SEMI-ANNUAL REPORT
1 January 2007 – 30 June 2007

B-ACE

Banana Agrichain Competitiveness Enhancement

USAID
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SDCAsia
Strategic Development Cooperation - Asia

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PART ONE:
PROGRESS REPORT

A. Overview

The goal of the Banana Agrichain Competitiveness Enhancement (B-ACE) program is to enhance the competitiveness of the processed cardava/banana chips industry while promoting broad-based growth that involves and benefits the majority in a sustained way. Specific objectives of the program are the following:

a) To enhance capability of local government units to design and/or implement better plans and/or policies for efficient and high impact support for the banana industry
b) To facilitate increase and stabilization of supply base of cardava banana for chips industry through improved quality and productivity of cardava farms including diversification to organic/all natural bananas.
c) To facilitate the set-up of value chain quality system infrastructure covering aspects on food safety standards and traceability.
d) To facilitate the improvement of existing inter-firm cooperation as a means of enhancing levels of information, innovation, upgrading, and compliance to market requirements/standards
e) To strengthen support markets to provide services/products that would facilitate upgrading of value chain players parallel to development of systems to ensure sustained access
f) To support the development and introduction of all natural banana chips and other product variants.
g) To support the development of a marketing campaign for Mindanao's natural banana chips/processed banana products
h) To promote the profitable and sustainable use and management of natural resources through market-based mechanisms
i) To support the strengthening of private-public partnerships as mechanisms for the promotion of unified development of the processed banana industry with social responsibility and sustainable business growth as framework for collaboration and benefit distribution.

The B-ACE program hopes to increase incomes by an average of 30% within a period of three years. The benefits to the majority will derive from greater integration into value chains resulting in higher and more stable income, improved capabilities to get a higher share of the margin, and diversification of options.

From last year's PhP 3.00 average price per kilo, fresh cardava is now pegged at P5 a kilo (farm gate price). More farmers in Mindanao have gone back to taking care of their cardava farms and/or expanded to cardava farming after learning about its profitability. The improvement in prices of cardava was brought about by the following factors:

a) Growing popularity/Increasing demand for cardava-based snack food[1] sold mainly by street side vendors and recently being offered by Jollibee[2], the largest food chain in the Philippines, as well as some gourmet restaurants/ snack bars especially in Davao.
b) Increasing export demand for banana chips
c) More pronounced shortage of cardava supply as a result of the destruction of Luzon farms due to the series of typhoons in 2006. This resulted to increased sourcing in Mindanao

[1] Banana turon, banana barbecue, saba con yelo (sweetened banana with ice), maruya, pinaypay
[2] The McDonalds in the Philippines

Based on our continuing incremental market researches, the local market primarily drives the price for fresh cardava. However, the local market is dominated by micro scale enterprises cooking and selling snack food which are perishable (one-day shelf-life). These micro enterprises buy from a range of 10 kilos to 20 kilos of fresh cardava daily primarily from the public market. Likewise, their businesses slow down during school breaks. Demand is highest in Manila/National Capital Region. With the destruction of cardava farms in Luzon, the Mindanao growers via the traders were able to penetrate the Manila market at a very good price. It is expected that the supply in Luzon will start to flourish during the 4th quarter or early next year. The general apprehension among Mindanao farmers is on how to sustain the current prices and expanded markets they are currently enjoying.

Prior to 2007, banana chips processors (of which majority are in Mindanao) utilized 35% of the cardava annual production. In Mindanao, these processors were traditionally the main markets of about 30,000 to 50,000 farmers and, as such, dictated the prices. During the recent months, however, processors particularly those who did not invest in building good relationships with their suppliers are suffering a supply reduction at an average of 50% since they cannot afford the prevailing market price. Processors, in general, cannot readily adjust to the market prices since their contracts with importers were made 6 months before. This situation has been further complicated with the appreciation of the peso from US$ 1: PhP 52 to US$ 1: PhP 46.

As a strategy to deal with this environment, the processors slow down or temporarily suspend operations rather than operate at a loss. Micro enterprises in snack food has greater flexibility to adjust to market prices of cardava since they operate mainly on a day-to-day basis and costs can be passed on to some extent to end consumers (higher prices, smaller banana at same price).

Given the more pronounced shortage of cardava during the 1st half of 2007, the program faced the challenge of facilitating the balance between farmers and processors and their natural and traditional competing interests and apprehensions. While the program is happy that the farmers are enjoying good prices, the program also recognizes and is cognizant of the following realities:

a) Continued profitable operations of the processors are vital both for export earnings of the region, employment generation, and the long-term stable market for Mindanao cardava farmers
b) While it is important to significantly increase production volume in Mindanao urgently to address supply shortage and to take advantage of the Manila market and good prices, careful considerations have to be made that farmers will continue to have diversified markets even after the Luzon farms start to normalize their production
c) Processors can shift to other businesses other than banana chips but cardava growers have very limited options.

B. Summary of Activities

In response to the "cardava crisis" (for the processors) and "cardava boom" (for the growers, retail and wholesale traders), program activities focused on facilitating the following:

<u>Building up capabilities and capacities of communities to make them "attractive" and "relevant" partners to players in the chain</u>

- Improvement of productivity through adoption of Good Agricultural Practices based on low-cost and indigenous technologies.

- Development of community-based capacity and capability for delivery of services that will facilitate compliance to GAP and quality standards as well as adoption of organic farming.
- Set-up and/or operationalization of common service facilities for value added processing (first-fry)

<u>Promotion and facilitation of "more stable supply" by increasing awareness and willingness to plant more cardava</u>

- Collaborative relationships between government's One Town One Product (OTOP) program and growers to increase local production
- Info dissemination campaign on market viability of cardava through good practices

<u>Laying the groundwork for sustainable demand for cardava in the local market</u>

- Product development for the local market with a focus on the diversified uses of cardava and banana chips variants to suit Filipino consumer taste
- Local market development campaign

<u>Promotion of win-win relationships</u>

- Collaborative relationships between growers and first-fry communities gearing towards integrated vertical relationships as well as strengthening horizontal linkages among farmers and growers through organizational development.
- Linkage of remote communities (not reached by traders) to processors
- Information exchange/Informal networking
- Strengthening of linkages between LGU and national government agencies and growers and processors to increase competitiveness of the Subsector

The following were the main activities:

1. Good Agricultural Practices based on Indigenous Technology

<u>Building an indigenous base of providers to facilitate GAP implementation</u>

Series of trainors' training designed to build-up a pool of community-based providers consisting of the following: a) progressive farmer leaders; b) "model farmers" in communities; and c) agriculture extension officers from the local government units. The training consisted of both classroom and field training. Re-entry plans of participants focus on transferring low-cost and practical GAP knowledge and skills to farmers in their communities as well as assistance in the set-up of model farms (starting with their own farms). The training with Agri-technicians could be a take-off point for cardava farm mapping.

