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Case Collection on Philippines (2012)

Social Entrepreneurship in Asia: Working Paper No. 2

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FOREWORD

Swee-Sum Lam

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This is the second working paper in the series on Social Entrepreneurship in Asia published by the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP).

ACSEP's mission is to advance the understanding and impactful practice of social entrepreneurship and philanthropy in Asia through research and education. While Asia is rich with the practice of social entrepreneurship given the plethora of social issues and challenges facing the region, there is still catch-up to be done in the documentation of these challenges and the responses from the private, public and people sectors.

Case studies provide the platform for story-telling, analysis and theory building. Each of these applications serves a function in capacity building in the social entrepreneurship space in Asia. Story-telling inspires, engenders passion, informs of possibilities, sparks action, builds communities and facilitates information exchange for change. Iterations of analysis (and synthesis) done in the classroom among practitioners, professionals and students develop critical skills of assessment and evaluation. Academics interact with the models of social entrepreneurship which surface from data drawn from practice to build theory which again informs on practice.

This collection of cases on social entrepreneurship was borne out of a three-year partnership between the National University of Singapore Business School, the Ateneo de Manila University and Gawad Kalinga in a collaboration on curriculum development in entrepreneurship for sustainable development. On behalf of the partners, I want to thank Temasek Foundation for its generous support for this collaboration. It provides capability and capacity training in entrepreneurial skills for both for-profit and not-for-profit enterprises. This case collection stands as a testimony of the collaboration which started in 2010.

The collaboration has two dimensions.

First, it is a curriculum development programme for curriculum writers to design a cornerstone undergraduate module on entrepreneurship for sustainable development. The programme introduces a method in curriculum development which integrates multiple disciplines throughout the module. In June 2012, this module was offered in the School of Social Sciences and the John Gokongwei School of Management for the first time. This case collection was commissioned to accompany this cornerstone module on entrepreneurship for sustainable development and can be used for discussion in many of its lesson plans.

Second, it is a train-the-trainer programme for Gawad Kalinga leaders to train entrepreneurs in some 2,300 communities throughout the Philippines. The programme provides process learning for Gawad Kalinga community leaders to train entrepreneurs in their own communities. 24 Gawad Kalinga trainers and leaders were trained in May 2011. As planned, this Gawad Kalinga training program has been cascaded to their communities to build capacity, targeting to train at least 100 leaders and entrepreneurs by April 2013.

The theoretical framework for the curriculum development process has been documented in a video clip and can be viewed in YouTube [https://www.youtube.com/watch?v=L5S8vm_enu0].

Apart from its use in formal curriculum on entrepreneurship for sustainable development, we hope that this case collection can be inspiring reading to challenge the vision of and provoke passion in some of our aspiring entrepreneurs and social entrepreneurs. We in Asia contribute 60

percent of the world's poor. Entrepreneurship and social entrepreneurship, besides education, are some of the keys to restore dignity, alleviate poverty and create employment. Therefore, social entrepreneurs in Asia are faced with one of the widest spectrums of unmet people needs and the correspondingly open range of entrepreneurial possibilities.

I believe that one of the better ways of internalising the skill to recognise opportunities and create that value proposition is to keep looking at paradigms after paradigms, models after models. Some of these ought to be failure stories. Regrettably, there is a survivorship bias even in storytelling. Notwithstanding, the constant practice of reading such cases or stories, consciously or subconsciously, sharpens our senses of differentiating a success potential from a failure potential. It is with this hope that ACSEP publishes its Case Collection on Philippines.

I also recognise that each Asian economy has its own trajectory in socio-economic development. Therefore, the corresponding solutions to its social issues are distinct to its context. This case collection is drawn from the Philippines. Over time, I hope that a beautiful mosaic will emerge from the myriad of entrepreneurial solutions in this collection and elsewhere for sustainable development.

CHAPTER 1

INTRODUCTION

Leland Joseph R. Dela Cruz

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Social development interventions have traditionally been associated with governmental and non-governmental organisations (NGOs). But in recent years, there has been an increasing recognition that market actors can also make significant contributions to addressing social problems beyond traditional corporate social responsibility practices, philanthropy and employee volunteerism.

Social business enterprises, in particular, have emerged as entities that could address various social problems through market-mediated interventions. These social business enterprises provide sources of income and markets for marginalised producers, provide access to basic needs, and help to address the problems associated with environmental degradation.

While there have been numerous attempts on the part of traditional social development actors to address these problems, social business enterprises present a complementary approach to dealing with these problems in a financially sustainable way.

For a country like the Philippines where various social problems associated with developments persist, finding financially sustainable solutions to these social problems is important. Given that 26.5 percent of the population, or 23.1 million Filipinos, are considered poor (National Statistical Coordination Board, n.d.), governmental resources are hardly enough to deal with the problems. While the government has put into place various programmes to address income poverty, lack of access to basic needs, and to regulate destructive environmental behaviour, its capacities are limited by significant fiscal considerations.

Non-governmental actors have also traditionally played an important role in the Philippine social development scene, leading some to call the Philippines the “NGO capital of the world.” However, when the Philippines transitioned into the middle-income bracket of global classifications in the 1990s and when the Iron Curtain fell, a lot of funding for NGOs were relocated to even poorer nations and to Eastern Europe. Fiscal crises in developed countries also led to the reduction of development assistance received by the Philippine government as well as Philippine NGOs.

It is in this context that social entrepreneurship has emerged as a possible approach to dealing with social problems in a manner that pays for itself. And in recent years, the Philippine social enterprise sector has received a lot of attention from entities that recognise outstanding social business enterprises, including international organisations such as the United Nations, the Business in Development Network, and the British Council. Several conferences and symposia on social entrepreneurship have also been staged, and various social business incubators have emerged.

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The vibrancy of social business enterprises in the Philippines is propelled by various sectors. Some NGOs are turning to earned-income activities to ensure the financial sustainability of programme outcomes among marginalised communities. This includes Gawad Kalinga (GK), a Philippine NGO that seeks to end poverty for five million Filipino families by 2024. GK recently created the “Center for Social” innovations which seeks to incubate social enterprises that tap the 2,000 GK communities.

Apart from NGOs, some community organisations themselves have recognised the potential of engaging in earned-income activities. Mainstream businesses are also increasingly recognising that they can do good while continuing to do well financially. Funding organisations have recognised the increased activity in this sector and have transformed their operations to support the sector.

The academe is another sector that is poised to provide assistance to the social enterprise sector. With this in mind, Temasek Foundation supported the initiative of the National University of Singapore, the Ateneo de Manila University and GK to provide capability training in entrepreneurship for sustainable development in the Philippines. This three-year project involved the development of training modules for use in undergraduate courses as well as the training of personnel from GK.

The 10 cases found in this casebook were written to supplement the training modules that were developed as part of the project. By themselves, however, the cases can also serve as a stand-alone knowledge product that provides readers with insights regarding social business enterprises and gives readers a glimpse of the Philippine social business enterprise sector.

The 10 cases discuss 12 different social business enterprises. Most of the cases discuss one social business enterprise each but the case on Fair Trade Practices in the Philippines discusses three social business enterprises: People's Recovery Empowerment Development Assistance (PREDA) Fair Trade, Community Crafts Association of the Philippines (CCAP) and World Fair Trade Organization (WFTO) – Philippines.

The 12 social business enterprises featured here were recommended for study by Lisa Dacanay, president of the Institute for Social Entrepreneurship in Asia (ISEA) and her associate, Rosalinda Roy. The cases were written by seven case writers, and the case writing process was supervised by Lisa Dacanay. They were chosen to represent different kinds of social enterprises, engaged in different kinds of earned-income activities, and demonstrating different points regarding social entrepreneurship.

The 12 social business enterprises clearly show that social business enterprises can take various forms. Some were initiated by NGOs or foundations. These include PREDA Fair Trade which evolved out of PREDA; Rags2Riches which evolved out of the efforts of the Simbahang Lingkod ng Bayan, a Jesuit social apostolate organisation; Human Nature which tapped into the vast network of GK; the Upland Marketing Foundation, Inc. (UMFI) which started off as a committee of the Upland NGO Assistance Committee; Don Bosco which is a foundation which spawned many social enterprises; and Hapinoy which is partly owned by the Center for Agrarian and Rural Development Business Development Services (CARD-BDS).

Other social business enterprises featured in this case book were initiated by other actors. The Cambuhat River and Village Tour (CRVT) was a community-based ecotourism enterprise that

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grew out of a project of the Philippine government's department of environment and natural resources for the community's Cambuhat Enterprise Development and Fisheries Association (CEDFA). Health Plus was a product of consultations by the Philippine government's department of health with NGOs, with funding assistance from German Technical Cooperation (GTZ).

Bote Central was a bottle-making company that was transformed into a social business enterprise by the husband and wife tandem that owned the company when they decided to move into the production of civet coffee. The case of Lechon Manok ni Sr. Pedro shows that even large business entities can transform some of its operations into a social business enterprise.

The cases featured in this case book also represent a variety of earned-income activities. Some social business enterprises are involved in the sale of food and beverage products. These include PREDA Fair Trade (mangoes), Don Bosco (biodynamic agricultural products), Bote Central (coffee), Lechon Manok ni Sr. Pedro (roasted chicken) and UMFI (organic rice, muscovado and other food products). Others sell crafts (CCAP Fair Trade and PREDA Fair Trade), medicines (Health Plus), beauty products (Human Nature), products made from upcycled cloths (Rags2Riches) and even ecotourism services (CRVT).

All the social business enterprises sought to improve livelihood outcomes of the poor but some also had other bottom lines. These included Rags2Riches, Bote Central, Don Bosco, Human Nature, UMFI, PREDA Fair Trade (organic) mangoes and the CRVT. These social business enterprises considered environmental outcomes as one of their bottom lines. CRVT itself was designed to provide the local community with additional income while preserving their environment.

