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PROGRAM ON ESCAPING THE MIDDLE-INCOME TRAP: CHAINS FOR CHANGE

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A Case Study of Jollibee Group Foundation's Farmer Entrepreneurship Program

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1. Introduction[1]

During the Strategic Planning of the Board of Trustees of the Jollibee Group Foundation (JGF) in September 2007, the members of the Board deliberated on how JGF can significantly address rural poverty. The challenge posed by the board members was that "Jollibee Foods Corporation (JFC) as a food company requires raw materials that farmers produce and can make itself available as a direct market to the smallholder farmers. Can Jollibee Group Foundation make this work?"[2]

This mandate led the JGF management team to work on something that was largely untraversed. Gisela Tiongson, JGF Executive Director, remembers their President Grace Tan Caktiong directing the staff to find the best way to get this done in a way that would benefit the farmers the most. Belen Rillo, JGF Vice President and retired JFC executive who used to handle its Commissary, gave practical directions to help the farmers meet the quality and food safety requirements of the company.[3]

The journey to what is now the Farmer Entrepreneurship Program (FEP) began with that challenge and the decision from JFC's top management to buy from smallholders. This decision meant adopting practices that were not commonplace among frontrunner companies during that time. Buying crops directly from farmers meant addressing the wicked problems in agriculture that have made it difficult for farmers to sell outside of trader-lenders, spot buyers, or their marketplace *suki* (i.e., preferred buyer/seller). But that is not the only reason why the FEP is exceptional. In this work, there are stories of farmer leaders, local government executives, and

1 An earlier version of Sections 1, 2, and 5 of this work were included in the report shared with the Inclusive Value Chain Coalition. The said version, authored by Jane Lynn Capacio, Emmanuel de Dios, Ph.D., and Rob van Tulder, Ph.D., focused on agriculture financing and it included two other case studies aside from the Farmer Entrepreneurship Program. Reinier de Guzman, former research associate of EMIT C4C, collaborated with Ms. Capacio in a later version of the aforementioned chapters. However, the final output of that version was not published and key changes were made, which are reflected in this current version. The author profusely thanks Dr. de Dios, Dr. van Tulder, and Mr. de Guzman for their ideas in those earlier iterations that found their way into this monograph. Where their ideas were included, these are acknowledged in the footnotes. Acknowledgements are also due for Tara Alessandra Abrina and Annette Balaoing-Pelkmans, Ph.D. of EMIT C4C, as well as Gisela Tiongson and Joanna La'O of Jollibee Group Foundation for their comments. The author is extra grateful to Ms. Abrina and Ace Vincent Molo of the UP CIDS Publications Unit for editing the final draft. The first loop of action research on the FEP was funded by the UP Center for Integrative and Development Studies (UP CIDS) and the Jollibee Group Foundation.

2 Interview with Gisela Tiongson of the Jollibee Group Foundation, August 7, 2017.

3 Ibid.

officials of cooperatives who went beyond what were required of them to be able to implement the program.

The FEP is a package of interventions that enables smallholders to sell to corporate buyers like JFC.[4] It is a program that links smallholders, buyers, and other stakeholders (e.g., financial institutions, local government units (LGUs)) to be able to address standards for quality, quantity, and timing of delivery of farm products. From 2008 to 2014, the FEP assisted around 1,800 farmers across 28 project sites. Most of them were able to deliver different products to JFC and other buyers, including supermarkets, restaurants, food processors, local traders, and wet markets. The enabler of this market transaction is the Jollibee Group Foundation, which is joined by two other institutions: the Catholic Relief Services (CRS) and the National Livelihood Development Corporation (NLDC). Their partnership steered the FEP during the program's first seven years. Then in 2015, JGF expanded its partnership with local institutions like cooperatives, LGUs, microfinance institutions, rural banks, and social enterprises in managing the program. As of December 2017, there were twelve farmers' groups from eleven project sites who are regularly supplying vegetables to JFC, while ten more groups were undergoing FEP training on agro-entrepreneurship, in the hopes of becoming JFC suppliers the following year.