The first trainors' training was handled primarily by SDCAsia team, retired managers from multinational banana plantations, and input suppliers. In the subsequent batches, selected farmers trained during the first training formed part of the pool of trainors which contributed significantly to making GAP compliance cost effective and aligned to indigenous technology.

Systems for the conduct of community-based training are currently being developed and tested.

<u>Synthesis of GAP aligned indigenous technologies into a user-friendly 'living' GAP Manual</u>

Research based best practices, and indigenous technology from farmers are currently being harmonized and documented to come up with practical, low-cost GAP Manual for cardava farms.

<u>GAP Model Farms for validation, demonstration, and reduction of risk aversion of farmers</u>

Adoption of GAP is faster and easier if model farms can show the advantages of implementing GAP. Three model farms with different farming systems were identified to cover the 3 most common/promising farming systems: undercropping, monocropping, and organic farming. The development of model farms will be a partnership between the farm-owner, the community-based trainers, the LGU/PGU.

<u>Knowledge capture, recognition, and dissemination through Best Banana Competitions</u>

The program in collaboration with local government units and farmers' associations initiated the conduct of Best Banana Competition with the following objectives:

- To facilitate the documentation and dissemination of best practices on Cardava farming
- To promote awareness and common understanding on the benefits of quality standards and food safety compliance
- To provide opportunities to the farmers/micro processors to gain exposure and learn from markets and buyers
- To facilitate info sharing and win-win relationships among and between the stakeholders involved in the Cardava Value Chain
- To promote and/or strengthen public-private partnerships
- To identify potential leaders/catalyst that can be tapped as VC trainers/BDS providers

Criteria for judging includes: a) innovativeness of practice and cost effectiveness; b) bunchweight in kilos; c) replicability; d) quality; and e) product display/presentation.

Print, radio and TV media provided support in the promotional campaign and info dissemination on winners and technology snapshots. The winning Cardava entry, for example, generated a lot of interest among the readership and TV viewers. This paved the way for more cardava traders/buyers to visit the area. Furthermore, it facilitated the development of a sense of pride among the Cardava industry players in the municipality and has given them good recognition in the region. A region wide competition is set on August.

SUN·STAR

10 **Gulf Cities**

Thursday, January 25, 2007

1st Banana Festival a success in Malita

THE CELEBRATION of the First Banana Festival as a part of the 70th Founding Anniversary of Malita in Davao del Sur last January 19 was a big success.

And, true to the festival itself, cardava bananas were everywhere.

Filled with fun and excitement, Malitanons of all ages took part in the activities to exhibit not just the town's main source of livelihood, the cardava banana, but the talents and skills of which the local people can be truly proud of.

The municipality of Malita is among the areas that grows the finest cardava bananas in Mindanao, which is as a product result of the good agricultural practices implemented, not to mention the added love for work, dedication and patience the Malitanon banana farmers possess.

Their resourcefulness is a plus, too. Recognition, and innovation of indigenous technologies and still in the continuous search of alternative farm methods among progressive Malitanon farmers, have facilitated the development of a very efficient farming system for Malitanons and, consequently, the reduction of minimizing production costs and maximizing optimization of capacity.

All of these fueled Malita in producing healthy, disease-free, and quality cardava bananas, proven to be best for all purposes highly suitable for production of banana chips and other by-products, especially in the production of banana chips.

With deep gratitude in the hearts of the local folks, they commemorated the First Banana Festival enlivened by colorful marching bands, composed of blooming schoolchildren in their early elementary grades. Their smiles and the music boosted everyone's energy and brought a festive mode sending the audience into dancing as well.

There were also highlighting of the different parlor games prepared for the children, and an impromptu Visayan rap about the Banana Festival and the beauty of Malita by a young boy was surely a hit.

The main events, the Best Cardava Banana Contest and the Banana Cookfest were a sold out. The best of the best cardava bunches were displayed to be judged in the Best Cardava Banana Contest and among that topped were the entries of Winifredo Mir, Ademar Maneja, and Al Talilis, who placed first, second and third, respectively. Their bananas were not only visually presentable, but were also evaluated according to the farm practices they apply.

The heaviest banana bunch was also awarded to Al Talilis as a special prize. The winners will be tapped as advocates and trainers in cardava production where they can share their practices to other farmers.

The homegrown judges and the SDCAsia technical team also admired the excellent Cardava bunch of Malitas of Vice Mayor Allan Colina, whose farming practices maybe at par with GAP standards.

With participants coming from all categories, elementary to high school and college students, the Banana Cookfest was able to showcase the ingenuity of the Malitanons and the different products made from cardava.

Professionals, husbands and housewives, magkakabarkadas, and micro-entrepreneurs were also there and happily shared their original recipes, most of them of which I have never known and eaten in my entire life.

Yet, unique and exotic as they may seem, they taste just as good, and perhaps more delicious, than the existing putahes commonly served in our dining tables.

Among the 13 different entries under the Main Dish Category, the Banana Balls of Spamast Buhangin won first prize, with product comprising 100 percent cardava meat and peel.

In the Dessert Category, the Banana Tart of Malita Central Elementary School reigned superior over 10 product entries, while under the Snack Food Category, the Denamugan of the Fishing Village Elementary School was the best among nine contenders.

The First Banana Festival was a joint endeavor of the Banana Agrichain Competitiveness Program (B-ACE) and the Local Government of Malita. The B-ACE program is managed and implemented with the generosity extended by USAID through the implementation of Strategic Development Cooperation Asia (SDCAsia) and made possible through the generous support of the American people via the USAID Microenterprise IGP.

Held in cooperation of the local government of Malita, the pilot celebration of the Banana Festival was a huge success.

Under the Banana AgriChain Competitiveness Enhancement (B-ACE) program, SDCAsia wishes to replicate this festival to other cities and municipalities to recognize and facilitate the dissemination of best practices and maximize enhance people's awareness on the market potentials about of cardava banana.

