

# Concepts for alternative livelihood of a rural cooperati

Observations at San Isidro Parish Binucayan Area Farmers  
Multi Purpose Cooperative (SIPBAFAMCO) in Agusan del  
Sur, Central Mindanao, Philippines.

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Florian Spathelf  
Business Administration  
Alanus Hochschule Alfter, GER

Maria Frommelt  
Political Sciences and Economics  
University of Bern, CH

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Embedded into a ASA scholarship program from June 26 to September 11, we conducted the field research at the operating area of San Isidro Parish Binucayan Area Farmers Multi Purpos Cooperative (SIPBAFAMCO) in Binucayan, Agusan del Sur on the Island of Mindanao, Philippines.

The study was conceptualized in close cooperation of JPIC-IDC, the local NGO that organised the cooperative and justiceF, a German foundation which is involved in certain livelihood projects of JPIC-IDC. Both partners supported us within the research.

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Florian Spathelf

[f.spathelf@3p-institute.org](mailto:f.spathelf@3p-institute.org)

Maria Frommelt

[mariafrommelt@gmail.com](mailto:mariafrommelt@gmail.com)

## EXECUTIVE SUMMARY

Mindanao is a region south of the Philippines characterized by fertile soil and a diverse range of fruit and lumber plantations, rich fish grounds, and abundant minerals for mining. From its huge plantations, mostly owned by foreign investors, come nearly 50% of the country's whole corn and coconut production and almost 100% of the country's banana and pineapple supplies. Dole, Del Monte, and United Brands, to name a few, are running one their biggest plantations worldwide in Mindanao. Twenty percent (20%) of the rice supply and 50% of the fish supply also come from the region, including 40% of the Philippines' total livestock.<sup>1</sup>

Despite this abundance, however, the vast majority of the Mindanaoan population remains poor and multinationals are the ones who benefit from the island's natural wealth.

### COOPERATIVES IN THE PHILIPPINES

The Congress of the Philippines enacted into law Republic Act No. 6938, otherwise known as the Cooperative Code of the Philippines, in order to define rules and regulations governing all cooperatives in the country. It contains provisions on the cooperative's organizational structure, including the responsibilities of the different actors and members on the use of the cooperative capital.

According to this law, a cooperative is a "duly registered association of persons with a common bond of interest, who have voluntarily joined together to achieve a lawful common social or economic end, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principle." This study refers to certain principles and sections of the Cooperative Code.<sup>2</sup>

### SMALL-SCALE FARMING IN MINDANAO

The small scale farmers of Mindanao can be seen as examples of a stagnating Philippine economy, which is characterized by a low real growth and low industrialization. The intensity of their work is high, but the value of it remains low. Most of the farmers do not experience any real growth in incomes.

The lack of capital, land and knowledge urges them to continue with their small scale activities such as planting of rice, corn or coffee and selling their raw materials directly without any processing, which

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1 Aijaz Ahmad: "Class and Colony in Mindanao", in: Kristina Gaerlan & Mara Stankovitch (eds.): *Rebels, Warlords and Ulama. A Reader on Muslim Separatism and the War in Southern Philippines*, Quezon City, 2000

2 The full Code can be downloaded at <http://www.gov.ph/laws/ra6938.pdf>

could have increased the value of their crops.

In more developed areas, people slowly start to face their situation and react in establishing multipurpose cooperatives, which can enable them to build up capital using economies of scale in working together through close collaboration and raising assets through capital shares. But history showed<sup>3</sup> that despite the fact that cooperatives have been founded to pursue a common goal, many of them failed. The reasons for these failures are most often bankruptcy due to non-transparent financial performance or corruption. Other factors also include mismanagement caused by the lack of knowledge in organizational management and overestimation of development potentials.

## RESEARCH METHODOLOGY

Aligning the activities of the cooperative along its vision and goals is now the most important task for all cooperative members in order to avoid letting the cooperative become just a conglomerate of different interests.

So the central question of this research is:

“Does the San Isidro Parish Binucayan Area Farmers Multi Purpose Cooperative (SIPBAFAMCO) pursue its Vision, Mission and Goals and does it serve its members well?”

For purposes of brevity, SIPBAFAMCO is subsequently referred herein as the “Cooperative.”

According to this main question, the set-up of this report is as follows:

The first chapter puts the initial situation of the observed Cooperative into a regional context. The island of Mindanao faces different problems and phenomenon than all other parts of the Philippines, which are to be considered.

The second chapter provides answers to the central question: on how the Vision, Mission and Goals are put into practice. This chapter focuses on how the coop is able to reduce poverty on the one hand and build a strong market for the farmers on the other hand.

The third chapter puts an eye on possible developments especially in terms of processing coffee and in developing the membership base. A subchapter provides a guide on how to operate properly with financial statements and accounting techniques. It also includes recommendations for both JPIC and the Cooperative on how to use the Cooperative’s potential in terms of their strengths and best motivations to continue what had been achieved so far.

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<sup>3</sup> Especially the history of SIPBAFAMCO, experiencing business failure two times before.

# **I. Geographical Framework**

## **1. Binucayan**

Binucayan is a barangay (the smallest government unit in the Philippines, similar to a village) of the town of Loreto, Agusan del Sur. Agusan del Sur is considered as the fourth largest province in the Philippines.<sup>4</sup>

Like other farmers in the country, agricultural production of farmers in Agusan del Sur mainly concentrate on rice, coconut, corn and bananas. However, regional differences have to be considered. For example, corn production in the Binucayan area is much higher than its rice production, unlike the other parts of the towns of Loreto or Veruela, where rice production is higher.

The small-scale farmers of Binucayan hold shares in the San Isidro Parish Binucayan Area Farmers Multipurpose Cooperative (SIPBAFAMCO). The Cooperative was established in 1998 to create a strong market for their products and a store that can offer the community all the goods they need at affordable prices. The store has been developed now into a main store with four branches serving the needs of the barangay's citizen at lower prices compared to the goods of former traders. The Cooperative itself acts as a sustainable long-term trading partner for the farmers, guaranteeing them stable and high prices for their products.

# **II. The coops performance**

## **1. Fighting poverty**

This chapter aims to discover if the Cooperative fulfills its vision and helps people get out of poverty. To realize this aim, poverty reduction indicators will be utilized such as the eradication of hunger, the situation on health and education, the security aspect, and the empowerment of the population. First, the Cooperative will be examined in terms of how it helps reduce poverty in general with a comparison on the availability and the prices of 30 products of the SIPBAFAMCO store with two other stores in Binucayan. This examination will demonstrate if SIPBAFAMCO offers its products for a lower price, to make them affordable to everybody. Afterwards, a comparison on the availability and the prices of six products considered as daily needs will show how the Cooperative helps to eradicate hunger. This study will then aim to analyze the efforts of the Cooperative in improving the community's

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<sup>4</sup> [http://www.wowphilippines.com.ph/explore\\_phil/place\\_details.asp?content=description&province=104](http://www.wowphilippines.com.ph/explore_phil/place_details.asp?content=description&province=104)

conditions on health, education, security and empowerment. Finally, the question on whether the Cooperative is able to help reduce poverty will be answered following these observations.

### 1.1 Services and products offered by coop stores and competitors

The comparison of the 30 products (see *Table 1: Basket of commodities for Binucayan main retailers*) in the Cooperative's store and the stores of Joemarie and of Enday Nierves shows some significant differences on availability and prices of the most needed goods. It is remarkable that the Cooperative offers all these goods except pork. In the store of Joemarie, you can only buy 75% of these goods while Enday Nierves's store offers only 65% of these most needed goods.

In comparing prices, only the first 19 goods listed in the table below, which are offered in all three stores, have been included. The school material is composed of six different products (see *Table 2: Basket of commodities - school supply*); medicine consists of 5 tablets (see part health situation) and the sanitary products includes toothbrush, shampoo, bath soap and tissues all of the same brand.

The total amount for the first 19 goods per store yielded unexpected results. Most of the population was confident that Joemarie's store offers the cheapest goods. But comparative data show that Enday Nierves's store offers the cheapest prices (459.30 pesos) while Joemarie's is the most expensive (491 pesos), with a price difference of 31.70 pesos between these two stores. SIPBAFAMCO's goods are priced in an average level (487.5 pesos). But if the customers are members of the Cooperative, they get a patronage refund equivalent to 1.25% of the total amount of the goods purchased from the Cooperative. Therefore, members who purchase the first 19 goods from their Cooperative can actually save 6.10 pesos (equivalent amount of the 1.25% patronage refund) so that the actual total cost in buying these products is reduced to 481.40 pesos.

Goods	SIPBAFAMCO	Joemarie	Enday Nierves
1. Rice (per kg)	40	35	24
2. Corn (per kg)	25	24	24
3. Coffee (25g)	21	21	20
4. 1 Egg	6	6	6
5. Sanitary products	52	52	47
6. Tobacco (Fabrica de mascadas)	8	10	9
7. Fortune cigarettes (1 pack)	13	13	15
8. Total school supply	44.50	54	46.30

9. Vinegar (Silver Swan)	7	8	15
10. Milk powder (Bearbrand 80g)	26	25	25
11. Sardines (Naguia)	13	13	13
12. Eight o'clock (1 packet)	11	10	10
13. Soy sauce (Silver swan)	8	8	12
14. Hipon alamang (salted fish)	27	25	25
15. Nails Nr.2 (per kg)	75	80	70
16. Hog grouler niash (pigfood)	22	20	20
17. Milo (320g)	73	69	60
18. Battery	16	18	18
19. Medicine	37,5	47,5	43,5
20. Fish (Moro Moro per kg)	90	-	-
21. Dried fish (Moro Moro)	120	120	-
22. Spices (Onion/Garlic/Ginger)	100/60/20	100/65/-	-/-/-
23. Vegetables (Cucumber/Carrots/Potato/Mongo)	30/50/60/48	-/-/-/-	-/-/-/50
24. Chicken	-	-	-
25. Pork	sometimes 130	-	-
26. Sugar (brown)	30	31	-
27. Slipper Nr.6	25		
28. Plate/Spoon/Fork	25/40/40	-/-/-	-/-/-
29. Toothpaste	40	35	-
30. Broom	35	-	-
<b>Total amount of goods 1-19</b>	<b>487.5</b>	<b>491</b>	<b>459.3</b>

Table 3: Basket of commodities for Binucayan main retailers

## 1.2 Staple foods

To give a statement on how the Cooperative helps eradicate hunger, it is necessary to compare only the six goods which are most needed. The comparison on the availability and prices in the SIPBAFAMCO store with the stores of Joemarie and of Enday Nierves allows some interesting findings.