The Program on Escaping the Middle-Income Trap: Chains for Change (EMIT C4C), a research program of the University of the Philippines Center for Integrative and Development Studies (UP CIDS), in collaboration with the Jollibee Group Foundation and the Partnerships Resource Center of the Rotterdam School of Management of Erasmus University conducted an action research on the FEP. Our action research provided an "inclusive science" or "team science" environment where academics and practitioners engaged in conversations to make explicit its key assumptions, analyze tradeoffs, draw lessons, and recommend program improvements.

The first loop of our action research examined two FEP groups: (1) the Kalasag Multipurpose Cooperative (henceforth referred to as Kalasag MPC) from San Jose City, Nueva Ecija, and (2) the smallholder farmers from Cebu assisted by the Lamac Multipurpose Cooperative (henceforth Lamac MPC). The objective of the first loop was to clearly articulate the distinct FEP model based on a deep dive on the two groups. They were chosen because they differ in their delivery modalities: the Kalasag MPC delivers to the JFC Commissary, while the Lamac MPC delivers directly to numerous Chowking restaurants and other buyers.[5] Both can show the effects of the FEP on smallholders as claimed or articulated by the farmers themselves.

4 JFC is the largest fastfood chain in the Philippines (JFC n.d.) and the largest Asian restaurant company in the world (Jollibee Philippines 2019).

5 Chowking is a restaurant chain that is part of JFC's group of companies.

Kalasag is a farmers' group in Nueva Ecija which was one of the five groups included in the pilot phase of the FEP. Of the five groups, only the Kalasag remained with the program. The name "Kalasag" is a combination of two *barangays* (villages) in San Jose City: Kaliwanagan and San Agustin.[6] Fifteen farmers from Barangay Kaliwanagan and another fifteen from Barangay San Agustin were recruited to become members of the FEP's agro-enterprise clusters in 2008. Clusters are barangay-based, small, and informal groups formed by the program to serve as product supply units that can consolidate and deliver to various markets. The two farmers' clusters served as the core group of the Kalasag MPC. For its first delivery to JFC in 2009, Kalasag only delivered 60 metric tons (MT) of white onions, smaller than their allocation from the company. In 2017, it was able to sell over 730 MT of white onions and more than 33 MT of hot peppers to JFC.

Farmers from Barangay Sudlon II in Cebu City and the municipality of Dalaguete, both located in the province of Cebu, have similarities with the Kalasag farmers. They were also provided with the same essential set of interventions—clustering, production financing, and accessing JFC as buyer—but instead of gearing them to become formal groups or juridical entities, they became members of Lamac Multipurpose Cooperative. The cooperative traces its roots from the *samahang nayon* (village association) that first organized the agrarian reform beneficiaries, tenants, and other tillers in the Lamac Valley in 1973. As of 2017, it has around 76,000 members and has 25 branches in Cebu and other provinces in the Visayas. The Lamac MPC joined the FEP as a partner in 2013 and piloted the program's direct-to-store modality. By 2017, the Lamac MPC-assisted FEP farmers were selling to twenty Chowking restaurants, seven supermarkets, three hotels, and various other buyers all over Cebu City.

This work discusses some of EMIT C4C's important findings from its action research on the FEP. Using case study research (Yin 2018), the project seeks to understand how the FEP value chains work. Moreover, it also aims to know how these value chains impact its primary producers, the smallholders. This work will answer two research questions: first is on the effects of FEP value chains on smallholder farmers and the second is on how FEP value chains can inform the conceptualization of inclusiveness (and competitiveness) in agriculture value chains. While the former is largely descriptive and explanatory, the latter is exploratory and aims to contribute to building theory on what makes value chains inclusive.

The rest of this work is organized as follows: Section 2 gives a brief background of high-value crops in the Philippines; Section 3 explains the research methodology;

6 A *barangay* (or sometimes informally referred to as a *barrio*) is the smallest administrative unit in the Philippines.

Section 4 is a discussion of the conceptual framework, which takes off from EMIT C4C's (evolving) conceptual framework on what makes agriculture value chains inclusive; Section 5 describes the FEP based on a case study on the program featuring the Kalasag MPC and the Lamac MPC; Section 6 is a discussion of key driving forces of inclusion based on the case study; and Section 7 concludes and offers recommendations.