Main dish

First prize - Banana meat balls: Spamast Consolation prizes:

Banana Balls with Peelings: Mariano Peralta Elementary School Banana Spaghetti: Malita Central Elementary School

Dessert Category

First prize - Banana Tart: Malita Central Elementary School

Consolation prizes: Banana Float: Spamast Main Banana Float: Dahlia Kiyamagan - Fishing Village

Snack Food Category

First prize - Denamugan: Fishing Village Elementary School

Consolation prizes: Cardaba Cookies: KAMPC Milky Chips: Dahlia Kiyamagan - Fishing Village Special Prize: Best Product Display - Mariano Peralta Elementary School

BANANA BALLS made from 100 percent cardava with eggs and flour

HEAVIEST cardava bunch.

MOUTH-WATERING delicacies from cardava fruit.

2. First Fry Facilities Operations

Development of communities' knowledge base on Good Manufacturing Practices

20 potential GMP trainors are currently being developed in 4 communities with first fry facilities parallel to the development of a Banana Chips First Fry processing manual for community based trainers. The manual covers: Raw materials standards, finished product standards and sorting of Chips (broken, slanted, clustered, oily), utilization of waste products, costing and pricing. An integrated manual covering the whole process, from GAP to GMP and HACCP is still in the process of validation.

Production efficiency and productivity improvement side by side with lead firms

A dry run cum training was conducted to 2 partner communities to optimize utilization of the facility and to orient partner groups on the standards required by processors-exporters. This activity was supported by two lead firms as resource persons and coaches. Inviting processors to participate in community upgrading activities is also one of the ways that the program facilitates the formation of strategic partnerships.

Planning for Growth ... Understanding markets

Two First Fry Communities were assisted in the development of their business plans. Commitment from the buyers (processors) was also solicited during the business planning process, to strengthen the marketing plan of the 1st fryers and for all parties to have a sense of ownership.

This was a hands-on training for the communities on understanding market trends and dynamics and benchmarking of their operations with other first-fry communities and that of the processors. For the processors, this provided then with a snapshot view of prerequisites needed to build a better relationship that translates to equitable benefits sharing among all parties

It is envisioned that these two communities will eventually be able to transfer their know-how on good first fry management to other areas. One processor involved in the business planning is now in the process of entering into a strategic partnership with another first frying community wit

3. Organic Farming

Setting the stage for municipal wide conversion to an organic farming system

The Trainors' Training on organic farming in Malitbog was a first step in the municipal wide conversion from a conventional to an organic farming system. The Conversion Planning in the Barangay level has been concluded. Based on the Barangay Level Assessment, a good

Internal Control System can be established to facilitate organic Farming implementation and certification. To date, the local government unit has passed a resolution preventing commercial, chemical-intensive farms, from being established in Malitbog. 142 farmers with 185 hectares of cardava have committed to shift to organic farming.

Malitbog's move to go into organic production was driven by the desire of the communities and the LGU to develop products that would establish a special/distinct statement that they can introduce and sustain as a marketing proposal parallel to promoting the optimum utilization of resources within the context of social Responsibility that involves all the stakeholders, ecological balance, preservation and equitable distribution of economic benefits to its populace. This initiative is strongly supported by the different government agencies involved in the OTOP. The proximity of institutional buyers that has the capability to lead and develop the market for organic banana/chips, and the strong resource base for cardava in Malitbog makes organic farming a good differentiation option for the marginalized farmers.

4. Product and Market Development

<u>Banana Chips Variants for the Local Market</u>

Product development for other variants of banana chips commenced with the scanning and profiling of existing banana chips micro processors / retail producers in the region and nearby areas such as Bukidnon and South Cotabato, snapshot survey of consumer preferences and trends in snackfood in Davao, and benchmarking with banana chips formats from Ecuador, Cambodia, South Africa and Thailand. While this is still ongoing, the project embarked in a trial recipe development for common banana chips using the existing first fried chips by the community partners and those from the exporters within the region. Trial products will now be refined to suit the consumer preferences based on the snapshot survey conducted.

To build an interest among communities and OTOPs to undertake product development as well as build up indigenous capacity, a region wide competition will be held during the Cardava Banana Day on 4 August 2007. Pre-competition activities conducted June and July 2007 included: a) training of potential product dev teams of OTOPs and communities on the product development process; and b) market trends orientation and simple ways to gather such info. Judges of the competition include processor-exporters, restaurants, snack bars and café, hotels, etc. This initiative is conducted in collaboration with government agencies, the local government unit, and private sector sponsors.

Expanded uses of cardava/Going Beyond Street Food

Current generation is only familiar with street food made from cardava. Although these street foods are very saleable, the profit margins are very low. The program initiated the revival of traditional banana dishes in Mindanao as well as presented Latin American dishes which are similar to Philippine cuisine. The first volume of banana recipe book was developed which is intended to be used as the initial reference of communities in the promotion of cardava dishes either for household consumption or for small food businesses. This was also one of the tools used by the project to generate interest among restaurants to serve banana dishes.

The project also piloted the Cardava-based Recipe Contest which had the following objectives: a) to identify existing indigenous Cardava based recipes in the province as well as to document the same for further development and/or recipe dissemination; b) to demonstrate to consumers and businesses that cardava is more than "boiled bananas" and the various street food. The pilot competition was very successful and picked up by the media. Winning recipes were featured in a TV program for 3 consecutive Sundays. The competitions were also incorporated in program segments during the Davao Day celebration.

The Department of Trade and Industry has integrated the Banana Recipe Demonstration in the upcoming SME Week. A region wide competition will be conducted this August in collaboration with a lead firm from the trading channel, a shopping mall.

5. Capability Building for Lead Firms

To the extent possible, the program engages the participation of lead firms in all its activities with the communities as a means of bringing them closer.

Processors-Exporters

Assistance provided by the project to lead firms include: a) support to the development of HACCP plan and its implementation; b) relationship building with suppliers/banana communities and traders; and c) referrals to buyers/importers as well as info on market trends and requirements

Lead Traders

Manila traders are generally not aware of the presence or requirements of Davao-based processors. Project initiated discussions with lead traders especially those catering to the Manila market on the possibility of enforcing sorting and grading so as also not to deprive processors of their supply requirements. To date, one big trader has started working with two Davao processors and the relationship seems to be working. Price of cardava has also stabilized at PhP 5 per kilo.