<b>Goods of daily needs (per kg)</b>	<b>SIPBAFAMCO</b>	<b>Joemarie</b>	<b>Enday Nierves</b>
Rice	40	35	24
Corn	25	24	24
Fish (Pirit)	90	-	-
Spices (Onion/Garlic/ Ginger)	100/60/20	65/40/-	-/-/-
Vegetables (Cucumber/Carrots/Potato /Mongo)	30/50/60/48	-/-/-/-	-/-/-/50
Sugar (brown)	30	31	-

Table 4: *Basket of commodities – staple foods*

It is remarkable, that the range of products for daily needs available in the Cooperative's store is much bigger than in the other stores. For example, fish and vegetables are not available in the other stores.

The most significant price difference concerns rice. At the day of the observation (August, 7<sup>th</sup> 2008) the SIPBAFAMCO store had the highest price of rice. This is against the vision of the coop to help people get out of poverty, because rice is the most needed product of the population.

This huge price difference is a result of the Cooperative's insufficient funds to buy from farmers during harvest season when price is cheap due to the abundance in supply. When rice inventory in the Cooperative's store runs out and farmers cannot supply them, the Cooperative has to buy from the "strikers" at high prices. Strikers, who come from the southern part of Mindanao or even from Cebu, are able to buy big volume of the farmers' harvests for a higher price compared to the Cooperative's buying price. During harvest time, strikers come to Binucayan once or twice per week. When harvest time is over, they seldom come to the village. When the Cooperative, therefore, runs out of supply and the strikers are not in the village, the Cooperative buys small volume of rice in Joemarie's store or in Trento, another town in Agusan del Sur. But Joemarie's store is not big enough to be able to sell enough volume of rice to SIPBAFAMCO. Buying rice from Trento is also not a good solution because of the high transportation cost. Therefore, there are periods extending to weeks when the Cooperative has no rice to sell, such as the case at the beginning of August 2008.

A substitute for rice is corn. Families who are unable to buy rice every day can eat corn, which is cheaper than rice. In the village of Binucayan, there are more corn farmers than rice farmers. This makes it possible for the Cooperative to buy a lot of corn, although the demand for rice is higher. The comparison on the prices of corn shows that the Cooperative can compete with the other stores.

	<b>Buying price per kg</b>	<b>Selling price per kg</b>	<b>Date of purchase</b>	<b>Amount of purchase</b>
<b>Farmers</b>	15-16 (not processed)	32-35	Harvest time (March/April and October/November)	250-300 sacs
<b>Striker</b>	36	40	Last time on July 3rd 2008	68 sacs (only 49 kg per sac)
<b>Joemarie</b>	26.50	30	Often (when the storage of the coop is empty)	10 sacs
<b>Trento</b>	32 (plus 80 Pesos for transportation per sac)	40	Last time on August 15 <sup>th</sup> 2008	10-15 sacs

Table 5: Purchase prices of rice

### 1.3 Medical supply

Binucayan residents can buy medicine against the most common diseases in the Cooperative's store. Prices of these medicines are much cheaper compared to the other stores in the village. Only the barangay store sells some of the tablets for the same price. But their supply is very limited (Table 4). Excluding Aspirin Aspilets, the remaining five kinds of tablets offered in SIPBAFAMCO sells for 37.50 pesos while it sells for 47.50 pesos in Joemarie's store and 43.50 pesos in Enday Nierves's store. This comparison shows that the Cooperative is very important to improve the health situation in Binucayan.

	<b>SIPBAFAMCO</b>	<b>Joemarie</b>	<b>Enday Nierves</b>	<b>Barangay store</b>
<b>Aspirin Aspilets 80mg tablet</b>	2	4	-	-
<b>Paracetamol 500mg tablet</b>	1	5	3.50	1
<b>Necept 500mg tablet</b>	4,5	6	5	-
<b>Meefenamic 500mg Capsule</b>	2	3,5	4	1,5

<b>Amoxicillin 500mg Capsule</b>	3	5	4	3
<b>Ponstan 500mg Capsule</b>	27	28	27	-

Table 6: Basket of commodities – medical supply

Moreover, the Cooperative helps the Board of Directors to pay their health insurance. The PhilHealth insurance, a government health insurance program, costs 100 pesos per month wherein the Cooperative pays 50 pesos. Unfortunately, only the Board of Directors can benefit from this service. It is also the aim of the Cooperative to offer this health care insurance to the employees. But having encountered problems with this government health insurance system, the management of the Cooperative opted to raise the loans of the employees to enable them to buy the daily needs of their families, including medicines. Fortunately, the San Isidro Labrador Parish provides the employees with 500 Pesos per year if they get sick. When an employee dies, the parish also supports the employee's family with 2,000 Pesos.

#### **1.4 Educational and school supply**

Prices of school supplies are cheaper in the SIPBAFAMCO store than in the other stores. The aim of selling school materials is not to make profit but to more importantly to offer it at affordable prices.

	<b>SIPBAFAMCO</b>	<b>Joemarie</b>	<b>Enday Nierves</b>
Paper (Grade 1-4)	7	7	7
Intermediate paper for high school	13	16	15
Bond paper (10 pieces)	5	5	3.30
Writing notes (Grade 2-3)	8.50	11	9
Pencil	6	8	6
Pen	5	7	6
<b>Total</b>	<b>44.50</b>	<b>54</b>	<b>46.30</b>

Table 7: Basket of commodities - school supply

The Cooperative is also keen in improving the knowledge of its employees through seminars. The last seminar held was in June 2007 in Loreto wherein they learned to develop governance of the

Cooperative. Another capability building seminar held was in Cebu in 2006, wherein responsible persons from the Cooperative learned how to manage a micro lending program. The Cooperative has a fund that can be used for other seminars. In fact, the management plans to have seminars in November 2008 but until now they do not know which organization can help them improve their knowledge.

### **1.5 Security aspect**

Four kinds of rebel groups are operating in Binucayan. The biggest group is the New People's Army (NPA), which aims to overthrow the government through protracted guerrilla warfare. The second group of rebels is a breakaway of the NPA, which now works together with the government. There exists also a faked group of the NPA, which terrorizes the population through threats. Finally, there exists an armed group that breaks into the houses and steals during night.

Until now, the Cooperative remains free from troubles posed by these rebels. This is a big advantage to the farmers and the employees because the Cooperative can continue providing its services to members without having to worry from threats or extortions.

However, work in the Cooperative is not without risks. For example, there is no bank in Binucayan where the Cooperative's money can be deposited. Therefore, the Treasurer is exposed to risks in keeping the money and transporting it to the bank.

### **1.6 Empowerment**

The Cooperative is the single biggest employer in Binucayan: it has 25 employees, 11 men and 14 women. Nineteen of them get a monthly income. The ratio of women employed is very high at 78%. The Cooperative supports also the re-entry to work of women after pregnancy. The income of employees is on the same average level compared to the other jobs in Binucayan. Some of the employees have other running businesses, like a farm or a BBQ service beside their workplace at the Cooperative. Even if some of the employees have the chance to get more income through another full time job, they do not want to leave the Cooperative because they are proud to be a part of the ongoing development process. Work in the Cooperative serves as a kind of empowerment for the employees. Finance Manager Annabelle Ong likes to work for the Cooperative because through her work she could improve her knowledge and learn how to serve people. Salesgirl Lisa says: "Through the Cooperative, I have the possibility to be independent."

### **1.7 Conclusion**

Through the analysis of several indicators, the central question (if the Cooperative fulfils its vision) can now be answered. SIPBAFAMCO serves the people because they offer of the most needed goods of

the community. The Cooperative also improves indirectly the health and education conditions in Binucayan by selling affordable school materials and medicines. Additionally, the Cooperative's presence in the community also helps preserving the peace and security of the community, thereby contributing towards the over-all empowerment of the people.

Still, a big problem and challenge confronts SIPBAFAMCO, particularly its inability to provide a continuous supply of affordable rice the whole year. For that reason, it is necessary to increase the fund for buying and selling farm products (see chapter...). An alternative for that is to buy rice from Enday Nierves instead of purchasing it from the strikers, Joemarie or from Trento. But that option requires that Enday Nierves has a sufficient storage to be able to sell rice to the Cooperative when its supply runs out.

There is also a possibility of widening the services offered by the Cooperative. Some of the old people of Binucayan are complaining that they cannot buy their daily needs from the Cooperative because the store is too far away for them to be able to walk the distance. The Cooperative, therefore, could offer a delivery service for old people wherein an employee, for instance, can bring the goods to the once a week. It also helps if the old people can order their needs in advance.

## **2. Establishing a strong market**

In this chapter, the Cooperative's performance concerning their aim to establish a strong market for the farmers' needs and their goods will be described, in order to clarify the question "Does the Cooperative provide a strong market for the farmers?"

Aside from the Cooperative vision and mission, it is also their duty to build up a strong market for farmers, a market that can guarantee agricultural producers that their commodities are bought at a fixed price in their full amount in order to assure their livelihood through farming.

"A long-term partner, who can assure me to buy my whole harvest every season for the highest price, this is a strong market for me," says Julien Vasquez, a banana and coffee farmer of Barangay Ilpapa.

This mission objective can be seen as the main purpose of the Cooperative and is also defined by the goal to own and put up post harvest facilities for agricultural activities. Therefore, it is mandatory for a study that tries to prove the achievement of the set Vision, Mission and Goals to analyze the Cooperative's compliance with them. Our findings concerning the indicators of existence of a strong market derived through farmers' interviews and internet research are the following:

- stable and fair prices
- guaranteed buying of full harvest

- existing post harvest facilities
- long-term relationship

These assets turned out to be the most important for Binucayan farmers and their livelihood.

