



## BUSINESS DEVELOPMENT SERVICES (BDS) PROJECT IN THE KAONG SUBSECTOR

Empowering Marginalized Indigenous Communities in the Marketplace



Ivan Idrovo • Marian Boquiren  
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## I. PROJECT OVERVIEW

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The Business Development Services<sup>1</sup> (BDS) project for the Kaong subsector, funded by USAID and Swisscontact and implemented by SDCAsia, aims to increase growth and income among rural upland micro enterprises. The project links indigenous communities who semi-process Kaong with mainstream markets and to improve the competitiveness of these value chains in which they participate. Interventions are made in incremental steps based on a dynamic participatory analysis of the value chain and the consequent identification of gaps and constraints that are most crucial to enabling resource poor enterprises capture a bigger value within the chain. This is based on the premise that as each critical link in the chain makes improvement, it improves the whole efficiency of the chain which results to a more equitable participation in the marketplace for all players. The project, which started in 2002 and ending in 2006, focuses on improving the semi-processing activities of the indigenous people communities, strengthening links in the value chain, increasing and improving access and delivery of business and technical services throughout the value chain, strengthening horizontal links among market players and establishing and promoting process and product quality standards.

The project has been cited in two issues of the BDS Reader and used as an example in various national and international forums to demonstrate effective strategies in integrating the poor into the mainstream market and in making services work for underserved marginalized communities. Key innovative features of the project are as follows:

- Use of market-based mechanisms rooted to existing practices and structures to address equity concerns in business and technical services and, consequently, facilitate self-sustaining capability towards acquiring services and resources particularly among marginal communities.
- Business development services systems built along trading structure making it possible to effect improvements in the whole chain improving overall efficiency

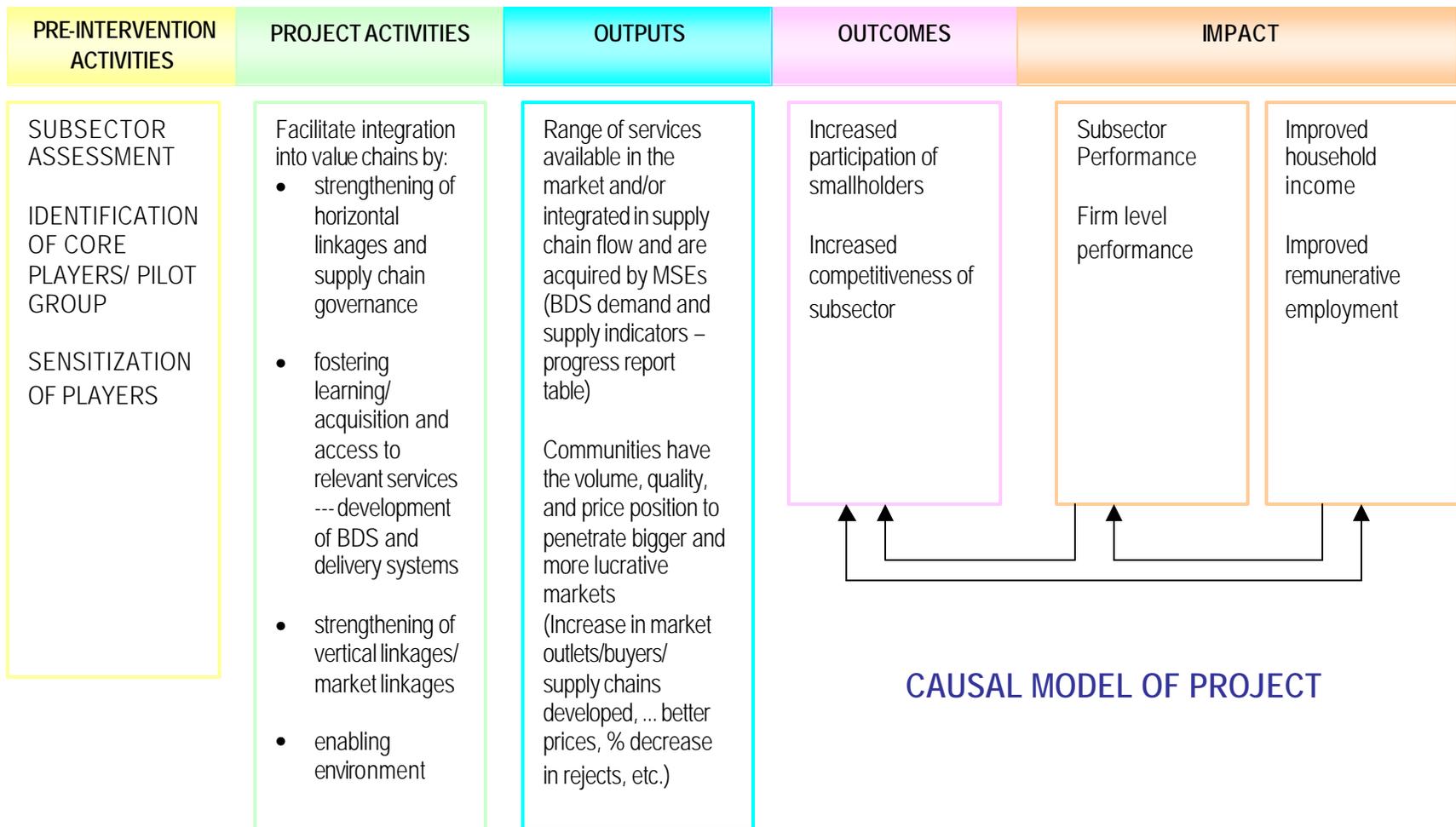
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<sup>1</sup> Any non-financial service that improve the performance of enterprises, their access to markets, and their ability to compete

thus enabling grassroots to move up the economic ladder. This also facilitated institutionalization of systems including the development of strong local ownership.

- Integration of the profitable use and conservation of indigenous knowledge as means of improving living conditions and securing forest-based livelihood.
- Community-led and market-based approach to facilitate effective delivery of public goods/infrastructure such as potable water.
- Meso level interventions which make it possible for outreach to be sustained and even increased as per current trend even after the project has ended.

Sustainability, under this project, refers to both the ability of the indigenous communities to develop and sustain their market competitiveness and the capacity of value chains to foster and support rural development as a consequence of built-in local capacity for fostering learning and innovations. Interventions are built on existing knowledge and structure which promote strong ownership and identification among stakeholders. Project strategies have been replicated in various product subsectors and rural communities in Mindanao with an outreach of more than 2000 micro enterprises with majority owned by indigenous peoples.



## II. PROJECT CONTEXT

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Kaong (*arenga pinnata*), a variety of wild sugar tree, abounds in the forests of Davao del Sur-Mindanao which are populated by indigenous peoples primarily the Bagobos. Using indigenous technology, kaong parts are processed for livelihood and subsistence. The sugar palm is a multipurpose species used for a variety of purposes such as: edible starch, fruit preserves, sweet sap (fermented to vinegar), fruit thatch, and construction materials.



Many of these indigenous communities engaged in kaong gathering and semi-processing have suffered dislocation from the loss of their ancestral lands and the effects of modern day insurgency. The semi-processors are generally located in the uplands accessible only by trails. Non-farm income such as kaong gathering and semi-processing is crucial to the households because it helps to smooth the flow of income over the cropping cycle and stabilizes income by spreading the risk through diversification. Ownership of trees such as the sugar palm, which is usually via the descent group common property rights, represents a high share of their capital assets. Harvesting and selling of another person's kaong is considered stealing and the proper fines must be paid. When households are in dire need of money, these trees can be used as 'collaterals' or 'pawned'.

The household semi-processors after so many years of operation though were not able to make the transition from home production to the running of a small-scale enterprise, which requires a range of business and technical skills. This was primarily due to the lack of knowledge and understanding of markets and, consequently, the lack of skills to match requirements outside of their locality. They learn or acquire skills and knowledge from peers and family members. Skills and knowledge passed on among the different players were sufficient to start a livelihood but not enough to grow a business. They were also not reached by government assistance programs. To some extent, key traders in the community provided information and guidance based on individual perspectives and experiences. Know-how in locating and targeting wider markets was a common limitation.

When the program started, the processed kaong industry players in Davao were generally outside of the national and export markets. The semi-processing communities in the uplands were not connected to the city-based processors. Processors were not able to significantly grow their business mainly because of supply constraints. Quality of semi-processed kaong from communities was generally poor.

The relations between semi-processors – community intermediaries – processors were essentially arms length negotiation. Traders, buying agents, and processors maintain shifting network of potential suppliers to complement their in-house production. The relationship between buyers and sellers was, therefore, inherently unstable and short term, often extending only to a single or intermittent purchase order so that they can switch suppliers easily if another one offers a better price. On the part of the semi-processors, bottom-line for them was to get immediate cash for daily subsistence and, as such, sold their semi-processed products at whatever price offered to them or at the local public market.