2. Background: High-value crop agriculture in the Philippines

There are several challenges that are particularly faced by smallholders planting high-value crops. Usually, the drivers of chains for these crops are *institutional buyers* such as exporters, supermarkets, fast food chains, or large processors. They set the demand for the products and dictate the quality, quantity, and timing of delivery. Having limited access to information and no capacity to comply with the specifications on their own, smallholders usually participate in value chains through agents, traders, assemblers, and other intermediaries (Kelly, Vergara, and Bammann 2015). The following are the challenges that smallholders face:

(1) Producing high-value crops entails huge costs in terms of inputs, maintenance, and labor. It is more expensive than pltanting staple crops like rice or corn. However, there is limited access to formal financing because lending to smallholders is deemed to be risky and costly. Despite having marketing contracts with institutional buyers, some farmers' groups are not able to access formal financing.

On a per hectare basis, the cost of planting white onion is higher than the cost of planting rice and corn by 63 and 83 percent, respectively (see Table 1 on next page). Similarly, the cost of planting tomatoes is higher by 41 percent than the cost of planting rice and 73 percent higher than the cost of planting corn.

(2) In most cases, smallholders also have limited access to farm technology and agriculture extension services. These are meant to improve the technical capacity of farmers in plant production, care, and management. Since these are devolved functions of the state, their delivery is at best spotty or dependent on local chief executives.

High-value crops have an additional complication. Compared to rice and corn where there are numerous experts and centers providing information on better-performing inputs, cropping patterns, and other services, there is lesser expertise and dedicated centers on high-value crops. The major

Table 1
Costs and returns for selected crops, 2015 (in Php per hectare)

Crop	Average costs (cash, non-cash, imputed)	Average gross returns	Average net returns
Rice (irrigated palay)	53,313	88,914	35,601
Corn (white and yellow)	24,367	39,045	14,688
Red onion*	165,117	206,000	40,883
White onion*	144,945	219,600	74,655
Tomato	90,226	163,366	73,140

* 2013 data for Nueva Ecija
Source: PSA 2015 (rice, corn, and tomato); PRDP 2014 (red and white onions)

problem on pests that infested red and spring onions (e.g., the army worm or *harabas*) led former San Jose City, Nueva Ecija mayor Marivic Belena to look for help all over Luzon. The expert advice she received was to let the land rest for at least a year to be able to eradicate pests. That proposal appeared technically sound but she knew that it will not be followed by the farmers since onion production is their main source of income. Her search led her to partner with JGF on the FEP, where the demand was for white onions—known technically as Yellow Granex onions—which were not commonly produced by the farmers in San Jose City at that time.[7]

(3) In the Philippines, farmers work on small sizes of land. Considering that high-value crop farmers also plant staple crops, the average land size of 1.2 hectares is small. Insecure property rights also permeate the rural landscape. Issues on land administration and management result in overlapping titles, non-subdivided collective land titles, and titles remaining with farmers who have already passed on the tilling and management of the land to heirs or buyers. In Sudlon II, Cebu, the land being tilled by the FEP farmers is a protected area but landowners are believed to own portions of it. FEP farmers pay annual rent to these "landowners" through face-to-face and largely informal transactions.

(4) The cost of logistics for agricultural products is high. The archipelagic nature of the Philippines and the uncoordinated delivery of rural infrastructure in the Philippines are barriers to transporting agricultural goods. While

7 Interview with former San Jose City, Nueva Ecija mayor Marivic Belena, August 8, 2017.

logistics concerns are increasingly being addressed, there remains places where local roads (e.g., farm-to-market roads) are not connected to national roads. Since high-value crops are highly perishable, delays could result in less desirable buying prices.

Farmers planting high-value crops are also adversely affected by other problems in smallholder agriculture in the Philippines:

(5) Many farmers are not organized and could not reap the benefits of economies of scale or size. Individual farmers have higher production costs compared to farmers who have bigger land sizes or those who are part of organized groups like cooperatives.

(6) Studies have shown that there is a wage bias against women in agriculture in the Philippines. This refers to the wage difference of men and women for the same activity. Briones (2019) estimates the wage bias against women to be at 21 percent. Valientes (2015) shows that women in agriculture are paid less than men even if their characteristics are observationally equivalent.