## 2.1 Purchase prices and volumes

An indicator for being a strong partner of the farmers is the Cooperative's ability to serve the farmers marketing needs. The following table shows the purchase prices between SIPBAFAMCO and a trader in Binucayan.

Commodities	SIPBAFAMCO	Joemarie
Rice	15-16	14-15
Corn	13	11
Copra	n/a	22
Coffee	n/a	85-90
Banana	5.50	n/a
All figures in Php		

Table 8: Purchase Prices of different commodities

The above data shows that when it comes to buying rice and corn, the Cooperative can be seen as the farmers' strongest partner because of its higher purchase price. As to the lack of any storage room, farmers are urged to sell their rice immediately after drying it. Otherwise it will get rotten after the next heavy rainfall. Within the harvest seasons of 2008, the Cooperative was able to buy rice, corn and banana from the farmers. The following table shows the exact volumes.

Crops	purchased volume*	seasons per year
Rice	24,000	2
Corn	28,000	3
Banana	12,000	52 <sup>5</sup>
*in kg per season		

Table 9: Purchased volumes of commodities per season

5 Harvest season of bananas is whole year. The coop buys once a week, so the frequency of the seasons is aligned on the number of weeks per year. (edt)

While the Cooperative's higher purchase price is beneficial to farmers, the volume of products from the farmers that the Cooperative is capable of buying do not serve the farmers' marketing needs. On the one hand, coffee and copra farmers can't sell their products to the Cooperative at all. According to interviews, most farmers do not sell to the Cooperative because of its limited funds while other buyers like the Joemarie store or even the strikers are able to purchase their whole harvest. Thus, the Cooperative's rice stocks only last until about six to eight weeks after the last harvest.

This constraint does not only affect the farmers alone but it also has huge implications on the Cooperative's capital. Because of its inability to buy sufficient volume of rice, they are also unable to continuously sell rice thereby limiting the Cooperative's income. To serve some of the members' needs, rice is bought from the competitor stores for a much higher price (as high as 36 pesos per kilogram). It is not only a loss of retail margin, customers of the Cooperative also do not feel attracted by this deal and tend to buy their daily rice and other needs from competitor stores. Obviously the only way to solve this problem is to buy the farmers' produce during harvest time, have adequate storage, and continuously sell rice at the Cooperative store until the next harvest season arrives wherein the Cooperative buys again the farmers' produce. This will prevent the farmers from selling their harvest to the strikers and competitors and enables the Cooperative to offer rice also during lean months and in-between harvest seasons. However, this scheme requires sufficient operating capital during harvest seasons. Buying a larger volume of farm produce and storing them over a five month period means the full return on investment will only be realized at the day when the whole stock is sold. To calculate the capital needed to purchase rice stocks that can serve the demand for the six-month period between two harvest seasons per year, we took the real monthly demand from by the sales figures of the Cooperative.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Rice</b>												
	15,555 kg <sup>6</sup>									15,555 kg		
	241,102.50 <sup>7</sup>									241,102.50		
<b>Corn</b>												
<b>Banana</b>												
<b>Coffee</b>												

Table 10: Harvest seasons and required capital

<sup>6</sup> Based on a daily selling volume of 85kg. Source: Arlene, store manager Binucayan Main Store.

<sup>7</sup> At an average purchase price of 15.50 Php.

A capital base, therefore, for at least 241,102.50 kilograms of rice is needed. According to the Buy and Sell Department of SIPBAFAMCO, the required capital for buying and selling is 250,000.00 pesos, which can meet the demand of 241,102.50. However, this will affect the purchase volumes of banana and corn. In terms of food security, it is mandatory to assign rice purchases the highest priority, to achieve also the target of meeting the demand during the five-month period between harvests. But considering also the need to have a strong market for other farmers' produce, corn and bananas have to be purchased also at least up to the current amount.

## 2.2 Post harvest facilities

After harvest, all crops and raw products are subject to further processing. Except for bananas, they have to be dried and milled at the very least to be ready for eating.

Rice	Corn	Coffee
drying	drying	drying
milling	shelling	milling
final product	milling	grading
	final product	roasting
		final product

Table 11: Processing steps of Binucayan main crops

“To own and put up post harvest facilities (...)” is one of the main goals manifested in the Vision-Mission Statement. According to Table 9, the post harvest methods vary between different crops. Also, an agriculture production based on multi-crop system requires different post harvest facilities to serve all farmers' needs. At present, the facilities that the Cooperative provided to the farmers correspond to their differing needs. The Cooperative is in possession of a corn and rice mill, a

mechanical dryer for drying coffee and corn even on rainy days, a corn sheller to remove the corn grains from the ear, a corn thresher, and a turtle.

Concerning the farmers' need for post harvest facilities, the Cooperative is capable to meet this demand with the above mentioned machineries. We also observed that the farmers used the provided services. They are not for free, but the rental fee for members of the Cooperative that used the machines is very low. However, despite of the fact that all needed post harvest facilities are actually provided to farmers, there are some unexpected trends and developments that we need to mention.

Regarding the rice and corn mill, which is the most frequently used facility, our observations showed that many farmers avoid going to the corn mill and instead use the coffee and corn mill in Binucayan owned by a private businesswoman. In their opinion, the long route in transporting their goods to the Cooperative-owned corn mill cannot compensate for the discounts they are able to get in using the milling equipments of the Cooperative. Therefore, for convenience and financial reasons, farmers often chose the privately-owned coffee and rice mill in Binucayan for further processing of their farm produce.

The mechanical dryer represents a useful machine to dry agricultural products even in rainy seasons. It is not yet very old and obtained through funding by a government program. However, it is no longer useful due to a broken engine. The engine is used to run the fan, blowing hot air underneath the crops. A replacement of the engine is necessary to run the mechanical dryer. Surprisingly, the farmers managed to dry their rice without the mechanical dryer even during rainy season. But as soon as the Cooperative starts to process for external markets where delivery dates have to be followed and compliance with quality standards is mandatory, the mechanical dryer is needed, thus a replacement is required.

### **2.3 Impact of strikers competition**

Agricultural buyers who have large capital that enables them to buy a full harvest at competitive prices are one of the main competitors of the Cooperative. They can easily beat the purchase price of the Cooperative and are able to buy a full harvest at their conditions. They act as middlemen between the farmers and large wholesalers or processing companies to meet their long- and short term demand of commodities. At the same time, they act as rice sellers in lean months and also between harvest seasons. Even the Cooperative is urged to buy the strikers' rice, once it runs out of stocks, and sell the expensive rice to its members. So the benefit that farmers get from selling their whole harvests to the strikers becomes a disadvantage when they have to buy rice at the Cooperative store at high prices.

In *Table 12: Product flow of fresh rice after harvest*, this scenario is highlighted in red. It comes with

margin losses for the Cooperative, as it cannot add a 15 % surcharge on rice bought from the strikers.

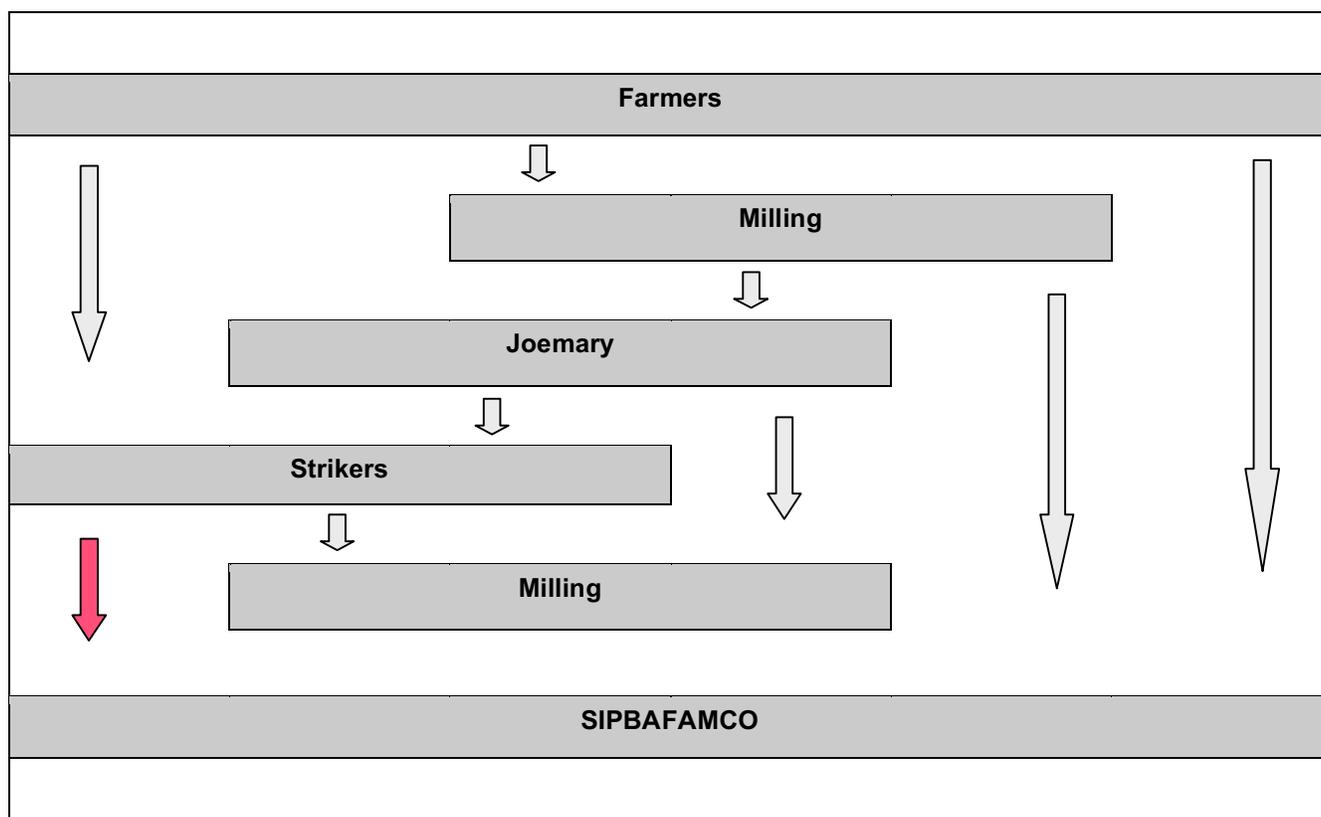


Table 12: Product flow of fresh rice after harvest

They are also unable to meet the demand of the customers, as they will only buy a small amount due to the high purchase price. This scenario means that hardly anybody will buy rice from the Cooperative for this price. Other stores like Nierves and Joemarie align their rice prices to the Cooperative's high price thereby raising the over-all rice price in Binucayan during these times. As a result, most people start eating corn as a rice substitute.

