manually weigh bananas or the need for contracting out this service. These resulted in significant savings in time, manpower and money.

Comparison of Baseline and Midterm Conditions of the Households and Community

Eighty three percent of MAGIRCO's beneficiary households had incomes below the poverty threshold, which was even higher than that of non-beneficiaries (72 percent). This was also the highest poverty incidence registered in PEF's 2012 baseline study.[10] Total monthly household income for baseline beneficiaries was ₱2,748. Sixty seven percent of adults finished only elementary education while 11 percent did not receive any formal education at all. Seventy percent of working members are found in agriculture, forestry-related enterprise or fishery with banana (27 percent), *tahiti* (28 percent), and rubber (17percent) as the common commodities.

Only three percent of households had access to electricity and almost all households (99 percent) use firewood as their main source of fuel; thus, further straining forest resources. Income and non-income indicators clearly illustrated the poverty situation. Access to education had been attributed by community members to the government's 4Ps Program. Landlessness remained a major community issue.

Having a market for a primary commodity was MAGIRCO's contribution to the community. According to FGD participants, at the beginning, MAGIRCO bought bananas at a higher price than traders who sold their produce to Davao-based banana corporations. MAGIRCO set a higher price to entice farmers to sell to them; it bought from both its members and non-members.

Because of dwindling profits, MAGIRCO had to reduce its buying price of bananas from ten pesos per kilogram in 2013 to six pesos per kilogram in 2014 because of dwindling profits. This was still higher than the 2012 buying price of four pesos per kilogram. Two things were observed: other traders increased their buying prices and a midterm reduction in the number of suppliers and plant workers.

The distribution of patronage refund in 2014 amounted to ₱61,000 lower than the previous year's ₱18,600.

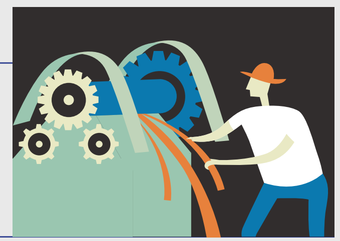
Non-beneficiaries from the midterm survey did not participate in MAGIRCO's banana project because they were not aware of it (48 percent). In the community baseline study, FGD participants said that there was no incentive in a MAGIRCO membership since the cooperative bought from non-members as well. For members, this hindered them from taking advantage of the highest offer.

For beneficiaries, their total income increased from ₱2,748 in 2012 to ₱8,489 in 2015. Moreover, 30 percent claimed that their financial

10 The data for the other SEs are as follows – NAPTRIPAL (71%); SPFTC (53%); PARFUND (40%); ADF (39%); MUAD (38%); LMPC (32%); DIWAGRIMPCO (27%); SUBASTA (22%); and INSOL (5%)

condition improved after being part of the MAGIRCO project while 31 percent asserted there was no change. At the household level, production capacity was not maximized due to a lack of capital for farmers to expand production during the period of rising banana prices. In addition, farmers experienced problems with pests. Manobo farmers harvested 100 kilograms of bananas every 15 days and secondary data revealed that coconut was their main produce and this was intercropped with bananas or rubber.

Aside from increased income, household beneficiaries accessed health services through MAGIRCO, but these services excluded nonmembers. MAGIRCO strengthened its community relations by providing access to health services in partnership with the Free Masons Lodge. It also undertook some environmental activities like tree planting.



3 LAUA-AN MPC
Muscovado Sugar

Located in Antique, the Laua-An Multi-Purpose Cooperative (LMPC) was established in 1990 to provide different kinds of services including savings and credit; and to trade different agricultural commodities such as rice and corn. Its main service and revenue source is the processing and trading of muscovado sugar.

LMPC received support from the Philippine Development Assistance Programme in establishing a muscovado plant in 2009 with a production capacity of 60 tons per month of sediment-free muscovado sugar. With insufficient capital to purchase sugar cane from farmers and a limited market, the plant was not operated to its full capacity. Poor product packaging and the inconsistent quality of the muscovado sugar worsened the problem.

PEF Interventions

The Peace and Equity Foundation (PEF) extended a loan of ₱400,000 to develop and produce the new and improved *Pahinis* design for packaging muscovado sugar in 2012. Another assistance to LMPC was a ₱4 million credit line granted in the same year to finance a regular purchase order it got from Alter Trade, an exporter in Negros Occidental. PEF also linked LMPC to its other partners, SPFTC in Cebu and Glow Corp in Manila that marketed different agricultural products.

PEF funded mentoring roll-outs and planning sessions to identify problems in meeting project deliverables, and craft strategies to improve plant operations, organizational management, and financial reporting. A technological pre-assessment was also conducted to make LMPC more fuel efficient when producing sugar.

Theory of Change

PEF's support will enable LMPC to buy more muscovado sugar from the farmers. This translates to the following: increased sales and profitability of LMPC, widened base of suppliers from amongst sugarcane farmers, sustained employment of workers, bigger profits for farmers and consolidators, dividends earned by regular members, maximized and more efficient operations.

Comparison of Baseline and Midterm Conditions of the Social Enterprise

LMPC was in a strategic position to help poor households and communities in Antique through its processing and trading of sediment-free muscovado sugar. It had a strong supply base from sugarcane farmers in nearly a third of Antique's municipalities. It had a reliable network of eight different municipal cooperatives as outlets in the province. Distributorship was present for Metro Manila, other regions in the country, and abroad. LMPC also served as techno-demo farm given its two-hectare farmland and a processing plant with a 240-ton annual capacity.

With other partners from local government units, government line agencies and community organizations,[11] PEF's financing support enabled LMPC to

11 LMPC's other partners are the LGUs (provincial and municipal), government line agencies (Department of Trade and Industry; Department of Science and Technology; and Department of Agriculture) and Community Organizations (Antique-based Cooperatives and Cebu-based Southern Partners for Fair Trade).

comply with its purchase orders and improve its packaging; thus, making it the nucleus of muscovado processing and trading. Export quality sediment-free muscovado sugar opened the door to the export market in South Korea and other countries.

LMPC's network members provided it with additional financing, technical and marketing support: INSOL for financing, SPFTC for marketing and laboratory analysis of sugar, and GLOWCORP for marketing. INSOL, SPFTC and GLOWCORP are among the ten PEF-SE partners in this study.