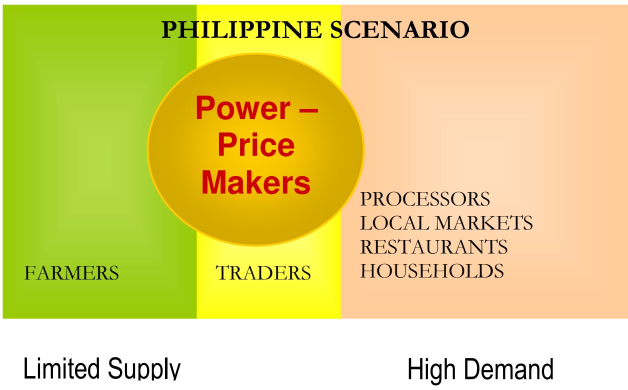
C. Performance Indicators

INDICATORS	YEAR 1 TARGET	JAN – JUNE 2007
Scale of Benefits		
No. of MSEs assisted by the project	2,000	2765
# of supporting market MSEs assisted by the project	15	31 farmer-trainors 3 cooperatives 20 GMP/production community-based trainors 20 gov't extension officers
Number of lead firm SMLEs assisted by the project	6	8
Number of women-owned/managed MSEs assisted by the project	1,000	1289
% of women-owned/managed MSEs assisted by the project as a % of total MSEs assisted by the project	50%	47%
Depth of Benefits		
Sales/income of MSEs assisted by the project (in US$)	1,523,077	US$ 1.14 M
Sales/income of supporting markets MSMEs supported by the project (in US$)	51,923	9,141 majority still at dry run phase
Sales/income of SMLEs assisted by the project (in US$)	7,650,000	1,905,600 50% decrease in production due to cardava supply shortage; starting June, raw material procurement improved
Sales of the level of the value chain targeted by the project (in US$)	36,000,000	Local street food (Davao): US$ 20M (but with more than 60,000 players) Fresh to Manila: US$ 29M Exports: US$ 10.9M
Production Level		
Productivity – ave. % increase in productivity	10%	Processors' level: efficiency improvement
Cost per unit produced - % decrease in cost per unit produced	5%	Processors level: cost per unit produced increased by 14% but this is lower than the 40% increase in raw cardava
Number of new products being produced	2	Prototypes and promotion stage
Supporting Markets		
Number of new sector specific technologies/ services/ products available	3	3 Customized GAP, GMP, and organic farming (still being fine-tuned/dry run stage)
Number of new financial services available	Cooperatives provide micro credit services to those joining collective marketing	
Number of new non-sector specific services/technologies/products available	1	None

INDICATORS	YEAR 1 TARGET	JAN – JUNE 2007
Lead Firms		
No. of new production/ management techniques adopted	2	2– GMP/Supply chain relationship build-up ... HACCP implementation plan
Number. of new marketing approaches adopted	1	0
Number of new end markets accessed	3	1
Relationships		
No of MSEs linked to lead firms	1,000	1202
No. of MSEs cooperating with one another to sell to a lead firm	1,000	1202
No. of MSEs acquiring or purchasing new supporting services	2,000	2765
No. of MSEs cooperating with one another to purchase or acquire a new supporting service	2,000	2130
No. of lead firms and/or traders providing upgrading support to suppliers/MSEs	10	3
Regulatory		
No. of procedures, time, and costs in getting permits to operate and other requirements (e.g., bar code)	0	

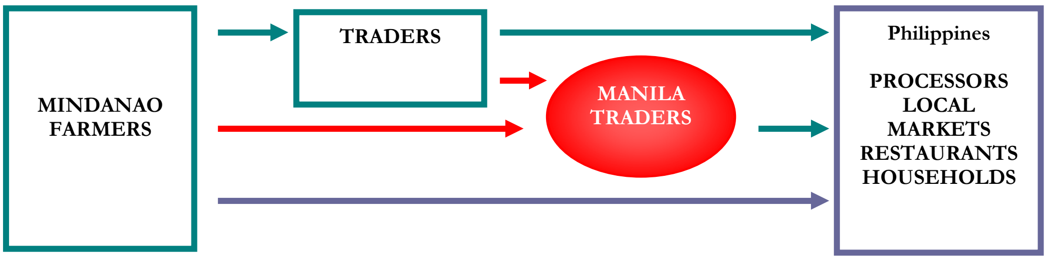
PART TWO:
UPDATED VALUE CHAIN

A. Updates



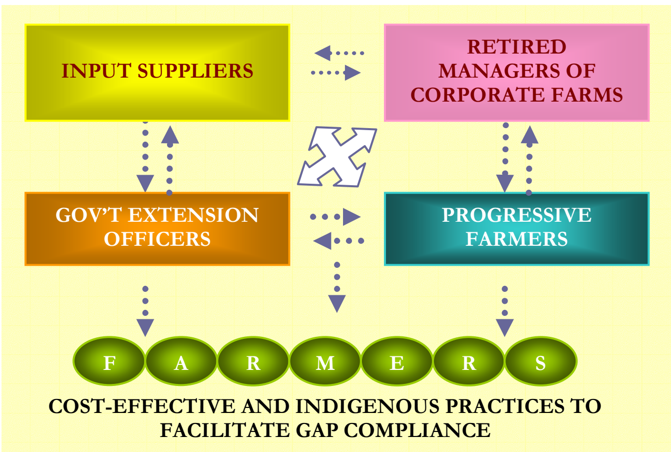
SHIFT OF POWER CLOSER TO THE SUPPLY BASE

For the first time in many years due to increasing demand and supply shortage, farmers are able to negotiate better prices with the traders. Traders, however, still have a strong hand in setting of the prices.



STEPPING OUT OF COMFORT ZONES

The entry of Manila traders made the Mindanao market more vibrant and jolt players from their comfort zones. The competition from Manila traders for the cardava supply provided the program opportunities to encourage processors to develop a more collaborative relationship and invest in the upgrading of suppliers. It also provided the platform to motivate traders and cooperatives – marketing arms to expand the ways in which farmers can be served better. For farmers, At the farmers' level, the situation provided the entry point to promote upgrading.



KNOWLEDGE SHARING AND INNOVATION

Although still at an early stage and mechanisms not fully in place, progressive players from the support markets and the industry itself have taken on the challenge of aligning indigenous practices to GAP. Good prices and showcasing of model farms with yields higher than the average have created interest among farmers to learn and upgrade.

A GROWING APPRECIATION AND CONSCIOUSNESS ON QUALITY

Competitions and inter-provincial trainings exposed participants to better than average produce as well as facilitated instant sharing and documentation of best practices. In some communities, farmers are now sorting their produce according to quality and size to cater to different clients and optimize farm income.

CARDAVA ... NOT JUST A POOR MAN'S FOOD

Through community-based competitions, there is a renewed interest on cardava based food recipes --- going beyond the street food that the present generation is familiar with. The program also came up with a collection of recipes from Latin America and the Philippines. The promotion of banana recipes is being supported by TV stations, print media, and a leading mall in Davao.