Market relationships, in general, did not permit close cooperation between semi-processors and buyers and hardly contributed to the systemic upgrading of the supply chain. There was a high degree of mistrust among all parties. Consequently, the system was not well positioned to respond to market change. Necessary change

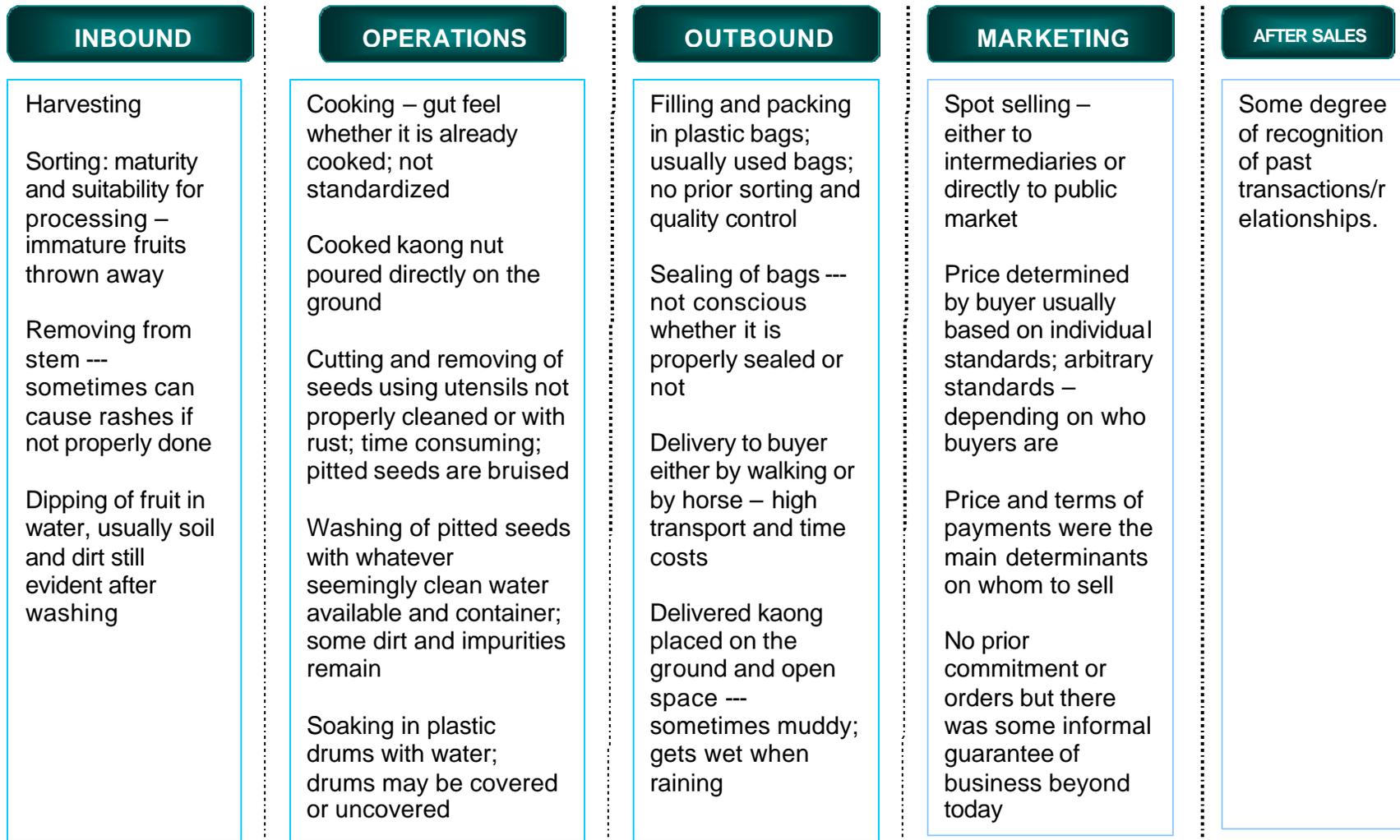
was either slow or, perhaps, missed altogether. There was an inefficient flow of information along each link of the chain.

Given the characteristics of the indigenous communities and the environment in which they operate, the SDCAsia team and the various community-based stakeholders, decided that the best way to bring resource poor enterprises into the mainstream market were:

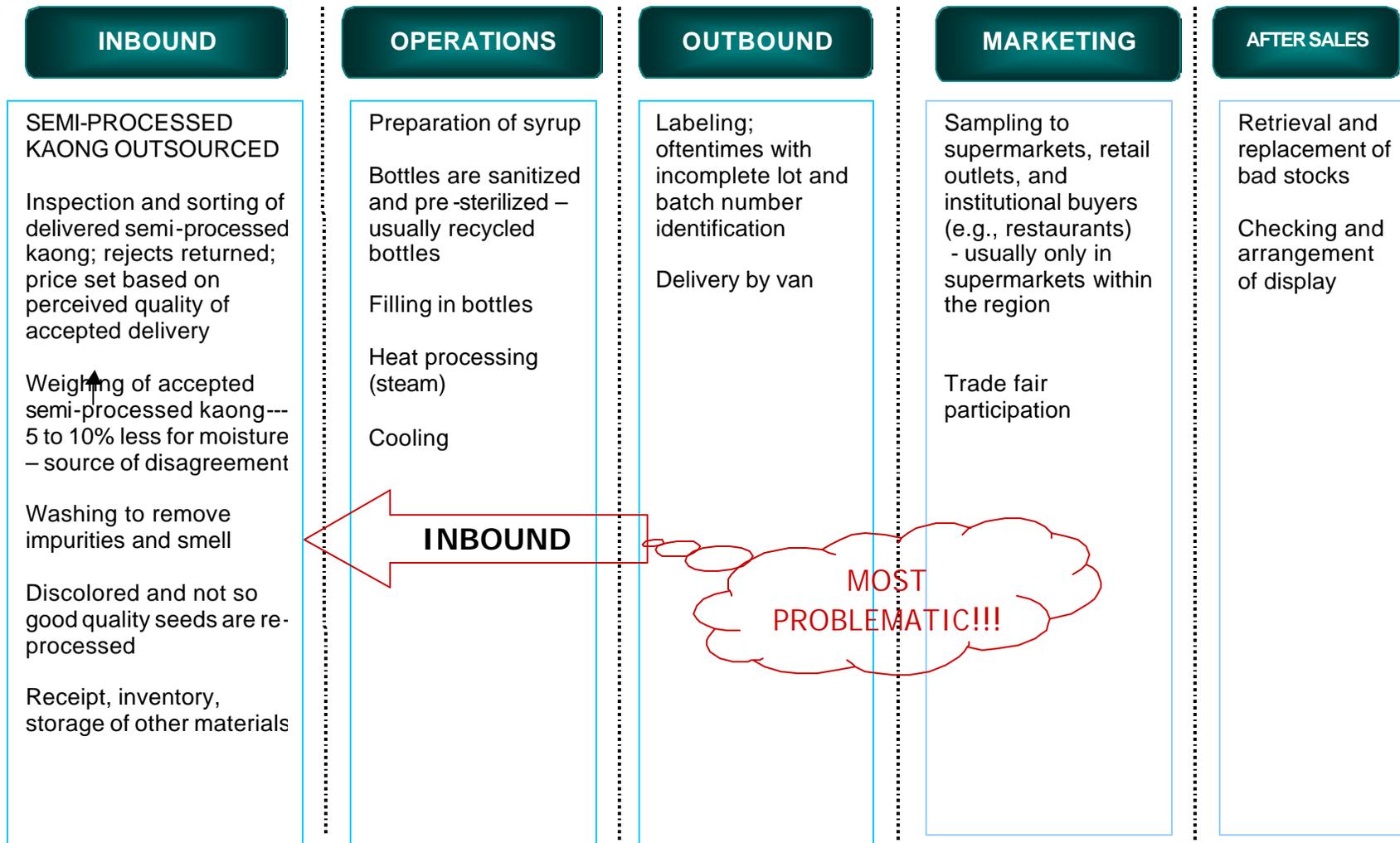
- a) In the short-term: To strengthen the semi-processing activities of the Bagobo communities rather than immediately moving up the value chain or producing end products
- b) In the medium-term: To produce final products that require low investment using indigenous processes aligned to market standards
- c) To build on the traditional trading system which meant that semi-processors do not deal directly with the Manila and Davao-based processors but rather via community-based marketing intermediaries
- d) To build up the capacity within the chain to foster learning, acquisition of skills/resources for growth, and innovation

The team assessed that gestation period to fully develop the capability and capacity of semi-processors to be able to meet the market requirements for final/end products would be longer compared to semi-processed products. Likewise, investment requirements for final end products were at the start of the project beyond the capacity of semi-processors and even the community-based traders. The primary focus on semi-processed products was also in line with the immediate necessity to be able to increase their income levels or, at least, sustain economic activities. The decision to work via intermediaries was premised on the fact that they have the experience in dealing with relatively bigger enterprises and the 'city people', the basic minimum infrastructure, and transaction costs would be low and/or can be spread out to the other cash crops that they carry.