LMPC's volume purchases almost doubled in 2012 to 2013 from 126,550 kilograms worth ₱4.8 million to 246,400 kilograms worth ₱9.8 million; however, a decrease was noted in 2014. PEF financing assistance stopped in 2014. Despite the reduction in purchases, a big leap in profit was recorded in 2014 due to a dramatic increase in its export sales, particularly in South Korea, as a result of PEF's initiative of linking LMPC with SPFTC.

Comparison of Baseline and Midterm Conditions of the Households and Community

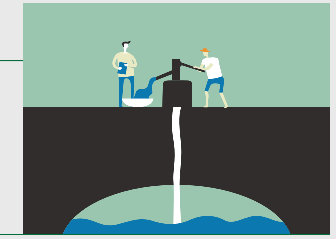
LMPC bought beneficiaries' produce at a higher rate and provided employment opportunities as well. On the other hand, the beneficiaries were involved in LMPC's pre-marketing activities. The baseline study showed that 44 percent of beneficiary household members were in agriculture. The main crops were rice and sugarcane representing 60 percent and 37 percent, respectively, of farming beneficiary households involved with said crops.

However, income from LMPC was considered by the beneficiaries as irregular since plant operation was not constant. Nevertheless, they recognized the cooperative's role not just in income generation and employment but also in its loan programs and other forms of assistance to its members.

The number of workers at the plant remained almost the same during the baseline and midterm periods. An increase in the number of farmers supplying sugarcane to LMPC (49 in 2012 to 73 in 2014) and consolidators (seven in 2012 to 23 in 2014) was also observed. The buying price of

muscovado at the farmer/consolidator level did not change much but at the SE level, volume purchases increased.

The patronage refund (₱49,000 in 2012 to ₱530,000 in 2014) also increased following the sales increase in 2014.



4 DIWAGRIMPCO
Potable Water System

The Dancalan Ilog Waterworks and Agro Industrial Multi-purpose Cooperative (DIWAGRIMPCO) has been in the business of providing water service since 1993. It began as a program of the Department of Public Works and Highways (DPWH) funded by the Asian Development Bank (ADB) in connection with Republic Act 6716 which provided for the construction of water wells, rainwater collectors, development of springs, and rehabilitation of existing water wells in all barangays in the Philippines.

From being an association, it became a cooperative in 2002. Its water supply system started as Level I (a communal faucet system facility) and eventually improved and developed into Level III (water system providing potable water through individual household connections) in 1996. The cooperative presently serves three barangays in Ilog, Negros Occidental; namely, Dancalan, Bocana and Calubang. PEF was introduced to DIWAGRIMPCO in 2007 through the Multi-Sectoral Alliance for Development (MUAD), then a Poverty Access Center of PEF, when a loan of ₱900,000 was granted for the first phase rehabilitation of the water system.

PEF Interventions

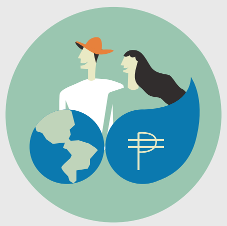
In 2012, PEF provided DIWAGRIMPCO a ₱2.7 million loan for the rehabilitation of a portion of its pipeline. In 2014, PEF assisted the cooperative in its efforts to better monitor its water distribution system with the installation of additional flow meters and testers.

Theory of Change

PEF's assistance will enable DIWAGRIMPCO to continue its operations, augment its number of clients, and identify inefficiencies. With a wider reach, the cooperative can increase its income. More importantly, with the rehabilitation of the pipelines and continuous water supply, households have access to clean and affordable water supply. This translates to extra savings for the residents who used to rely on water peddlers who charge much higher prices. As the SE becomes profitable, the member-households can also receive more dividends from the cooperative.

Apart from residential clients, DIWAGRIMPCO also has reseller clients that sell water to those who do not have access to water service connection; thus, providing livelihood opportunities.

Lastly, if the cooperative operates profitably, it can continue to provide free water for essential community facilities in the barangays that DIWAGRIMPCO serves. DIWAGRIMPCO's initial intention is to serve not only its water consumers but also other community members.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

In 2015, DIWAGRIMPCO built a seven-kilometer pipeline that supplied potable water to 473 households and 12 commercial clients in the three said barangays. The cooperative charged ₱45 per cubic meter to commercial establishments and only ₱25 per cubic meter to residential consumers. Aside from DIWAGRIMPCO, five of its commercial member-consumers resell water in Barangays Bocana and Dancalan. People still recalled their condition before, spending much time to collect water—precious time that could have been spent for more productive activities.

There was a minimal but steady increase in the total number of household clients from 441 in 2012 to 485 in 2015. Also, the number of reseller clients increased from three in 2012 to 12 in 2015. Since 2007, the cooperative provided free water to Barangay Health Centers and five fire hydrants in barangay Dancalan. Barangay residents wanted free water for the public toilets but this had not materialized.

In 2013, the cooperative suffered an income drop (net loss of ₱77,000) due to the low supply of water during the El Niño season and the high cost

of electricity for pumping water. It reduced its losses in 2014 when sales increased. The water system loss as of October 2015 was lower in 2014 but this level was still considered high and must be reduced further.

Aside from providing water services to the barangays served, DIWAGRIMPCO also provided ten toilets to one community when PEF granted it a loan. It is not certain if this was a direct result of PEF's assistance to the cooperative.

Even when DIWAGRIMPCO's water supply system was rehabilitated, there was a slow increase of its consumers. This could be attributed to the inability to pay membership fees and the cost of water connection estimated at ₱4,000. Informants for the community baseline study in 2014 said that members could have applied for a loan from Dungganon, a local micro finance institution, for this purpose. PEF then approved a loan of ₱250,000 for DIWAGRIMPCO to relend to potential consumers to cover the cost of membership and water installation but the loan was not availed given DIWAGRIMPCO's assessment that it was not ready to service new clients due to insufficient water supply.

Comparison of Baseline and Midterm Conditions of the Households and Community

The livelihood sources of people in Dancalan were varied and included farming, commerce, trade, or cottage industries. In farming, the main crops planted were *palay* (rice), corn, sugarcane and vegetables; the presence of sugarcane block farming was noted. Residents also earned from employment in government or as daily wage earners. According to the baseline study, 18 percent of DIWAGRIMPCO beneficiaries had income from agriculture and a majority of them earned farm wages or they were tenants; 27 percent of them lived below the poverty line.