INITIAL STEPS TO CHAIN DIFFERENTIATION

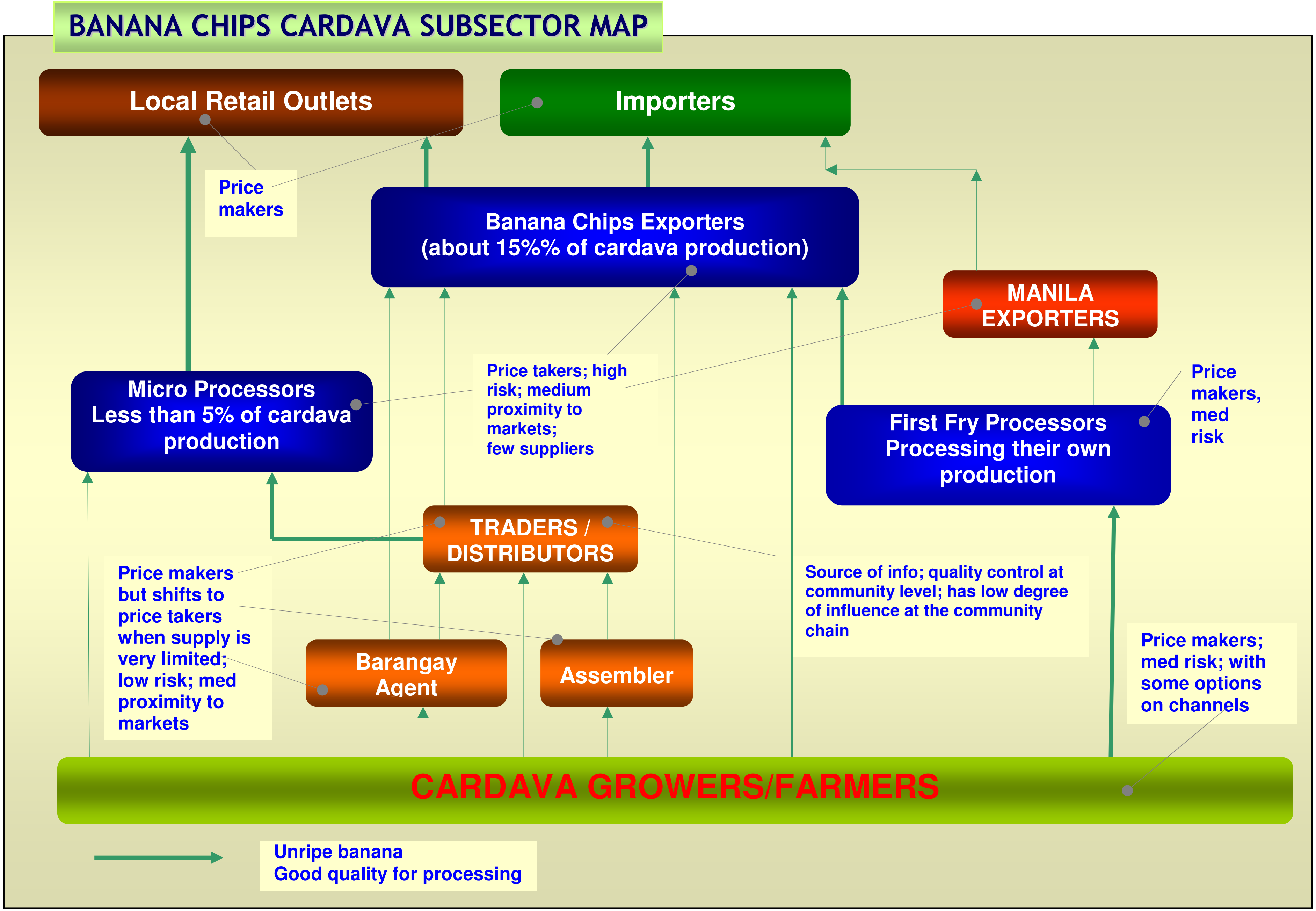
Some communities are now starting to think of ways and means on how they can differentiate themselves from the rest. One whole municipality with the support of its local government unit is now in the process of converting all cardava farms into organic production. This was perceived by the municipality as the strategy to keep them ahead of the rest of other areas parallel to promoting environment conservation. Processors are on the "look and see" attitude on whether the municipality can effectively carry on the conversion.