Buying rice from the strikers instead of the farmers leads to a whole spiral of price increases, welfare losses for the people and unstable food security conditions between the harvest seasons. In all further considerations about processing or the development of the Cooperative's services, the fact that they still cannot provide a secure rice supply during the whole year should always be considered and should be given priority.

## **2.4 Peace and order situation**

The island of Mindanao is not renowned for a stable peace and order situation. Hence, the Cooperative in Binucayan has also to deal with serious menaces by various rebel groups as mentioned in chapter 1.5.

Regarding all developments and planning, the threat of interference by these groups has to be considered as well. Also funding and development agencies make their decisions dependent on the peace and order situation.

## **2.5 Conclusion**

Serving the farmers needs is the most important objective of SIPBAFAMCO as a cooperative founded by farmers. The Cooperative intended to pursue this in the form of building a strong marketing partner for all farmers and to provide necessary post harvest facilities.

In terms of the market, the Cooperative already discovered their limitations caused by insufficient funds for buying larger volumes of farm produce, especially rice, to cover the non-harvest months. Nevertheless, the farmers can sell their harvest partly to the Cooperative for best prices as the Cooperative always tries to beat strikers' and traders' purchase prices.

However, the Cooperative has to cope with the situation, which is untenable for ordinary businesses. Serving the people best means that they basically have to buy for the highest price whilst providing the goods for the lowest price in the area in order to uphold and maximize the welfare of the community consisting of farmers and consumers.

Therefore, their profit margin is necessarily marginal and very limited, the complete opposite of other traders who try to optimize by getting low purchase prices and selling at high rates. Without doubt, low profit margins mean low equity growth and limited possibilities to increase the funds for buying and selling quickly. This results to the Cooperative's dependency to funding agencies and its low private equity. Based on our observations, a decision for food security, which means that the Cooperative focuses more on rice supply than on bananas, corn or other commodities, connotes a decision against some farmers and product diversity. Using the fund for rice buying and selling only and neglecting other commodities could enable the Cooperative to supply rice, which is stable even in the mentioned critical months. But it is inevitably connected to the disregard of other farmers and is contradictory to the Cooperative's mission. However, processing activities should not limit the fund for buying staple food.

As regards provision of post harvest facilities, the Cooperative certainly pursues and fulfills its Mission statement. Furthermore, the post harvest facilities can also be used as an instrument in winning over the farmers' loyalty. For example, every usage of the post harvest facilities can be linked to a commodity sale to the Cooperative. This condition can even be made more attractive for farmers by

reducing the milling fee in exchange for outright sale of their farm produce to the Cooperative.

### **3. The coops financial services**

The majority of Binucayan and its surroundings are not capable of investing in small businesses to get out of poverty. Also, when a family member gets sick, they often cannot afford medical care. For these reasons, they have to get a credit, which can be received from SIPBAFAMCO. The Cooperative offers three types of loans: daily loans, regular loans and credit lines.

#### **3.1 Daily and regular loans**

*The daily loan* is also called micro lending express loan. Members of the Cooperative can lend a maximum amount of 10,000 pesos which has to be paid back through daily payments within two months. The interest rate is 10% and consists of two parts: 5% of the interest is used for the Cooperative capital and the other 5% is used for the capital built-up (CBU) or capital share of members.

*The regular loans* have to be paid back through a monthly payment rate. The loan's maturity period is agreed by the lender and the responsible person of the Cooperative provided that the maximum duration is six month. The interest rate for members is 3% and is used for the net surplus of the Cooperative. SIPBAFAMCO distinguishes between diamond, gold, silver and bronze members. If you are a diamond or gold member, you are allowed to borrow the maximum amount of 15,000 pesos; if you are a silver member, you can borrow 3,000 pesos; and if you are a bronze member, you can only borrow 1,000 pesos. To get a higher credit standing, for example from bronze to silver membership, you have to show a good performance in repaying the loan. Additionally, members have to increase their CBU and their savings every month. Until two years ago, non-members could also obtain regular loans with a higher interest rate of 5%. But because the fund for loans is very limited, the Cooperative decided to lend only to members.

The repayment rate of these two kinds of micro lending is very high at a rate of 98%. The reason for this good repayment rate is in the efficient penalty system. If the lender doesn't pay back on time, he has to pay 1% of the total loaned amount including the interest rate per day. For example, if a member borrowed the maximum amount of the regular loan, which is 15,000 pesos, and agreed a repayment rate of six months, the member has to repay 2,950 pesos per month; the penalty will be 29.50 pesos per day. If the members do not pay their debts, their capital share is used to pay the unpaid amount.

The problem of micro lending is that demand is higher than supply. The Cooperative cannot guaranty that everybody gets the amount each one wants to borrow, because the budget for the micro lending

fund is limited.

The demand for micro credits from the Cooperative is high because the conditions of the two banks servicing the people in Binucayan, the Enterprise Bank and the Peoples Bank of Caracas, are not as good as the Cooperative. The service fee in the two banks is extraordinary high: 5% of the loan amount in the Enterprise Bank and 6% in the Peoples Bank of Caragas. In the Cooperative, the service fee is only 1%.

However, it is remarkable that the two banks have lower interest rates. Enterprise Bank's monthly interest rate is 2.5% while Peoples Bank of Caragas's is only 2%. But these low interest rates come with several disadvantages. Lenders of the Enterprise Bank have to pay the whole interest rate and service fee in advanced. On the other hand, customers of the Peoples Bank of Caragas complained that they have to be present in a meeting every Monday morning at nine o'clock to pay back their weekly loan obligations; if they are too late or if they cannot attend the meeting, they have to pay a penalty.

The system of SIPBAFAMCO is more customer-friendly because the customers can come to the office whenever they want. In the two banks, lenders have to complete attendance in seminars before they are allowed to borrow money: one hour per day for four days for lenders of the Enterprise Bank and two hours per day for seven days for borrowers of the Peoples Bank of Caragas. Meanwhile, members of SIPBAFAMCO do not have to attend another seminar, if they have already attended the pre-membership seminar.

Another marked difference between SIPBAFAMCO and the two banks is that the latter only lends money to groups, which consists of three to seven people. If the group has a delinquent member, the others group members have to pay for that members. SIPBAFAMCO does not have this group system and lends only to individuals.

### **3.2 Credit lines**

The sore spot of the Cooperative is its credit line. These are credits for goods, which have to be repaid within one month. Binucayan and all branches have a lender in-charge, which has to give permission so that people can get credit in the store. The interest rate for members is 3% of the whole amount of the goods.

The equivalent amount of credit availed of is only up to half of the amount of the member's capital share. A member is allowed to borrow again only after full payment of the previous loan. Non-members can avail of these credits albeit at higher interest rate of 5% per month. Non-members also need a guaranty from a member who will help pay back their debts if the non-members cannot do it

within the period allowed.

The penalty system is quite complicated: In the first week you get a penalty equivalent to 5% of the total amount of the loan and the interest. This percentage increases to 10% from the 8<sup>th</sup> day to the 30<sup>th</sup> day. If the lender still fails to pay back the debt after that time, the lender gets another three months to pay back. During that time the lender has to pay back every day 1% of the amount of the total debts.

The 80% payment rate of the credit line is definitely lower than the payment rate of the micro lending. There is also another problem: some storekeepers of branches released goods to the customers without recording it. The loan amount involved for micro lending and the credit line as of the July 2008 is shown in Table 13: Loan amounts Regular loans are very high in January because all loans have to be paid back in the preceding month (December) and will be new loans are released every month of January.

To finance these loans, SIPBAFAMCO got a loan from JPIC-IDC in the amount of Two Hundred Fifty Thousand Pesos (250,000 Pesos) with an interest rate of 1%. It has to be repaid in July 2009, two years after the amount was released. Up to now, it seems that the Cooperative will have no problem in repaying the loan on time.

	Daily loans	Regular loans	Credit line
January	29'000	248'000	38'561.35
February	21'000	34'000	78'534.75
March	10'000	45'000	41'291.00
April	31'000	29'000	101'491.50
May	48'000	30'000	86'871.00
June	no lending	31'000	87'838.00
July	74'000	81'000	41'793.50

All figures in Php

Table 13: Loan amounts January – July 2008

### 3.3 Conclusion

The system of the micro lending works quite well with the extraordinary high repayment rate of 98%. But the credit line system should be improved. It is important that the lender in-charge and the

salesgirls should not release goods without recording and reporting it to the management of the Cooperative. A possible way to solve this problem is to make the income statement and the inventory more transparent. Until now the amounts representing the credit lines from the branches are not shown in the income statement. If these amounts are listed, the figures can serve as warnings of potential problems, such as when the amounts from the different stores vary a lot. In addition, through the system of the index cards (see chapter *Transparency and correct formation*), the storekeepers have to display their business properly. If problems persist, it may be necessary to find a new staff to serve as salesgirls or lenders in-charge.

The demand of micro lending is much higher than its supply. It should be the aim of the Cooperative that anyone who shows good performance as a member can get the full amount he wants to. That's why the Cooperative should be keen on increasing their fund for micro lending. It would be a great chance for the Cooperative if JPIC-IDC can increase the amount of the loan in 2009 if SIPBAFAMCO continues to show such good performance in loan payment.