Aside from DIWAGRIMPCO, another water provider was the Ilog Water District. However, informants of the study claimed that the water supplied by the latter was not of good quality. Residents of the three barangays who were not members of the cooperatives were indirect beneficiaries of DIWAGRIMPCO as they purchased water from water resellers of cooperative members. These resellers were beneficiaries themselves since they earned income from reselling. No water-borne disease was reported.

DIWAGRIMPCO succeeded in increasing the total volume of water supply from 41,667 cubic meters in 2012 to 56,488 cubic meters 2015. The community study showed that in the past, water from DIWAGRIMPCO was available 24 hours a day. However, due to the recent water shortage, DIWAGRIMPCO had to shorten the water distribution schedule to six-hour shifts. The cooperative was unable to sustain the delivery of water to community facilities as it intended nor had it released dividends for its members.

The midterm study showed that beneficiary households used other sources of water aside from DIWAGRIMPCO's. About 13 percent of beneficiary households bought water from refilling stations compared to none in the baseline study. Some beneficiaries owned their water pumps and ground wells in addition to their individual water connection. Some residents admitted that nonmembers had access to DIWAGRIMPCO water provided by some of the cooperative's residential clients.

The price of water (₱3 - ₱5/20-liter container) from peddlers remained the same. This means that it would cost ₱1,800 to ₱3,000 for eight cubic meters which DIWAGRIMPCO sells for ₱250 for the same quantity despite the increase from the earlier flat rate of ₱180. The increase in the price of the cooperative's water was needed to increase revenues. Residents were informed regarding price increases. Unfortunately, accumulated arrears of unpaid bills led to the disconnection of 87 residential consumers.

Based on data obtained from the midterm household survey, 88 percent of non-beneficiaries (n=94) revealed that they were aware of DIWAGRIMPCO's water project. Seventy five percent of former DIWAGRIMPCO's clients said that they opted out of the project because of the insufficient water service. The main reason for those who did not participate in the project at any given time was their financial incapacity (57 percent).

Despite some dissatisfaction with the service of the cooperative, 64 percent of beneficiaries claimed that their life situation became better compared to before when they did not have it.

5 MUAD
Hybrid Goat Raising

The Multi-Sectoral Alliance for Development (MUAD), a nongovernment organization (NGO) composed of 20-farmer organizations working for rural development and poverty alleviation in Negros Island, provides support to farmers through the provision of agricultural technology, livelihood opportunities, training for capacity building, and services for product enhancement. MUAD became a partner of the Peace and Equity Foundation (PEF) in 2004 as a Partnership and Access Center (PAC).

In 2012, MUAD started a goat-raising project in Calatrava, Negros Occidental as an answer to their beneficiaries' request for assistance on their papaya and vegetable projects. Most of MUAD's beneficiaries are native goat raisers. The project by MUAD included the construction of a goat breeding center to raise high-quality breed of goats to be distributed to individual farmers. Fattened goats were then bought back and sold for goat meat. MUAD focused on raising the hybrid variety so as not to compete with existing goat raisers.

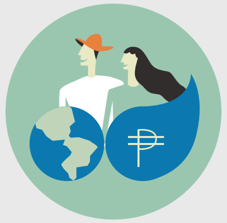
PEF Interventions

PEF provided a ₱400,000 grant to fund the preparation activities (e.g., study period and trainings) for the Hi-Breed Goat Raising Project in 2011; and a ₱1.25 million loan to MUAD, in addition to a ₱300,000 counterpart or financial assistance from donors, as working capital, given the following year. A goat breeding center with a capacity of 100 does was established and enabled MUAD to provide ready-to-breed goats. Technical trainings for those interested farmers in the goat project (prioritizing MUAD's beneficiaries of their other projects) and technical assistance through a linkage with the local government unit (LGU) were also provided.

The financial assistance was used to buy back these goats from their beneficiaries for reselling. In 2014, PEF approved an additional ₱340,000 loan as a supplemental budget for the project to increase the capacity of the breeding center from 100 to 300 does translating to an increase from five to 15 does per goat raiser.

Theory of Change

With the same production cost, hybrid goats can be sold at a higher market. This will potentially increase the beneficiaries' income from goat-raising: from ₱400 to at least ₱1,500 per month.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

MUAD's 15-hectare land in Calatrava was used to establish the hybrid goat breeding center which increased its capacity in 2013 from 100 to 300 goats as it encouraged more farmers to engage in hybrid goat-raising. From 2013 to 2014, MUAD distributed five does as well as cyclone wires and goat housing materials to the first batch of beneficiaries consisting of 30 farmers.

Goat mortality increased because of Typhoon Yolanda in November 2013, El Niño in 2014, and the shortage of grazing grass in the breeding centers. The number of goat raisers eventually declined and the operation of the breeding center stopped in 2015.

Comparison of Baseline and Midterm Conditions of the Households and Community

During the baseline period of 2012, 28 percent of beneficiaries and 15 percent of non-beneficiaries engaged in livestock production. This is the second livelihood activity of the residents in the area next to crop production. Of the households involved in livestock production, 27percent of the beneficiaries and 18 percent of non-beneficiaries were engaged in goat-raising.

Prior to the establishment of the center, goat raisers sold their native goats to traders. The traders bought the goats *basing* on a *tumbukan* or rough estimate, and not per kilogram. On the average, the goat raisers earned ₱300 to ₱400 for every one-year-old native goat weighing 20 kilograms.

As the buyer of goats that it distributed to its beneficiaries, MUAD bought back the goats at ₱100 per kilogram which translated to ₱2,000 to ₱2,500 earnings per goat given the same cost of raising hybrid and native goats. Unfortunately, the increase in the mortality rate of the goats led to the eventual shutdown of the breeding center and the closure of the project.

6 PARFUND
Rice-Duck Farming

The Philippine Agrarian Reform Foundation for National Development (PARFUND) was established in 1993 to improve the quality of life of farmers and farm workers by promoting direct or collective ownership of the land that they till. One of the projects of PARFUND is the Integrated Rice-Duck Farming System (IRDFS) which allows for the production of organic rice while relying on less human labor and chemical inputs. Rice grown using the IRDFS is proven to be more resistant to typhoons and other problems.