FARMING PLUS SOME DOWNSTREAM ACTIVITIES

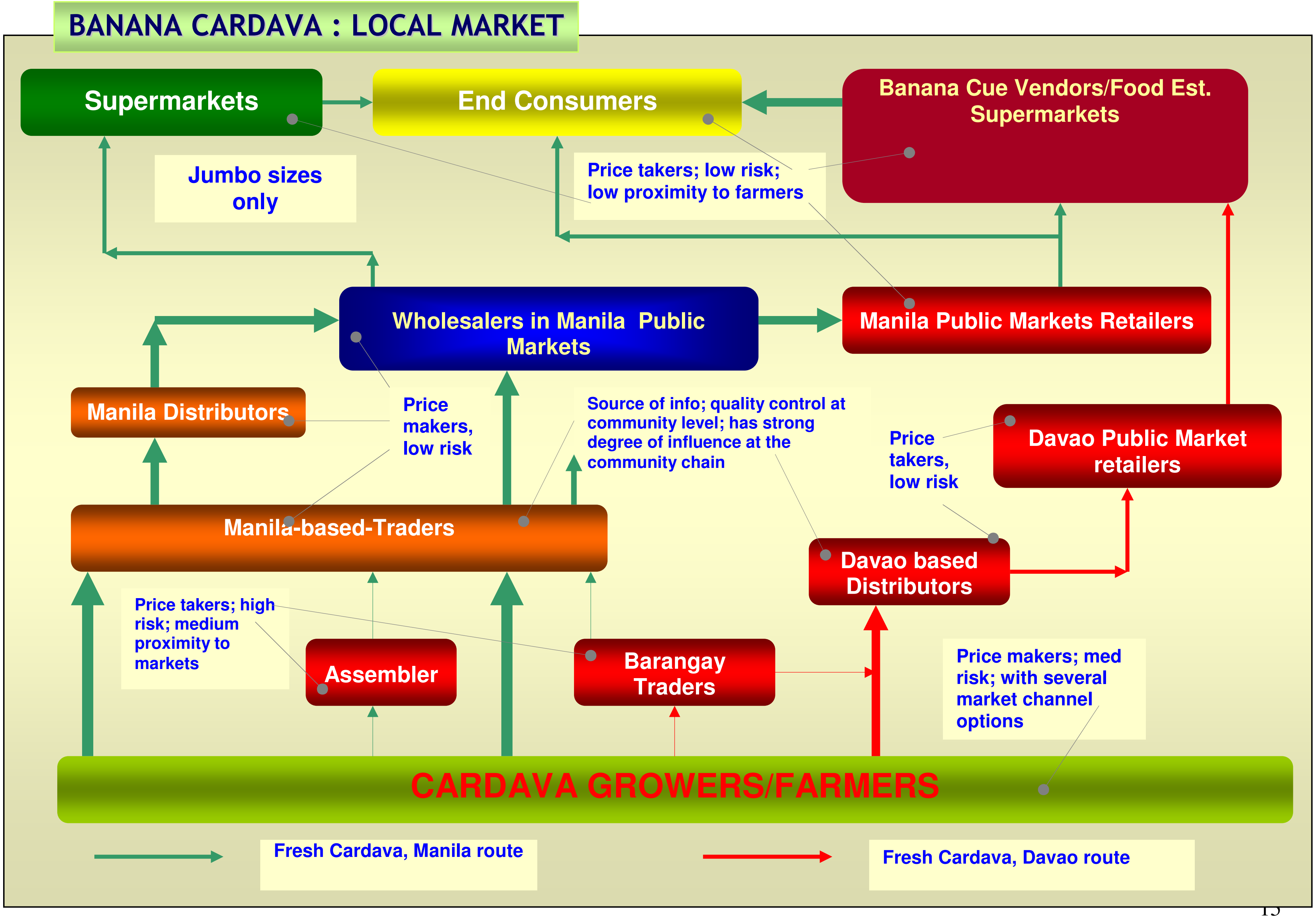
Communities taking on more functions in the chain such as collective marketing and first-fry operations as well as training services. The first-fry common service facilities were primarily established through contribution from cooperative members and with support from the Local Government Unit. Current trend is for processor/s to incrementally invest in additional equipment and/or provide the coconut oil when the first fry plant has proven its capacity and capability to meet basic quality requirements.

EVOLVING CHAIN PARTNERSHIPS

Some incremental small steps towards chain partnerships between first fry communities and processors. Processors assist communities in upgrading operations and product quality via training, investment in equipment and raw materials such as coco oil. On the other hand, communities consciously set aside a part of their produce for the first fry operations and for these processors even if sometimes the price can be lower than the prevailing market price. Likewise, in post conflict areas, these processors and their goods are assured of "safe passage". Generally, processors who have "invested" in communities were those who were able to maintain their operations during the past 6 months. These are pilot communities of the program to demonstrate the power of win-win relationships to the industry.



BANANA CHIPS CARDAVA SUBSECTOR MAP
Local Retail Outlets
Importers
Price makers
Banana Chips Exporters (about 15%% of cardava production)
MANILA EXPORTERS
Price makers, med risk
Micro Processors Less than 5% of cardava production
Price takers; high risk; medium proximity to markets; few suppliers
First Fry Processors Processing their own production
TRADERS / DISTRIBUTORS
Price makers but shifts to price takers when supply is very limited; low risk; med proximity to markets
Source of info; quality control at community level; has low degree of influence at the community chain
Barangay Agent
Assembler
Price makers; med risk; with some options on channels
CARDAVA GROWERS/FARMERS
Unripe banana
Good quality for processing



BANANA CARDAVA : LOCAL MARKET
Supermarkets
End Consumers
Banana Cue Vendors/Food Est. Supermarkets
Jumbo sizes only
Price takers; low risk; low proximity to farmers
Wholesalers in Manila Public Markets
Manila Public Markets Retailers
Manila Distributors
Price makers, low risk
Source of info; quality control at community level; has strong degree of influence at the community chain
Price takers, low risk
Davao Public Market retailers
Manila-based-Traders
Davao based Distributors
Price takers; high risk; medium proximity to markets
Assembler
Barangay Traders
Price makers; med risk; with several market channel options
CARDAVA GROWERS/FARMERS
Fresh Cardava, Manila route
Fresh Cardava, Davao route

PART THREE:
CREATING WIN-WIN RELATIONSHIPS

A. Developing Win-Win Relationships between MSEs and Lead Firms

1. Under what conditions will the relationships between MSEs and lead firms shift from market (arm's length) transactions to network relationships?

- Entry of new buyers in the market with relatively higher purchasing power than the existing players in the area especially when supply is limited and cannot be readily increased in a very short span of time.

When Manila-based buyers started to regularly source and increase their purchases from Mindanao farmers, processors and traders from Mindanao became more conscious about their relationships with their suppliers and the need to work as one industry. This provided the B-ACE program an entry strategy to motivate processors and traders to be involved in the development of the communities and to seriously work out schemes that would be beneficial to all parties concerned.

- Facilitating to make each party attractive to each other

Even when market conditions warrant strategic alliances, relationships do not happen after one meeting. There is a process of courtship and the need for each of the parties to bring in something that would be seen as value by both. To date, we have two supply chain networks that are working quite well and a few in an "in-and-out alliances". The program anticipates that it would take two years of mutually satisfying implementation before real partnership evolves. Likewise, pilots are important to demonstrate the viability and benefits of partnerships especially that there is an old age history of mistrusts between and among the players.

Key preconditions that entice processors and big traders to enter into strategic alliances with farmer communities are the following:

- New players as competitors or foreigner investors coming in to do business within their geographic areas and with their suppliers and/or farmers.
- Demonstration of capability to meet basic quality requirements which implies the need for some upgrading and a good understanding of the required standards
- Access to a significant volume of cardava which calls for a well-functioning horizontal collaboration and a cooperative or association which has significant influence among their members and other farmers in the area or a good scheme that will encourage farmers to consistently allocate a portion of their produce to the collective marketing/production while allowing them to sell also to other market channels.
- Willingness to invest --- Processors are more inclined to invest when they see that the communities themselves have invested their own money/assets. Somehow, this provides a guarantee that the communities will work towards making the venture a success. (Program though to a significant extent guides both parties to make incremental investments depending on the market and the way that the relationship is moving.)
- Aligned goals and objectives both in the short and medium term

Communities are more likely to enter into strategic alliances with processors even if the agreed price is sometimes a few pesos lower than prevailing market prices based on the following conditions:

- Verbal and/or face to face recognition from the lead firms of their importance and role in the whole industry
- Prompt payment and willingness for on-site weighing and quality control
- Transparency/honesty in terms of their production cost structure
- Value adding services such as training and mentoring
- Willingness to invest even if this comes in small parcels
- Provision of materials, input, technology (e.g., coco oil for first fry communities) since they find it hard to source these
- Social involvement in the community which in the Philippines is a very important factor (e.g., attendance during events of the associations and/or the communities).
- Willingness for community members to visit their plants --- it gives them a sort of "belongingness" and being an important part of the company's operations
- Inclusion in company's goals and objectives

The interest to shift from an arm's length to a network type of relationship occurs when both the lead firms and the MSE's understand that the shift will result in increased productivity, improved efficiency, and in some cases, the survival or sustainability of each enterprise.