Additionally, SIPBAFAMCO can also offer to provide micro lending at the end of the year for a maximal duration of six month, so that lenders don't have to pay back their debts in December. But this requires that the responsible persons in the Cooperative should learn how the debts of the preceding year can be listed in the bookkeeping of the succeeding year.

### III. Coffee processing

When it comes to the question of processing, the Cooperative always mentions its future plans for coffee processing first. The idea is to act as a middleman between the coffee farmers in the Cooperative and the market for first class dried and milled but unroasted coffee beans.

#### THEORETICAL INPUT: COFFEE PROCESSING

After harvesting, the coffee beans are dried immediately. Usually by solar drying on concrete floors or on plastic sheets.

The next step is the hulling where the outer skin of the bean is removed. This can either be done by hand or with a machine. The beans lose around 60 % weight through hulling.

After grading them into the different quality levels, the cleaned beans get roasted to give them their final flavor. It is then either further processed to grinded coffee powder, which many consumers use, or as coffee beans to be “Home grinded”.

The production of instant coffee is unsuitable for small-scale enterprises as it requires very expensive machinery e.g. an extractor and a freeze or spray drier.

*Table 14: Coffee Processing*

It is common knowledge that coffee farmers do not only sell their harvest but dry it first and sell it after milling. Neither they nor the Cooperative have access to other post harvest facilities such as grinders or coffee roasting machineries. Due to the bad road conditions, they are urged to sell their processed coffee beans to the local trader “Joemarie”, who owns a “Saddam” Truck that enables him to sell these commodities to Nestle in Tagum and Davao.

Considering these preconditions, the idea of entering the market of processed coffee has to be analyzed in a feasibility study to prove its economic viability. It is supposed to answer the question if this business idea makes economic sense or not.

# 1. Feasibility study for coffee processing venture

## 1.1 MARKET ISSUES

The market that the Cooperative wants to enter is quite a strong one. Nestle Philippines can be considered as a strong and reliable buyer for the small-scale products. The company supports coffee farmers through its buying policy in committing to purchase all coffee produced in the country at a suitable price based on the prevailing world market price and Nestlé's coffee grading system. Green coffee beans are bought directly from farmers through various buying stations located in various parts of the country. One of these buying stations is located in San Francisco. It is around 80 km apart from Binucayan in the national highway connecting Davao and Butuan. In these buying stations, farmers can sell their products independent of the volume, the kind of bean or the grade.

### a) Market prices

Nestle buys all three coffees, Robusta, Arabica and Excelsa, at world market prices. The world market price for Robusta coffee varies daily, but shows a stable growth of 23% between December 2007 and August 2008.

Date	weighted
December 07	94.61
January 08	102.70
February 08	119.52
March 08	126.22
April 08	115.21
May 08	112.71
June 08	115.26
July 08	119.30
August 08	116.52

Table 15: ICO Indicator prices for Robustas coffee<sup>8</sup>

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<sup>8</sup> <http://www.ico.org/prices/p2.htm>; from September 7, 08

According to the Nestle Satellite Buying Station, the current purchase prices – as of August 20, 2008 – for all Robusta coffee beans are the following

Grade	characteristics	Purchase price per kg
I	1 – 8 % defects	98.50
II	8 – 12 % defects	97.00
III	12 – 16 % defects	95.00

*Table 16: Nestle coffee purchase prices*

The obvious difference between the ICO prices and Nestles prices is subject to the fact that Table 13 shows only the weighted average, whilst Table 14 shows a day price. According to Nestle, the prices for Grade 1 Robusta were at 104 Php two weeks earlier. The varying price can be both a risk and – wisely used – a chance for higher gross profit.

**b) The coops competitors**

As mentioned above, the only one who is able to buy coffee beans in large amounts and can manage the bad road conditions in order to transport them to the market in Tagum is Joemarie. Due to this fact, all coffee farmers sell their product to Joemarie after milling.

The chart shows the supply chain of the coffee beans from the farmers to the market as it is practiced so far.

Processing step	Location	k/kg
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Harvesting	Farmers 	1.0
Processing	Binucayan coffee and corn mill 	0.5
Sale	Joemarie Store 	0.35
Transportation	Tagum	
Sale	Nestle	
Source: own research		

Table 17: Product flow coffee beans

Equipped with the necessary capital, Joemarie can afford to act as the coffee farmers' main buyer and

is able to use his monopolistic position as the only one capable to transport a large amount of goods out of Binucayan. Table \_\_\_ (note: where is the table?) shows the purchase prices of other traders in the Binucayan area according to Grades. In order to mark as the farmers' best agricultural partner, the Cooperative has to beat the prices of Joemarie.

To identify the possible advantage of the competitor through coffee processing, Table 16 gives a short overview of the competitor's purchase prices for coffee after milling.

Grade	Purchase price <sup>9</sup>
I	85
II	80
III	76

Table 18: Joemarie purchase prices of milled and graded coffee beans

## 1.2 TECHNOLOGICAL AND EQUIPMENT ISSUES

### a) Transportation

The required vehicle needed to handle the bad road conditions between Binucayan and Trento is a heavy six- to eight wheel truck formerly used for military purposes in Iraq. This is where the name "Saddam Truck" was derived.

These trucks are mainly used for logging. They carry the logs out of the remotest rural areas. So they are, on the one hand, the only ones that can manage the bad road conditions, and on the other hand, the very reasons for these bad conditions. Their weight is too high for the unstable muddy roads of the area and their wheels dig deep holes into the soft soil, making the road impassable for other vehicles except motorcycles and some four wheel drives.

Including costs for fuel, driver incentives, and the rental fee of the truck for three days to travel from Binucayan to Tagum and back, the Cooperative has to pay around 18,000 pesos. This amount is based on the actual experience of the Cooperative when it hired a truck three months ago.

To calculate the transportation costs from Binucayan to San Francisco, the amount of 18,000 pesos is no longer valid. It is hard to estimate or identify the rental fee, but for demonstration

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<sup>9</sup> price includes the milling fee of 3 Php per kg

purposes, we will take the amount of 5000 pesos for one day. Aligned on the income through the coffee selling, the price limit for transportation can be easily calculated afterwards.

However, considering the high price for coffee, transportation costs per kilogram dwindle down quickly, as shown in Table 19: Transportation costs.

<b>Total transportation costs<sup>10</sup></b>	<b>Sacks a 60 kg</b>	<b>Load in kg</b>	<b>Transportation cost per kg</b>
5,000.00	150	9,000.00	0.55
5,000.00	100	6,000.00	0.83
5,000.00	70	4,200.00	1.20
5,000.00	30	1,800.00	2.77

*Table 19: Transportation costs*

Since transportation costs vary, we rather concentrate on the resulting gross income to determine the minimum selling amount which justifies the transportation costs.

#### **b) Milling / Hulling**

Whenever the Cooperative decides to buy dried and unmilled coffee from the farmers, it has to further process it through milling – also called hulling. The Binucayan coffee mill has a milling capacity of 2,000.00 kg dried coffee to be milled per day.

The milling fee per kg is 3 pesos.

### **1.3 FINANCIAL AND ORGANIZATIONAL ISSUES**

According to the Buy and Sell Department of SIPBAFAMCO, a fund equivalent to 200,000.00 pesos is available for processing activities. This limitation should always border all considerations. It is the basis for all calculations concerning the coffee processing activities.

To determine the starting costs, we take all necessary payments into consideration. However, this study will not include any costs for establishing a new section within the Cooperative or the assignment of new employees. The scenario for the financial overview of the activities concerns the purchase prices, the market prices and the transportation costs, which are basically all relevant costs within the activities.

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<sup>10</sup> Based on the experiences mentioned by coop members

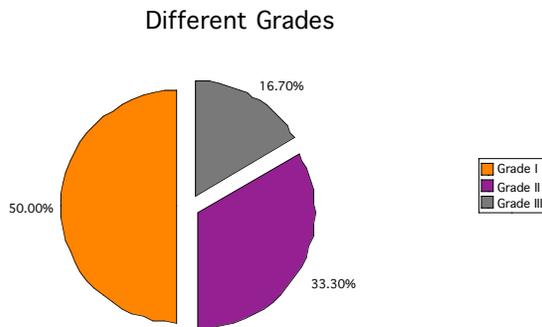
**a) Costs**

When the Cooperative buys the seeds, it has to beat the prices of its competitors, which are shown in Table (...). Assuming the Cooperative decides to offer the farmers a price which lies 3 pesos above the competitor’s price, it has to deal with the following price pattern after milling.

Grade	Purchase price <sup>11</sup>
I	88
II	83
III	79

Table 20: SIPBAFAMCO calculated real purchase prices for coffee

According to the staff at the coffee mill in Binucayan, the coffee arriving can be graded into



the three grades mentioned. Half of the beans are Grade 1, which is surprising because of the lack of knowledge in correct harvesting.

In the following calculations, we took the average price based on the fragmentation of the farmers harvest to meet the best real conditions. The average purchase and selling prices were calculated by this formula.

Illustration 1: Percentages of the grades

$$P_{\text{average}} = ( P_{\text{Grade I}} \times 0.5 ) + ( P_{\text{Grade II}} \times 0.333 ) + ( P_{\text{Grade III}} \times 0.167 )$$

Following this method, we took the calculated average prices for the quality pattern of the coffee beans as basis of all our calculations. The purchase price can be seen as very stable, whilst the selling price is based on a day price at San Francisco Satellite buying station and subject to change. But when you take a closer look on the development of the world price for Robusta coffee, a positive trend can be discovered.

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11 price includes the milling fee of 3 Php per kg

Average purchase price	Average selling price
84.03	96.46

Table 21: Calculated weighted average of coffee prices per kg

Within this framework, a feasibility study comes to a conclusion in order to check if the idea of selling coffee makes economic sense.

#### 1.4 Conclusion

##### a) Economical aspect

According to all information on hand, Appendix I shows that the gross profit of the coffee processing venture before transportation is dependent on the operating volume bought and sold by the Cooperative. In order to visualize these calculations, the following scenario for initial small scale coffee processing will run through the whole process of coffee processing and marketing.