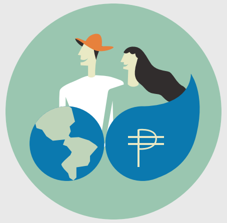
PEF Interventions

In April 2012, the Peace and Equity Foundation (PEF) approved a ₱6.7 million loan to PARFUND: ₱5 million as working capital and ₱1.7 million for production. In addition, a grant of ₱2.2 million was given with ₱2 million to be used for the program's management and administration, and ₱200,000 for a rice-duck industry research. As a result, the IRDFS for the CARAGA Region[12] rice farmers was established.

Theory of Change

The establishment of IRDFS will benefit around 1,800 CARAGA rice farmers cultivating 1,800 hectares. The IRDFS will increase and diversify the income sources of farmers; promote environmental protection and sustainable agriculture as the technology provided an alternative to chemical pesticides; and provide additional livelihood because of the production of byproducts such as duck eggs and duck meat.

12 The Caraga Region (Region XIII) in northeastern Mindanao includes the five provinces of Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur and Dinagat Islands; and the six cities of Butuan, Cabadbaran, Surigao, Tandag, Bislig and Bayugan.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

Through PEF support, PARFUND started IRDFS in Brgy. Cagbas, Bayugan, Agusan del Sur in 2012. They successfully introduced IRDFS to 100 farmers through orientation and training on IRDFS techniques in partnership with the Department of Agriculture (DA). PARFUND also established key partnerships with consolidators GLOWCORP and CODE SPA as markets for IRDS like organic rice, duck meat and duck eggs. PARFUND initially selected nine farmers who were given an IRDS package consisting of 170 ducklings (150 female & 20 male), V-Net, and two bags of feeds.

By 2013, PARFUND reached 20 farmers. The remaining 70 to 80 farmers that were not selected by PARFUND benefited in terms of knowledge from the IRDFS orientation and training. PARFUND initiated an organic and environmentally friendly rice farming system not dependent on fertilizers and pesticides.

In 2014, typhoon Seniang destroyed the rice farms, the floating houses of ducks and the dam that served as the primary water source in the area. In the latter part of 2015, the El Niño phenomenon, and the unrepaired dam resulted in the drastic decrease of water supply which, caused the high mortality of ducks. By the first quarter of 2016, water supply was no longer enough to support the IRDFS. The beneficiary farmers eventually stopped the IRDFS practices on their farms.

The IRDFS project was not sustained due to the system's vulnerability to typhoons and the El Niño dry spells.

Comparison of Baseline and Midterm Conditions of the Households and Community

PARFUND established the IRDFS as an alternative to traditional rice farming in Agusan and eventually in CARAGA region. Crop production, particularly rice farming engaging 90 percent of farmers, was the primary livelihood in the area. Based on the 2012 data, farmers using traditional methods earned around ₱11,000 to ₱15,000 per hectare per harvest while farmers who adopted the IRFDS increased their earnings from around ₱20,000 to ₱30,000 per hectare for every harvest. Due to calamities, the IRDFS project stopped and thus, its benefits were not sustained. By 2016, the earnings from rice production declined to ₱2,000 on average.

Not only farmers benefitted from the project but also the *balut* (fertilized duck eggs) vendors organized by PARFUND. They would sell each piece at five pesos and earned approximately ₱500 per night if they successfully sold 100 pieces of *balut*. These vendors were also adversely affected by the closure of the IRDFS project.

7 INSOL
BDS/microfinance

Innovative Solutions (INSOL) started in 1997 providing technical and financial assistance as well as business development services to microenterprises. The first INSOL Enterprise Center (IEC) in Antique catering to women micro-entrepreneurs who lacked management, marketing and technological skills was established in 2005. Other IECs were initiated in Laguna, Rizal, and Metro Manila.

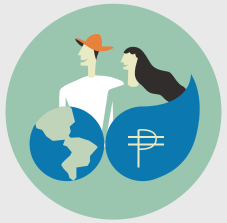
PEF Interventions

The Peace and Equity Foundation (PEF) provided INSOL with an ₱8 million credit line in 2012 to be used as loans to micro entrepreneurs in CALABARZON[13] and Antique. The credit line would support nearly 8,000 microenterprise related jobs in five years and offer different financial products: working capital and large asset investments, purchase of raw materials and inventory, acquisition of short term rent-to-own equipment, and financing a purchase order for manufacturers and producers.

13 The four provinces of Cavite, Laguna, Batangas and Quezon in Southern Tagalog.

Theory of Change

PEF support will be used to provide loans to micro-entrepreneurs in the CALABARZON area and Antique Province, who lack the capacity to access conventional financing opportunities. This will enable the micro-businesses to expand, increase revenues and income of the micro-entrepreneurs, and generate employment.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

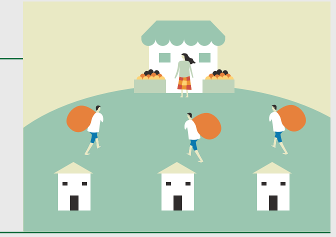
Most of INSOL's clients were engaged in trading and retail business while a few were into agriculture-related businesses. INSOL provided loans to 265 enterprises since 2012. The loans were usually for equipment upgrade to maintain or increase production, the purchase of additional raw materials, and the enhancement of operations.

Beneficiaries could initially borrow up to ₱50,000. Through loan renewals, as much as ₱250,000 to ₱500,000 could be availed. Due to the loan repayment delinquency of their clients, INSOL was not able to pay its credit line to PEF and thus, the credit line was stopped in 2016. PEF and INSOL worked on a plan for INSOL to fulfill its obligations as required by PEF.

Comparison of Baseline and Midterm Conditions of the Households and Community

Most beneficiaries of INSOL's financing project were better off than the beneficiaries of other social enterprise (SE) partners. Around 36 percent belonged to the lower middle income group, 15 percent from the middle income group and 16 percent from the upper middle income group.

The average income of the CALABARZON and Antique beneficiaries was ₱50,000 per month in 2012, slightly declining to ₱42,000 in 2015. However, based on the results of the focus group discussion of Antique beneficiaries, beneficiaries perceived their income to have improved in 2015 compared to 2012.



8 SPFTC
Market for Fair Trade

The Southern Partners and Fair Trade Center (SPFTC) Inc. is a food manufacturer of dried mangoes and other tropical fruits, fruit jams, puree, concentrates and blends, virgin coconut oil (VCO), desiccated coconut, powdered turmeric, *moringa* (malunggay) and others in Cebu. It assists farmer communities through training in best practices, new technologies for farming, and the distribution of farm inputs. These farmer communities serve as the suppliers or supply base of raw materials for SPFTC.