The decision to consider environmental outcomes affected some of their business decisions including the choice of raw materials and production processes. Rags2Riches, for example, only uses discarded scraps from factories even if this creates a supply constraint. Human Nature does not use ingredients that are harmful to the environment. Bote Central insists that communities from which they source their civet coffee beans must not cage the civets. UMFI decided to focus on food products rather than commodity-training (i.e. rattan) in order to relieve the pressure on forests. PREDA Fair Trade promotes organic farming while Don Bosco promotes biodynamic farming, or what Fernandez (2001) calls advanced organic farming. CCAP and WFTO – Philippines include environmental-friendliness in their criteria for assessing partners.

The cases are also relatively dispersed across the Philippines. Rags2Riches operates in Manila. CRVT is located in Bohol, an island in the Visayas. Don Bosco is located in Cotabato in Mindanao but has operations in other provinces. Hapinoy has headquarters in Metro Manila but operates in many provinces in Luzon Island. PREDA Fair Trade is based in Olongapo City, northwest of Manila, but assists organisations all over the country. Bote Central is based in Manila and currently partners with communities in seventeen provinces all over the country. UMFI, CCAP, Health Plus and Human Nature are also based in Metro Manila but have partners from all over the country. Lechon Manok ni Sr. Pedro was established in Cagayan de Oro in Mindanao but has branches all over the Philippines.

The cases also differ in terms of their reach. Because of the nature of their service, CRVT is essentially community-based. Lechon Manok ni Sr. Pedro is a nationwide brand. Some of the social business enterprises offer products for export. These include PREDA Fair Trade, CCAP Fair

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Trade and Rags2Riches. Bote Central, on the other hand, chose to withdraw from the export market and focused on the Philippine market.

Aside from reflecting the diversity in terms of types of social business enterprise as well as geographical location and reach, the cases were also selected to emphasise certain points regarding social business enterprises.

The case of Don Bosco, for example, demonstrates the role played by various financing sources in establishing social business enterprises. Don Bosco relied on donor funding but eventually obtained some resources through loans and in the long run, was able to plough back money from the operation of its social enterprises.

Human Nature, Rags to Riches and UMFI demonstrate various marketing principles as applied to social business enterprises. The Rags2Riches case clearly shows the importance of product development. With a little bit of product development, women who used to earn P1–2 (US\$0.02–0.05) per rug were able to earn P15–20. When well-known designers were brought in to identify alternative uses for the raw material, the revenues from Rags2Riches further increased.

The Rags2Riches case also shows how the organisation identified its target market and how this affected decisions regarding product placement. Decisions regarding distribution channels are also discussed in the UMFI and Human Nature cases. UMFI decided to distribute its products primarily through supermarkets while Human Nature decided to distribute its products through direct selling. Because of the difficulties encountered in dealing with supermarkets, UMFI later explored alternative distribution modes.

Various principles regarding social business enterprise operations can clearly be seen in the case of Lechon Manok ni Sr. Pedro. Market conditions forced this business entity to provide for its own supplies, which eventually led it to source some of its chickens from small backyard farmers. Part of the challenge of sourcing chickens from backyard farmers was the need to maintain standardised quality of products, and the case discussed the methods employed by Lechon Manok ni Sr. Pedro to ensure quality. The need to maintain standardised quality, especially when sourcing supplies from marginalised communities, is also discussed in the Bote Central and the UMFI cases.

The importance of the value chain approach is explicitly discussed in the cases of Bote Central and UMFI. The founders of Bote Central talk about their “Coffee Chain of Happiness” and the importance of adding value for producers and consumers every step of the way. Aside from selling coffee, Bote Central also provides coffee producers with roasting machines that the co-owner himself invented because he believes that roasting is the key to increasing value for the producer. The value chain approach also helps UMFI to identify critical gaps for community-based producers and helps the organisation analyse how producers can add value to its champion products — muscovado and organic rice.

The cases also show the importance of stakeholder management for social business enterprises. This is most clearly seen in the case of Hapinoy, Rags2Riches and CRVT. Hapinoy is best understood as a multi-stakeholder engagement which includes the entrepreneurs behind Hapinoy, the nanays who run the sari-sari stores, the Center for Agriculture and Rural Development (CARD) Business Development Services which provided the nanays with microfinance loans, and the various corporations from which Hapinoy sourced its materials. All

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of these players have different interests and cultures, and part of the challenge Hapinoy has to deal with is how to best relate with these various stakeholders.

The importance of stakeholders is also seen in the Rags2Riches and CRVT cases. Rags2Riches experienced early success with a little product development undertaken by volunteers but their success was multiplied when Rajo Laurel and other designers agreed to further develop their products. The CRVT was initiated as part of a national government project and involved working with the provincial and municipal governments for promotions and technical support. The local government also provided infrastructure and funding support for ecotourism. An alliance of NGOs in the province helped promote the tours, and a bank foundation helped provide organisational assistance and access to additional financing for CEDFA.

One key stakeholder for most of the cases is the marginalised community. The different organisations utilise different strategies in relating with the community. Rags2Riches, for example, included one of the nanays among its board of directors and decided to form a producers' cooperative. The Bote Central case clearly shows the key role played by intermediaries.

The various social enterprises also adopted several organisational forms. Hapinoy and Health Plus are essentially running micro-franchise operations. Hapinoy decided to create a foundation separate from its business enterprise. Don Bosco is essentially a foundation overseeing a conglomerate of social business enterprises. CEDFA is a cooperative that runs the CRVT.

The cases show that social performance measurement is one of the most underdeveloped areas in social business enterprise development. The chapter on Philippine Fair Trade practices discusses initial attempts at measuring social business enterprises using fair trade metrics. Bote Central, for example, was assessed using the fair trade metrics of WFTO – Philippines. These metrics, however, tend to measure process standards rather than outcomes. Outcome indicators tend to be primarily anecdotal or focused on single variables such as increased household incomes.

All of the cases demonstrate that social business enterprises are works-in-progress. In order to survive and prosper, they must continuously evolve. This evolution is most clearly seen in the case of Don Bosco, Bote Central and UMFI. The names of these entities reflect what they were doing before more clearly than what they are doing now. Don Bosco was named after the patron saint of the youth because it started off as an NGO that provided services to the youth. But it eventually transformed itself into an NGO that advocates biodynamic agriculture. Its advocacy eventually led it to form various social business enterprises including a marketing arm, a credit and savings corporation, retail operations and a seed bank. UMFI was initially formed to assist upland communities but the need for volume to penetrate markets led it to expand its assistance to lowland and coastal communities.

Bote Central was originally formed as a company that makes bottles in an environmentally-friendly way. (Bote is a Spanish/ Filipino word for bottle). But the couple behind Bote Central recognised a new business opportunity when they encountered vinegar made from arenga pinnata so they decided to create the Arenga Vinegar brand. A little later, while interacting with their suppliers in Cavite, a Philippine province south of Manila, they discovered civets in the

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forest and saw an opportunity to market civet coffee. Since then, their business has evolved to include other coffee varieties.

The other cases also show this kind of evolution. After working with designers like Rajo Laurel and Amina Aranaz, Rags2Riches evolved from producing foot rugs to producing bags, wine holders and other products made from upcycled cloths. UMFI and PREDA Fair Trade engaged in brief experiments with providing financing to the producers they worked with. The corporate social entrepreneurship practices of Lechon Manok ni Sr. Pedro essentially evolved as a result of problems they faced with suppliers and the need for backward integration.

Hapinoy initially thought of itself as providing business development services to sari-sari store owners and listed its value-added services to these owners as the provision of capital, capacity-building, cheaper inventories and store branding. Since then, it sees itself as network of stores for the bottom-of-the-pyramid that can serve as an outlet for commodities from local producers and community-based manufacturers, house brands that are cheaper than the brands sold by major corporations, and bottom-of-the-pyramid products such as medicines, mosquito nets and solar lamps.

The continuous evolution of the case subjects justifies the use of past tense. In some instances, they have clearly moved in a different direction since the cases were written. The editors and writers as well as the officers of the organisations that signed off of these cases can only vouch for the accuracy of the information up till the end of the research. Some significant changes might have occurred since the research was conducted. On the other hand, it should be noted that the use of the past tense does not necessarily mean that the cases have changed. It is entirely possible that the write-up still describes the current state of the social business enterprise.

To a large extent, the continuing evolution of these social business enterprises can be seen as a response to challenges that they faced. Many face the traditional challenges that all entrepreneurs have to face. This includes increased competition, as in the case of Health Plus, and the need to continuously stay in tune with market conditions.

Because they are addressing social problems, most of the social business enterprises featured here feel the need to scale up in order to deepen and widen their social impact. Rags2Riches, for example, is looking to tap into export markets and expand to more producer communities. CEDFA is looking to expand CRVT and they know that this will mean changes on their part, including the increased need for professional support.

The story of social business enterprises is of course also the story of social entrepreneurs — people who invested their time, talents, and in some cases, money to addressing social problems through earned income activities. This story is clearly seen in the case of Bote Central which traces the journey of Vie and Basil Reyes, who tried to figure out how they could best uplift small farmers while at the same time help to preserve the environment.

Most of the social enterprises presented here were formed recently but in a sense, social business enterprises are not really a new phenomenon. Two of the social business enterprises discussed here emerged in the 1970s: CCAP was established in 1973 and PREDA Fair Trade was established in 1975. But there is definitely new energy in the social business enterprise sector emanating not only from the NGO sector but also businesses and even government.

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We hope that this volume will help readers understand and appreciate this emerging sector. We also hope that this volume will lead to further development of the sector as it seeks to address various social problems.