**Fig. 1. VALUE CHAIN: KAONG SEMI-PROCESSORS**



**Fig. 2. VALUE CHAIN: KAONG PROCESSORS**



### III. PROJECT DESIGN AND IMPLEMENTATION

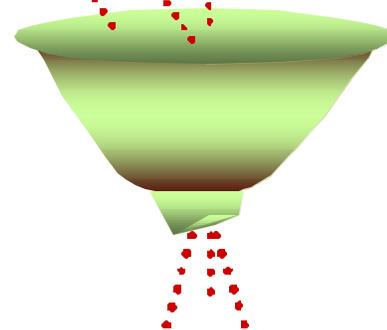
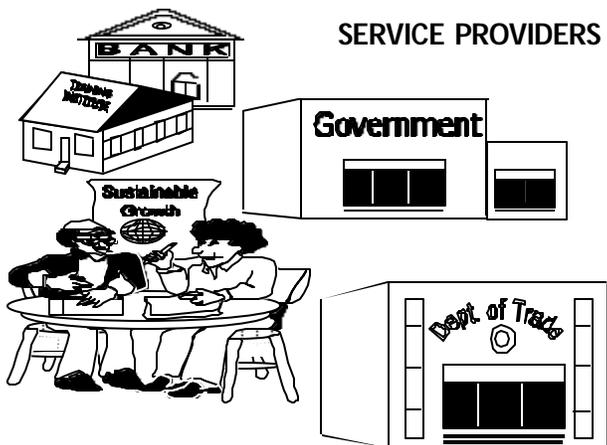


INDIGENOUS SYSTEMS  
COMMUNITY RESOURCES



MARKETS FOR  
PRODUCTS

#### DEVELOPMENT FRAMEWORK



MATCHING OF  
MARKET  
REQUIREMENTS

## **A. Incremental, Participatory Market Research in Project Design and Implementation**

In order to design the project, SDCAsia gathered basic quantitative information on the Kaong industry as well as substantial qualitative information on poor producers and other market players, relationships in the Kaong subsector, final markets and support services. As the project started, the project team continued to build its understanding of market dynamics and key market relationships. Throughout implementation, SDCAsia gathers information and feedback from the market players involved in the project, including changes they had made, satisfaction with the changes and new issues, constraints and opportunities. SDCAsia conducts frequent feedback sessions with market players to help find win-win market solutions that will help poor producers and other market players. The team also regularly tracks changes in the Kaong market and gathers information on a few key quantitative indicators that help the organization understand the impact of the project on the subsector and poor producers. The qualitative information, together with key quantitative indicators, helps SDCAsia both improve the effectiveness of the project and continuously identify new opportunities and niches where the products of indigenous communities could be competitive. Project staff regularly share information gathered with market players to get their perspectives and discuss how to move forward.

All of the above are done with the involvement of the market players themselves as a means of teaching and gradually transferring to them the concept of incremental market research and transparent information flow. The community-based providers particularly the marketing intermediaries are taught on how to read market signals and the possible sources of information that are accessible to them.

### **Understanding the links, culture, and dynamics ... and entry points for intervention**

- Involved info gathering and understanding of the following:
  - Nature of the markets and the value chain and how the semi-processors are currently served by them; the structure, the different players and their

dynamics vis-à-vis conditions of the semi-processors

- Indigenous culture and trading system including governance structure
- Based on info gathered, the team worked through the following set of steps:
  - Identification and selection of best route/s to promote gainful participation of semi-processors in the growing kaong market
  - Selection of links that need to be established and/or strengthened vis-à-vis the route/ways identified above
  - For links selected, identify critical constraints and opportunities as well as the requirements or standards that should be met
  - Assessment of how constraints and opportunities may be addressed and the players involved including resources and existing initiatives
  - Identification of initial core set of players that program would work with --- entry points/champions

#### **Keeping the peace and calm ... laying the groundwork for improvements**

- Feedback gathering from among the players involved: changes, satisfaction, new issues/constraints/opportunities, next steps
- Discussion of feedback with players concerned and, whenever, necessary finding win-win solutions .

#### **Tracking the market ... identifying opportunities and its implications to target groups**

- Tracking of market movements as well as other events that would affect the sector
- Identification of potential opportunities and niches where communities can be competitive
- Info sharing with relevant stakeholders, getting their perspectives, and discussions on how to move forward

## **B. Community-based and Value Chain based BDS Delivery System and Full Concept BDS Products (range of interrelated services)**

With majority of the household semi-processors located in remote upland areas, the program pursued the build-up of an indigenous community-based capacity to deliver and provide BDS. The BDS system is built on existing trade/marketing structure to facilitate the flow of services and learning to all players in the community supply chain. Under the system, marketing intermediaries at every level are tapped and trained to handle typical technical and business concerns of household-based enterprises. In the kaong communities, the contractors/buyers provide market-based quality specifications as well as share some technical and market info to the central buying agent (chain leader) in the community. The central buying agent then shares/disseminates this info with the pool of trainers<sup>2</sup> of the cooperative. The cooperative organizes the training for the micro enterprises (members and non-members) and also operates the common service cum marketing facilities. Coaching and mentoring services and quality control services are provided by the barangay buying stations<sup>3</sup> to their group of suppliers and the transportation group. In other words, the BDS delivery system follows the flow of the products from the gatherers to the city-based processors/contractors.

The first activity conducted under this strategy was the promotion and development of embedded services, which involved the identification and understanding of the following:

- who influence and control people's access to markets
- how do they influence and control people's access to markets
- ways on how to improve capability and capacity so that their influence and control can be used to yield positive benefits for micro enterprises and the improvement of the chain in general without eroding their profit margins

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<sup>2</sup> Consist of fruit processors and barangay assemblers

<sup>3</sup> They collect the semi-processed kaong from their group of suppliers and deliver these to the cooperative

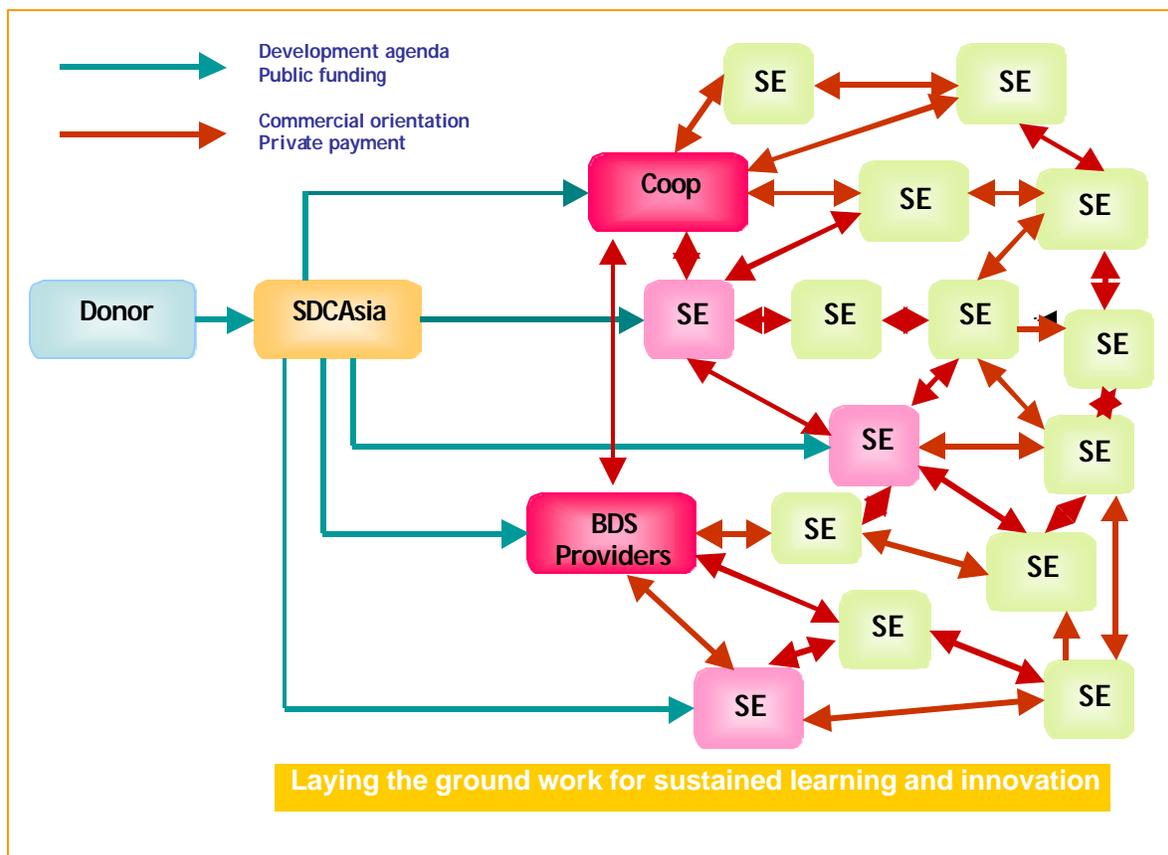
In many cases, intermediaries at the community level were already providing some forms of BDS to their network of suppliers. The challenge was how to motivate these intermediaries to improve their capacities and capabilities in order to provide sufficient support to their suppliers as a means of improving both their incomes. The chain leader at the community level was among the core group of champions invited by the project to become one of the “community trainers and providers”. Capability building activities started with training of trainers on production processes and Good Manufacturing Practices (GMP).