These challenges contribute to low productivity, high cost of farming and farm-entrepreneurship, and consequently, low farm income for smallholders, particularly women. Having insufficient income then leads to low investments in production. Because these challenges persist in every farming cycle, smallholders are stuck in a low farm income trap that limits their access to quality education and healthcare, making it difficult for them and their families to diversify their income stream and to obtain a chance to improve their quality of life.

All of these are symptoms of "wicked problems," which are complicated, deeply-etched, hard to unpack, symptomatic of other systemic problems, interrelated, and thus, cannot be understood in isolation (Rittel and Webber 1973). They appear to be unique because of their strong context dependence and that they have no optimal solution (only better or worse approaches). The wickedness lies in the fact that these issues are in the interface of public, private, and social interests, which make these difficult to address.

3. Methodology

In looking at the FEP, EMIT C4C and JGF engaged in an action research project, defined as a systematic investigation that informs planning and decisions (Hewitt and Little 2005). Of particular interest in the project was to understand, describe, and explain the value chain model(s) and the business models of key actors in the program (e.g., JGF, local implementing partners, and farmers). For EMIT C4C, it was an opportunity to look into a case that could be considered as “critical” and “revelatory” (Yin 2018) and a way to increase the relevance and scope of the research issues that we pursue (Zhang, Levenson, and Crossley 2015). For JGF, it was a chance to step back and rigorously study their program, something that they could not do given the demands of practice. JGF welcomed the offer to study the program from a co-learning lens and to enhance it through co-design mechanisms.

EMIT C4C, JGF, and two other partner organizations—Unifrutti Tropical Fruits, Inc. (UTPI) and PinoyME Foundation—engaged in a first loop of action research.[8] EMIT C4C led the crafting of the research design and questions, refined these based on the comments of the partner organizations, and eventually trained their key officials and staff on using the data gathering instruments. Moments for sharing reflections were created during the loop. In numerous opportunities, EMIT C4C shared its preliminary findings to the board members and staff of the three organizations and to value chain partners.

Initial fieldwork was conducted in July 2017 when the team pretested the data gathering instruments, observed the activities of smallholders and their organizations, and collated documents such as reports. Fieldwork with JGF and other action research partners were conducted in August 2017. The schedule was created so that the main stakeholders of the three organizations could also learn from the FEP and JGF could also join the data gathering in the two other sites. In December 2017, EMIT C4C did additional fieldwork in Cebu to interview more farmer-members of the Lamac MPC.

The research’s data gathering instruments included (1) a structured questionnaire for individual farmers that inquires about their recall of production costs and returns in the last cropping season, (2) an open-ended questionnaire asking for life stories of select farmers and farmer leaders, and (3) a semi-structured questionnaire asking interviewees to describe the value chain before the FEP, during the period of the interview, and their hopes for the future implementation of the program.[9] Aside from one-on-one interviews, focus group discussions (FGD) were also used to ask open-ended questions aimed at eliciting ideas, dilemmas, and suggestions

8 EMIT C4C also studied the banana value chains in the Transformational Business Partnership model of Unifrutti Tropical Philippines, Inc. and the rice value chain of the Saradit na Kristiyanong Katilingban Rice Processing Center of PinoyME Foundation and the Caritas Diocese of Libmanan.

9 We are grateful to Ronald Chua, EMIT C4C Research Fellow and Professor at the Asian Institute of Management, for recommending questions on value chains. He provided guidance during the crafting of the research questionnaires.

among the smallholders and other participants. Key questions were repeatedly used in both the one-on-one interviews and the FGDs for triangulation (Patton 1999).

Afterwards, a thematic analysis of the responses from the informants was made.[10] Notes from reflection sessions, reflection memos made by the researchers from field and meeting observations, interview and FGD transcripts, and documents obtained from FEP partners were analyzed, categorized, and formed into themes. Within EMIT C4C, this was led by the senior researcher/author and the themes were presented in numerous brainstorming sessions with the research team composed of professors and researchers from the fields of economics, management, and sociology. EMIT C4C likewise presented the findings among its partners in several occasions, aiming to validate the results and reiterate the conceptual framework.[11] In this way, the research or science in the action research is inductive and has some of the elements of grounded theory (Glaser and Strauss 1967).