##### The process

1. Buying dried coffee from the area farmers. Total amount: 2,000 kg in approx. 35 sacks
2. Milling and warehousing through the Binucayan coffee mill and the Cooperative main store
3. Transportation to Nestle Buying Station San Francisco

##### Fixed capital

Transportation costs in the form of rental fee including all drivers' incentives and petrol costs for a Saddam Truck for one day is equivalent to Eight Thousand Pesos (8,000 pesos).<sup>12</sup>

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<sup>12</sup> This amount is based on the coops experiences in renting such a truck for three full days. The distribution of the coffee to San Francisco will need only one day. The amount is an estimation, trying to consider also fix costs and additional costs. It is more likely overestimated.

## Financial overview

### Costs of coffee and additional materials

2,000 kg dried coffee	81.03 per kg <sup>13</sup>
Milling/Hulling	3.00 per kg
Sacks	12.00 per piece
Transportation	4.00 per kg

### Buying price

Dried coffee	Php 81.03 x 2,000 kg	162,060.00
Milling/Hulling	Php 3.00 x 2,000 kg	6,000.00
Sacks	Php 12.00 x 35	420.00
Transportation		5,000.00
<b>TOTAL OPERATING COSTS</b>		<b>173,480.00</b>

### Sales

Gross Sales	2,000 kg x Php 96.64	<b>193,280.00</b>
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<u>Net Surplus</u>	<u>19,800.00</u>
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Obviously, even with small-scale beginnings, the venture of going into coffee processing and trading is viable and can be an additional kind of income for the Cooperative and its farmer-members. However, additional aspects such as capability building and the social impact of the venture are subject to considerations.

#### **b) Capability building aspects**

The integration of the Cooperative into Nestle's coffee farmer project is not bound to any conditions. Farmer-members of the Cooperative are not only totally free to join, regarding their selling volume and frequency, they can also leave the program whenever they want. Additionally – and this is the most important and promising part within the program – they will receive free trainings in coffee processing, which can be used as the basis for further ventures and processing steps in the future. As coffee processing is an activity that requires a high qualification and knowledge to achieve best quality coffee

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<sup>13</sup> weighted average before milling (not mentioned in text)

from harvesting to roasting, parts of this knowledge can be gained by joining the program and receiving the seminars. Contact details for assigning in the program can be found in Annex 3, detailed information about the program is posted on Nestle's webpage.

If SIPBAFAMCO decides to go further into coffee processing, they can be supported by the Department of Science and Technology (DOST) in Batinghay, San Francisco, Agusan del Sur.

#### **c) Social impact**

The coffee market of Binucayan area is characterized by a monopolistic structure. Due to the bad road conditions and the high price for coffee, only one trader is able to buy the coffee farmers harvest. As of this writing, he is the one determining the price for coffee. Bringing competition into the Binucayan coffee market will not only be beneficial to the Cooperative, it will also contribute to the farmers' desire to receive fair prices for their goods. As soon as they will take part in the program, it is mandatory that the seminars in correct harvesting will be made accessible to them to assure that the aim to achieve good quality coffee is pursued. All good quality coffee starts with the correct harvesting of the beans, something that is lacking among the coffee farmers. Most of them do not follow correct harvesting principles, resulting into the low quality of Binucayan coffee.

#### **d) Conclusion**

The mentioned market preconditions seem to be very promising. A Sustainable Farming System from Nestle that guarantees farmers to purchase all their crops for very suitable prices, combined with the fact that coffee farmers obviously suffer from the low coffee prices due to the monopolistic position of the main buyer, demand for an innovative solution.

But in order not to neglect the roadblocks and threats, the Cooperative has to consider some factors in carrying out the project. The Cooperative has only limited capital provided as fund for processing activities. According to Anjet, the person in-charge of processing, this fund is about 240,000.000 Philippine Pesos and only to be used for processing commodities.

	Strengths	Weaknesses
Opportunities	Community power coffee farmers as members will rather stick to the cooperative than to others extra capital for processing activities	Lack of transportation property small-scale initial trading
Threats	Overestimation of the coops capital power, payment periods on the side of Nestle have to be clarified	initial activities are vulnerable due to lack of capital long coffee season requires storage room farmers might not join as the cooperative can not buy their whole harvest

*Table 22: SWOT Analysis of coffee processing venture*

Getting in competition with local traders can solve not only one problem. On the one hand, sound coffee processing can be learned by the Cooperative. This knowledge is mandatory basis for further coffee processing activities. Cultivating the milled coffee beans any further is connected to high value investments in machinery and is a risk for the Cooperative in case the operation fails. Considering the high margin of coffee as mentioned above, making the Cooperative not only farmers but traders as will shall boost their incomes.

On the other hand, any competition in the field of coffee in this region that breaks the monopolistic conditions will contribute to the coffee farmers' livelihood.

Within this framework, an economical intervention into the market of unfinished goods of coffee is economically and socially feasible.

## **IV. Capacity building**

### **1. Membership development**

As it was shown in the last sections, the limited capital of the Cooperative restrains its development. If SIPBAFAMCO hasn't enough capital, it cannot invest in processing and cannot accommodate the demand of micro lending. To solve that problem, the Cooperative has to make some efforts to increase the capital share, which can be used to invest in these projects. Concerning the membership, the Coop has two possibilities to realize it: Firstly, the Cooperative has to try to find new members who bring new capital and secondly, they have to do some endeavours to persuade the previous members to increase their capital share.

Until now, the Cooperative lacks serious efforts to get new members. Their advertisement is not well planned and it seems that SIPBAFAMCO is waiting until the interested people come by themselves to get informed. It is obvious that there are a lot of potentials to improve the recruitment of new members. Through conversations with the population, we found out that a lot of persons are interested to become members, but hampered by the lack of knowledge on the procedures and conditions of membership to the Cooperative.

There is a need, therefore, for the Cooperative to communicate its offer in a more efficient way. The most important part of the advertisement would be to inform the population of Binucayan and its surroundings about the date of its pre-membership seminar. It takes place only once a year. If the interested persons miss this seminar, they have to wait one more year to attend it and become a member. Thus, a clear information dissemination is very important especially before the seminar.

SIPBAFAMCO also tries to persuade its current members to increase their capital share. This happens mostly through indirect means, such as the expansion of their offer in the rice and corn mill in 2008. But the Cooperative is also keen in continuing its established programs and services which are already working well.

### **2. Capability building**

Most of the staff of SIPBAFAMCO only finished high school and had no other possibility to get further formal education. This puts primary importance to the seminars that the Cooperative organize wherein its Board of Directors and employees can improve their knowledge. The Cooperative has a fund that can be spend for these seminars.

### **3. Conclusion**

#### **a) Membership development**

It is crucial for the sustainability of SIPBAFAMCO that new members join the Cooperative and previous members increase their capital share. To get new members the Cooperative should improve their information-dissemination program. A possible way to realise it is to roam from house to house to inform people about membership advantages and have time to answer their questions. A first attempt to apply this way of promotion was made on August 21, 2008. Two staff of the Cooperative visited several houses and gave a flyer (Appendix ...) containing the most important information about the Cooperative and the date of the pre-membership seminar. During the pre-membership seminar held on September 7-8, 2008, it was obvious that the promotion was a success manifested by the presence of 72 interested people. This was the first time that such an extraordinary high number of potential new members were present in a pre-membership seminar.

Another way to advertise for new members is through the 17 chapels in and around Binucayan. The publicity of the Cooperative can also be maximized during the parish fiesta.

After the first step to inform the population on the offer of the Cooperative and convince them to attend the pre-membership seminar, the second and most important step would be on the pre-membership seminar itself. It is relevant that the attending people really decide to become a member and invest in their capital share. It is crucial to make them feel comfortable during the seminar, that they get convinced to become members of the Cooperative. Thus, pre-membership seminars should be as attractive as possible. If the Cooperative is keen on getting new members from other places, it has to think about the duration of the seminar. For people residing in distant places, it is more agreeable if the seminar takes place only in one day, so that they have to travel only once. Another possibility is to improve the seminar through a trainers training. The responsible persons can learn more from experts on how to conduct pre-membership seminars effectively, especially on ways to make these seminars attractive to participants.

Equally important also is the improvement of knowledge of current members, thereby strengthening unity within the Cooperative. The time and costs saved from shorter but effective pre-membership seminars can be utilized for membership renewal activities. SIPBAFAMCO should think about an additional obligatory seminar for members to refresh their knowledge about the Cooperative and be informed also about the latest developments of SIPBAFAMCO. These meetings eventually lead to further strengthening of unity of the Cooperative.

## **b) Capability building**

SIPBAFAMCO is always looking for good possibilities to improve the knowledge of the staff and of the Board of Directors. There exist several organizations and companies that can provide them new inputs to help in the sustainability of SIPBAFAMCO:

First, JPIC-IDC can offer seminars for the Cooperative. That NGO has a lot of experience with other cooperatives and is able to offer seminars especially on capability building. This could be one of the easiest and cheapest way to attend a seminar, because SIPBAFAMCO has to provide only the accommodations and transportation cost to and from Cebu for the seminar leaders. It would also be a very worthwhile experience for the staff of SIPBAFAMCO if JPIC-IDC could organize another excursion like the one held in Cebu on year 2006. The learning experience is very educational if the employees travel from Binucayan to visit other places and interact with other cooperatives. However, JPIC is not able to offer their help in the domain of processing, thus SIPBAFAMCO has to get assistance from other institutions on this matter.

To get new inputs, SIPBAFAMCO can also attend a seminar of another organization. For example Baba's Foundation offers seminars for cooperatives on various topics. This is a non-profit development organization in the Philippines, which provides technical assistance, education and aid primarily to women, farmers and children. Founded in 1987 in Davao in southern Philippines, Baba's Foundation runs development programs that include cooperatives, micro-finance, sustainable agriculture and child education. They offer trainings in Davao and as well in Binucayan. The training fees depend on the type of training the participants would request. The price for technical trainings like finance, marketing and processing, is higher than trainings on capability building. For technical trainings they are asking for 300 pesos per hour, and trainings in capability building cost 200 pesos per hour. If SIPBAFAMCO wants the said seminars to take place in Binucayan, it has to pay the transportation, meals and accommodations of the seminar leader. If the training has a duration of three days, around two to three persons will be part of the training team. Seminar and training rates from these institutions are higher than it would cost JPIC-IDC to hold the seminar. But it is a good possibility if the Cooperative wants to have a seminar about a topic that JPIC-IDC cannot offer.