BDS development and delivery via business linkages was and continue to be presented in the context of improvement of the whole business operations (e.g., better quality semi-processed kaong translates to less re-processing and sorting activities and, consequently savings; better quality semi-processed means improved quality final products and, consequently, premium prices). Likewise, careful calculations were made to ensure that service delivery did not undermine profitability of business operations of both the enterprise-based providers and the micro enterprises. In collaboration with providers, project continuously finds ways to keep service delivery costs low and to implement cost-preventive measures.

The project provides the following development support to value-chain based providers: a) technical training; b) didactic training (done more informally through feedback and coaching); c) assistance in making their work sites GMP compliant where household semi-processors can also work. With the system in place now, the project's role is geared towards monitoring, follow-through coaching in system implementation, market information, and technical assistance in the development of kaong by-products. . Likewise, they are also provided with opportunities to work with young consultants (new graduates/graduating students) to enhance their theoretical background which, at the same time, provide the young consultants the field experience.

The project facilitates the transformation of middlemen/buying stations to partners rather than the perceived manipulators/opportunists. Instead of eliminating them, the project promotes the middlemen as big brothers to the communities. To date, middlemen and/or processors hire the services of community-based GMP trainers to improve product quality of their suppliers in other areas.



The project provided technical assistance in the development of a range of services that represent structured and unified approaches to supply chain transformation, which, in turn, facilitate business development and operational improvements necessary to meet requirements and facilitate the access to a specific market. Services consist of various components but with a step-by-step delivery and implementation over a period of time.

PROGRAM SUPPORTED PROVIDERS AND SERVICES								
SERVICES	FORMAL PROVIDERS				VALUE CHAIN BASED PROVIDERS			
	Govern-ment	Private Ind/Inst	NGOs	Academe	Local Mktg Interme-diaries	Producers /Co	Distri-butors /Retail-ers	Enter-prise Groups /Network
Common Service cum Training Facilities						x		x
Big Brother/ Subcontracting		x				x	x	
Product Development		x		x		x	x	x
Production and Quality Control Processes	x	x		x	x	x	x	x
Good Manufacturing Practices	x	x		x	x	x		x
Merchandising/Distribution Services		x			x	x	x	x
Good Agricultural Practices				x	x	x		x
Packaging Materials/Other Inputs		x				x	x	
Collective Enterprise Development			x					x

Project's entry point was the introduction and delivery of services aimed at stabilizing economic activities and gradually moved towards promoting product differentiation primarily anchored on production of premium quality products following Good Manufacturing Practices and eco-friendly and socially responsible processes. The kaong harvesters and semi-processors including the "transport group (horse carriage drivers)" — consisting mostly of Bagobos, an indigenous community that populates the deeper, steeper parts of the forest — were drilled on good manufacturing practices (GMP) by community-based trainers and buying station agents. Although some Bagobos resisted the new, more sanitary kaong preprocessing methods at the start, most of them were open-minded and are now applying GMP.

All services related to introduction of new skills and technology follow the “Learning/ Training – Application/Mentoring – Income/Sales – Feedback/Coaching” cycle. The objective is to allow micro enterprises to immediately apply new skills and experience tangible benefits of training. Likewise, immediate feedback particularly during the early phases of project implementation aided the project team in the further development of the services. Likewise, project teams also solicited the involvement of buyers and various market players during the development phase of training modules so as to ensure that these are aligned to market standards and requirements and, thus, accelerate the build-up of capacity of indigenous communities to gainfully participate in more lucrative and bigger markets.

At the start, the program took the lead in the development of the service content with inputs from the community intermediaries cum providers and the buyers. Nowadays, variations and modifications are already the initiatives of the community providers based on info they have gathered from their buyers and/or discussions among themselves.

When communities decided to expand into kaong vinegar production sometime during the last quarter of 2004, the intermediaries with some technical support from the project also launched a range of business services to upgrade existing indigenous technology at par with market standards. The range of community-based support services are geared towards: a) production of premium vinegar via a blend of old and new practices aligned to Good Manufacturing Practices and moving towards organic production; b) Integration of the profitable use and conservation of indigenous knowledge and biodiversity as means of improving living conditions and securing forest-based livelihood; c) community-based production and unified branding; and d) medium to high end niche marketing.

Corollary developments during the recent months were the following: a) training sessions became also the venues for processors and consolidators and/or assemblers to discuss and offer solutions to problems encountered in their businesses, potential product and market opportunities, etc.; and b) cascading of information and mentoring of workers, the raw material gatherers, the transportation group (usually by horse/carriada).



Parallel to building the capacity of actors in the chain to provide services to their groups of suppliers and peers, the project also provides technical assistance in the development and operationalization of service delivery financial sustainability schemes. To make services affordable to the micro enterprises, knowledge and skills upgrading forms of BDS including marketing services are paid via mark-ups while tangible services (e.g., use of common service facilities, raw materials) are paid in cash or in kind with various payment schemes. Payment schemes are linked to marketing/market access, where costs of many of the services are covered from mark-ups, which are more acceptable and affordable to the enterprises rather than up-front fees. The project now is more focused on the further development of the delivery system and testing its vulnerability to market fluctuations and seasonality. Simultaneously, via association and community meetings, payment schemes (e.g., retention of one peso for every kilo of kaong sold to cover training expenses) are discussed so that enterprises are made aware that they are paying for the services and should be discerning users of these services. Parallel to this, standards for participation in the business were defined in a participatory manner and its acceptance and implementation promoted primarily by chain leaders and barangay buyers.

### **C. Strengthening of Horizontal Links and Supply Chain Governance**

Grouping together and strongly linking them to common objective/s have been the platform used to promote better control and access over raw materials, increase their production capacity through consolidation, and improve their position in financial/marketing negotiations. To enhance cohesiveness and efficiency of collective efforts as well as strengthen the base for subcontracting and distribution arrangements, the project funded organizational development (OD) support until such time that basic organizational systems are in place. The OD support also has the objective of providing hands-on training to potential business OD providers.

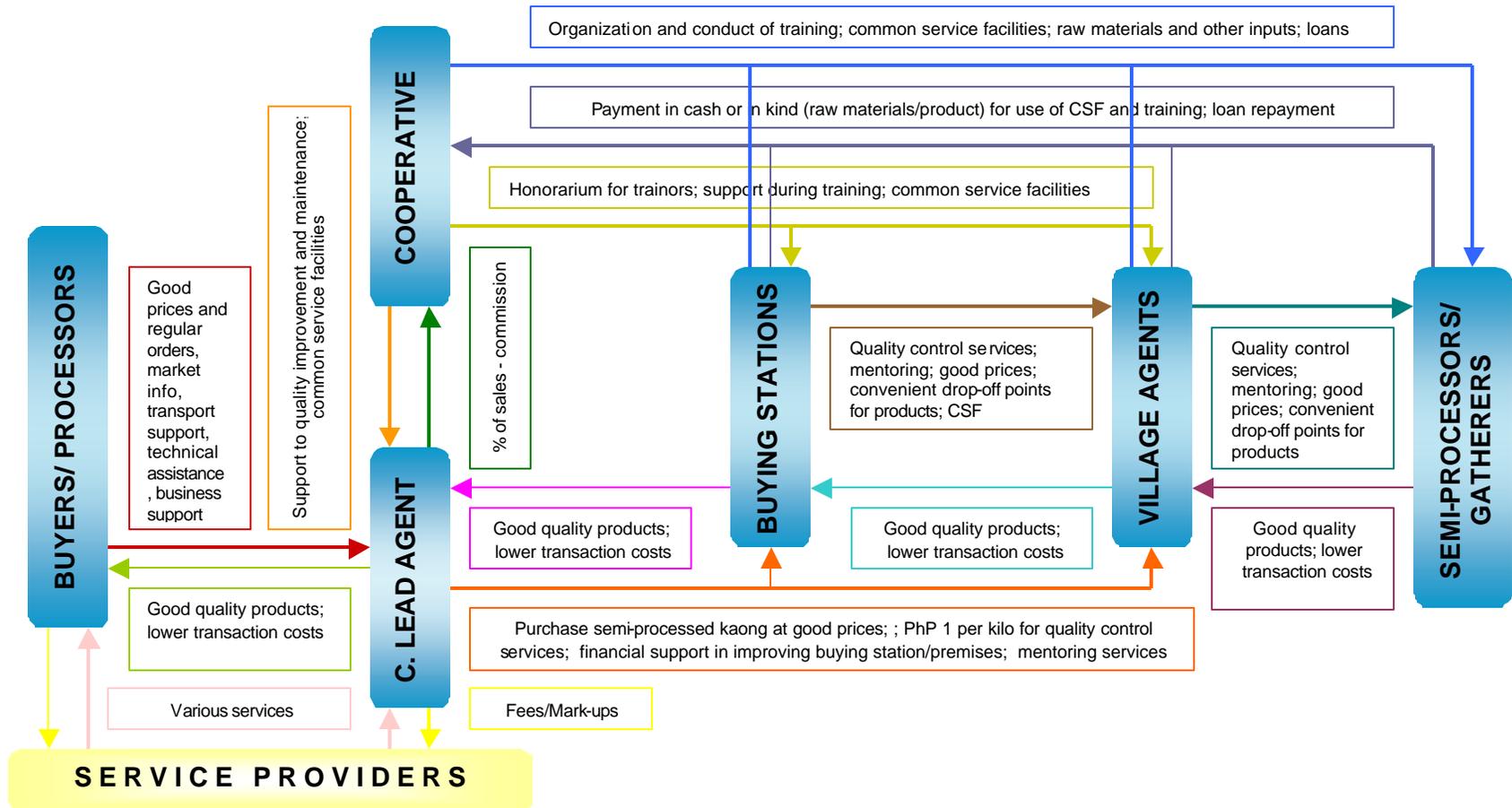
Efforts towards promotion of shared responsibility, collective efficiency and cooperation among micro enterprises in the communities can be summarized as follows:

1. Strengthening and/or formation of collective groups with a particular emphasis on running the community-based enterprise as a business guided by a business plan and operating under mainstream market conditions and not as a 'time-bounded livelihood project'.
2. Establishment of process and quality standards that define the basis of participation of players in the community. The standards and norms were set by the key players in the community that were trained by specialists and with inputs from the buyers.. Extensive pre-planning and coordination were required up and down the entire chain (particularly at the community supply chain level) to get a consensus and effect key standards and control processes as part of laying the groundwork for the formation of an efficient value chain. Project team provided strategic and technical inputs throughout the whole process.
3. Promotion of benefits of meeting quality standards among the different players. Campaign is primarily directed to the barangay assemblers since they are the nearest to suppliers in terms of location and influence.

4. Strengthening of capabilities and capacities of the different levels of marketing intermediaries in good manufacturing practices and quality control processes both for them to have the capacity to promote compliance and provide mentoring/training to their suppliers so as to provide equitable opportunities for everybody to participate in the business.
5. Development of BDS delivery systems (built on local practices) including operationalization support to ensure the access of community players to the necessary services vis-à-vis standard requirements
6. Promoting the compliance of the standards via various levels of marketing intermediaries. This is anchored to a great extent on a strong “chain leader” in the community (usually this is the main or central buying agent in the community). The explicit acceptance of the chain leader is very important to facilitate supply chain collaboration and high trust relationships.

Campaigns on product quality standards compliance and acquisition of the necessary skills to comply with standards were anchored primarily on economic benefits and returns and being part of a wider movement to promote their communities as quality producers of semi-processed kaong. To ensure wider acceptance of the system and, consequently, get the participation of the different players, the project worked first with a select group of enterprise-based providers respected by the community and business circle. The project also used and continues to employ marketing/market access services to trigger the acquisition and use of a broader range of services. Peer influence and self-regulation among members of communities/ collective enterprise units continue to be useful in stimulating quality compliance and demand for services.

# FOSTERING LEARNING AND INNOVATION WITHIN THE CHAIN ... IMPROVING SUPPLY CHAIN GOVERNANCE



As communities became accustomed to the standards, emphasis of awareness campaign is gradually shifted from “premium price incentive for good quality products” to “compliance to quality standards and market requirements as the basis for gainful participation in business”. Aside from supporting the communities’ drive towards consolidating their image in the market as source of quality products, the shift was in recognition of the following: a) price incentive was a good entry point but there are limits on the prices that the market can bear and support; b) to avoid potential situations where BDS acquisition becomes a justification for uncompetitive prices/unreasonable price increment; c) many of the community-based buyers during the recent months started enforcing automatic rejection of products that did not meet quality standards. Parallel to this shift in the campaign was also ensuring that the processors have access to acquire the necessary skills by bringing the relevant services to their areas.

The program continuously encourages government and the consumers to recognize changes implemented by the micro enterprises. Aside from income, pride and recognition are important to the micro enterprises. Recognition and public/consumer interests attract more enterprises to participate in the program. In the Binaton community, for example, which is the pilot area, the household semi-processors are proud of the fact that they are now known as “suppliers of high quality semi-processed kaong” and this makes them more conscientious in implementing quality control based on the standards jointly formulated by trainers and the project.

At present, a clear concept of good-quality product vis-à-vis an unacceptable product (“rejects”) is recognized by buyers and semi-processors. The traders and the Bagobo communities have started to realize the rewards of managing performance and quality along their supply chain. As one trader puts it, 90 percent of the time, traders only accept and pay for clean seeds that have been pre-processed well. Sometimes, however, the buyer relents and accepts discolored, poor-quality kaong in consideration of the farmers’ effort. “It would be uncharitable to turn them away after they have carried kilos and kilos of seeds on their back or head for hours,” the trader explained. “I just tell them how to do it better and make sure they understand that next time, I won’t accept poor-quality seeds.”

The trader added that she also requires farmers who bring their kaong to the buying stations to attend “good manufacturing practices” (GMP) training, especially when their kaong are substandard. One time, almost half of the 100 kilos she collected at one buying station were of poor quality. She immediately tasked community-based trainers to conduct a GMP training there. After some time, the GMP sessions bore fruit. The percentage of substandard kaong was eventually reduced to 5 kilos, or about 5 percent, of the total kaong collected.

The effectiveness of collaboration among supply chain actors at the community level, as well as their consequent collective adherence to product standards, depends on shared goals and mutual interests. The best trigger for closer collaboration and cooperation has been the pursuit of markets outside the locality.

#### **D. Promotion of Linkages with Mainstream Businesses**

Market development and linkage support are provided primarily with the objectives of: a) expanding markets of the different links; b) ensuring the continuous flow of orders to the communities; c) providing the impetus or motivation for the various players to closely work with each other; and d) encouraging chain upgrading and optimization triggered by market demand. Linkage and close partnership with a mainstream business can jumpstart the development process, reduce the costs of bringing the products to the markets, and act as a catalyst in improving the efficiency of the supply chain (particularly at the community level). Progression of events as described below, however, shows that companies/contractors are more inclined to take on the tasks of “educating” their subcontractors if they have already reached a certain performance level of capacity and capability to enter vertical relationships. Mainstream businesses work with communities and invest in their development only if they are convinced that: a) this will promote their trade/improve their sales (demonstration of this is a very effective motivating factor); b) there is a potential for long-term relationship; and c) the communities are trustworthy and loyal.

### To start the ball rolling ...

The project actively brokered the first agreement as a means of showing the viability of partnerships, overcoming the inherent and historical distrust, providing the first flow of significant volume of orders to motivate BDS acquisition (majority of the processors never underwent training in the past). Also included in the agreement was the delivery of specific services.

The project was successful in achieving its short-term objectives. However, it became more evident that BDS delivery capacity and capability of processors were not sufficient to improve the conditions of semi-processors and the outreach was limited.<sup>4</sup> Likewise, to a significant extent, the relationship was still 'paternalistic' since the community had a weak offer then. Making the partnership work also meant that the project had to accept many of the responsibilities passed on to the team by both parties (e.g., ensuring delivering and payments) including filling up for whatever skills deficiencies. It gave the team the opportunity to learn more about the trade but it was not a 'healthy' situation.

Aside from skills constraints, the project was also suddenly faced with stagnant markets in Mindanao (which was the main market of the processors) due to the bombings. It was fortunate though that the project was already having discussions with a Manila distributor. All these developments made it imperative to accelerate the development of a specific product differentiation factor that the communities can sustain as a marketing proposal.

### Shifting gears ... gearing up

The project made the following shifts:

- Concentrated first on building up the BDS system in the communities and, consequently, strengthening communities' offer and position in the market
- Passive role in brokering of transactions and, instead, market development activities focused on:
  - Promotion with product quality and food safety as the main themes
  - Providing opportunities for the different players to interact with each other

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<sup>4</sup> At the time we were starting, it was more a question of whether we secure the market first or build the skills via setting-up the community-based BDS system.

both in formal and informal settings

- Market development/expansion support to processors

### **Reducing the risks, enhancing the rewards ...**

To this date, the shift in market linkage facilitation activities appears to be working well. Linkages are induced by market forces and are more spontaneous. More buyers are coming in including those from Manila. Main role of the project is to track down progress of partnerships including discussions of new issues and constraints. Processors provide the project with feedback on their transactions which are then use as basis for capability building activities of intermediaries. On the other hand, intermediaries discuss with the team problems encountered in transactions with suppliers and buyers. The team provides assistance in defining solutions to problems or in reaching new opportunities which also provides a hand-on context of learning for all the intermediaries concerned.

At this time, relationships have not reached the point where the different parties can discuss relationship issues and constraints openly with each other. However, there is already a certain degree of openness.