This volume would not have been possible without the support of many people. We would like to thank the Temasek Foundation for funding the production of the case studies, the training modules, and the initial roll-out of the training — and not forgetting the team from NUS led by Prof. Lam Swee-Sum for choosing to partner with the Ateneo de Manila University for this project. Thanks also to Prof. David Seah for facilitating the module development workshops and to Mr. Gabriel Henry Jacob for overall support to this project.

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Last but not least, sincere thanks to the 12 organizations that allowed us to understand them better, do case write-ups on them and publish these in a casebook, and especially for all the good work that they do to make life better for thousands of people now and in the future.

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CHAPTER 2

LINKING A CHAIN OF HAPPINESS

THE JOURNEY OF BOTE CENTRAL

Basil described himself as “the dreamer” while he described Vie as “the reaper”. A husband and wife team, Basil and Vie Reyes established Bote Central in 2002 with a vision of cleaning and saving the environment. They hoped to do this by setting up enterprises that provide sustainable livelihoods using agroforestry-based products.

Bote Central was engaged in the coffee business, providing coffee and coffee-related products and services in the local and foreign markets. The company was a fair trade organisation accredited by the World Fair Trade Organization (WFTO) – Philippines in 2007.

The Social Entrepreneurs

Basil and Vie had different and even seemingly contrasting personalities. For instance, when asked how they spent their regular day as entrepreneurs, Basil replied that he spent each day with a sense of adventure — dabbling with something, toying with ideas. On the other hand, Vie said she spent her regular day implementing targets and plans. Vie recounted the story of Bote Central succinctly, without much fanfare, direct to the point, consciously omitting details to avoid ambiguity. Basil wove a narrative account, decked with inside stories and side stories; providing as much context and details as he could remember.



Mission Statement



- Provide sustainable livelihood using forest and agroforest products;
- Bring back respect to animals in the forests;
- Maintain the forests clean and alive;
- Assist with technological intervention for agroforest products

- Bote Central

This case was written by Pedro Carlos R. Baclagon under the supervision of Marie Lisa M. Dacanay, president of the Institute for Social Entrepreneurship in Asia, as part of the Capability Training in Entrepreneurship for Sustainable Development in the Philippines (2010–2011), a collaborative project between the Ateneo de Manila University (Ateneo) and the NUS Business School (NUS), funded by Temasek Foundation, Singapore. The case was written solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The Dreamer and the Reaper



Basil and Vie Reyes, with son Paolo (leftmost)

Basil, “the dreamer”, was the visionary, coming up with new ideas that inspired the general directions and strategies of Bote Central. He was also the designer and fabricator of innovative technologies used to realise these strategies, and to pursue these directions. Vie, “the reaper”, was the manager and orchestrator, who translated Basil’s visions into tactical plans. She ensured that action plans were carried out to make the innovations work, and to realise those visions.

As entrepreneurs, what bound them together was a set of values. In the course of the business, Basil and Vie disagreed and argued about approaches and strategies. But in the end, they found common ground — guided by their shared social and moral values.

They believed in and practiced fair trade. They admitted that, though they had heard about fair trade before — it was only in 2006 in one of their dealings with the Department of Trade and Industry (DTI) when they started learning what fair trade was all about. They laughed as they recounted their realisation then: “*Aba fair trade pala tayo!? Sali tayo diyay!* (Oh we are a fair trade organisation?! We have to be part of this!)”. When they got their fair trade accreditation, their networks of like-minded organisations expanded. They became more exposed to social development institutions like non-government organisations (NGOs). It was during their dealings with NGOs when they found out they were called social entrepreneurs. This was because Bote Central pursued “3BL”, or the triple bottom lines of financial, social and environmental objectives. They were amused at the thought because they had long believed that business should not just be about profits.

They also believed that consumers, from whom they earned profits, deserved the best that their business could offer. Because of this, they placed much premium on the quality of their products and services. They valued innovations. They were constantly searching for ways to reinvent themselves and the products and the services they offered. They designed and developed technologies, and enhanced their strategies to actualise innovations. Their prime concern for product quality and innovations had been evident in the businesses they had managed even before they established Bote Central.

Though they handled different sets of stakeholders, both of them were good dealmakers and negotiators. Basil, a mountaineer, had been the one in charge of forging and nurturing relationships with community partners. On the other hand, Vie had been the one in charge of connecting with buyers and fellow fair trade advocates.

Management and Operations Team

Basil and Vie were ably supported by a team of competent and committed workers. Their son, Paolo Reyes, was involved in the management of the company’s operations and finances. His

fiancée, Rachelle Red, helped out with marketing and customer relations. Four administrative staff members and 10 production workers completed the Bote Central team. The employees shared and upheld the business principles and social values espoused by Basil and Vie.

Bote Central's Beginnings: Bottle Recycling to Vinegar Making

Basil and Vie initially established Bote Central to engage in bottle recycling. At that time, the company developed an environment-friendly, mechanised bottle-recycling process.¹ Their initial quest was to professionalise the recycled bottle-washing business across the nation. This venture however did not take off as a business transaction with a big liquor company did not push through.

The couple then thought of engaging in bottling food commodities such as soy sauce, fish sauce, cooking oil and vinegar. However, they said they could not in good conscience bear to enter into this venture because they found out that these food commodities sold in the market were made of chemicals “they could not even begin to imagine giving to their children”.

During one of Basil and Vie’s regular trips to the countryside, they came across a vinegar peddler in Indang, Cavite. The vinegar they bought was made from the fruit of the sugar palm tree called *kaong* or *irok* (scientific name – *arenga pinnata*) sold in traditional *burnay* jars. They were pleasantly surprised at how good the vinegar tasted. With their entrepreneurial foresight, Basil and Vie went back to Indang to buy jars of vinegar from the same peddler. After spending months doing research and development on the *kaong* vinegar, Bote Central introduced Arenga Vinegar to the market.



A year after its establishment, Bote Central gained worldwide acclaim when Arenga Vinegar participated in the “Anuga Taste the Future” event at Cologne, Germany in 2003. The event was the largest food and beverage fair in the world.² The following year, Arenga Vinegar was cited as one of the best products at the Australian Fine Food fair. Bote Central’s vinegar business flourished with the accolades it garnered for Arenga Vinegar’s quality.

Vie noted: “When we decided to go into the vinegar business, our hopes were not entirely on the business side. We hoped to maintain clean rivers, as well as (to) save the arenga pinnata trees and the lives of those beautiful endangered animals that thrive in the *kaong* trees. Most importantly, we wanted to improve the farmers’ financial well-being.” With heightened awareness and financial returns, Bote Central’s partner communities actively participated in the couple’s conservation efforts supported by the government and non-government sectors.

¹ At that time, bottle recycling had been done through unsafe manual labour and without waste water treatment.

² (2011, January). Anuga. Retrieved from <http://www.anuga.com/en/anuga/home/index.php>

Shift from Vinegar into Coffee

While doing business with the upland community in Cavite, Basil and Vie became intrigued by the palm civets that roamed in the forest. Civets, or *alamid* as they are called in Tagalog, can be found in parts of the country where forests are still lush. Though they look like cats, civets actually belong to the mongoose family. These nocturnal animals are believed to lead solitary lifestyles, except during brief mating periods. The civet population has been shrinking. They have been losing their natural habitat due to rapid denudation of forest areas in the country. In addition, people hunt them. Civet meat is a delicacy for some. The musk secreted by civets can be used in manufacturing perfume. At times they are exterminated as pests.

Aside from wild fruits in the forests, civets love eating coffee cherries. Civets have good taste. They love eating coffee cherries – but only the ripest and sweetest cherries their noses could detect. The coffee beans are swallowed, partially digested and excreted whole by civets. These beans produce the kind of coffee that coffee connoisseurs covet – the most exotic, the most expensive, and most widely-recognised as the finest coffee in the world. Civet coffee was successfully marketed by coffee makers in Indonesia and Vietnam. The coffee, known as *Kopi Luwak* in Bahasa Indonesia, was discovered during the colonial era of Indonesia. During the 17th century, the Dutch that brought coffee to Indonesia forbade local farmers from harvesting the beans in their coffee plantations. But craving for the taste of the brew, Indonesians began preparing coffee from beans they found on the forest floors (with the civet droppings) which they discovered taste even better than the coffee brewed by the colonisers.³

Upon learning about the capacity of civets to produce gourmet coffee, a thought captivated Basil and Vie: “If there’s *Kopi Luwak* in Indonesia, given the same topography, why shouldn’t we have it here?” The idea prompted the Reyeses to ask around. Their community partners in Indang validated that indeed civet coffee bean droppings can be found on the forest floors. Next, they talked to the elders in Cavite and Batangas who related that they had been gathering and collecting the droppings ever since they were children. The elders revealed that they roasted half of the droppings for family consumption, while the rest were mixed with other types of beans and sold to the market. To supplement what they learned from the community, they surfed the Internet and got to know more about the production and marketing of civet coffee. The more they learned about civet coffee, the more inclined they were to get into the coffee business.

Vie fondly recalled: “No one actually thought that we were going to succeed!” Cynics dissuaded them from pursuing the venture because producing civet coffee was so expensive and time-consuming. However, Basil and Vie could not resist taking on the challenge of making civet production a commercial success in the Philippines. Another driving factor had been the idea of replicating their vinegar business-cum-environmental efforts in the coffee business. Deciding to focus on their new venture, they turned over the operations of Arenga Vinegar to a local partner in Cavite. In 2004, Bote Central’s Coffee Alamid became a registered trademark.

