

**SEMI-ANNUAL REPORT
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DEVELOPMENT OF BDS MARKET IN MINDANAO**



**STRATEGIC DEVELOPMENT COOPERATION - ASIA (SDCAsia)
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TABLE OF CONTENTS

PROJECT SNAPSHOT	2 - 3
SECTION I: SUMMARY OF MAIN ACTIVITIES	4 - 6
SECTION II: PROGRESS ON PERFORMANCE TARGETS	7 - 9
SECTION III: IMPLEMENTATION ISSUES	10
SECTION IV: PROGRESS ON LEARNING AGENDA	11 - 13
ANNEX: KEY ACTORS IN THE BDS MARKET	

PROJECT SNAPSHOT

The experiences and insights described in the next pages are drawn from the three-year program currently being implemented by SDCAsia entitled 'Development of the BDS Market in Mindanao'. This program is funded by USAID under its Microenterprise Implementation Grant Program – Business Development Services (MIGP-BDS). Aside from financial support, USAID also provides technical support to SDCAsia through its BDS advisory team and the IGP Learning Network. Swisscontact provides the 25% counterpart fund.

The program aims to improve the income-earning capacity of resource poor entrepreneurs in Mindanao by addressing the demand and supply side constraints that prevent existing market mechanisms from meeting their BDS demands. The overall goal is the development of a more vibrant micro enterprise environment reflected by more start-ups, increased profitability, greater ability to withstand market variability and competition, and faster growth.

The program seeks to test the market development model as a means of promoting equitable access to BDS in an environment characterized predominantly by micro enterprises. Program implementation framework, which was defined by the project team last October 2002 under the strategic guidance of Ivan Idrovo and advisory inputs from Mike Field – USAID BDS Advisor, is summarized below using five broad categories consistent with the market development approach to BDS for MSEs:¹

Project Context

A subsector scan resulted in a decision to focus on the fruit and vegetable subsector because of its potential to link many small farm households in remote areas to growing markets for fresh and processed products in urban centers in the Philippines. Likewise, in an area like Mindanao where there are only a few medium and large companies, the importance of micro enterprises as incubators of new small enterprises becomes even more important.

Strategy

Small processors of vegetable and fruit products (sugar palm, mango, bananas) in Mindanao enter higher value markets thru linkages with established processors/ distributors and range of services that will enable them to meet market requirements. Farmer-vendors collectively strengthen market position through better marketing practices and improved merchandizing via collaboration with established market operators.

Intervention Focus

BDS in a subsector with a focus on many services required by processors and vendors to stabilize economic activities, differentiate, and diversity their product and market mix.

BDS Focus

Demand: a) Vegetable/fruit processors operating as individuals or in collective enterprises link with established processors/distributors of branded products; and b) Market vendors differentiate markets by adopting clean/hygienic practices and improved product presentation as marketing tools.

Supply: a) Production and quality control services and other value chain based BDS embedded in marketing contracts between contractors/ distributors and processors; b) Cooperatives offer common service facilities cum training either fee-based or through

¹ Marshall Bear, IGP Learning Network lead facilitator, prepared the snapshot summary, which is based on the 5 broad categories.

commissions; c) Services for vendors embedded/ bundled in transactions that they are traditionally willing to pay for; d) Fee based specialized service such as bottle washing (recycling); e) TOT of community trainers/mentors in food processing techniques, food safety in line with licensing and quality seal requirements.

Market Facilitation

Facilitation tasks include but not limited to: a) Stimulate demand for Mindanao processed vegetable/fruit products thru participation in trade fairs, market scanning in Metro Manila, Cebu, and other key cities; b) Broker marketing agreements between contractors, distributors and small processors; c) Promotion of food quality seal as platform for development of markets for Mindanao products and the BDS market; d) Strengthen traditional and enterprise-based providers of services thru skills training, mentoring and networking; and e) Development of value chain based BDS products including delivery and payment schemes as well as its promotion in traditional business transactions.

SECTION I: SUMMARY OF MAIN ACTIVITIES

The team focused its resources to facilitate the penetration of selected processed fruit products to the Metro Manila market as an immediate response to the lacklustre sales in the local markets and the almost 50% reduction in prices of semi-processed fruits due to unexpected bombings in project areas. Likewise, the project concentrated on enhancing capability of current batch of trainers/providers of BDS for fruit processors as well as strengthening their relationships with the target enterprise groups. Generally, emphasis was more on the further development and modifications of BDS delivery systems based on initial experiences and in the light of its vulnerability to market changes/slowdown.