### **Restoring the balance ...**

The entry of more buyers both from Davao and Manila provided the communities more choices, and hence, more power in the market. This brings us to a new situation where we have to 'teach' the community intermediaries on how to use this 'power' in a positive way --- in creating win-win long term transactions, ethical trading relationships, customer loyalty and retention.

### **Improving trade practices ...**

Improving trading practices and relationships is facilitated by helping intermediaries to develop and/or improve their trading systems. In all system development activities, the project make it a point to build on the indigenous trading system as well as on the cultural practices and ethnic governance structure. Likewise, competitive forces due to entry of buyers led traders to offer better terms and conditions to semi-processors as well as upgrade their roles and functions which, in one way or another, help in improving the efficiency of the supply chain. Similarly, processors or their buying agents also offer relatively better prices to traders as well as added services such as assistance in opening bank accounts, cash payments,

pick-up of products at buying stations, etc. It was observed that loyalty was higher and stronger to those who offered additional services.

### **E. Community-led and Market-based Approach to Potable Water Delivery/ Infrastructure Development Initiative**



Public sector failure particularly potable water service delivery is a universal phenomenon especially in remote rural communities. Lack of access to potable water has been a perennial problem in kaong producing communities affecting not only the health of the people but also hindered them from getting the license to operate a food processing plant. Rather than waiting for government to act on their problem, the cooperative and the intermediaries worked with the project in evolving a potable water delivery business model patterned after the BDS market development approach. The project team assisted the stakeholders in the preparation of a simple business plan and the financial viability scheme including water distribution system. Key intermediaries, the cooperative, and households invested both financial and in-kind contribution including labor to set-up the needed infrastructure. To date, direct outreach is limited to about 100 households with still about 75% of the households in

the pilot community that still need to walk a few kilometers to the nearest water outlet primarily due to resource constraint. This situation, however, is better than not having access to potable water at all. The pilot has shown that micro enterprises working collectively can play an effective role in delivering infrastructure services as well as the ability to work profitably with lower overheads and manage service delivery at a micro level.

## **F. Promotion of a Better Business Environment**

Regular coordination is being conducted by the project with local government units to ensure the alignment of services with regulatory and food safety requirements. Through project organized events, government agencies are provided opportunities to share and explain to the communities and enterprises the various regulatory requirements and assistance programs. These forums also provide the government agencies insights on project approaches and results, which translate to official support to and recognition of the development efforts being undertaken by the poor/communities as well as better and equitable delivery of public goods (e.g., farm to market roads) to kaong communities. Through dissemination of program results, market-based development approaches are gradually being accepted and embraced by various players and stakeholders.

The project facilitated the entry of households and semi-processors into the mainstream system by advocating for their representation in the different meso and macro level committees and organizations in the processed food industry. As collective enterprises operating under mainstream market standards, the semi-processors have gained the recognition and respect of the industry and the public sector.

## IV. PROGRESS TO DATE AND IMPACT

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### OUTCOMES AND RESULTS TO DATE

#### Systemic Changes

- Rural producers' widespread compliance with GMP standards increasing the competitiveness of the sector
- Providers innovating new services/delivery and payment schemes, in addition to those directly introduced by the project, and replicating services from one food crop to another including other aspects of community needs such as potable water
- Improved coordination and relationships among players which allow increased learning, improved information flow, and better distribution of benefits (from trade) particularly among the indigenous communities
- Market resilience: when the SARS epidemic and the post 9/11 economic slump hit Mindanao hard, food processing and trading firms were able to reach new markets in Manila and other key cities that were previously closed or inaccessible to them.

#### Short-Term Results

- Strengthened the supply chain of different levels of intermediaries and reaching about 350 micro enterprises, 40% of whom are women
- Enterprises' average product rejection rates decreased from 40% to 5%
- Communities reported receiving higher prices due to improved quality of their semi-processed products
- From seasonal orders to year round production and regular orders

Although implementation in 2003 was affected by the SARS scare and series of bombings in Southern Mindanao which slowed down economic activities for almost a year, the project has been successful in bringing about a more vibrant environment for the kaong subsector. Highlights of results and outcomes are presented below:

## **A Progress Towards Building Win-Win Relationships in the Value Chains**

Project has made significant progress towards the development of win-win relationships and, consequently, a more equitable distribution of benefits among the different players in the value chain particularly the indigenous communities. Facilitating mutually beneficial, or “win-win,” relationships among players in the value chain creates incentives for players to seek higher levels of efficiency and outputs, increase efficiencies in moving products and information between enterprises, and developing community/provincial level strategies to compete in markets outside of the locality. Improved inter-firm coordination resulted to increasing efficiency and productivity particularly at the community level brought about by standardization of production processes and conformance to quality standards facilitated by acquisition and use of value-chain based BDS.

It is envisioned that relationships in the future particularly between and among these three links would have the following characteristics: a) high degree of interdependence and such interdependent relationships oriented towards end market demand; b) effective and efficient management of quality and performance along the chain to induce convergence of supply side capabilities and demand side requirements; c) systemic supply chain upgrading; d) non-adversarial/equitable returns (to participation) and sharing of risks; e) transparent; and f) long-term relationships. Baseline, current, and future ‘picture’ of the relationships are presented in Table 2.

**Table 2. Baseline, Current, and Future Picture of Relationships**

SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS			COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS		
Baseline	Current	Future	Baseline	Current	Future
<b>Supplier and Buyer Selection/Procurement</b>					
<p>Spot selling and purchasing</p> <p>No prior commitment or orders although there was some informal guarantee of business beyond today. Some degree of importance given to past transactions.</p> <p>Price and terms of payments were the main</p>	<p>Some semblance of long term relationships. Each trader has informal network of suppliers. Traders absorb deliveries and outputs of regular suppliers.</p> <p>Verbal orders and commitment of volume for delivery --- relayed from main buying agent to barangay buying station to semi-processors. However, buying stations and semi-processors still prone to 'better offer gets supply' attitude.</p> <p>Preferred supplier/ buyers. Semi-processors manifest higher degree of loyalty to traders who help them improve their skills, offer facilities/infrastructure near their residence, etc.</p> <p>Product quality is already factored in addition to current market price</p>	<p>Long-term partnerships/ relationships to mutually grow business</p>	<p>Spot market sales</p> <p>No regular transactions. Processor or its buying agent initiated transactions. Usually visit area when they needed additional semi-processed kaong.</p> <p>Subjective pricing. Flexible payment terms.</p>	<p>Preferred suppliers/ buyers. Some semblance of long term relationship and some form of predictability in orders. Traders more loyal to buyers who provide add-on services (seeds, packaging materials, assistance in opening ATM bank accounts, etc.) even if volume may be lower than other buyers.</p> <p>Traders already exercise some proactive booking of orders rather than waiting for buyers.</p> <p>Cash on delivery. Traders give preference to buyers who pay cash on delivery.</p> <p>Buyers tend to be more</p>	<p>Trader and processor jointly conduct forecasting and decide time and size of delivery and with pre-agreed mutually acceptable prices (price stability).</p>

**Table 2. Baseline, Current, and Future Picture of Relationships**

<b>SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS</b>			<b>COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS</b>		
<b>Baseline</b>	<b>Current</b>	<b>Future</b>	<b>Baseline</b>	<b>Current</b>	<b>Future</b>
<p>determinants on whom to sell and from whom to buy. Info dissemination re: trader with higher buying price spread fast within the community.</p> <p>Flexible and subjective pricing and payment terms</p>	<p>Cash on delivery.</p> <p>Evolution of schemes vis -à-vis various conditions.</p>			<p>accommodating and open to negotiations when they know that products are of good quality</p> <p>Still some degree of bidding and bluffing game re: price between two parties. During lean season, buyer has dominance. Peak season: supplier can, to some extent, influence price.</p>	
<b>Information Sharing/Transparency</b>					
<p>Some degree of information dissemination on pricing, costing, and demand from traders--- but more for their benefit or sometimes distorted to serve</p>	<p>Sharing of demand info--- current and potential.</p>	<p>Significant and two-way sharing and optimal use of information on planning and operations of business</p>	<p>Directive. One-way. Limited. Just focused on current transaction.</p> <p>Different quality standards: trader vs. processor</p>	<p>Indicative information on short and medium term demand, production matters, etc. provided at ad hoc basis. Buyers though are still uneasy when traders ask for information on market and company's operations.</p>	<p>Workflow and information are exchanged in a manner that permits the introduction of innovation, better relationships and joint efforts to better respond to</p>