³ Wikipedia. (2011, January). Kopi luwak. Retrieved from http://en.wikipedia.org/wiki/Kopi_Luwak

Production of Coffee Alamid



Civet coffee beans are produced during the coffee harvest season.⁴ This is the time when civets love eating coffee cherries. Civets are consummate cherry pickers. They would only eat the finest coffee cherries they could find.

With their keen sense of smell, civets could pinpoint the finest, sweetest and juiciest cherries in a coffee farm. They would incessantly eat these cherries during the season until they are stuffed. After the civets had swallowed the cherries, stomach acids and enzymes would ferment the coffee beans. The civet's digestive enzymes would break down the proteins that usually gave ordinary beans the bitter taste. In the process, flavours not usually tasted from ordinary beans are released. The coffee beans are not fully digested; they are excreted whole by the civets.

Coffee farmers gather civet droppings early in the morning. The fresh ones, resembling "yellow beans in gravy", are separated from the old ones with "chalky beans". They then wash the quality beans, and have them dried under the sun for days. The washed and dried civet droppings are weighed and sold by the farmers at fair prices to Bote Central. After roasting and grinding the beans, civet coffee would be ready for brewing.

The product label describes the coffee as "exuding an almost musical, fruity aroma" when roasted, and having a "strong, sweet, dark chocolatey taste". Bote Central marks each Coffee Alamid can with an Alamid certificate of authenticity. Also as a quality assurance measure, every Coffee Alamid can has a batch code for traceability. There is a tamper-proof seal on the Coffee Alamid cap, and buyers are admonished not to accept the product if this seal is broken. A very fragrant aroma is released when the tin can is opened revealing the freshness and the genuineness of the coffee beans used.



1-kilogramme bag at
US\$500/bag



100-grammes bottle at
US\$50/bottle



50-grammes bottle at
US\$25/bottle

⁴ "In Mindanao, Arabica flower in January to May and berries are harvested in August to December. In Luzon, coffee trees bloom just after the first heavy rains in May and June. Arabica and Robusta berries are harvested in late December to March; Excelsa and Liberica later." Pinoyfarmer. (2007, July 19). Coffee farming and production. Retrieved from <http://www.agripinoy.net/coffee-farming-production.html>

Building Partnerships in the Communities

With Coffee Alamid, Bote Central found itself working in different upland communities across the country – from Sagada, Mt. Province up north, to Mt. Malarayat, Batangas in southern Luzon, to Mt. Matutum, South Cotabato in Mindanao. Basil could tell colourful and extensive tales of his experiences in the upland communities – tales of how he initially established contacts and later on gained the people’s trust. He explained that he got integrated in communities that are varied from place to place because Bote Central had been dealing with different indigenous peoples with distinct cultures such as the B’laan tribes in Mt. Matutum, the Mangyans in Mindoro and the Kankanaeys in Mt. Province. He claimed that the relationships he formed with the communities had transcended into business partnerships. He said he felt at home in the mountains, and the people who lived there no longer treated him like a stranger.

Notwithstanding personal relationships, Basil and Vie had impressed upon the people in the partner communities that “business is business”. Bote Central had been holding their local partners responsible for ensuring the quality of the beans they were selling. The company had been paying fair price to the farmers in exchange for unadulterated civet coffee beans that had been thoroughly washed, rinsed and sun-dried. Basil said they would not hesitate to cut ties with a community partner if someone would not fulfill its end of the deal.

Vie recounted how in one community, some of the pickers tried to sell them fake droppings. In response, Bote Central returned the yields of all the farmers/pickers even if only a handful were involved in the attempted fraud. “*Trabaho lang, walang personalan* (it’s just work, nothing personal),” Basil emphasised. Since then, the pickers themselves had put in place safeguards to ensure the quality and authenticity of the droppings. The system of community accountability was replicated in other areas. Community partners had become as conscientious as Bote Central when it came to quality since no one wanted to be tainted with a lifetime tag of being the ‘Judas’ of the community.

Aside from the authenticity and quality of the civet beans, another non-negotiable condition for Bote Central had something to do with the living conditions of the civets from where the beans had been extracted. Bote Central had not and would never buy beans from droppings of civets locked in cages. Also, neither would they buy from a managed civet farm nor have anything to do with methods involving unnatural human interventions in civet coffee production. For the couple, the best way civets could be protected was by leaving them “free, wild, and happy in their own natural habitat without disturbance in their ecosystem”.⁵ Further, the caging of civets would mean depriving a lot of farmers of income they could get from gathering civet droppings in the forests.

Bote Central’s business relationships with local/community partners had evolved to adapt to the shifts in the strategies of the company. The nature of the relationship or business arrangements between Bote Central and the local/community partners had varied based on the capacities of the local/community partners, and on the situation of the coffee industry in the locality. The culture and value systems of people had likewise been important considerations in forming the

⁵ (2011, January). Bote Central, Inc. Retrieved from <http://www.arengga.com/>

most appropriate business arrangements. One thing these business relationships had in common was the set of principles that govern them: trust, respect, accountability and integrity.

Product Marketing

Initially, the export market was the target of Coffee Alamid for practical reasons: (1) most of the coffee drinkers in the country had been strongly patronising instant coffee; (2) civet coffee was almost alien to Filipinos and because of its excrement source, getting them to try Alamid would be a challenging hurdle; and (3) the price of Coffee Alamid had been beyond the reach of ordinary coffee drinkers in the country.

It proved wise at the start because indeed there had been a robust demand for civet coffee in other countries. Bote Central was able to forge exclusive distributorships in Japan and Korea which brought them good economic returns. They could have exercised caution and opted to stick with their secure market. But Basil and Vie had other considerations.

While having an assured international market was good for the business, Basil and Vie thought that civet coffee gatherers could earn more if they could directly sell to the local market. At that time, Bote Central had simply maintained a level of supply that was enough to serve the requirements of foreign dealers. The gatherers' incomes had been limited to the provision of fresh unroasted civet beans according to demand. The couple acknowledged that their community partners would earn more if they could sell their raw coffee beans to buyers other than Bote Central. The problem however had been the capacity of local farmers to provide the level of supply demanded by the export market.

Going against traditional business logic, Basil and Vie changed their business strategy. Exclusive contracts with foreign distributors were terminated. Bote Central developed local demand for Coffee Alamid. They rationalised that "Filipino coffee drinkers ought to enjoy Coffee Alamid more than anyone else in the world". Bote Central used an online marketing approach, and provided opportunities for enterprising groups/individuals to act as civet coffee distributors and to deal directly with their community partners.

The risk paid off. The marketing strategy attracted local distributors and other small foreign distributors who gave more focus to Coffee Alamid and developed their own markets. Though the economic returns were not as good, the position of the coffee product in the market had been ensured. As more of Alamid products became available to local buyers, Bote Central gained a stronger market foothold. "We were surprised that Filipino coffee drinkers had been willing patrons of the expensive coffee," Basil said,

Diversifying into Mainstream Coffee

With significant increases in incomes, Bote Central's farmer-partners found the motivation and resources to expand their coffee plantations. This was a welcome development for Basil and Vie, and they came to realise that the time was ripe for Bote Central to diversify into regular coffee. Bote Central realised that its reach (the number of potential farmer-partners) would be broadened considerably if it would venture into regular coffee. The additional coffee production of their existing partner-farmers and other coffee farmers throughout the country also needed a fair trader like Bote Central.

It was also a logical business decision for Basil and Vie. By that time, so much media attention had been given to Bote Central as makers of a unique, high quality product and champions of noble environmental and poverty alleviation causes. Consumers of Coffee Alamid and fellow fair trade advocates already presented Bote Central with a solid and loyal market base for its regular coffee.

Bote Central had been selling all commercially viable varieties of green beans and roasted beans: Arabica, Robusta, Liberica and Excelsa.⁶ The company had been selling these varieties from different localities at the following prices⁷:

Variety	Price in US\$		Sources
	Green	Roasted	
Arabica	7	14	Cordillera, South Cotabato
Liberica	8	15	Mindoro, Quezon
Robusta	5	10	South Cotabato, Bukidnon, Compostela Valley
Excelsa	6	10	Mt. Banahaw



Local consumers could also avail of “18 Days Freshly Roasted”⁸ in 100-gm packets and “Instant Coffee” which is ground/soluble coffee ready to drink after pouring hot water on the ground coffee through a strainer. Products could be ordered online and delivered door-to-door worldwide. The packaging includes information on the source of the coffee beans and a general description of the area with an open invitation to consumers to personally visit the community.

Integrating a “Chain of Happiness”

Bote Central’s entry into the coffee business came at a period when industry stakeholders’ interest to revitalise and develop the Philippine coffee industry surged. Two years before Bote Central introduced Coffee Alamid, the National Task Force on Coffee Rehabilitation – a private sector-led group – was established to develop and promote the Philippine coffee industry. Now known as the Philippine Coffee Board, its thrust was to provide technical assistance and credit programs for coffee farms through the certification of coffee farms, millers and roasters, and

⁶ The Philippines is one of only a few countries that had been producing all of these four varieties.