2. Under what conditions and in what ways does moving from market to network relationships increase or decrease the opportunities available for MSEs?

Movement from market to network relationships increases opportunities for MSEs if:

- Relationships provide MSEs the opportunities to access skills and resources that will enable them to scale up operations, upgrade products and processes, and extend their operations along the chain
- Relationships can be used as platforms to build additional product lines or new markets --- joint innovation initiatives
- Prices are carefully calculated based on both historical and forecasted trends with a provision of a regular review to ensure that both parties equitably benefit from the established relationship.
- Relationships involve joint planning from which MSEs can make projections and informed decisions on levels of investments and the risks/benefits involved
- MSEs are not tied up to just one buyer but working with two to three buyers in a transparent way. From our current experiences, the linkage assumes a more win-win nature when both parties have alternative outlets and supply sources, and, as such, minimize potentials of a paternalistic relationship.
- When risk of doing business and potential failures are co-shared by the parties involved. In our pilots, we try to disseminate and advise players on how they can learn about distributing the risks by encouraging communities to form long-term relationships with lead firms in different channels (e.g., processors, fresh cardava trading for local market) which also optimizes their earnings since each channel has specific product requirements (jumbo sizes for supermarkets, processed grade for processors, slightly ripe and medium size for wet markets, etc.).

Network relationships can decrease opportunities of MSEs if:

- MSEs are 100% dependent on lead firm and this firm collapses or shifts into other activity/business. Selection of lead firms is also crucial as this can significantly shape the development of MSEs.
- No clear understanding standards between parties or among MSEs resulting to high rate of rejection, discounted prices, etc.
- Relationships promote further indebtedness of farmers through excessive advances and which are then reflected back in the buying price. Oftentimes, it is important for households to have an alternative market which can subsidize their daily needs since working with lead firms usually involve fixed schedules for pick-up/delivery and payment.

- MSEs enjoying a new "comfort zone" and becoming complacent with "guaranteed markets" and, as such, lose their drive to invest on innovation and upgrading and seek new opportunities
- Contracts deter them from working in other market channels that can potentially allow them to optimize their incomes from their cardava farms
- In networks the weak part of its members can be either dropped or changed as per lead firm interest and usually the weaker members are the MSEs.

3. What are the factors that influence how benefits are shared between lead firms and MSEs?

Experiences, to date, indicate that market situation and competition are among others the most important factors, which to a significant extent shape the perceived value of the relationship to each of the parties, influence on how benefits are shared between lead firms and MSEs. In the current cardava situation where there is a supply shortage, processors and traders tend to be more willing to give more concessions to farmers than in the previous years. However, "attractiveness" of communities also affects the degree to which lead firms are willing to invest in them.

The similarities of the players in cultures/customs and geographic proximity are also important factors, especially in post-conflict areas, where trust building only can be possible if communities and MSEs recognize that processors and investors clearly identify with their environment and problems.

The possession of something that other firms need basically influences how benefits are shared between lead firms and MSEs. As the relationship develops, the sharing and accounting of benefits become looser and the competitiveness of the products becomes the priority. In our pilots, cost calculations are made as the starting point. After the initial months of "testing the relationships", trust and social involvement are important factors on how benefits are further distributed. As trust develops, there seem to be more openness on how each party can significantly contribute to each other's sustainability which is then demonstrated through incremental investments by each of the parties.

4. What are the factors and conditions that promote MSE upgrading?

- MSEs are more inclined to adopt or change practices when there is a tangible demonstration that such change will result to increased income or profitability and financial investments are within their means. During GAP trainings, cardava farmers usually have two basic questions: how much will it cost and how much will their earnings increase. As such, the program identifies farms with best practices that trainors can use as models or benchmarks. Half-day sessions are allocated to put values on current practices vis-à-vis Better Practices. The program is also encouraging trainors to convert their farms into models of good practices to be more credible and to facilitate monitoring of income changes.

- Good prices and prospects of better prices and markets. The possibility to improve yields and quality with affordable investments plus an assurance of better prices and markets or less rejects facilitate adoption of better production processes.

- Farmers and MSEs are more inclined to instant learning and sharing which we facilitate through conduct of competitions in collaboration with the local government units. Somehow, they feel challenged when they see peers with better quality cardavas and innovative uses of cardava with good market and financial potentials. On the other hand, winners are so proud that they tend to be so excited to share their practices. This is also the faster and fun way for us to learn and document indigenous technologies/recipes and how these can be aligned to market requirements rather than doing studies. These competitions, which function also as information hubs in a more informal setting, are supported with market and technical information to ensure to a certain degree that participants showcase products aligned to market requirements. The winners are also enjoined to share their know-how in community forums, radio programs, etc.

- The decision to take on additional functions in the chain usually stems from the desire to get more value for the products and to eliminate those they feel are earning too much at their expense. However, in most cases MSEs lack the resources to extend their operations along the chain. As such, final decision is guided by their risk assessment which implies the need for information and is usually accelerated when there are possible individuals and organizations (local government unit, lead firms, programs, etc.) to support them in the initiative.

- Linkages with lead firms jumpstart the upgrading process --- and, for communities, upgrading initiatives from buyers are 'sure hits" since they are the final judge of their products. Likewise, cost for upgrading is shared by both parties which make it more affordable to the communities. In this aspect, program works with lead firms to further develop their GMP and quality control processes before they download to the communities. In the communities, program also has a core group of community-based trainors to complement the initiatives of lead firms/processors/traders.

- Copy cats/jealousy, when they see that other leaders or at least colleagues/neighbors are doing improvements in their lands/products.

- Exposure to other experiences (field visits to more advanced communities who are doing changes and improvements) as a fast way to show benefits of upgrading and learning from people they can recognize as similar to them.

5. Under what conditions are MSE and lead firm incentives more likely to be aligned?

Still in the process of reaching this stage … No experience to date.