## **V. Interventions beside the research study**

### **1. Financial Statements**

Financial Statements are the means by which the information accumulated and processed in financial accounting are periodically communicated to the users. They are designed to serve the needs of variety of users, particularly owner and creditors. The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is vital in making a sound economic decision.

The Cooperative deals with two financial statements: the balance sheet and the financial overview.

During the joint meeting on July 26, 2008, some significant flaws and unclear positions have been expressed by the Cooperative members and the ASA Team. Since the Cooperative has just started using the income overview, it makes sense to mention the discovered flaws in order to create correct financial overviews in the future.

According to frameworks of accounting, financial statements should possess these five qualities:<sup>14</sup>

#### **1. Understandability**

This means that financial statements should be prepared and presented in a way that can be understood by the users.

#### **2. Reliability**

Financial information should carry the degree of “confidence” when used by interested parties. To be reliable, it must be “free from material error” that will lead to material misstatement, it must be fairly presented and must be free from bias.

It has to be complete and aligned on a legal form.

#### **3. Relevance**

This means that financial statements prepared are intended to help users make informed economic decisions. For example, a balance sheet is relevant in determining “financial

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14 Compare: “Fundamentals of Accounting”, Rafael M. Lopez Jr., International Standard Book, p. 37 f.

condition” just as the income statement is intended for measuring the entity's performance. These help them evaluate past and present economic events and effect corrective measures in the future.

#### 4. Comparability

Compliance with these requirements is also useful to facilitate comparing with other companies or cooperatives by pointing out similarities and differences.

#### 5. Consistency

Once a method or practice is selected from alternatives, it should be followed from period to period. The consistency of procedure or method does not only maintain the comparability of periodic statements but also implants reliability in the reports.

### **1.1 SIPBAFAMCO Income Statement**

The SIPBAFAMCO Income Statement has been newly crafted in June 2008 resulting from the organizational progress and development in its accounting system. Nevertheless, it is not flawless. Its main problem is it's in transparency especially regarding the expenses. This significantly affects the accounting quality of reliability and is the root of misunderstandings in meetings and a fertile ground for any abuse that always comes with Cooperative losses. To prevent losing money from non-transparent accounts, the income statement needs urgent improvement.

#### **a) Transparency and correct formation**

As the above mentioned qualities show, a financial statement has to be free from material error and should carry a degree of confidence. This means that all accrued costs have to be grouped to their direct cost drivers. For example the electricity bill received by the Ilpapa store in this period must be shown in the row for “Light and Power.”

Furthermore, all expenses shown in the income overview have to be defined fairly in order to create valid criteria for everybody in charge of income reports.

It is also necessary to use the correct formation form in order to avoid wrong and unreliable figures. In the SIPBAFAMCO Income Statement, some figures are misplaced and some are

completely missing.

**(1) Damages**

Commodities that are damaged, spoiled or became unusable in any other way are considered to be a loss on inventory and neither to be added to sales nor subtracted as an expense. They have to be subtracted from the total available goods for sale in order to comply with accounting requirements. The table above shows the correct way to show the damages and – connected to that – the real sales without the added damages.

A damage sheet, which is required to tally all cost damages with detailed unit purchase prices, has been created for the Binucayan Main store.

Posting the damages in this way might have a positive effect on the motivation of the storekeepers. The more damages they have the lower their sales will be. A conscious storekeeper will always have an eye on his sales to be as high as possible. Reducing damages will contribute to the increase in the store's total sales.

entry	wrong	correct
Sales	1,135,678.25	1,133,776.25
Truck		
Mechanic Shop		
Inventories beg.	387,776.40	387,776.40
Purchases net.	873,978.62	873,978.62
Freight – in	30,770.00	30,770.00
<b>Damages</b>		<b>-1,902.00</b>
Total goods available for sale	1,292,525.02	1,290,623,02
Inventory end	263,365.00	263,365.00
Cost of sales	1,029,160.02	1,027,258.02
<b>Gross profit (loss) on sale</b>	<b>106,518.23</b>	<b>106,518.23</b>

**(2) Non-transparent expenses**

Many expenses are not defined, others are overlapping. It is mandatory that all amounts are posted in the correct accounts in order to be able to trace expenses and to make reliable statements to all expense developments and significances.

*Example: The SIPBAFAMCO Income Statement of May/June 2008 shows “miscellaneous expenses” for administration of Php 10,113.19. This account is prone to non-transparent expenses and should be at least divided into certain expenses. Furthermore, proper bookkeeping to provide traceability of all expenses and an expense limit for mixed accounts similar to the one cited above can help avoid non-transparency and abuse.*

### **(3) Entrepreneurial issue**

All financial overviews are not only made for accountability and controllability purposes. They can also be used as a motivating instrument. It was obvious that the Cooperative’s different stores perform at different levels. The difference is only in their merchandising margins, which ranges from 9% to 17.8%. Considering that all stores apart from the main store add a 15% sale surcharge (representing profit margin) in their purchased products, their merchandising margin should at least be 13% after subtracting damages and can theoretically not be higher than 15%<sup>15</sup>. The mentioned differences are most likely caused by dissimilar ways of bookkeeping or a lack of eagerness to do these things in a proper way in order to create growth and productivity. Since each branch purchases merchandise in a decentralized way, the process should lead towards making each of them fully responsible for their respective performance.

*“Leadership generally means creating consciousness in order to make as many employees as possible an entrepreneur within their work for the Cooperative.”*

*G. Werner, CEO of dm drugstores, Germany*

Following this conviction of human behavior, G. Werner has led his drugstore company to be the second biggest retailer in this sector in Germany with continuous two digit growth rates. His employees are considered to be one of the happiest employees in Germany.

In being responsible for the figures that their store generates during the two month period and seeing their own growth rates and sales, and corresponding expenses incurred, storekeepers will find themselves in a different light. They are no longer just players in a big cooperative, which generates a certain consolidated net surplus at the end of the period; they are now one “company” within the cooperative that generate their own incomes that contributes to the net

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<sup>15</sup> Some store sell certain products with a higher surcharge than 15%

surplus income of the whole cooperative.

Furthermore, their performance can be compared with other branches and differences in their expenses and sales can be discussed on a comparable basis.

Giving the different branches more entrepreneurial status through the financial statement can be a simple and cost effective way to get rid of low productivity, non-transparency and high expenses.

## **1.2 Recommendations**

The following are recommended based on the observed weaknesses:

### **(1) Definition of accounts**

In order to bring transparency and understandability of all accounts, all listed accounts should be grouped with the respective expenses which will be posted in the said accounts.

All parties concerned should participate in gathering and listing all incurred expenses.

Those who are in charge of posting amounts to specific accounts must be provided with the final listing of the said incurred expenses for proper posting to specific accounts.

### **(2) Bookkeeping facilities**

All account entries must be made with issued receipts. All stores, processing, trucking-, farming- and milling facilities including the administrative section should be provided with similar accounting standards in the recording and filing system. In the accounting and bookkeeping seminar held by the project team, the issuance of receipt and invoice had been discussed and approved. These proved to be helpful in being transparent with the accounts. This idea should be pursued.

### **(3) Motivation through entrepreneurship**

Two facts can ignite entrepreneurial spirit within the cooperative's branches.

Calculation of the net surplus of the total operation, as well as the individual operation of each branches and the use of facilities, will show the over-all success (or loss) in the period. They will be able to compare their performance with previous results of the whole cooperative and the branches.

Using financial statement ratios for the monitoring of the branches activities make the individual activities of each branch comparable with the other branches and this will foster internal competition.

Accounting ratios that are useful for the branches operations are the following:

- Profit Margin

The Profit Margin shows the percentage of the amount that is considered to be the profit of the economic activities. The share of the sales that is the gain of the merchandising work.

$$\text{Profit Margin} = \frac{\text{Net Surplus}}{\text{Sales}}$$

- Profit on Sales

This ratio shows how high the average margin of a store product is. A store that has no loss on sales, no damages, flawless in bookkeeping and ensures 15% surcharge on all products, will achieve exactly a 15% profit on sales ratio. It measures the productivity of the stores merchandising. Low profit on sales ratios are an indicator either for high purchasing prices, low sale prices or high damages. If products are sold without receiving money for it (e.g. through credits), the profit on sales ratio will also stay low.

$$\text{Profit on sales} = \frac{\text{Gross profit (loss) on sale}}{\text{Sales}}$$

Comparing branches with these figures can be a useful instrument to lower expenses, increase productivity and raise the responsible people's consciousness and motivation through competition and entrepreneurship.