The discussion on the FEP (Sections 1 and 5 of this work) was written in 2019 and was validated by JGF. An earlier draft of these sections and an analysis of emergent themes (i.e., leadership, diversification, financing, and partnerships) comprised the report that EMIT C4C shared with JGF in April 2018. An iteration of these sections was included in an agriculture financing paper that was shared with the Inclusive Value Chain Financing Coalition.

4. What makes agriculture value chains inclusive?: Our (evolving) conceptual frame

Porter (1985) defines *value chain* as a map of activities that a firm undertakes to produce a product or service for their customers, while Gereffi and Fernandez-Stark (2016, 7) describe it as "the full range of activities that firms and workers perform to bring a product from its conception to end use and beyond." A value chain map disaggregates activities to identify areas for cost reduction or product/service differentiation (Porter 1985). Over time, value chains have been typologized to consider product, geographic scope (e.g., global, regional, national, local), governance (e.g., markets, modular, relational, captive, hierarchy) (Gereffi, Humphrey, and Sturgeon 2005), and

10 During the 2020 coronavirus-induced lockdown, EMIT C4C decided to (1) publish its action research cases, including that of the FEP and (2) consciously answer the project's research question on inclusiveness of value chains.

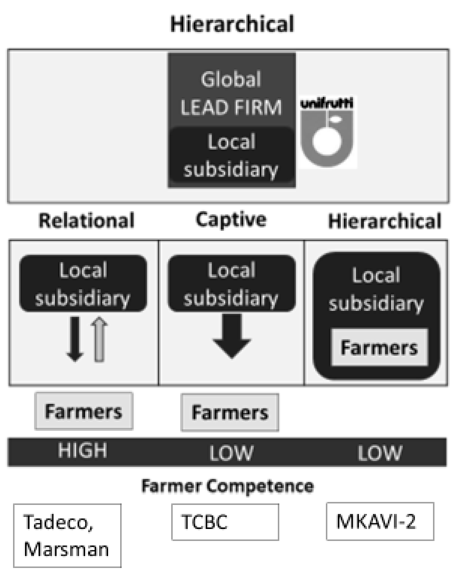
11 From the FEP case study, which covered high-value crops, and from the other case studies that covered rice, banana, and fisheries, the research team commenced the development of a conceptual framework on what makes agriculture value chains inclusive.

initiators (e.g., buyers, intermediaries, input companies, processors) (Swinnen and Kuijipers 2019).

Recently, there is a growing literature on inclusive value chains where research has been mostly focused on the impacts of inclusiveness (as a process) to marginalized actors in the chain. Agriculture value chains that have a pro-poor focus or deliberate intention to favor certain sectors like smallholders are deemed to be inclusive or sustainable. In previous papers by the EMIT C4C, inclusive value chains have a normative principle and they "go against the grain" or "go against the tide" in ensuring the participation and welfare of smallholders. Pelkmans-Balaoing (2019) noted that inclusive value chains address market and institutional failures that hinder farmers from participating in profitable chains. By addressing institutional voids, producers and buyers could then engage in market transactions (Khanna and Palepu 1997); albeit such effort incurs transaction costs. However, Balaoing-Pelkmans (2020) presents a caveat: the degree of participation of smallholders also depends on their capacity to deliver the supply. In the Unifrutti case study, the company's choice of governance modes (e.g., relational, captive, and hierarchical) did not just depend on the severity of challenges; it was also based on the degree of farmers' competence (see Figure 1 below).

Value chain collaboration or the voluntary associations between different actors in a chain is important in addressing institutional voids. A company that

Figure 1
Network governance patterns in banana global value chains using the Unifrutti model