Despite both the internal and external complexities and implementation issues faced by the program during the period, the following activities were satisfactorily conducted:

- Operationalization of the 1st common service cum training facilities for processed kaong in Davao del Sur including further development of modules, training materials, and BDS delivery system. Further changes/revisions were made in the physical infrastructure to make it GMP compliant.
- 12 community-based trainers completed their training in Basic Kaong Production Processes and Good Manufacturing Practices (both for formal fruit processing set-up as in the common service facilities and application of GMP when processing is done in the forest itself). The trainers consisted of production supervisors of the enterprise-based providers as well as 'fruit processor-barangay level assemblers'. These assemblers have their own groups or pool of semi-processed kaong suppliers in their respective barangays. Modules and visual aid materials were also developed.
- Field-testing and on-the job training of community-based trainers for fruit processors in their respective areas to assess feasibility of BDS delivery system and response of farmer-processors in the area. Four community-based trainers conducted training to fruit processors in their respective areas. Majority are farmers who have been intermittently processing kaong and are now interested to pursue regular production of semi-processed kaong. Initial experiences show that this approach can significantly increase outreach particularly among farmer-processors not traditionally reached by training programs conducted by the government. Likewise, training costs are minimal compared to the usual training settings conducted. However, important factor for scheme to work is on-going orders and sales to sustain interest of participants in the training program as well as cover training costs.
- Three trainers, who are supervisors of the enterprise-based providers, conducted in-house training on Good Manufacturing Practices for company's employees particularly those who are working closely with semi-processed fruit suppliers.
- Adaptation of HACCP module both for small enterprises and rural collective enterprise settings is currently ongoing. Simultaneously, training of core group of mentors is being conducted.
- Supported participation of two enterprise based providers in Food Expo in China. The two providers carried the different processed fruit products from Mindanao. Feedback was favourable and there were serious follow-ups from potential buyers. The fair participation also provided first-hand insights on BDS products that should be introduced vis-à-vis market requirements. Initially, the following BDS were identified as essential to

improving competitiveness of Philippine products: a) wholesale packaging; and b) Continuous Productivity and Quality Improvement as a means of being able to produce products at competitive prices. Initial explorations were made on potential ways that these products can be adapted to rural enterprise settings and accessible to small and micro enterprises.

- One marketing agreement between Davao-based buyer and target group (collective enterprise) forged. The initiative was primarily by collective enterprise after their initial exposure to previous agreements.
- Program facilitated various meetings with Mindanao enterprise-based providers and Metro Manila distributor to overcome former's reluctance and negative perceptions on Metro Manila distributors and the perceived difficulties in selling to Metro Manila supermarkets. The signing of the distributorship agreement reduced the impact of local market slowdown due to unexpected disruptions in peace and order conditions. The distributorship agreement included the delivery of the following services: a) merchandising/promotion; b) market information and other necessary technical advisory services; c) warehousing and inventory; d) packaging development (whenever necessary); and d) access to financial services.

To date, two twenty-footer containers of sample orders shipped to Metro Manila. Feedback from various supermarket merchandisers were gathered and used as inputs in further development of training modules and business development services for collective rural enterprises.

- The Quality Seal was launched last May 17, 2003 through the support of the Philippine Fair Trade programme. Program's support in the Quality Seal is primarily on the following aspects: a) development of standards; b) systems development and institutionalization particularly in Mindanao regions; c) development of providers and auditors in Mindanao; and d) awareness campaign among enterprises and providers in Mindanao. Other main stakeholders are: a) Upland Marketing Foundation; b) Philippine Fair Trade; and c) supermarkets in Metro Manila. To date, standards have been developed and systems defined. Likewise, core group of Davao food technicians have been identified. Full implementation of planned activities has been deferred to 2nd semester.
- Continuous mentoring and on-the-job training for trainors trained and selected among the fresh produce market vendors. Training sessions conducted by the trainors themselves with some support from the project team were: Market Values and Quality Standards.
- Ongoing restructuring of BDS payment schemes and delivery system for market vendors to make this less vulnerable to market sales fluctuations as well as changes in management structure of open market.
- Continuous networking with various players including government agencies in the fresh and processed fruit subsector. Networking with local government units for farm-to-market road improvements as well as potable water utilities for fruit processing communities
- Ongoing discussions with other providers and collective enterprises interested to participate in the program.
- Promotion of approaches and working with collective enterprises as production bases via radio programs and newspapers in coordination with the Department of Trade and Industry.