SPFTC also partners with different organizations that are certified practitioners of fair trade and carry their products for the local and export markets. The SPFTC business serves the domestic market (at 20 percent) and the foreign markets (at 80 percent) with Japan as its major trading partner.

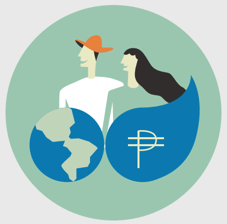
The St. Peter's Academy Alegria Foundation Inc. (SPAAFI) is considered as SPFTC's most successful partner in community organization. Based in Alegria, Cebu, SPAAFI processes products like moringa, turmeric and desiccated coconut that are delivered to and marketed by SPFTC. To tap new markets, SPFTC helps communities enhance their agricultural production to increase the supply base. The successful marketing of these agriculturally processed outputs increases the demand for agricultural crops and helps sustain farming as a source of livelihood.

PEF Interventions

The Peace and Equity Foundation (PEF) provided SPFTC a loan of ₱1 million and a credit line of ₱3 million in 2012. These were used to provide trainings in organic farming, fair trade practices, desiccated coconut food processing and coconut charcoal production in ten farming communities; conduct product testing to ensure compliance to standards; provide equipment for coconut charcoal production to farmers; sustain production runs of coconut charcoal; improve SPFTC's plant facility; and look for new clients. These improvements were needed to enable SPFTC to meet the standards required by the new market. Moreover, ₱1 million from the credit line would be used by SPFTC to redeem its loan from another creditor.

Theory of Change

The training of 480 farmers on fair trade practices, organic farming and improved village processing of desiccated coconut will enable them to adopt sustainable farming practices and add value to their products. This results in reduced costs, increased incomes and lessened impact of climate change on the farmers' livelihood. A portion of the fund will also be used for the improvement of SPFTC's plant facilities that will generate employment for 15 individuals. By doing these, SPFTC will meet the increasing demand, and expand to other markets that require higher quality standards.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

The PEF funded SPFTC interventions—trainings on fair trade, organic practices and desiccated coconut food processing, and the provision of necessary equipment and supplies—resulted in the organic certification of the farmers' desiccated coconuts. SPFTC was also able to find new clients through contacts initiated during its attendance at various fair trade fairs in Cebu and Manila. SPFTC is currently negotiating with seven new clients here and abroad.

Comparison of Baseline and Midterm Conditions of the Households and Community

Agriculture was one of the main sources of livelihood aside from construction and carpentry, and wholesale and retail trade in Alegria, Cebu. As a fourth class municipality, poverty incidence was high. Around 70 percent of the households were poor while 27 percent were low-income households.

The improvements of the village processors through SPFTC generated 26 jobs directly and 50 jobs indirectly. Farmers and village processors of coconut charcoal were practicing organic farming and fair trade. By 2014, farmers were already organic and fair trade certified. Moreover, coconut farmers earned more than before because of the increase in the price of processed fresh coconut. Farmers sold desiccated coconut at ₱80 to ₱90 per kilo, which translates ₱11 to ₱21 per kilo profit compared to selling whole nuts at ₱7 per kilo.

9 SUBASTA
Cacao

The Subasta Integrated Farmers Multi-Purpose Cooperative (SUBASTA) is a village-based farmers' organization founded by a group of 27 cacao farmers from Subasta, Calinan, Davao City in 2008. These 27 farmers all graduated from a farmer field school conducted by the United States Department of Agriculture (USDA) Agriculture Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) under its Success Alliance Phase II Program.

The key activities of SUBASTA include buying and selling of cacao beans produced by its farmer-members and non-member farmers, and enhancing its members' technical know-how on production and postharvest activities through training and seminars. The cooperative has also set up its own nursery of cacao seedlings and started to venture into the business of processing cacao beans, i.e., drying, fermenting, and just recently, making *tableas*.

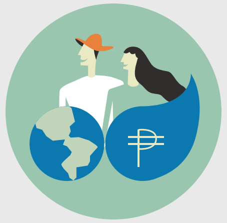
PEF Interventions

The Peace and Equity Foundation (PEF) provided SUBASTA a loan of ₱800,000 to complete the 12 metric ton purchase order of fermented cacao beans of Askinosie Chocolates, a chocolate company in Missouri, USA and the largest buyer of SUBASTA. This financial assistance provided in 2012 was used to buy cacao beans from farmers in Calinan.

Theory of Change

PEF's support will enable SUBASTA to meet the order of Askinosie Chocolates that buys the fermented cacao at a higher price compared to SUBASTA's other clients. SUBASTA will use the money to purchase cacao beans from farmers and these will be used to make fermented beans.

Through PEF's financial assistance, SUBASTA will be able to meet the Askinosie Chocolates's supply requirement making it a regular customer of SUBASTA; thus, enhancing its marketing capability. The cacao purchases of SUBASTA will also be given as immediate payment to the cacao farmers ensuring the farmers' stability of livelihood and income.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

With PEF's help, Subasta was able to deliver 12 metric tons of fermented cacao to Askinosie Chocolates. Because of this, the company became a client of SUBASTA until 2013. This purchase also contributed to SUBASTA's higher sales revenue given Askinosie Chocolates higher price. After 2013, SUBASTA supplied fermented cacao beans to Alternative Marketing Center (ALMACEN) managed by Josefa Segovia Foundation Inc. in Davao City.

Comparison of Baseline and Midterm Conditions of the Households and Community

Cacao farming is the main livelihood in Calinan, Davao City with 567 farmers (160 in barangay Calinan) or around 41percent of residents engaged in the cultivation of this crop. On average, SUBASTA cacao farmers earned around ₱9,700 per month in 2012. Prior to SUBASTA's presence as buyer, cacao farmers received five to seven pesos per kilogram of wet cacao, and ₱27 per kilogram of dried cacao. In 2015, SUBASTA bought dried cacao at ₱100 to ₱120 per kilogram while other buyers paid ₱60. With the help of SUBASTA, a higher selling price for cacao was realized.