**Table 2. Baseline, Current, and Future Picture of Relationships**

<b>SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS</b>			<b>COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS</b>		
<b>Baseline</b>	<b>Current</b>	<b>Future</b>	<b>Baseline</b>	<b>Current</b>	<b>Future</b>
<p>their interest</p> <p>Prices vis-à-vis standards are arbitrarily set and which micro enterprise accepts in exchange for immediate cash.</p>	<p>Suppliers and traders aware of standards. Purchasing and pricing decision almost always based on agreed standards.</p>			<p>Traders and buyers, at times, employ price info distortion to get better prices.</p> <p>Standards recognized and used as basis for pricing most of the time.</p> <p>Discussions regarding transaction/relationship related problems not yet that open.</p>	<p>market demands. Both parties use information positively --- how to jointly take advantage of market opportunities rather than taking advantage of each other.</p>
<b>Quality Control/Inspection</b>					
<p>Quality control rarely done. Focus was on counting of number of 'caltex container' or the weight.</p>	<p>Quality control conducted at buying stations. Improved understanding and acceptance of semi-processors on rejects vis-à-vis standards.</p> <p>Final weighing at buying station</p>	<p>Quality control and assurance at the level of semi-processors. Self-initiative to sort out products.</p>	<p>Price used as quality control mechanism. Basically subjective.</p>	<p>Quality assurance and control at trader's site.</p> <p>Still some issues on where final weighing should be done although majority of buyers have accepted on-site weighing policy since traders have also adopted this with their suppliers. Issue has roots on weight loss due</p>	<p>Institutionalization of standards and quality control practices at all links of the chain. Standardization of weighing practices and allowances for moisture content -- acceptable to all parties concerned.</p>

**Table 2. Baseline, Current, and Future Picture of Relationships**

<b>SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS</b>			<b>COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS</b>		
<b>Baseline</b>	<b>Current</b>	<b>Future</b>	<b>Baseline</b>	<b>Current</b>	<b>Future</b>
				to water content.	
<b>Value-added services/Collaboration and Cooperation</b>					
Some learning and skills transfer based on local norms and subject to limitations of capability of traders	<p>Close monitoring of production and logistics process as well as the final product at delivery stage. Training and mentoring services to solve production bottlenecks.</p> <p>Buying stations set-up to reduce transportation costs and/or 'walking'.</p>	Interdependence and partnership. Both parties will mutually exploit cost, quality, technical, or marketing advantages via their collaboration.	Almost non-existent	<p>Some technical and in-kind assistance to improve quality and traders' operation.</p> <p>Buyers assist traders in banking procedures.</p> <p>Most buyers pick-up products at buying station so that traders are able to maintain decent profit margin.</p> <p>Some processors feel that there is still a lack of trust on the side of traders despite their significant amount of orders during the past months. Processors also feel there is still lack of ethics which make them hesitant to significantly invest in supplier</p>	Partnerships are based on a long-term commitment to cooperate to achieve mutually acceptable outcomes.

**Table 2. Baseline, Current, and Future Picture of Relationships**

<b>SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS</b>			<b>COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS</b>		
<b>Baseline</b>	<b>Current</b>	<b>Future</b>	<b>Baseline</b>	<b>Current</b>	<b>Future</b>
				development.	
<b>Basis of Competition/Offer to the Market</b>					
Price  Abundant supply of kaong nuts	Increase volume of semi-processed kaong supply  Good quality products  Lower cost of transactions resulting to competitive pricing structure and fairly consistent prices	All parties able to transact business under better conditions primarily through specific differentiation factors other than price.	Price and supply availability	Quality --- community is becoming known for top quality products  Economies of scale and lower cost of transaction	Quality, cost efficiency and price, dependability and reliability, socially responsible trading practices

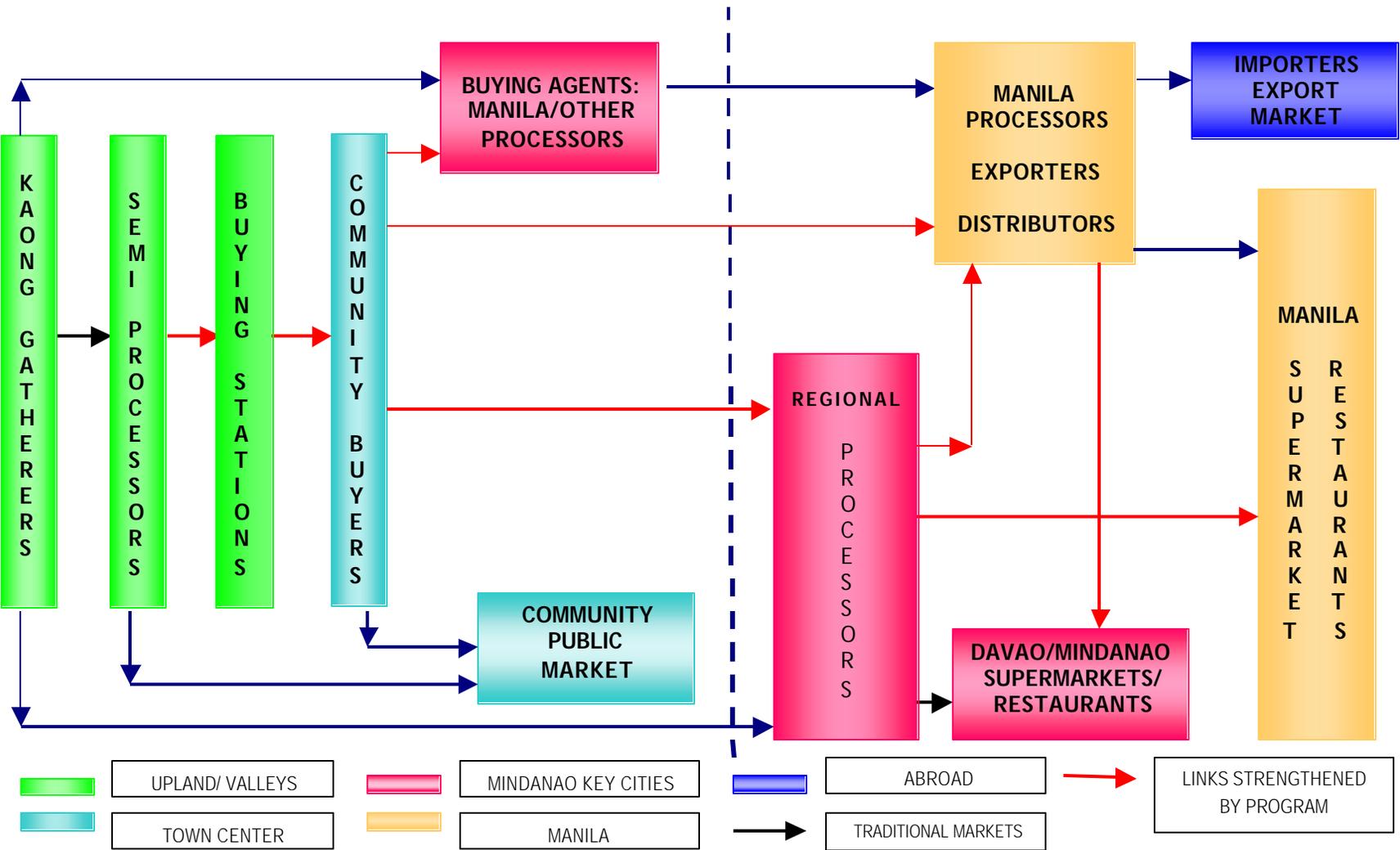
## B. Progress in Integrating Indigenous Communities into Mainstream Markets

<b>Table 3. Key Features of the Market</b>	
<b>BASELINE</b>	<b>CURRENT</b>
The villagers' access to markets and their social networks are historically limited within the town "public market"	Communities are now known and/or connected to buying agents/ distributors and processors from Davao, nearby Mindanao cities, and Manila.
<p>According to processors, quality of semi-processed kaong was very poor. As such, buying price was also low.</p> <p>According to the semi-processors, their quality was good and acceptable based on their traditional/local norms.</p>	Semi-processed kaong from the communities acknowledged by the industry players to be of very good quality.
<p>The only kaong processor based in Davao del Sur bought from the villages on an intermittent basis (usually also at peak season).</p> <p>Representatives of Davao-based processors sourced out their semi-processed kaong requirements only when they are desperate for supply</p>	Buyers purchase regularly from the communities.
The barangay assemblers and buying agents engaged in semi-processed kaong trading only during peak seasons	Production and trading of semi-processed kaong has now become a year round activity. This was brought about by orders from processors serving the export markets and institutional buyers like restaurants and hotels.
The more established traded product was the raw kaong nut. Trading of semi-processed kaong was in small volume --- referred as the 'Caltex years'. Semi-processed kaong bought by 'small Caltex containers' and not by weight.	<p>Semi-processors and community trading intermediaries are now talking in terms of kilos and tons.</p> <p>Manila-based exporter via buying agent buys 10 to 15 tons every two weeks. Local processors buy average of 10 tons per month.</p>
Buying price of semi-processed kaong ranged from US\$ .09 to US\$ .15 per kilo	Buying price ranges from US\$ .18 to US\$ .26 per kilo of semi-processed kaong

To date, semi-processors have wider market options and are now directly selling to a range of processors (within and outside of the region, e.g., Manila) as a result of improved product quality and increased capacity resulting directly from use and acquisition of business and technical services and collective marketing. Similarly, local and regional processors have improved market competitiveness both in the regional and Manila markets brought about by the relatively more stable supply base of good quality semi-processed kaong and better partnerships with semi-processors.