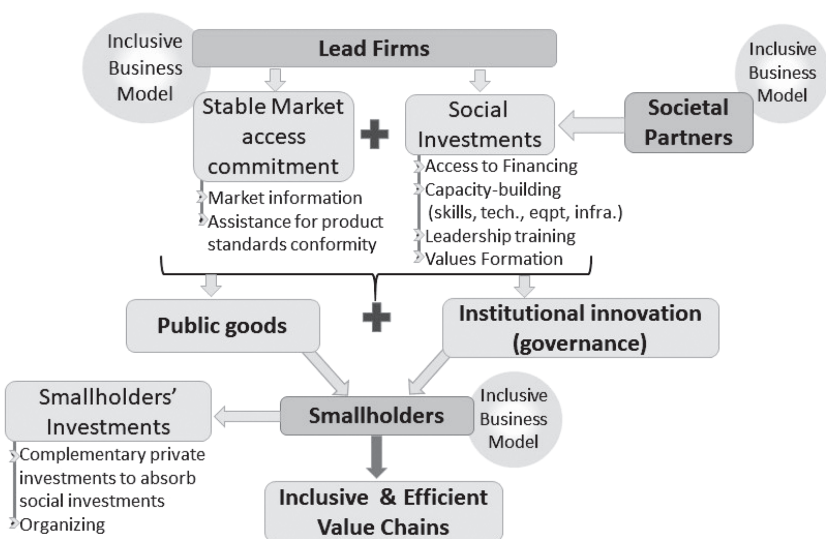


Source: Gereffi, Humphrey, and Sturgeon 2005, modified in Balaoing-Pelkmans 2020 sources supply from farmers and addresses challenges can only do so much given the limits imposed by its mandate. Government agencies are needed, for example, to provide public goods like infrastructure (among other basic and social services), while civil society partners are needed for societal goods like organizing of farmers (van Tulder and van der Zwarf 2006). The partnering space in the FEP value chains, for instance, involves private, public, and non-government actors.

Crucial to EMIT C4C's understanding of inclusive value chains is the importance of lead firms that serve various roles, including the convening of partners and facilitation of activities. The roles and motivations of lead firms led us to related discussions on inclusive business models. Inclusive business is the capturing of economic and societal value or the pursuit of the double or triple bottom line. When lead firms decide to become inclusive (operationalized in Figure 2 below as providing stable market access and social investments), they become drivers of inclusiveness in the whole chain. The risks they take in partnering with smallholders and the social investments they shoulder inspire other actors to also take on risks, provide complementary investments, and pursue governance innovations. These then trigger smallholders to also invest in their capacity and their farms (Pelkmans-Balaoing 2019).

There is a need to provide more rigidity to EMIT C4C's conceptual framework on inclusive value chains. One aspect that requires attention is the metrics and

Figure 2
Transitioning towards inclusive and efficient value chains



Source: Pelkmans-Balaoing 2019

indicators in determining if an agriculture value chain is inclusive. In Pelkmans-Balaoing (2019), per capita income in relation to poverty threshold is used as a proxy for welfare of smallholders. Abrina (2020) noted that this utilitarian definition is not the only measure of welfare; other possible metrics include stable farm income and transparency of prices. She also cites Porter and Kramer (2011) who identified morals, culture, and ethics as other dimensions of inclusiveness. Abrina (2020) also underscored that evidence for inclusiveness might actually be found not only in the roles and motives of lead firms but also in the complementarity of their value chains at the level of granular activities. In her case study, buyers (traders) and producers (fishers) are interlinked that their "input and output are two sides of the same coin" (ibid., 11).

One of the objectives of this case study on the FEP is to sharpen EMIT C4C's conceptual framework by answering the research question on how the FEP value chains can inform the conceptualization of inclusiveness (and competitiveness) in agriculture value chains. To be able to do this, scholarly articles on inclusive value chains and inclusive business were reviewed.[12] Doing this surfaced dimensions or metrics of inclusiveness that were not visible as the studies kept the lens focused on economic effects or when inclusiveness was limited to being instrumental to obtaining business goals.[13]

While doing this added rigor to the research work, some of the intricacies of the FEP value chains was still not captured. The limitation of the conceptual framework, even with the addition of more rigorous metrics, is the concern for "culmination outcomes" or final outcomes (e.g., welfare, empowerment) "without taking any note of the process of getting there, including the exercise of freedom" (Sen 1999, 27). Sen

12 Some articles on inclusive development were also reviewed, leading to the discovery of the strong normative focus on social and gender equity, empowerment of the poor, and concerns about the environment (Gupta, Pouw, and Ros-Tonen 2015). Proponents of inclusive development note the need for a transformative agenda that focuses on three dimensions of inclusiveness: (1) well-being of farmers, which pertains to individual assets and living conditions, and how these relate to collective well-being; (2) empowerment that includes voice and choice (including aspects like the knowledge of and assertion by smallholders of their rights); and (3) addressing environmental concerns, including the tradeoffs between environmental sustainability and economic growth (i.e., growth is not always prioritized). Inclusive development dimensions were not included in the research design so no data on these were culled. For succeeding loops, this could be an aspect that can be considered and reviewed.