SECTION II: PROGRESS ON PERFORMANCE TARGETS

ASSESSING THE MARKET FOR GOODS AND SERVICES (FINAL SALES)		
INDICATORS	APR - DEC 2002	JAN - JUNE 2003
MARKET LEVEL		
1. Annual Value of Sales (US\$)	161,408,000	
PROGRAM LEVEL		
2. Annual Value of Sales (US\$)	2,085,472	

ASSESSING THE DEVELOPMENT OF BDS MARKET		
INDICATORS	APR – DEC 2002	JAN – JUNE 2003
MARKET LEVEL		
3. Total No. of BDS Providers by Service		
a. Common Service cum Training Facilities	3	4 3 are mainly common service facilities
b. Subcontracting/Big Brother System	4	5
c. Basic Production Processes	6	18
d. GMP – HACCP applications	6	18
e. Marketing/Distribution Services	20	21 majority training courses and trade fair organization rather than merchandising
f. Packaging /other materials reseller	1	1
g. Kaong Nursery	2	2
h. Clean and Green Marketing Practices for Vendors	1	3
PROGRAM LEVEL		
4. No. of Providers Participating in the Program by Service	4 multiple services	19 multiple services
a. Common Service cum Training Facilities <i>% private, for-profit providers</i>	2 100%	2 100%
b. Subcontracting/Big Brother System (community based enterprises as subcontractors/suppliers) <i>% private, for-profit providers</i>	2 100%	2 100%
c. Basic Production Processes <i>% private, for-profit providers</i>	4 100%	16 100%
d. GMP – HACCP applications <i>% private, for-profit providers</i>	4 100%	16 100%
e. Marketing/Distribution Services <i>% private, for-profit providers</i>	2 100%	2 100%
f. Packaging and other materials reseller <i>% private, for-profit providers</i>	1 100%	1 100%

ASSESSING THE DEVELOPMENT OF BDS MARKET			
INDICATORS		APR – DEC 2002	JAN – JUNE 2003
	g. Kaong Nursery/Planting and Harvesting <i>% private, for-profit providers</i>	1 100%	1 100%
	h. Clean and Green Marketing Practices for Vendors <i>% private, for-profit providers</i>	1 100%	2 100%
5.	Total no. of firms acquiring BDS from program supported providers	385	282
	a. Common Service cum Training Facilities	2 collective enterprises	2 collective enterprises
	b. Subcontracting/Big Brother System	2 collective enterprises	2 collective enterprises
	c. Basic Production Processes	120	160
	d. GMP – HACCP applications		160
	e. Marketing/Distribution Services	2 collective enterprises	2 collective enterprises
	f. Packaging /other materials reseller	2 collective enterprises 10 individual firms	5 individual firms
	g. Clean and Green Marketing Practices for Vendors	265	47
6.	Number of micro enterprises acquiring BDS from program supported providers, by service	385 same breakdown as above	282 same breakdown as above
7.	Micro enterprises as % of total firms	100%	100%
8.	No. of woman-owned micro enterprises acquiring BDS from program supported providers	262	169
	a. Common Service cum Training Facilities	64	64
	b. Subcontracting/Big Brother System		
	c. Basic Production Processes		69
	d. GMP – HACCP applications		
	e. Marketing/Distribution Services		Already counted above
	f. Packaging /other materials reseller	3	4
	g. Clean and Green Marketing Practices for Vendors	195	32
9.	Woman-owned enterprises as percent of total micro enterprises	68%	60%

ASSESSING THE BDS PROVIDER			
INDICATORS		APR – DEC 2002	JAN – JUNE 2003
10	BDS Providers' Profitability	Average of 22% Net income	Average of 10% Net income