With increased income, pilot communities in Davao del Sur were able to raise capital which enable them to expand into vinegar production which are sold both in the local and regional markets. The kaong vinegar is sold collectively and under a unified common brand.

**MOVING THE KAONG FROM THE MOUNTAINS TO THE CITIES**

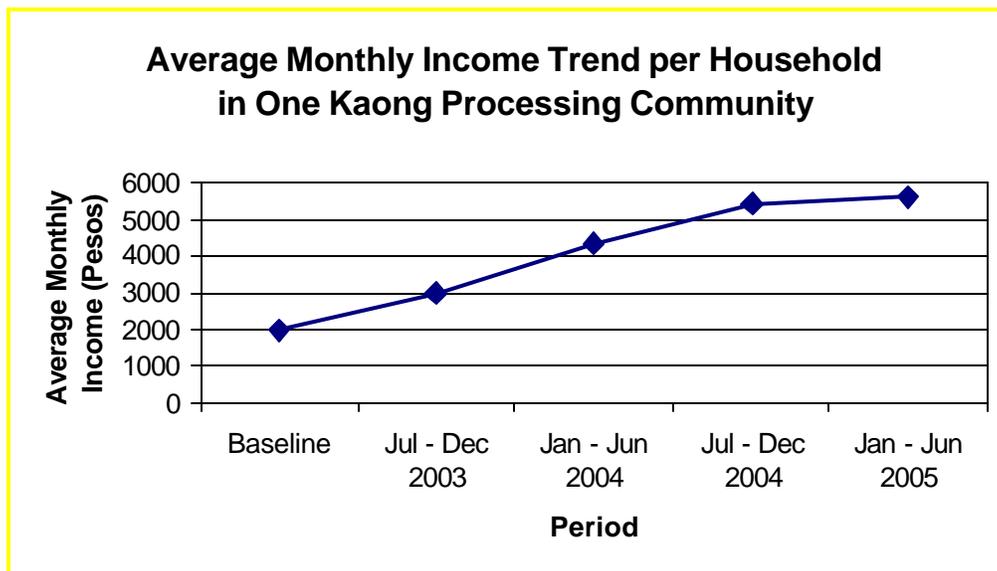


### C. Progress in Improving the Quality of Life of Communities

The BDS project for the kaong subsector provided the communities the triple bottom line of profit, people, and planet. The business idea will improve living standards and reduce poverty in communities through:

**Income stability:** Whole-year round production and trading of semi-processed kaong and vinegar. Regular orders placed by buyers and increasing demand trend for products.

**Increased income and profitability.** On the average, gross household income increased by 180% (from PhP 2000 to PhP 5600). With improved production processes and access to common service facilities, productivity increased and percentage of rejects decreased from 40% to 5%. Likewise, transaction costs decreased significantly.



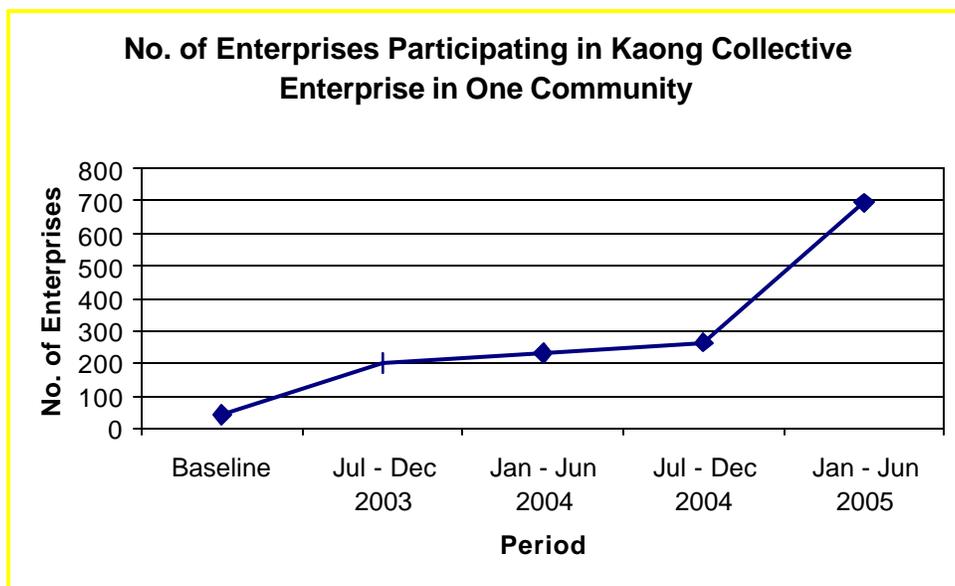
**Added value production.** Semi-processing activities enabled communities to capture a bigger value within the chain. Higher returns from lowly vinegar currently sold at marginal profits through market repositioning facilitated by shift to organic production, introduction of variants, and achievement of premium quality.

**Improved access to resources for growth:** Communities have now access to skills knowledge and resources facilitated by development of indigenous capacity for support services delivery anchored on market-based mechanisms to ensure its financial viability.

**Biodiversity conservation.** Improved consciousness among communities of the need for biodiversity conservation, which is vital to livelihood security.

**Preservation cum profitable use of indigenous processes.** Recognition of richness of indigenous knowledge, which is important in perpetuating self-empowerment

**Better control and access over resources and markets through collective strength.**



## V. PARTICIPATING ORGANIZATIONS

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- A. Self-help organizations and cooperatives in the communities
  - Focal point in the communities
  - Base for organization of training and other activities
  - Base for collective production
  - Management of common service facilities
  - Base for advocacy campaign and social marketing
  - Management of pool of community-based trainers
  
- B. Local government agencies engaged in enterprise development
  - Product promotion activities
  - Orientation on regulatory requirements
  - Inputs in development of standards vis-à-vis regulations
  - Inputs in development of services
  - Market research inputs/Assessment inputs
  
- C. Universities/Academe with courses in Food Technology and Agriculture
  - Support in the implementation of Young Consultants Program --- training of third and fourth year Food Technology and agriculture students consisting of classroom training and immersion in the communities
  - Community apprenticeship for graduating students
  
- D. USAID
  - Technical inputs
  - Funding
  
- E. Swisscontact
  - Technical inputs
  - Funding

## VI. PROJECT TEAM

Name and Position	Responsibilities
Ivan Idrovo Project Adviser	Project design and programming/ Implementation directions
	Market/subsector – value chain analysis
	Strategic inputs in the adaptation and/or development of instruments
	Strategic directions in the conduct of the following: <ul style="list-style-type: none"> <li>- development of BDS system</li> <li>- identification of partners and pilot groups/players and definition of cooperation agreements, business plan strategic orientation</li> <li>- definition of standards and systems</li> <li>- organizational and institutional development</li> </ul> Coaching and mentoring of providers in the development and delivery of services
Marian Boquien Project Manager	Project management and implementation supervision
	Work with Program Adviser Ivan Idrovo in the development of project design, strategies, and BDS product concepts and systems
	Design and development of market/subsector assessment instruments and guidelines
	Conduct of subsector studies in selected areas/ supervision of primary field research and survey
	Product and market development
	Organizational Dev
	Project monitoring and evaluation
Concepcion Nobleza Food Technologist Business Development Adviser	Product and market development
	Trainors' training on production processes and Good Manufacturing Practices

Name and Position	Responsibilities
	Technical support to development and operationalization of BDS systems
	Organizational Development
Darrel Flores Business Development Adviser	Market research
	Technical support to development and operationalization of BDS systems
	Project monitoring and evaluation
Emmanuel Quisol Business Development Adviser	Market development
	Organizational development
	Technical support to development and operationalization of BDS systems
	Organization of promotion and awareness campaign

## VII. PROPOSED EXPANSION

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### A. Management and Conservation of Kaong

Kaong yields and regeneration are declining due to continuous harvests and less civets. The proposed expansion aims to maximize the long term viability of the kaong and the biodiversity to provide for human and wildlife needs in the context of win-win enterprise development through the following:

- a) Establishment of community-based system to manage kaong on a sustained-yield basis which will enable community to make adjustments in harvesting level based on periodic monitoring of tree regeneration
- b) Promotion of civet conservation parallel to income diversification through commercialization (community-based enterprises) of indigenous coffee using beans from civet droppings (among the most expensive coffee worldwide but not known to natives)
- c) Facilitation of shift to environmentally sensitive and traditional processes via a product differentiation platform which will enable communities to get premium prices (i.e., full scale organic production of vinegar)
- d) Ecology management sensitization of value chain players through dissemination of quantified net effects of responsible environmental practices

### B. Expansion to Other Kaong and Non-wood Forest Product (NWFP) Dependent Communities

This project can be implemented elsewhere. Issues/problems described are prevalent in other kaong producing areas in Mindanao which the project has not yet covered. This may also be adapted for other non-wood forest products with some variations on products and market-based mechanisms on which to anchor the sustainability framework.