13 An aspect that was overlooked in previous papers by the EMIT C4C was the possibility of smallholder farmers' groups becoming lead firms in value chains. The need for lead firms to have resources and scale to plug institutional voids intimates that poor actors in value chains will find it difficult to drive inclusion. However, value chains can be producer-led (Swinnen and Kuijpers 2019) or producer-driven (Vorley, Lundy, and MacGregor 2008).

distinguishes culmination outcomes from "comprehensive outcomes" or the processes through which culmination outcomes come about.[14] EMIT C4C tried addressing this by adding other inclusiveness dimensions. A deep dive into comprehensive outcomes, including the way the FEP partners learn and adapt to value chain shocks (Orr, Donovan, and Stoian 2018), is an important research agenda. This however is beyond the scope of this work.

4.1 Inclusive business

The concept of inclusive business is rooted in Pralahad's (2004) theory that there is commercial and development potential in serving the poor at the bottom of the pyramid. Inclusive business has then evolved into a business model that includes the poor either as suppliers, customers, workers, or intermediaries and one that combines profit with societal goals. Put in a value chain perspective, the rationale for inclusive business is that buyers and smallholders will engage in business—even if there is an unfavorable business environment or numerous institutional voids—if there is a profitable market opportunity. It does not mean, however, that many companies or buyers would engage in inclusive business. The transaction cost could be immense so that they would prefer buying from intermediaries rather than enabling or empowering the primary producers to be able to sell to them (Pelkmans-Balaoing 2019). In other words, not every opportunity to gain profit is maximized, making inclusive business models "go against the grain" (or "go against the tide" (Abrina 2020)).

Porter and Kramer (2011) coined the term "creating shared value" (CSV) to refer to policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions of the communities where it operates.[15] Inclusive business and CSV narratives point out that making agriculture value chains more inclusive creates "win–win" outcomes that benefit both companies and smallholders; however, these are not "charity" initiatives as these emphasize profit and long-term growth (German et al. 2020; IFC 2016). Van Tulder et al. (2014) note that a combination of motivations, events, and triggers contribute to a company's transition to inclusive business, CSV, or sustainable enterprise. Some companies start their sustainability journey as a reaction to a legislation or crisis in

14 Acknowledgment goes to Tara Alessandra Abrina for this excellent comment and for quoting Sen's differentiation of outcomes.

15 Creating shared value, according to Porter and Kramer (2011), "is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center." Creating shared value, according to Porter and Kramer (2011), "is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center."

their supply chain while some companies were triggered by the hiring of a new chief who works with partners (including competitors) to address business challenges.

Critics of inclusive business point out that its profit and market orientation are incompatible with equity, sustainable development, and the need to address the root causes of poverty.[16] They highlight the creation of dependencies, the locking in of smallholders in value chains that may not be profitable, the focus on low-hanging fruit or short-run profit, the reduction of investments once profits decline, and the risks of adverse inclusion or the participation of smallholders in terms that are problematic, disempowering, or inequitable (Ros-Tonen et al. 2019). However, Ros-Tonen et al. (ibid.) also pointed out that inclusive business models can become drivers of inclusion when the following dimensions are present: (1) when inclusive business is embedded in "issue-driven" networks that could balance the economic relationships between companies and smallholders; (2) when inclusive business aligns with local conditions and the need for producers to have diverse livelihood and strategies; and (3) when inclusive business creates "grassroots innovations," including solutions that are sustainable and socially and culturally appropriate.

4.2 Inclusive agriculture value chains

As mentioned, inclusive value chains have been defined as something desirable, a positive change in a value chain "to extend or improve productive operations and generate social benefits" (UNIDO 2011, 1). Like inclusive business, inclusive value chains are situated in sustainability discourses that adhere to economic growth including the use of metrics like increased productivity, increased income, and sustained profit (Ros-Tonen et al. 2019). Unlike inclusive business, however, inclusive value chains explicitly problematize inequalities and power imbalances.