10 ADFI
Handicrafts Made of Abaca, Buri and Bariw

The Antique Development Foundation Incorporated (ADFI) is a nongovernment organization (NGO) operating in 11 Antique municipalities. ADFI's Enterprise Development and Management Program aims to provide financial, technical and management assistance to organized groups for them to better manage livelihood resources for increased productivity and income. ADFI established the Arts and Crafts Program to contribute to poverty alleviation by developing market linkages for the micro, cottage and small enterprises in the handicraft sector. Through the facilitation of ADFI, its members that include 800 weavers, 300 food processors and 200 ecotourism service providers serve both the local and export markets.

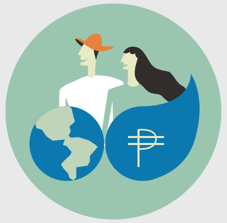
A people's organization (PO) called Sta. Rosario Multipurpose Cooperative (STORMPC) is one of the beneficiaries of ADFI. STORMPC is located in Pandan, a town very close to Boracay. Consisting mostly of weavers, the PO produces handicrafts made of *abaca*, *buri* and *bariw* sold largely to the tourists who visit Boracay. ADFI assisted STORMPC to market the latter's products in SM Kultura, the Filipiniana section of the country's largest chain of shopping malls.

PEF Interventions

The Peace and Equity Foundation (PEF) provided ADFI a loan of ₱500,000 to help finance SM Kultura's purchase order of various bags amounting to ₱841,000. The loan, provided in 2012, was to be used to pay the bag weavers immediately even while ADFI was awaiting payment.

Theory of Change

PEF's support will enable the ADFI to finance the SM Kultura's purchase order, and immediately pay the beneficiary weavers of STORMPC; thus, ensuring the weavers' stability of income, and providing them an incentive for continuous production. The ability to supply the clients' demand enhances ADFI's marketing capability while bringing stable and continuous income to the weavers.



Comparison of Baseline and Midterm Conditions of the Social Enterprise

Comparison of Baseline and Midterm Conditions of the Households and Community

Because of PEF's support to finance the purchase order of SM Kultura, ADFI gave timely payments to the weavers and this allowed them to continue the bag weaving business. Eventually due to the difficult terms of the marketing agreement between ADFI and SM Kultura, the contract rescinded. Instead, ADFI opened an agreement with Ayala Foundation in 2014 to market the native bags. The terms of this new arrangement appeared to be beneficial to ADFI and to its weaver beneficiaries. The PEF support was a one-shot assistance to ADFI.

Weaving, the main livelihood in Sto. Rosario, Pandan, Antique, engaged 77 percent of the residents in 2012. Most of the weavers created bags out of native materials like *buri*, *bariw*, *abaca*, *bamboo* and *nito*. Other than bags, they also weaved different products like baskets and mats. Most of these weavers were women. ADFI, through STORMPC, reached 65 women beneficiaries. On average, bag weavers earned around ₱16,000 to ₱20,000 per annum.

While PEF's support for ADFI's purchase order sustained the weaving activities for the period covered, individual incomes of bag weavers saw a decline thereafter. Their yearly earnings dropped from ₱22,000 in 2012 to ₱16,000 by the end of 2015. This decrease in income was due to lower sales from ₱33,000 in 2012 to ₱22,000 in 2015.

Conclusion & Recommendations

Based on the individual case analysis of the ten social enterprises (SEs), the following analysis answer the overall research question of the midterm study:[14]

Did the social enterprise program of the Peace and Equity Foundation (PEF) help households and communities realize sustainable incomes, productive assets, [improved access to] essential services and resiliency?

This overarching question is broken down into three: (1) Were PEF resources utilized efficiently through its support of organizations that promote social enterprises? (2) Did PEF succeed in nurturing sustainable SEs and re-positioning other organizations towards an SE business model? (3) What was the socio-economic impact on households participating in a social enterprise? The following is structured as an answer to each key question.

1. WERE PEF RESOURCES UTILIZED EFFICIENTLY?

If efficiency means using the funds as intended, the general answer to this question is yes. The SEs used the resources they received from PEF as intended. But as to the efficient utilization of resources to obtain the

14 Refer to Annex A of *Study Design for the Assessment of the Midterm/Endline Projects*, 30 November 2015.

outcomes promised by a project supported for a particular SE, then the answer varies across the different projects, and based on the successful delivery of the promised benefits of the project.

With PEF's credit line, the SEs achieved their target plan of increasing the purchase of wild honey, bananas and muscovado sugar. From 2013 to 2014, NATRIPAL significantly increased the volume of honey it purchased from its members from 7,163 kilograms in 2013 to 8,447 kilograms as well as the purchase price by an average escalation of fifteen pesos per kilogram. MAGIRCO's purchase of bananas and prices increased from 3.7 million kilograms (₱4-7/kg) in 2012 to five million kilograms (₱10/kg) the following year though this decreased to 3.4 million kilograms (₱6/kg) in 2014 due to the decrease in demand from China. LMPC doubled its purchase of muscovado sugar from 126,000 kilograms in 2012 to 246,000 kilograms in 2013 only to decrease to 133,000 kilograms in 2014, the year PEF assistance to LMPC stopped.

After the rehabilitation of its water supply system, DIWAGRIMPCO increased the average volume of water it sold from 42,000 cubic meters in 2012 to 57,000 cubic meters in 2014 and 56,000 cubic meters in 2015. In 2013, the 38,000 cubic meters decrease in water supply was due to the El Niño dry spell. The number of residential clients progressively increased by one to five percent annually from 2012 to 2015: 441, 455, 461 and 473. The growth rate of its commercial clients, from three in 2012 to six in 2013 and to ten in 2014, was much higher.

PEF's assistance to MUAD, PARFUND and INSOL can be considered as a loss since the projects of these three SEs were stopped. The projects' end was due to events beyond the control of project proponents as in the cases of MUAD and PARFUND although this may not be the case for INSOL.

The high-quality goat breeding center closed in 2015 after some initial success of MUAD's project to assist farmers in high-quality goat-raising. PARFUND's project to introduce the Integrated Rice Duck Farming System (IRDFS) to farmers also stopped in 2016 while IRDFS-trained farmers discontinued this system even earlier in 2014. However, both MUAD and PARFUND projects were adversely affected by natural calamities such as typhoons Yolanda (2013) and Seniang (2014) that affected livestock raising as well as damaged vital infrastructures, and the El Niño that dried water sources and made scarce grass for grazing. These underscores the need to include measures to mitigate risks in SE planning.

The obligation of INSOL for the grant of a credit line that was discontinued in 2016 is currently being negotiated with PEF. It was poor repayment by the clients of INSOL

that led to this outcome. INSOL takes responsibility for this.