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## Appendix 1: Rice demand of coop main store in July 2008

	jan	feb	Mar	apr	May	Jun	jul	aug	sep	oct	nov	dec
rice demand in kg	2635	2550	2635	2550	2635	2550	2635	2550	2635	2550	2635	2550
rice demand in php	105400	102000	105400	102000	105400	102000	105400	102000	105400	102000	105400	102000
accumulated rice demand	2635	5185	7820	10370	13005	15555	18190	20740	23375	25925	28560	31110

Appendix 2: Gross profit through coffee trading (before transportation)

Sacks	kg	Purchase price	Selling price	Gross Profit
1	60	5041.8	5787.6	745.8
2	120	10083.6	11575.2	1491.6
3	180	15125.4	17362.8	2237.4
4	240	20167.2	23150.4	2983.2
5	300	25209.0	28938.0	3729.0
6	360	30250.8	34725.6	4474.8
7	420	35292.6	40513.2	5220.6
8	480	40334.4	46300.8	5966.4
9	540	45376.2	52088.4	6712.2
10	600	50418.0	57876.0	7458.0
11	660	55459.8	63663.6	8203.8
12	720	60501.6	69451.2	8949.6
13	780	65543.4	75238.8	9695.4
14	840	70585.2	81026.4	10441.2
15	900	75627.0	86814.0	11187.0
16	960	80668.8	92601.6	11932.8
17	1020	85710.6	98389.2	12678.6
18	1080	90752.4	104176.8	13424.4
19	1140	95794.2	109964.4	14170.2
20	1200	100836.0	115752.0	14916.0
21	1260	105877.8	121539.6	15661.8
22	1320	110919.6	127327.2	16407.6
23	1380	115961.4	133114.8	17153.4
24	1440	121003.2	138902.4	17899.2
25	1500	126045.0	144690.0	18645.0
26	1560	131086.8	150477.6	19390.8
27	1620	136128.6	156265.2	20136.6
28	1680	141170.4	162052.8	20882.4
29	1740	146212.2	167840.4	21628.2
30	1800	151254.0	173628.0	22374.0
31	1860	156295.8	179415.6	23119.8
32	1920	161337.6	185203.2	23865.6
33	1980	166379.4	190990.8	24611.4
34	2040	171421.2	196778.4	25357.2
35	2100	176463.0	202566.0	26103.0
36	2160	181504.8	208353.6	26848.8
37	2220	186546.6	214141.2	27594.6
38	2280	191588.4	219928.8	28340.4
39	2340	196630.2	225716.4	29086.2
40	2400	201672.0	231504.0	29832.0
41	2460	206713.8	237291.6	30577.8
42	2520	211755.6	243079.2	31323.6
43	2580	216797.4	248866.8	32069.4
44	2640	221839.2	254654.4	32815.2
45	2700	226881.0	260442.0	33561.0

Sacks	kg	Purchase price	Selling price	Gross Profit
46	2760	231922.8	266229.6	34306.8
47	2820	236964.6	272017.2	35052.6
48	2880	242006.4	277804.8	35798.4
49	2940	247048.2	283592.4	36544.2
50	3000	252090.0	289380.0	37290.0
51	3060	257131.8	295167.6	38035.8
52	3120	262173.6	300955.2	38781.6
53	3180	267215.4	306742.8	39527.4
54	3240	272257.2	312530.4	40273.2
55	3300	277299.0	318318.0	41019.0
56	3360	282340.8	324105.6	41764.8
57	3420	287382.6	329893.2	42510.6
58	3480	292424.4	335680.8	43256.4
59	3540	297466.2	341468.4	44002.2
60	3600	302508.0	347256.0	44748.0
61	3660	307549.8	353043.6	45493.8
62	3720	312591.6	358831.2	46239.6
63	3780	317633.4	364618.8	46985.4
64	3840	322675.2	370406.4	47731.2
65	3900	327717.0	376194.0	48477.0
66	3960	332758.8	381981.6	49222.8
67	4020	337800.6	387769.2	49968.6
68	4080	342842.4	393556.8	50714.4
69	4140	347884.2	399344.4	51460.2
70	4200	352926.0	405132.0	52206.0
71	4260	357967.8	410919.6	52951.8
72	4320	363009.6	416707.2	53697.6
73	4380	368051.4	422494.8	54443.4
74	4440	373093.2	428282.4	55189.2
75	4500	378135.0	434070.0	55935.0
76	4560	383176.8	439857.6	56680.8
77	4620	388218.6	445645.2	57426.6
78	4680	393260.4	451432.8	58172.4
79	4740	398302.2	457220.4	58918.2
80	4800	403344.0	463008.0	59664.0
81	4860	408385.8	468795.6	60409.8
82	4920	413427.6	474583.2	61155.6
83	4980	418469.4	480370.8	61901.4
84	5040	423511.2	486158.4	62647.2
85	5100	428553.0	491946.0	63393.0
86	5160	433594.8	497733.6	64138.8
87	5220	438636.6	503521.2	64884.6
88	5280	443678.4	509308.8	65630.4
89	5340	448720.2	515096.4	66376.2
90	5400	453762.0	520884.0	67122.0

## Appendix 3: Contact details

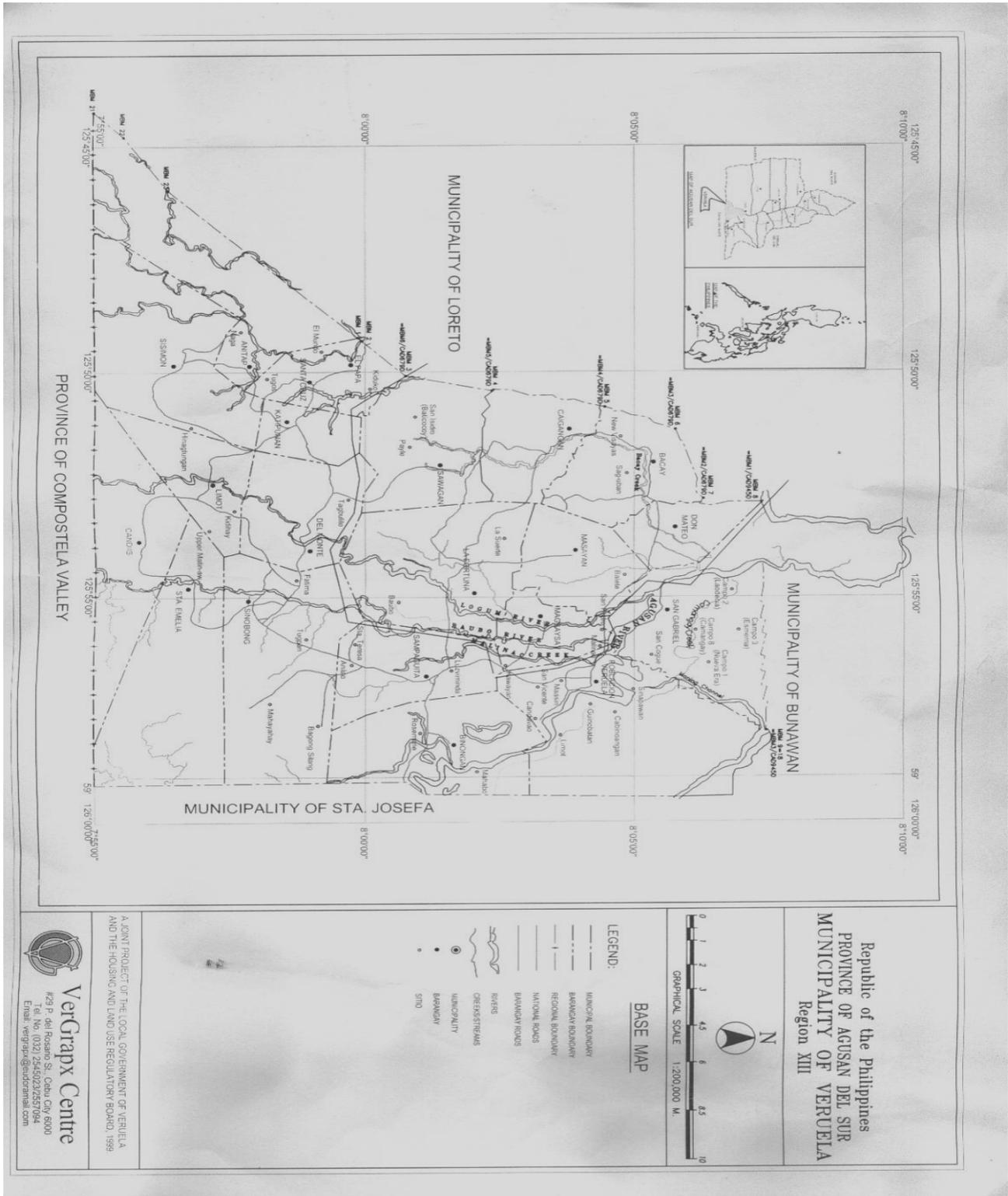
### Nestle coffee farmer program and seminars

Dr. Jose Reano  
Tel: 0927 220 8222

### Babas Foundation

.Cristita "Tara" Epal  
Tel: 0916 249 75 77

Appendix 4: Map of Municipality of Veruela (Road from Trento to Ilpapa)



Appendix 5: SIPBAFAMCO Balance Sheet

San Isidro Parish Binu cayan Area Farmers Multi-purpose Cooperative  
( SIPBFAMCO )

BALANCE SHEET

**Current Assets :**

Cash on hand	Php 274,217.50
Cash in Bank	43,374.73
Petty Cash fund	14,392.30
Cash Advances	165,767.59
Accounts Receivable	99,147.30
Micro Lending	237,728.33
Allowance for Baddebts	( 13,901.95
Merchandise Inventory	534,431.83
Accounts Receivable Ilpapa,Johnson	55,001.34
Arawan	71,421.61
Credit line	137,527.33
	1,619,107.91

**None Currents**

Land	85,270.00
Building	208,937.65
Store Equipment	46,608.20
Office Equipment	12,712.50
Welding Equipment	80,000.00
Mechanical Drier	300,000.00
Truck	750,490.00
Cornsheller	92,000.00
Refregerator	22,997.00
Accumulated Depreciation	-135,727.20
Deposits on returnable Cont.	10,265.00
Livestok	8,000.00
	1,481,553.15
Office Building	507,525.81
Main Store	400,000.00
Rice and Corn Building	891,156.30
	3,280,235.26

**Total Currents and None Current Assets**      **Php 4,899,343.17**

**Liabilities**

Savings	330,885.29
JPIC loan	250,000.00
A/P	31,000.00
Members Equity	760,632.09
Net Surplus	136,640.69
Net Surplus present	72,122.89
Donations and Grants	
SP Mondejar	150,000.00
SP Glenn Plaza	50,000.00
Romeo Magadan	20,000.00
D.A	340,000.00
Schmitz Foundation	857,374.10
CETF	33,934.10
Reserved Fund	68,071.90
German Embassy- Store Building	400,000.00
Schmitz Foundation-Main Office	507,525.81
Fr. Hienz - Rice and Corn Mill	391,156.30

**Total Liabilities**      **Php 4,899,343.17**