ASSESSING THE IMPACT ON THE MICRO ENTERPRISE CLIENT			
INDICATORS		APR – DEC 2002	JAN – JUNE 2003
11	Annual value of sales by micro enterprises participating in program	714,943 Average of US\$ 155/ month/enterprise	267,552 Average of US\$ 158/ month/enterprise Prices and sales went down; very weak local market for about 4 months
12	Microenterprise Client Satisfaction		
	a. Common Service cum Training Facilities	Part of marketing agreements	100% repeat clients
	b. Subcontracting/Big Brother System		100% repeat clients
	c. Basic Production Processes		110 – non-members of coop encouraged by fellow processors (mostly coop members) 50 – members of cooperatives
	d. GMP – HACCP applications		110 – referral; referred by members of coop
	e. Marketing/Distribution Services		100% repeat clients
	f. Packaging /other materials reseller		100% repeat clients
	g. Clean and Green Marketing Practices for Vendors	Part of stall agreement	Part of stall agreement and encouraged by former batches of trainees
OTHER INDICATORS			
13	Exchange rate used to calculate US\$ figures	US\$ 1: PhP 53	US\$ 1: PhP 53
14	Estimated % of micro with poverty loans from any source	80%	80%

SECTION III: IMPLEMENTATION ISSUES

Program implementation has considerably slowed down during the last three months and can be characterized as 'anaemic' due to internal and external factors. Compounding the market slowdown in the provincial markets due to unexpected bombings and the long dry season (resulting to poor harvests region wide) was the complexities faced by the project team. The termination of the grant as a result of the transition from a Swisscontact branch office to a local organization, and, consequently, the gap in funding for a period of four months made it difficult for the team to fully respond to the demands called for by the market situation as well as carry out the implementation activities in full swing. With limited resources and the limited time to raise the necessary funds to cover implementation costs, the team has to significantly scale down its activities to the basic minimum.

The Quality Seal, which is envisioned to be one of the platforms to stimulate the development of both the BDS market and market for processed fruits, was launched last May 2003 through the support of the Philippine Fair Trade. This was well received and supported by the supermarkets but there were gaps in the conduct of planned follow-through activities. A core group of Mindanao based food technicians had been identified as potential providers and auditors in line with the Quality Seal but commitments have not been formalized nor were training activities started. Expansion to another fresh produce open market was put on hold since the project cannot, at that moment, commit to put in the necessary technical and financial assistance. In addition, there was a general slowdown in sales of fresh produce particularly in open markets due to the bomb scares as well as the poor harvest. Likewise, cooperation agreements with other potential providers were put on hold until such time that the modification agreement is in place.

The temporary termination of the agreements with the partners especially in the face of the then bleak local market situations posed fears and uncertainties in many of the players. Nevertheless, the team, in close collaboration with the different stakeholders, explored all means to mitigate the impact of external and internal disturbances. The team is very confident that it will be able to significantly accelerate program implementation in the coming months as long as there will be no unexpected peace and order disturbances in project sites and markets continue to improve.

SECTION IV: PROGRESS ON LEARNING AGENDA

A. Strategies for Integrating Poor Into Mainstream Market

- The program accelerated the development of micro enterprises and their access to mainstream market via business linkages with progressive and established companies/marketing intermediaries in the area/region. These marketing intermediaries are also small enterprises engaged in fruit processing. Semi-processed fruits are sourced out from communities and the small enterprise does the end product manufacturing. The small enterprise, in turn, is linked with Metro Manila distributors/supermarkets in order for them to be able to significantly increase their order volumes especially with the vulnerability of the local market and the Mindanao provincial markets.
- For many of the micro enterprise groups, integration in the mainstream market involved primarily the supply of semi-processed products rather than end products. Gestation period to fully develop their capability and capacity to be able to meet the market requirements for final/end products is longer compared to semi-processed products. The focus on semi-processed products for micro enterprises is also in line with the immediate necessity to be able to increase their income levels or, at least, sustain economic activities.
- The program puts emphasis on finding key factors/characteristics that can be developed via BDS, which the poor and micro enterprises can sustain as a marketing proposal or market differentiation factor. This is a long-term strategy and requires step-by-step acquisition of a range of business development services.
- The program continued working on the development of full concept BDS products (a range of interrelated business support services) that represent structured and unified approaches to supply chain transformation, which would in turn facilitate business development and operational improvements necessary to meet requirements at specific market levels. The BDS product consists of various components but with a step-by-step delivery and implementation over a period of time.
- Individually, the micro enterprises cannot supply the required volume. Likewise, it is difficult for them to have access to competitively priced inputs as well as better facilities. As such, program facilitates the organizational development of collective enterprises.