The assistance to SUBASTA and ADFI was a one-shot financing that critically enabled these SEs to fulfill purchase orders and continue with their product marketing; thus, sustaining livelihoods of their beneficiaries. The long-term assistance to SPFTC has fulfilled the many outcomes it promised.

2. DID PEF SUCCEED IN NURTURING SUSTAINABLE SOCIAL ENTERPRISES AND RE-POSITIONING OTHER ORGANIZATIONS TOWARDS AN SE BUSINESS MODEL?

The SE business model is an alternative to profit maximizing private enterprise because trading relationships are seen as contributing to promoting social democracy and financial equity (Ridley-Duff and Bull, 2011). However, profit maximizing and the attainment of the social and political objectives can be simultaneously pursued; SEs must be economically viable to pursue its social goals.

Several of the SEs have been in existence for at least a decade by the time PEF provided support in 2011 and 2012. The oldest are NATRIPAL and MAGIRCO (founded in 1989) while INSOL is the youngest (founded in 1997). MUAD was a PEF partner as Partnership Access Center in 2004. The SEs have previously obtained assistance for financing and marketing from other agencies and financing institutions, both private and government.[15] PEF's provision of credit lines augmented the working capital of NATRIPAL, MAGIRCO and LMPC which increased the capacity of their operations and the number of beneficiaries.

Skills training and mentoring of SE personnel and other interventions for organizational

15 For example, DTI, DOST, BFAD for NATRIPAL; DA-ACEF and Land Bank of the Philippines for MAGIRCO and PLGU, MUAD and AIDFI for DIWAGRIMPCO.

improvement were important. For example, research and development efforts enabled MAGIRCO to successfully shift from first to second-fry banana chips which, in turn, enabled them to capture other markets resulting from this higher value-adding activity for its production.

Assistance to ADFI, SUBASTA and SPFTC nurtured these SEs to be sustainable. PEF's one-time financing of ADFI's purchase order established the marketing arrangement of ADFI with its buyer, initially SM Kultura, and then Ayala Foundation. The same conclusion applies to the financing assistance to SUBASTA for a purchase order of 12 metric tons of fermented cacao beans by Askinosie Chocolates (USA) in 2012 and repeated in 2013. Afterwards, SUBASTA supplied fermented beans to another buyer. SPFTC has successfully obtained certification for organic practices for its village processors and farmers for desiccated coconut; thus, opening markets for fair trade and organic products.

3. WHAT WAS THE SOCIO-ECONOMIC IMPACT ON HOUSEHOLDS THAT PARTICIPATED IN A SOCIAL ENTERPRISE?

This discussion will focus on the intended impact on households as designed by each SE's project proposal, and guided by its theory of change. Details of which are in Part II.

3.1 NATRIPAL

NATRIPAL successfully increased household's income through honey gathering. Baseline data revealed that the average sale of honey increased from only ₱2,420 in 2012 to ₱5,960 in 2015. Selling price per kilogram also increased by an average of ₱15 in 2014. The per capita income for beneficiary households tripled between 2012 (₱6,218) and 2015 (₱9,084). Even when one deflates the 2015 income by 17 percent[16] to ₱15,840, this is still a 2.5-fold increase from the 2012 per capita income.

Among beneficiary households, 98 percent were considered poor based on income levels in 2012. By 2015, this was drastically reduced to 39 percent. Among non-NATRIPAL member households, 96 percent were considered poor in 2012 reduced to 26 percent by 2015.

The quality of wild honey bought by NATRIPAL and the corresponding price increase per kilogram contributed to the poverty alleviation of NATRIPAL member beneficiaries and indirect beneficiaries of the enterprise value chain. A number of the member beneficiaries (40 percent) and non-member beneficiaries such as wild honey suppliers (69 percent) stated that NATRIPAL helped improved their lives.

3.2 MAGIRCO

The number of MAGIRCO's plant workers was reduced by half between the baseline and the midterm period because of quality issues, and the ongoing territorial dispute between the Philippines and China, one of the major clients of MAGIRCO Banana Chips. However, the increase in the price per kilogram of cardava bananas from four, to seven, to ten pesos would have improved the revenues of banana farmers and consolidators. From 2012 to 2014, members of MAGIRCO enjoyed a patronage refund, paid to members who sell bananas to MAGIRCO as an incentive.

Midterm surveys indicate that 34 and 37 percent of beneficiary households claim that their life condition and financial situation improved since their participation in the SE.

3.3 LMPC

Forty percent of LMPC beneficiaries claim that the SE made positive impact on their lives. A higher proportion of beneficiaries (70 percent) compared to nonbeneficiaries (42 percent) were satisfied with their financial status.

3.4 DIWAGRIMPCO

The most important impact of this SE is making potable water accessible and affordable to households. Without this, residents will be forced to buy from peddlers selling water from three to five pesos per 20-liter container; this means that eight cubic meters of water would cost ₱1,800 to ₱3,000. DIWAGRIMPCO made this available for only ₱250. The increase in the number of residential consumers from 441 (2012) to 473 (2015) represents a seven percent rise; and of commercial consumers from only three in 2012 to twelve in 2015 means a 300 percent increase.

3.5 MUAD

The goat-breeding project reached a total of 40 goat raisers in 2013 from the target beneficiaries of 350 goat raisers during a project duration of five years (2011-2016). In the early years of the project, a high-quality bred goat could be sold from ₱2,000 to ₱2,500 compared to ₱300 to ₱400 for a native goat. The difference of ₱1,700

16 To take into account of the increase in prices since 2012 as measured by the consumer price index

to ₱2,100 offers households five-fold earnings by choosing to breed hybrid over native goats.

3.6 PARFUND

The project only managed to introduce the Integrated Rice Duck Farming System in one barangay involving 29 farmers by 2013, far from its target of 350 farmers in Agusan Del Sur during a period of seven years.

3.7 INSOL

INSOL provided financial assistance to 265 out of the targeted 350 micro-entrepreneurs. An initial loan of ₱50,000 can be renewed tenfold or up to ₱500,000.

3.8 SPFTC

The project generated 26 direct jobs as planned and an additional 50 indirect jobs. There is no data on the number of farmers actually trained from the projected target of 480.