⁷ (2011, January). Our products. Retrieved from <http://www.arengga.com/index.php/Coffee-Alamid.mpc>

⁸ “Why 18 days? Coffee flavours and aroma start to deteriorate after two (2) weeks from date of roasting.” Reyes, Basil. (2011, January). 18 days freshly roasted. Retrieved from <http://www.arengga.com/index.php/18-days-freshly-roasted.mpc>

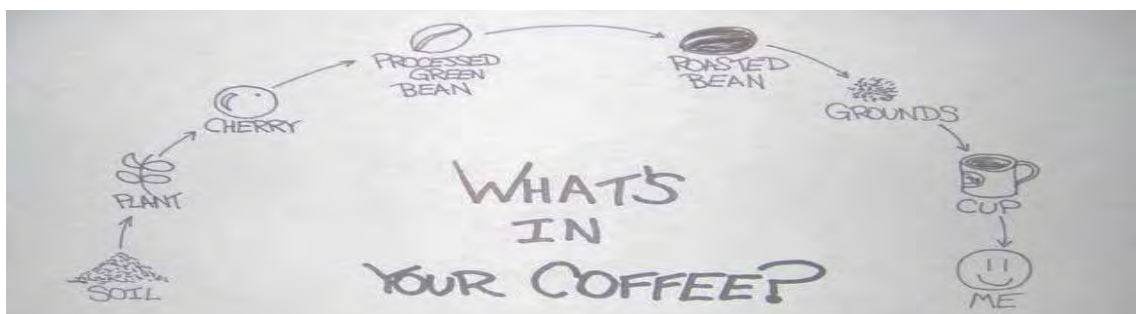
through marketing and promotion of coffee for domestic and export markets. The government launched a coffee rehabilitation program and started the implementation of “National Coffee Strategic Plan of 2006” which aims: “To make the Philippine coffee industry self-sufficient and globally competitive with a significant export market share in specialty coffee by 2015.”⁹

There was a compelling reason for the government and private sector to be concerned. The Philippines used to be among the top five coffee exporters in the world, earning revenues up to \$140 million a year on coffee exports until the late 1980s. In 2003, the Philippines had slipped down to number 14, earning below \$500,000 (from coffee) annually. The country had lost 80,000 hectares of productive coffee farms, and many coffee farmers abandoned their plantations for more profitable crops or to take other jobs. Only about 70,000 farm workers were left then to sustain the coffee industry.¹⁰

Vie pointed out: “If we want the coffee industry to survive, we have to do something. No matter how many coffee shops you see, there was no effect on the farmers. The price being paid to the farmer was being squeezed out more and more.”

As a product, coffee would go through different transformations and, as it changed form, coffee would traverse through a long line of intermediaries (local traders, exporters, international traders, roasters and retailers). Each intermediary would get a percentage of the retail price of the product. By the time coffee would reach the retail outlets, only a measly percentage of the price of coffee would go to the farmers. Basil estimated that coffee farmers had only been getting 3–6% of price per cup of gourmet coffee sold in cafes. Basil revealed that: “roasters make more money out of roasting the coffee they buy from farmers, and selling this to the end consumers. In the value chain of coffee, you earn most from roasting coffee and retailing coffee.”

What had been happening in the Philippines was what some industry analysts called “The Coffee Paradox” which was characterised by the “coexistence of a coffee boom in consuming countries and a coffee crisis in producing countries”.¹¹



Source of picture: <http://coffeellama.blogspot.com/2009/01/from-soil-to-cup-whats-in-your-coffee.html>

⁹Maghirang, Roel G.; “Coffee Development Program”, downloaded from <http://hvcc.da.gov.ph/pdf/coffeestrat.pdf> in January 2011

¹⁰ Camet, T. J. (2003, Sept 7). Drink up...; perk up the coffee industry! *Manila Bulletin*. Retrieved from http://findarticles.com/p/news-articles/manila-bulletin/mi_7968/is_2003_Sept_7/drink-perk-coffee-industry/ai_n33546118/

¹¹ Thompson, T. (2006, Feb 4). The dark story of poverty in your coffee cup. *Seattle Post-Intelligencer*. Retrieved from <http://www.seattlepi.com/default/article/The-dark-story-of-poverty-in-your-coffee-cup-1194935.php>

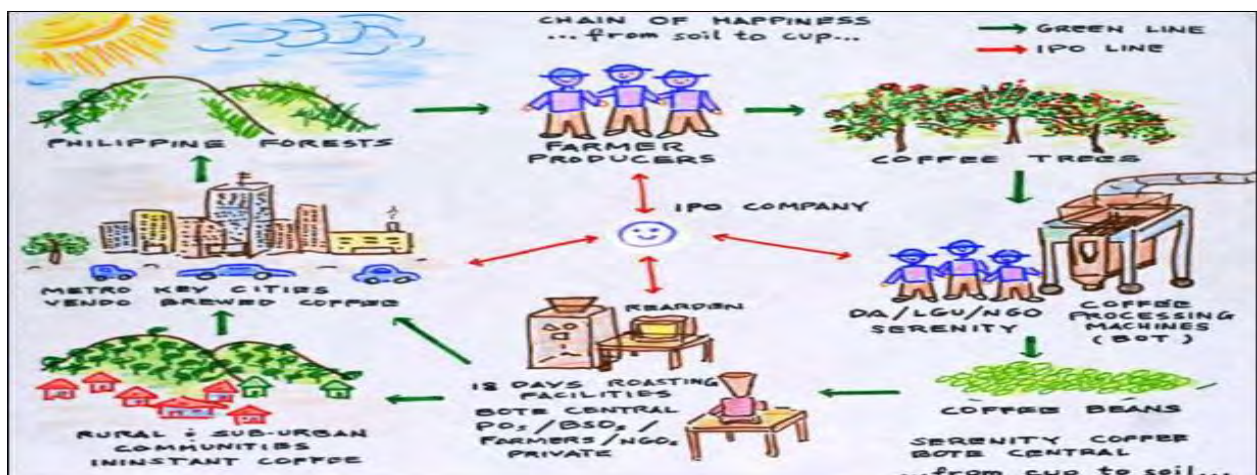
The Bote Central Business Model

Unhappy with the situation, Bote Central again shifted gears and developed a range of coffee-related products and services guided by the business model called the “Chain of Happiness”. Bote Central designed the business model so that farmers and consumers could benefit as much as they could (i.e. “be happy”) from coffee ... from “soil to cup” and from “cup to soil”.

The “Chain of Happiness” was conceived to:

- Make the coffee farmers happy by providing them opportunities to increase their incomes from producing coffee;
- Make the consumers happy by giving them access to the finest coffee produced in the country;
- Make the coffee “chain of happiness” sustainable by protecting the forest; and
- Make the farmers and consumers co-investors of their own happiness.

The “Chain of Happiness” model was graphically illustrated by Bote Central as follows¹²:



Notes:

1. Acronyms: IPO = initial public offering; DA = Department of Agriculture; LGU = local government unit; NGO = non-government organisation; BOT = Build-Operate-Transfer; POs = peoples organisations; BSOs = business social organisations or social enterprises.
2. Serenity Coffee was a company the Reyeses put up together with a Japanese partner/investor to buy green coffee beans and export to Japan. Serenity is no longer operational. Buying of green beans is now with Bote Central.
3. Rearden was the name of the prototype roaster in Bote Central developed by Basil Reyes.
4. In the future, Bote Central plans to tap the capital market through an initial public offering (IPO). The target groups for the IPO were the coffee drinking public and the coffee farmers.

¹² [Chain of happiness business plan]. Retrieved December 2010, from http://arengga.com/images/stories/coffee_alamid/chain_of_happiness.jpg

Coffee Roasters and Other Post-Harvest Equipment

Bote Central fabricated coffee processing equipment such as de-pulping and de-hulling machines, moisture meters and bean grinders. Aside from sparing the farmers from back-breaking labour, these machines enhanced the coffee farmers' capacity to produce better quality and larger quantities of coffee. They coordinated efforts with the Department of Agriculture and local government units and/or non-government organisations to provide partner communities greater access to these post-harvest facilities.



Depulper



Dehuller



Moisture Meter

"Roasting is the key to having a sustainable coffee supply chain," Basil said time and again in different interviews. Because of this, Basil invented a roasting unit called "18 Days Roaster" that could automatically do the job of a roast master. A computer program developed by Paolo, Basil and Vie's son, regulated the roaster. To use it, the roaster would simply fill the machine with the prescribed amount of beans, press the appropriate button, and wait for the coffee beans to roast. The temperature, time and all the properties needed to produce a perfect roast were computer-programmed. The Bote Central website provides the following specifications for the "18 Days Roaster":¹³

- Consumes 1 kwh per kilo roasted
- Approximately 6-9 minutes per batch roast of one (1) kilo
- Roasts all varieties of coffee beans: Arabica, Liberica, Robusta and Excelsa
- Roasts beans with up to 18 percent moisture content
- International roasting quality standards
- Primarily designed to roast coffee but could be reconfigured to also roast peanuts and soya.
- Dimensions: Roasting Machine- 670mm x 810mm x 1,530mm; Cooling Table - 530mm x 630mm x 845mm; Weight - 90 Kg

In addition to the original roasting unit ("Rearden") in its main office, Bote Central had deployed 14 local/community-based roasting units all over the Philippines.

¹³ Reyes, 18 days freshly roasted.



Coffee Roaster



Coffee Grinder

“18 Days Vendo” Brewed Coffee Service

Bote Central also introduced the “18 Days Vendo” Brewed Coffee Service. Only organically grown and freshly roasted authentic Philippine coffee bought through fair trade could be produced through the vending machine. The vending machine was energy-saving because it had a “programmable sleep mode”. Users could customise their drinks with the preferred amount of coffee, cream and sugar at no extra cost. As an incentive for the consumer to help save the environment, a discount was given if the consumer would use his/her own cup instead of paper cups. There was a “wireless telemetry” to inform Bote Central that maintenance services were needed. There was no need for the user to call Bote Central – the vending machine would automatically text Bote Central if there were water, coffee, ingredient requirements, or if there was a coin jam etc. The vending machine could serve regular and premium coffee (black, with cream and/or sugar); cafe latte; hot full cream milk; hot mocha; and hot chocolate.