6. How can lead firms be encouraged to develop longer-term, stable relationships with MSEs?

As far as processors and lead firms are concerned, they have to see something concrete as incomes, sales, stable supply or government recognition and support to go for business with communities and MSEs. In many cases, a program acts as some sort of temporary guarantor that the communities will behave, Longer-term relationships, however, seem easier to establish between lead firms and MSE's whenever there are constraints to be overcome. It is easier for cooperation to happen when there are pressing concerns compared to taking advantage of market opportunities. The abnormal supply-demand situation in region 11 made processors more inclined to invest on relationships with farmers/semi-processors.

Since the cardava industry is not used to inter-firm cooperation, separate workshops had to be conducted prior to a full blown stakeholder's workshop. This gave time for the program to examine the issues raised by each stakeholders and how to package the issues into more neutral forms prior to the joint stakeholder's workshop to ensure that discussions are centered on issues, rather than on personalities, or on misconceptions.

The program facilitates constant interactions between processors, traders, and lead firms via forums, one-on-one meetings, and social oriented events. It is a more or less an incremental relationship build-up strengthened through both social and business transactions (regular orders+ some mentoring + small concessions/ investments from each parties) to build trust, create better understanding of each other's needs and goals, and, hopefully, lead to an interdependent relationship.

7. How does increased transparency affect the dynamics of win-win relationships?

Improved flow of information is needed especially among rural communities ... Disinformation or the lack of information has been the cause of many of the trust issues and the main barrier which blocked horizontal and vertical collaboration. Likewise, by being aware of what is happening in the market, rural communities have better bargaining position as well as improved understanding of the price system (which reduces feeling of being taken advantaged of). Lack of info also hinders contract agreements since everybody is wary that they miss out the opportunity to get a better price. As transparency between parties increases, willingness to invest for mutual upgrading also increases.

Increased transparency helps all the players to identify the common vision and competitive strategy. Without this aspect it would be so hard to achieve this required condition to compete in a dynamic market.

B. Win-Win Relationships with Multiple Lead Firms

1. How does the presence of multiple lead firms affect MSE and lead firm incentives for moving toward network relationships?

In situation where demand exceeds supply, the presence of multiple lead firms provides the desire to enter into network relationships as a means of reducing price and quantity variability. However, it would seem that it takes a longer time for trust and deeper commitments to evolve between communities and lead firms. Lead firms are hesitant to invest for fear that communities will switch loyalties as soon as they receive a better offer from competitor lead firms. There are also reservations in sharing technologies and recipes to communities for fear of leakage to competitors. On the other hand, communities are more 'relaxed' in pursuing the deal or tend to play the lead firms against each other.

Presence of multiple lead firms can lead to better terms and conditions of partnership for MSEs rather than in a situation when there is only one lead firm. However, the presence of multiple lead firms reinforces MSEs aversion to forming longer term relationships based on the perspective that by constant canvassing during harvest time they are able to offer their products to a buyer with the highest offer. In one of our pilot areas, for example, a collective marketing via auction has evolved. Farmers pool their harvests together every month and conduct an auction. In majority of the cases, processors offer the lowest bid price vis-à-vis the traders. Below is an example of actual bid offers:

BUYER	VOLUME REQUIREMENT/ TERMS	OFFERED PRICE / kilo	PAYMENT TERMS
Edgar Garciano – GenSan (For Manila)	25 tons – all in	5.60 +	Cash
Roldan Manimbang - Malalag	25 tons – all in	5.20	Cash
Anabel Susas – Sta. Maria (For Manila)	25 tons – all in	5.20	Cash
Larry Matalandang – DavSur (For Manila)	25 tons – all in	5.60 +	Cash
Allan Colina - Malita	3 - 5 tons	5.00	Cash
GSL Foods – Sta. Cruz – Processor - Exporter	25 tons – all in	4.80	Cash
UFFAP IMCoop – Malita – First Fryer	25 tons – all in	4.20	Cash

Some exploratory discussions are ongoing on the possibility of introducing sorting and grading of banana produce so as not to kill the processors parallel to optimizing their sales. One pilot community who has already a more established relationship with a lead firm has adopted the sorting and grading as a means of keeping their commitments without missing good price opportunities from other channels.

2. How does the presence of multiple lead firms affect MSE and lead firm incentives for MSE upgrading?

So far, we cannot really make a distinction ... attitude of MSEs (which is generally lukewarm) towards upgrading seems to be the same whether there is one lead firm or multiple lead firms. A powerful driver that we have observed so far is the change in price and demand volume with the entry of the Manila buyers. This motivated the interest of farmers to increase their productivity and improve quality in order to take advantage of the market opportunities --- if there was a magic formula that would make their banana trees bear 200% more, they would go for it.

MSEs though are less likely to invest in upgrading if is just for one specific buyer (while other buyers are contented with their offer). Primary concern at the MSE level is time duration to recover the investment and the income that will accrue to them. The entry of more buyers though can always trigger MSEs' desire to invest as they have to be more attractive to the best prospect/proponent.

At the lead firm level, the presence of competitors provides the push to assist in the upgrading of suppliers. Level of trust though ultimately defines the extent to which lead firms would want to invest in the upgrading of their suppliers.

3. How does the presence of multiple lead firms affect the distribution of benefits to MSEs?

Generally, MSEs get better deals in terms of prices and added services as number of lead firms/buyers increase. The more choices the MSEs have on whom to work with plus some basic capabilities and significant scale of operations, the better is their bargaining position.
The presence of multiple lead firms though can only be a catalyst or driver to spread out benefits more equitable if market is good enough for them to have a share and profit even during lean seasons or natural calamities.

4. Under what conditions can facilitators work effectively with multiple, competing lead firms?

We use the competition among lead firms as platform in encouraging them to engage in collaborative and strategic alliances with communities in order to ensure their regular supply of good quality fresh cardava and/or semi-processed products. Likewise, the presence of lead firms also facilitates risk distribution as we encourage and mentor communities to develop strategic alliances with two to three buyers but in a transparent way.

C. Extending Win-Win Beyond Chain

1. Under what conditions can public-private partnerships be most effective in supporting value chain competitiveness and MSE benefits (e.g., product and process standards).

We find public-private partnerships to be most effective in supporting upgrading initiatives:

a) That require investments beyond the capabilities of communities (e.g., land for the common service facilities from the local government unit and set-up of the facilities by the communities)
b) That require both policy/regulatory support, political will, and private investment/commitment (e.g., municipality wide organic cardava farming)

Public-private partnership model further reduces high risk in local investment.