B. Strategies for Reaching Downmarkets

- The program in facilitating the access of micro enterprises to range of services makes use of various BDS delivery schemes: fee-based, embedded via subcontracting relationships, bundling with transactions that micro enterprises are traditionally willing to pay for. The program recognizes the fact that for BDS targeted to the micro enterprises to be financially viable, it has to be part of a business transaction.
- The program harnesses the strengths of both 'traditional providers' (consultants) and the 'non-traditional providers (enterprise-based providers). Likewise, the different players at various points in the value chain provide the necessary business development services. In one way or another, there is a continuous flow of information of product market requirements from one link to another (e.g., supermarkets inform the MManila distributor of their standards, Metro Manila distributor relays this to region-based intermediary or

small enterprise, and the small enterprise/contractor imparts these to the community-based suppliers).

- The downward side of BDS delivery via business-to-business relationships is that it is very much vulnerable to market changes. When the enterprise-based providers or the contractors are experiencing bad sales, BDS delivery is compromised. Similarly, the biggest incentive for enterprises to conscientiously acquire skills upgrading and other BDS is the orders and sales. As such, a close matching of BDS features vis-à-vis product market requirements is very critical. BDS should result to tangible benefits (sales) for both the contractor and the suppliers.
- With the vulnerability of BDS delivery via business-to-business linkages, program is slowly exposing enterprises to the mainstream BDS market and fee-based payment schemes (e.g., part of costs taken from mark-ups, a certain percentage paid directly by enterprises). This was difficult though especially with the local market slowdown and the longer payment terms from the MManila supermarkets. The micro enterprises were generally willing to pay with very tangible services such as the use of the common service facilities.
- Proximity of services to demand and location of micro enterprises is very important. The use of community-based trainers who themselves are also fruit processors seems to be effective in reaching farmer-processors who are usually not receptive to training programs and are not reached by government extension services. Likewise, successful experiences of peers seem to be the more effective BDS promotional tool. Caution, however, has to be applied in expanding production base. There should always be a close monitoring of supply and demand for the products because failure of micro enterprises to recoup the investments they have made will leave them worse off than before the program started.
- Grouping of micro enterprises or delivery by communities also prove to be cost-effective in reaching the micro enterprises. Likewise, peer influence and referral help in promoting interest in training programs.

C. Strategies for Developing Embedded Services

- The program promoted increased awareness and appreciation of embedded BDS by making these more relevant to both the provider and the micro enterprises in terms of concrete and tangible results and benefits. Likewise, the delivery of embedded services was formalized, strengthened and recognized through specific provisions in the marketing agreement.
- Viability of embedded services is very much dependent on the profitability of the enterprise-based provider. As such, it is important to first ensure the profitability of the core business itself and to look at whether the margins are wide enough to cover costs of BDS. With the fresh produce market operator, for example, there are limitations on the services that can be embedded especially during the past months where sales were low and there was a significant percentage of unpaid monthly stall rentals.
- A high synergy level as well as trust among the different parties must be cultivated for the embedded services to work. Likewise, there has to be strong adherence to standards set so as not to lose the relevance of BDS. In fruit processing, for example, prices are set vis-à-vis quality standards.

D. Strategies for Effective BDS Market Facilitation

- Initial experiences showed that BDS market facilitation also requires regular monitoring of movements and trends in the product markets. Activities on BDS product and market development have to be closely aligned to the product market requirements and trends.
- Parallel support is, to a certain extent, required in the development, diversification, and expansion of markets for products in order to catalyse the development of the BDS market particularly when delivery schemes are linked to business-to-business transactions.
- In working with embedded services, BDS development and delivery have to be viewed in the context of the whole business operations. The team monitors both the BDS delivery as well as the profitability of the business itself.
- BDS market facilitation also involves promoting trust and confidence among the different players in the links particularly when brokering marketing agreements. A regular activity of the project team is the monitoring of satisfaction of both providers and target groups.
- In the development of BDS delivery systems, the framework is based on existing initiatives and practices.

Please see *Annex* for Key Actors in the Market and Their Reaction to Program's Offer.