Alamid Café Xpress

This year, Bote Central started operating a specialty coffee shop that brought the products of local coffee farmers closer to the consumers through the “Alamid Café Xpress”. The café was located in the R.O.X. (Recreational Outdoor eXchange) in Bonifacio Global City. With its products and advocacy pitch, Bote Central had been hoping to raise awareness among consumers about fair trade, the quality of Philippine coffee, and the need to save the forests where seeds of coffee trees had been growing. The social objective was to make Filipinos – at least coffee drinkers – think more about saving the environment, the trees and animals such as the civets that dwelled there.

The “Chain of Happiness” at Work in South Cotabato

How the “Chain of Happiness” worked in a specific locality could be illustrated by Bote Central’s relationship with an upland community in Mt. Matutum in the province of South Cotabato.

Mt. Matutum was about 2,286 metres above sea level. Rivers, creeks, streams and



underground water flowing to the plains of the provinces of South Cotabato and Sarangani, and General Santos City had their sources from the Mt. Matutum watershed. Mt. Matutum was a protected area declared under Presidential Proclamation No. 552 issued in 1995. The Mt. Matutum Protected Landscape (MMPL) covered 14 barangays and 56 sitios and puroks (a portion of a barangay or barrio) belonging to four municipalities of South Cotabato and Sarangani. Forty-one percent of the population was indigenous B’laans (a tribe of indigenous peoples). The rest were migrant settlers.¹⁴

Fred Fredeluces had established a long and strong bond with the B’laan people in Mt. Matutum.¹⁵ Twenty years ago, Fred got involved in a missionary work to preach the gospel among the B’laans settling within Mt. Matutum in Barangay Kinilis, Polomolok. Fred had also been the deputy director of the Mahintana Foundation, an NGO involved in the Mt. Matutum Integrated Conservation and Area Development (MICADEV) programme.

Bote Central’s operations in South Cotabato started when Vie met Fred while attending a trade fair in 2006 in General Santos City. In their meeting, Fred became interested in the coffee business of Bote Central, while Vie became interested in Fred’s work with the B’laan communities in Mt. Matutum. Soon after, Vie and Basil hiked up Mt. Matutum in Barangay Kinilis with Fred to survey the area and to talk with the people. At first, the B’laans were cynical when the couple introduced the idea of making coffee out of civet droppings. Only 10 farmers decided to try gathering civet droppings. They were pleasantly surprised when Bote Central bought the washed and dried civet coffee beans they gathered at ₱800/kg (US\$19.60/kg) – a price much higher than the measly ₱3/kg they got when they sold raw/unprocessed coffee beans to local traders. Since then, more coffee farmers participated in the undertaking.

Fred became Bote Central’s main contact in Mt. Matutum. He had been buying beans from civet droppings from the gatherers; and had been selling them to Bote Central. Fred had also been playing the crucial role of facilitating processes to ensure that community efforts remain organised, and to continue the enhancement of the capacities of farmers in engaging in the coffee enterprise.

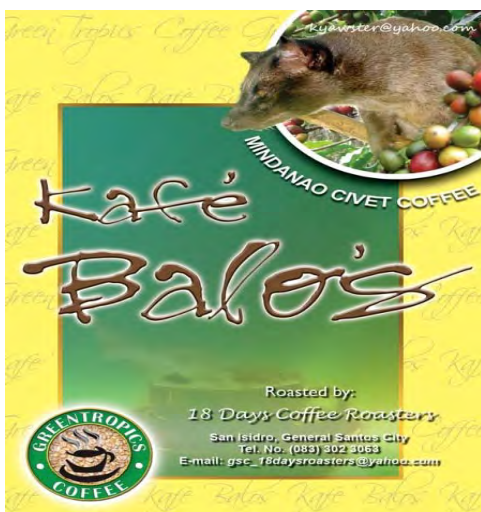
¹⁴ Philippines-Australia Community Assistance Programme, and Australian Agency for International Development. (2001). PACAP 12: Best Practices in Community Development – Volume VI: Area-Focused Approach. Retrieved from http://www.pacap.org.ph/media/Vol6.Area-Focus_Approach.pdf

¹⁵ Personal communication, January 17-18, 2011, Polomolok, South Cotabato and General Santos City.

A year after being involved in the civet coffee business, Fred established the Greentropics Coffee Enterprise which had been selling processed Kape Balos (Mindanao civet coffee) and regular coffee in the local market. Bote Central had supplied the roasting and other equipment for Greentropics' business. The fair trade principles that governed Bote Central's relationship with the coffee producers had also been practiced by Greentropics.

The establishment of Greentropics Coffee Enterprise was in line with Bote Central's "Chain of Happiness" in two ways:

- (1) A fair trade local-based coffee enterprise further augmented and sustained the flow of income derived by the farmers from coffee; and
- (2) The local coffee enterprises also contributed to popularisation of and demand for local coffee.



Mindanao Civet Coffee



Fred Fredeluces inspecting the coffee beans delivered by farmers

Social Enterprise Performance Measurements

Financial Performance

Bote Central started expanding from coffee into marketing of coffee-related products and services in 2008. Gross sales in 2008 was ₱2.9 million (US\$70,000) with a modest profit of ₱60,359. The following year was a transition phase that saw the company ending 2009 with a net loss of around ₱181,226 as its gross sales dipped to ₱2 million.

In 2010, Bote Central experienced the fruits of its expansion when its gross sales reached a high of ₱8.2 million and the enterprise netted a profit of ₱2.2 million. As of the end of 2010, the total assets of Bote Central had reached ₱10.3 million – an enormous increase compared to the total value of the company's assets in 2009 (₱2.7 million) and 2008 (₱3.9 million).

Indicators	Amount/Year (in PhP)		
	2008	2009	2010
Net Profit	60,358.89	(181,226.39)	2,239,135.14
Gross Sales	2,871,357.47	1,958,711.58	8,296,961.03
Total Assets	3,927,153.27	2,667,658.19	10,321,069.00

Adherence to Fair Trade Principles

Bote Central went through a fair trade audit to become an accredited fair trade organisation. In the audit, Bote Central's adherence to 10 fair trade principles and standards was assessed.

Summarised 10 Principles/Standards of Fair Trade¹⁶

1. ***Creation of opportunities for economically disadvantaged producers***
2. ***Transparency in management and commercial relations and accountability in management relations***
3. ***Trading practices reflect concern for the social, economic and environmental well-being of marginalised small producers and does not maximise profit at their expense***
4. ***Payment of a fair price that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market***
5. ***Adherence to the United Nations (UN) Convention on the Rights of the Child, and national/local law on the employment of children and censure of forced labour in its workforce and/or members or homeworkers***
6. ***Non Discrimination in hiring, remuneration, access to training, promotion, termination or retirement, promotion of gender equity, and enablement of freedom of association of employees***
7. ***Provision of a safe and healthy working environment for employees and or members.***
8. ***Building of capacities of partner small producers and its own employees or members.***
9. ***Promotion of Fair Trade objectives and activities through honest advertising and marketing techniques***
10. ***Promotion of Environment protection and conservation***

¹⁶The articulation of the above 10 principles have been summarised/paraphrased based on those of the World Fair Trade Organization. (2011, June 19). 10 principles of fair trade. Retrieved from http://www.wfto.com/index.php?option=com_content&task=view&id=2&Itemid=14. The complete articulation of the principles culled from the website can be found in Annex B.

LINKING A CHAIN OF HAPPINESS

The fair audit was made using the “Principles of Fair Trade and Their Indicators” instrument developed by the Advocates for Philippine Fair Trade, Inc. (APFTI). The following were the 15 key result areas used for the fair trade audit:

1. Awareness of Fair Trade Practices
2. Fixed Wages
3. Piece or *Pakyaw* Rates
4. Benefits Legally Mandated or Per CBA Agreement (for permanent employees)
5. Cooperative Workplaces
6. Working Conditions and Safety
7. Child Labour and Gender
8. Management and Motivational Rewards
9. Provisions for the Differently Abled
10. Environment Sustainability
11. Fair Trade Pricing
12. Financial and Technical Support (for organisations receiving external funding)
13. Respect for Cultural Identity
14. Public Accountability
15. Voluntary Benefits Extended

Bote Central was assessed based on a total of 76 indicators that fell under the above key result areas. The audit affirmed that the company had essentially conformed to the fair trade standards.¹⁷ Among the key result areas and indicators that Bote Central had notably demonstrated were:

- ❖ Awareness of Fair Trade Practices
 - Fair trade principles are included in the written and/or expressed mission, vision and values of the company.
- ❖ Environment Sustainability
 - The production process and materials used do not pollute the environment and are not hazardous.
 - Production does not involve banned natural raw materials, chemicals, endangered species, or resources.
- ❖ Fair Trade Pricing
 - There is transparency in pricing.
 - Unreasonable competition in pricing among fair trade practitioners/producers (for instance, undercutting, no invoice, etc.) is avoided.

¹⁷ The list of all indicators per key result area could be found in Annex C.

- The social premium generated from fair trade is used to improve working conditions and the community.

- ❖ Respect for Cultural Identity
 - Equal work opportunities for workers from cultural minorities.
 - Respect for cultural practices.

- ❖ Public Accountability
 - Willingness to show practices to fair trade-aligned groups.
 - Willingness to open books to authorities.

As a fair trade organisation, Bote Central was an active advocate of a “trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade”.¹⁸ In summary, the fair trade audit found Bote Central’s business practices and production processes to be “contributing to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers.”¹⁹

Development Outcomes/Income

The development impact of Bote Central could be seen in the lives of Bote Central’s B’laan partners in Mt. Matutum in South Cotabato. In Purok 8, Barangay Kinilis, Polomolok, the number of pickers/gatherers had grown from 10 to 34. Because of the positive returns, coffee plantations in the area expanded from 76 to 306 hectares. Farmers had resolved to take care of the forest habitat.