3.9 SUBASTA

The project of SUBASTA benefited nearly 160 cacao farmers residing in barangay Calinan, 40 more than the targeted 120 farmers. Prior to Subasta in 2012, the price for dried cacao was at ₱27 per kilogram. By 2015, SUBASTA paid between ₱100 and ₱120 for the same product. SUBASTA's higher prices translated to higher incomes for farmers and their families.

3.10 ADFI

The project of ADFI provided benefits to 65 women weavers belonging to the Sto. Rosario Multi-Purpose Cooperative in Pandan, Antique.

The different projects reached, in various ways, their target beneficiary households; thus, creating benefits at the household level. Some SEs generated benefits for the entire period of the project but projects of MUAD, PARFUND and INSOL were prematurely closed; in these cases, the benefits to households were not sustained. Projects like SUBASTA and ADFI were provided with one-shot financial assistance that was critical and enabled the SEs to continue its activities beyond the period of assistance.

Projects can create jobs directly or indirectly. Statistical findings indicate that the number of working members in a household is positively related to higher incomes and revenues.

4. WHAT ARE THE COMMUNITY AND SPILLOVER EFFECTS OF THE SE PROJECT?

There ought to be no key question No. 4. However, it is implied in the over-all research question: Did PEF's social enterprise program help households and communities realize sustainable incomes, productive assets, [improve access to] essential services, and resiliency? Below are some findings that pertain to community and spillover effects of the SE projects as applicable.

Higher prices offered by NATRIPAL, MAGIRCO and LMPC for wild honey, cardava bananas and muscovado sugar to its member-suppliers possibly raised the purchase price offered by other sellers, thereby increasing suppliers' revenues.

Even if not all Dancalan households are consumers of DIWAGRIMPCO, most households rely on it for clean drinking water. From the FGD, it is estimated that 85 percent of the households buy water from DIWAGRIMPCO for domestic use. Water is accessible even to non-members as they can buy water from residential members and commercial members. The FGD report revealed that indirect beneficiaries are equally grateful for this access to clean water service. DIWAGRIMPCO freely supplies three cubic meters of water to three Barangay Health Centers.

For DIWAGRIMPCO, nonbeneficiary households below the poverty line is 48 percent in the baseline and 73 percent in the midterm which is higher than beneficiary households at 31 percent in the baseline and 48 percent in the midterm. The same pattern is true for LMPC. The proportion of nonbeneficiary households below the poverty line is higher for the baseline and midterm at 71 percent while the proportion of beneficiary households is 48 percent in the baseline and 56 percent in the midterm.

This observation indicates the need to expand the reach of the SE benefits to nonbeneficiary households in host communities. The more successful SEs did projects that benefitted the households while creating social value in the communities

through improved livelihoods, financial access and jobs. SEs also cushioned the impact of economic shocks to beneficiaries. The success of the SE's projects contributed to financial equity and to decrease in number of poor households.

CONCLUSIONS

PEF has offered economic opportunities for poor households in well-selected locations based on the study of the four SEs. MAGIRCO is in North Cotabato in Region 12, the region with the third highest poverty incidence at 44.5 percent. DIWAGRIMPCO and LMPC are in Negros Occidental and Antique, respectively. Both are in Region 6, with a poverty incidence of 30.5 percent. NATRIPAL is in Palawan of Region 4B with a poverty incidence of 29.8 percent.[17]

PEF must continue appropriately selecting project locations to ensure that the host communities are indeed poor. Projects that enhance the chances of household livelihoods to prosper can be as important as projects providing direct and indirect jobs.

For the benefit of the small farm producers, PEF can continue to support the development of the market and complementary business opportunities for specific products from these localities.

Subscribing to the concept of development as freedom, the purpose of a development process is to expand the socio-economic opportunities of people who, as entrepreneurs, can acquire assets that produce economic returns, and diversify livelihood sources. Establishing a regular and reliable market outlet for farm output are truly essential to the inclusion of rural households in economic growth. Researchers of the community studies[18] underscore the importance of continuous income for households; i.e., income with regularity and predictability.

Poverty reduction as a development goal may be achieved in two fronts: expanding opportunities and avoidance of risk (or provision of safety nets). As poor households join the market, they become more vulnerable to the volatilities of prices, demand and supply. A poverty reduction program can reduce the vulnerability of households. For example, Dr. Mary Racelis of the Independent Review Board proposed mechanisms that safeguard the SE and its beneficiary households from price fluctuations were included in PEF's implementation framework.

PEF's support for technological innovation, capacity building, research and development in the SEs are critical and must be recognized. In this regard, there is a need to monitor the

17 Based on poverty data for the1st semester of 2015. The national poverty incidence is 26.3%.
18 Presentations held on 11 February 2016.

benefits produced by these interventions at the level of the SE as well as at the level of the trainees.

The findings that beneficiary households of a specific SE project are not as poor as the non-beneficiary households and are economically better off does not necessarily mean it does not contribute to poverty reduction. Wealth creation and sharing of value with poor households may be accomplished through other means and not necessarily having the poorest households as direct beneficiaries of projects.

RECOMMENDATIONS

Site and Project Selection

The internal capacities of the enterprise and the market cycles upon PEF's entry should be considered in the performance evaluation of the SE and the SE's project.

There should be an adequate description of the product value chain and industry characterization that includes both the local and global market context of a project. For example, to what extent is the tourism industry of Palawan complementing the demand for wild honey?

Project proposals must reveal the capacity of the SE to understand the links between its project and its target beneficiaries, whether these are individuals, households, groups of farmers, etc. Well-crafted proposals are those that are grounded on facts and well-defined goals and benefits.

PEF may conduct studies to carefully select new projects for SEs that are viable and profitable. It is important to determine appropriate risk mitigation and control measures to achieve an acceptable level of risk. A project design will be drafted to enable the project to receive further interventions.

Selection and Monitoring of Beneficiary Households

There should always be a community baseline study for PEF and the SE to have better understanding of the community a project intends to serve. The community should NOT always be necessarily considered for its location, although usually included; it may be wider geographically where an organization or agency is located. The community can be a specific group of people; e.g., wild honey gatherers.

In the identification of target beneficiaries for specific projects, clearly defined categories of poor households may be employed; e.g., poor household with members having some skills, poor households with some form of asset, etc.

Attributing improvements of household and community conditions to PEF supported SE projects requires a clear articulation of how project outcomes are intended to affect directly and indirectly key outcomes for households and communities.

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