Aside from civet coffee beans, partner farmers had also started to sell green Arabica coffee beans to Greentropics at ₱100/kg (US\$2.5/kg) compared to the regular buying price of ₱65/kg. Farmers not dealing with Bote Central had also indirectly benefited because the regular price of green Arabica used to be ₱10/kg in 2006. It was only when Bote Central started buying green coffee beans from Barangay Kinilis farmers at ₱80/kg that the regular price skyrocketed to ₱65/kg.

Around ₱1-1.5 million had been sold by the farmers in the community to Bote Central/Greentropics Coffee every year for the past three years. On average, a coffee farmer had earned ₱30,000–₱45,000/year for the past three years. Some had earned as much as ₱70,000–₱100,000 in a year. This was a tremendous impact since farmers got at most ₱5,000 income from coffee production before Bote Central came into the picture.

Community members articulated the following impacts of their partnership with Bote Central:²⁰

¹⁸ Reyes, Basil. (2010, December). Fair trade. Retrieved from <http://www.arengga.com/index.php/fair-trade> mpc

¹⁹ Ibid.

²⁰ Based on a Focus Group Discussion (FGD) with members of the B’laan Tribe of Purok 8, Barangay Kinilis, Polomolok, South Cotabato held on January 17, 2011. The responses were paraphrased and translated into English from the local dialect.

"Now we can eat three square meals a day, we cannot afford this before."

"We now have better meals; we can now afford to have viand with rice. We used to cut sweet potatoes and yams into very tiny pieces and boil them with rice to make porridge – this would be our main meal for the day. Now we even have condiments to spice up our food."

"Our children can now go to school... We can now afford to buy the school supplies our children need ... like pens and notebooks."

"Before our children were pitiful because before they wear very worn out slippers to hike about five kilometers for 1½ hours in sloping terrain. Now it is more comfortable for them to go to school with their new slippers."

"Because of the income we get from coffee, the community decided to set aside funds to support the studies of deserving children. My daughter was selected and she has been studying to someday be a school teacher in the community."

"Now I have a motorcycle so it is easier for me to transact business."

"All in all there are 12 motorcycles owned by community members. Before we just ride on horses."

"Once, my motorcycle was used to bring a very seriously ill community member to the hospital, and because of it her life was saved. She was almost dying when we started descending from the mountain but we got to the hospital in time."

"We were able to repair or do some improvements in our houses".

"We bought mobile phones which improved our means of communication."

"Our family bought karaoke."

"We were able to buy new clothes ..."

"Because of coffee I was able to get married."²¹

"Because of our success, outsiders who can help the development of our community have noticed us and have provided support."

"We used to bring heavy loads and peddle sayote (a pear shaped vegetable) to other villages without being assured of selling them. Now people from other villages come to our purok to get sayote."

"We have overtaken our neighboring villages in terms of development."

²¹ Though this elicited guffaws in the group, the story was true. His earnings were used as dowry.



Pastor Lando Buan and a coffee farmer, Jesse Gan, showing a sample of dried coffee beans from civet droppings.

Bote Central also generated intangible impacts on people's lives that transcended physical well-being. Community members in the focus group discussion testified to this:²²

"Our faith in God has been strengthened."

"We have experienced that God blesses those who try to be good and work hard."

"Our community is now more united and peaceful."

"We need not be ashamed of ourselves as B'laans ... We can do something to improve our wellbeing.... We have disproven the bad views of the lowlanders about us"

"There harmony in the family especially between husbands and wives because before, the lack of income opportunities produce tension among spouses"

"We have peace of mind ... our worries about our livelihood has greatly diminished."

"We have better self-esteem ... we take pride in what we achieved."

"I am so joyful to have witnessed the improvements in the living standards of my children and other members of the community"²³

²² Ibid.

²³ Quoted from an elderly woman in the community.

LINKING A CHAIN OF HAPPINESS

As of latest count, Bote Central’s work had affected the lives of at least 300 coffee farmers (about 2,000 people if their family members were to be included) in 17 provinces across the country:

<u>Luzon</u>		<u>Visayas</u>	<u>Mindanao</u>
1. Benguet	6. Quezon	1. Negros Occidental	1. Bukidnon
2. Mt. Province	7. Batangas	2. Negros Oriental	2. Compostela Valley
3. Ifugao	8. Mindoro Oriental	3. Cebu	3. South Cotabato
4. Baguio City	9. Mindoro Occidental		4. Maguindanao
5. Pampanga			5. Sulu

Bote Central did not have an established monitoring and evaluation (M&E) system to measure its aggregate impact on the natural resources and on the lives of the partner farmers. “We neither have the expertise nor the time to systematically measure these things,” Basil admitted. He added that measuring of social impact was better left to institutions (NGOs, government agencies, LGUs working in the community, and academic institutions) that had the expertise and mandate to do the job.

Basil and Vie asserted though, that even with the absence of such M&E system, they could claim that Bote Central had been making an impact because they personally witnessed the changes on the lives of the coffee farmers and on the forests and mountains where they had settled. They had also observed how Bote Central had positively influenced the coffee businesses in the localities where they operated.

In its own way, Bote Central was – as Basil declared – “revolutionising the landscape of Philippine coffee industry”. For the coffee-producing community partners of Bote Central, this meant a better life. As Mara Buan, the chieftain of the B’laan tribe, articulated: **“We now have high hopes and can dream of a better future.”**



Farmer Jesse Gan holding newly gathered civet bean droppings

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ANNEX A

**Focus Group Discussion (FGD) with members of the B'laan Tribe
Purok 8, Barangay Kinilis, Polomolok, South Cotabato,
January 17, 2011**

List of Participants (M = Male and F = Female)

1. Juleta Buan – F
2. Melba Gayon – F
3. Ruben Gayon – M
4. Pamo Malumpong – M
5. Line Bayuces – F
6. Maring Buan – F
7. Nenen Buan – F
8. Andres Malumpong – M
9. Juddy Buan – F
10. Randy Malumpong – M
11. Gemma Degosman – F
12. Ramon Jambangan – M
13. Jordan Buan – M
14. Marivic Mosquera – F
15. Zaldy Mosquera – M
16. Josephine Buan – F
17. Dodong De Guzman – M
18. Marcelo Buan – M
19. Jerry Buan – M
20. Marites Buan – F
21. Mara Buan (The Chieftain) – M
22. Jesse Gan – M
23. Rolando Buan – M

ANNEX B

10 Principles/Standards of Fair Trade

Standard One: Creating Opportunities for Economically Disadvantaged Producers

Poverty reduction through trade forms a key part of the organisation's aims. The organisation supports marginalised small producers, whether these are independent family businesses, or grouped in associations or co-operatives. It seeks to enable them to move from income insecurity and poverty to economic self-sufficiency and ownership. The trade supports community development. The organisation has a plan of action to carry this out.

Standard Two: Transparency and Accountability

The organisation is transparent in its management and commercial relations. It is accountable to all its stakeholders and respects the sensitivity and confidentiality of commercial information supplied. The organisation finds appropriate, participatory ways to involve employees, members and producers in its decision-making processes. It ensures that relevant information is provided to all its trading partners. The communication channels are good and open at all levels of the supply chain.

Standard Three: Trading Practices

The organisation trades with concern for the social, economic and environmental well-being of marginalised small producers and does not maximise profit at their expense. It is responsible and professional in meeting its commitments in a timely manner. Suppliers respect contracts and deliver products on time and to the desired quality and specifications.

Fair Trade buyers, recognising the financial disadvantages producers and suppliers face, ensure orders are paid on receipt of documents and according to the attached guidelines. An interest free pre-payment of at least 50 percent is made if requested.

Where southern Fair Trade suppliers receive a pre-payment from buyers, they ensure that this payment is passed on to the producers or farmers who make or grow their Fair Trade products.

Buyers consult with suppliers before cancelling or rejecting orders. Where orders are cancelled through no fault of producers or suppliers, adequate compensation is guaranteed for work already done. Suppliers and producers consult with buyers if there is a problem with delivery, and ensure compensation is provided when delivered quantities and qualities do not match those invoiced.

The organisation maintains long term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of Fair Trade. It maintains effective communication with its trading partners. Parties involved in a trading relationship seek to increase the volume of the trade between them and the value and diversity of their product offer as a means of growing Fair Trade for the producers in order to increase their incomes. The organization works cooperatively with the other Fair Trade Organizations in country and avoids unfair competition. It avoids duplicating the designs of patterns of other organizations without permission.

Standard Four: Payment of a Fair Price

A fair price is one that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market. Where Fair Trade pricing structures exist, these are used as a minimum. Fair pay means provision of socially acceptable remuneration (in the local context) considered by producers themselves to be fair and which takes into account the principle of equal pay for equal work by women and men. Fair Trade marketing and importing organisations support capacity building as required to producers, to enable them to set a fair price.

Standard Five: Child Labour and Forced Labour

The organisation adheres to the UN Convention on the Rights of the Child, and national/local law on the employment of children. The organisation ensures that there is no forced labour in its workforce and / or members or homeworkers.

Organisations who buy Fair Trade products from producer groups either directly or through intermediaries ensure that no forced labour is used in production and the producer complies with the UN Convention on the Rights of the Child, and national/local law on the employment of children. Any involvement of children in the production of Fair Trade products (including learning a traditional art or craft) is always disclosed and monitored and does not adversely affect the children's well-being, security, educational requirements and need for play.

Standard Six: Non Discrimination, Gender Equity and Freedom of Association

The organisation does not discriminate in hiring, remuneration, access to training, promotion, termination or retirement based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, HIV/Aids status or age.

The organisation provides opportunities for women and men to develop their skills and actively promotes applications from women for job vacancies and for leadership positions in the organisation. The organisation takes into account the special health and safety needs of pregnant

women and breast-feeding mothers. Women fully participate in decisions concerning the use of benefits accruing from the production process. The organisation respects the right of all employees to form and join trade unions of their choice and to bargain collectively. Where the right to join trade unions and bargain collectively is restricted by law and/or political environment, the organisation will enable means of independent and free association and bargaining for employees. The organisation ensures that representatives of employees are not subject to discrimination in the workplace.

Organisations working directly with producers ensure that women are always paid for their contribution to the production process, and when women do the same work as men they are paid at the same rates as men. Organisations also seek to ensure that in production situations where women's work is valued less highly than men's work, women's work is re-valued to equalsze pay rates and women are allowed to undertake work according to their capacities.

Standard Seven: Working Conditions

The organisation provides a safe and healthy working environment for employees and/or members. It complies, at a minimum, with national and local laws and ILO (International Labour Organization) conventions on health and safety.

Working hours and conditions for employees and/or members (and any homeworkers) comply with conditions established by national and local laws and ILO conventions.

Fair Trade Organisations are aware of the health and safety conditions in the producer groups they buy from. They seek, on an ongoing basis, to raise awareness of health and safety issues and improve health and safety practices in producer groups.

Standard Eight: Capacity Building

The organisation seeks to increase positive developmental impacts for small, marginalised producers through Fair Trade.

The organisation develops the skills and capabilities of its own employees or members. Organisations working directly with small producers develop specific activities to help these producers improve their management skills, production capabilities and access to markets – local/regional/international/Fair Trade and mainstream as appropriate. Organisations which buy Fair Trade products through Fair Trade intermediaries in the South assist these organisations to develop their capacity to support the marginalised producer groups that they work with.

Standard Nine: Promotion of Fair Trade

The organisation raises awareness of the aim of Fair Trade and of the need for greater justice in world trade through Fair Trade. It advocates for the objectives and activities of Fair Trade according to the scope of the organisation. The organisation provides its customers with information about itself, the products it markets, and the producer organisations or members that make or harvest the products. Honest advertising and marketing techniques are always used.

Standard Ten: Environment

Organisations which produce Fair Trade products maximise the use of raw materials from sustainably managed sources in their range, buying locally when possible. They use production technologies that seek to reduce energy consumption and where possible, use renewable energy technologies that minimise greenhouse gas emissions. They seek to minimise the impact of their waste stream on the environment. Fair Trade agricultural commodity producers minimise their environmental impacts, by using organic or low pesticide use production methods wherever possible.

Buyers and importers of Fair Trade products give priority to buying products made from raw materials that originate from sustainably managed sources, and have the least overall impact on the environment. All organisations use recycled or easily biodegradable materials for packing to the extent possible, and goods are dispatched by sea wherever possible.

Source: World Fair Trade Organization website retrieved on April 4, 2011 from http://www.wfto.com/index.php?option=com_content&task=view&id=2&Itemid=14

ANNEX C

Principles of Fair Trade and Their Indicators

KEY RESULT AREA	INDICATORS	
<i>Awareness of Fair Trade Practices</i>	<ul style="list-style-type: none"> ➤ Copy of labour code is made available. ➤ Orientation on employee benefits/salaries and office rules/guidelines exists. 	<ul style="list-style-type: none"> ➤ Mechanism for complaints and grievances exists. ➤ Mechanism for promoting fair trade practices among its employees exists.
<i>Fixed Wages</i>	<ul style="list-style-type: none"> ➤ Wages approximate average rate for similar occupations or minimum wage, except those with exemptions (this refers to the legally mandated regional minimum wage rate). ➤ Wages increase in line with increase in cost of basic needs. ➤ Wages are regularly paid in full. ➤ Wages are properly documented. 	<ul style="list-style-type: none"> ➤ Deductions from the wages are done with the agreement of the worker. ➤ Wages are paid in cash or in check, not in kind. ➤ Legally mandated benefits are present and given on time. ➤ Ample rest is ensured during working hours. ➤ Flexible working hours.
<i>Piece or Pakyaw Rates</i>	<ul style="list-style-type: none"> ➤ Per-piece rate approximates the average for the industry/sector within the community or the minimum wage (this refers to the legally mandated regional minimum wage rate). 	<ul style="list-style-type: none"> ➤ Piece rates have been negotiated (this refers to the prevailing piece rate in the community/region).
<i>Benefits Legally Mandated or Per CBA Agreement (for permanent employees)</i>	<ul style="list-style-type: none"> ➤ Vacation leave and sick leave. ➤ Medical and/or dental benefits. ➤ Sickness and disability benefits. 	<ul style="list-style-type: none"> ➤ 13th-month bonus. ➤ Retirement pay.

KEY RESULT AREA	INDICATORS	
<p>Cooperative Workplaces</p>	<ul style="list-style-type: none"> ➤ Company conducts meetings and consultations with workers on matters concerning company policy, plans and procedures. ➤ Workers are allowed to join associations, unions, cooperatives or similar organisations that promote their rights and welfare, as long as these organisations are not in conflict with company interests. 	<ul style="list-style-type: none"> ➤ The company provides an atmosphere conducive to the social, physical, intellectual and emotional development of workers. ➤ Workers are informed about the performance of the business and the organisation's plans.
<p>Working Conditions and Safety</p>	<ul style="list-style-type: none"> ➤ Working hours in a workplace other than home should not exceed 40 hours a week, whatever time frame is legally mandated. ➤ The workplace provides sufficient light, ventilation and comfort. ➤ Trainings are conducted on potential hazards and on the safe use of equipment and materials. ➤ Accidents are recorded; appropriate measures are taken to prevent a repetition of such accidents. ➤ A system for the proper handling and storage of toxic or dangerous substances is in place. ➤ The worksite and lavatories are kept clean. ➤ The production process is not hazardous to health. 	<ul style="list-style-type: none"> ➤ Safety gear, devices and accessories (for example, gloves, helmet, masks) are provided and are worn by workers. ➤ The eating area is separate from the production area. ➤ First-aid medicines and fire-fighting equipment are available and accessible for use. ➤ Living quarters (if provided) are clean and comfortable. ➤ Corporal punishment, verbal abuse and mental or physical coercion are not used as disciplinary measures. ➤ Smoking is allowed only in designated areas.

KEY RESULT AREA	INDICATORS	
<i>Child Labor and Gender</i>	<ul style="list-style-type: none"> ➤ Child labor (14 years old and below) is not allowed. ➤ Married women are allowed two months of paid maternity leave, and married men are allowed five working days of paid paternity leave. 	<ul style="list-style-type: none"> ➤ There is no manifestation or record of sexual harassment inside and outside the workplace. ➤ There is no prejudice in hiring, training or promotion.
<i>Management and Motivational Rewards</i>	<ul style="list-style-type: none"> ➤ Recognition and incentives are given for outstanding achievements and long, quality service. ➤ Bonuses are given for new ideas and new products. 	<ul style="list-style-type: none"> ➤ Reasonable arrangements are made for children's care while their mothers are at work. ➤ Programmes, activities and incentives that promote family values and participation are in place.
<i>Provisions for the Differently Abled</i>	<ul style="list-style-type: none"> ➤ There is no prejudice against differently abled employees. ➤ The workplace is differently-abled friendly. 	<ul style="list-style-type: none"> ➤ Special skills training are available for differently abled personnel.
<i>Environment Sustainability</i>	<ul style="list-style-type: none"> ➤ The production process and materials used do not pollute the environment and are not hazardous. ➤ Production does not involve banned natural raw materials, chemicals, endangered species or resources. ➤ The production process and sourcing of materials do not involve illegal means. 	<ul style="list-style-type: none"> ➤ A recycling programme is in place. ➤ Measures are in place to ensure that resources (water, energy, materials) are conserved and wastage is minimised or eliminated.

KEY RESULT AREA	INDICATORS	
Fair Trade Pricing	<ul style="list-style-type: none"> ➤ There is transparency in pricing. ➤ Unreasonable competition in pricing among fair trade practitioners/producers (for instance, undercutting, no invoice, etc.) is avoided. 	<ul style="list-style-type: none"> ➤ The social premium generated from fair trade is used to improve working conditions and the community.
Financial and Technical Support (for organisations receiving external funding)	<ul style="list-style-type: none"> ➤ Financial and technical capability-building measures are in place. 	<ul style="list-style-type: none"> ➤ Plans to phase out assistance, sustainability plans and exit plans are in place.
Respect for Cultural Identity	<ul style="list-style-type: none"> ➤ Equal work opportunities for workers from cultural minorities. 	<ul style="list-style-type: none"> ➤ Respect for cultural practices.
Public Accountability	<ul style="list-style-type: none"> ➤ Willingness to show practices to fair-trade-aligned groups. ➤ Willingness to open books to authorities. 	<ul style="list-style-type: none"> ➤ Taxation payment history, if applicable. ➤ Business registration.
Voluntary Benefits Extended	<ul style="list-style-type: none"> ➤ Productivity/performance bonus. ➤ Profit sharing. ➤ Housing benefits. ➤ Mechanism for loans (housing, salary, emergency, etc.). ➤ Training programme for capability building. ➤ Nutrition Programme. ➤ Scholarships. ➤ Clothing allowance. 	<ul style="list-style-type: none"> ➤ Merits/awards received by the company for community service, etc. ➤ Reasonable arrangements for children's care while mothers are at work; working parents allowed to visit their children during breaks. ➤ Mechanism for training and compensation of OJT (on-the-job-training) students.
<p>Source of Matrix: Dacanay, Marie Lisa M. (ed), "Measuring Social Enterprise: A Resource Book on Social Enterprise Performance Measurement"; Quezon City: Institute for Social Entrepreneurship in Asia and Oikocredit Ecumenical Development Cooperative Society U.A., c2009</p>		