Ros-Tonen et al. (ibid.) note that inclusive value chains can become drivers of inclusion (1) when smallholders are empowered or their autonomy, capacity, and agency are strengthened vis-à-vis companies, civil society, and donors and when these experiences and decisions are recognized; (2) when there is social upgrading or when workers' rights are protected and social conditions are improved leading to the overall wellbeing of workers (see also Mendoza 2018); (3) when partnerships between lead firms and producers (and other actors in the chain) improve farmers' access to markets, knowledge and technology; and (4) when asset ownership, opportunities, and benefit sharing are gender-sensitive and the bottlenecks to women's equal participation in value chains and governance are being removed.

16 See the review of literature undertaken by Ros-Tonen et al. (2019).

5. The Farmer Entrepreneurship Program (FEP)[17]

What exactly is the FEP model? When EMIT C4C began its action research with JGF on the Farmer Entrepreneurship Program, its lens was mostly on the aspects related to economic growth. However, in the course of analyzing and synthesizing the lessons from this case, it was realized that the initial conceptualization of inclusiveness needs to be broadened. This is because the FEP, as described by farmers and intermediaries, has other aspects of inclusiveness.

To be able to distinctly articulate the FEP model, the action research was designed to interview the actors in program, namely the smallholders, representatives of local partners, executives of JFC (who are also board members of JGF), JGF officers and staff, and key persons who were involved in the FEP during its beginnings even if they are no longer connected with the program during the time of the data gathering.

In this section, the FEP will be described first through a discussion of its history, partners, areas of operation, and covered crops. Afterwards, the inputs of the program as articulated by the farmers and local partners will be discussed. This will be followed by a descriptive comparison of the scenarios "before FEP" and "during FEP" in terms of three aspects: access to buyers, access to financial services, and leadership. The said aspects were not predetermined by the research; rather, they emerged as a result of the thematic analysis. Two interesting strategies will then be analyzed and the section ends with a discussion of social investments.

5.1 FEP history, areas, partners, and crops

Though the beginnings of the FEP could be traced back to the 2007 strategic planning of the JGF Board, the values and principles behind it—thinking in systems, harnessing core strengths of the organization, and working collaboratively—were already embraced by JGF in its earlier initiatives. In particular, all the programs of the foundation are aligned with the core business of JFC such that their education programs include scholarships wherein graduates could possibly be employed by JFC and its partners and school and community kitchens where children could eat healthy food while going to school. The FEP, like JGF's education programs, has every intent to create shared value for the company.

Right after the strategic planning of the Board in 2007, JGF organized a Task Force that included the JFC Purchasing Group. The Head of Purchasing, Susan Tanmantiong, also wanted to source from farmers as directly as possible, although

17 Once again, acknowledgement goes to Reinier de Guzman, former EMIT C4C Research Associate, for his contributions to this section of the monograph.

previous experiences were met with obstacles and challenges. Ms. Tanmantiong and her team provided JGF with information on the different modalities that they have adopted in working with smallholders in the past and the challenges that they faced. JGF also consulted former Department of Agriculture secretary and JGF board member Senen Bacani to better understand the agriculture sector and how Dole Philippines, which Mr. Bacani also used to head, implemented its own program with smallholders. From these conversations, JFC (through JGF) decided that for the initiative to work, it will have to move from being a “buyer” to being a “partner” of the farmers. Given this shift, relationship management is key and assistance in various aspects (including management, technology, financing, and post-harvest facilities) needs to be provided to make the farmers independent and competitive.[18]

Further discussions within JFC also led to the identification of bell pepper, white onions, and salad tomatoes as initial crops to be sourced from smallholders. These were selected based on two criteria: ease of implementation for farmers and value contribution to JFC. For the former, a consideration was that the crops should already be existing products of farmers, must have a relatively short planting and harvest cycle, and requires low investment (i.e., no further processing or only simple processing—cutting, dicing, and peeling—will be required). In terms of the latter, the company should have long-term and high-volume requirement for the crops. JFC initially planned on sourcing ten percent of its total requirements for bell pepper, onions, and tomatoes directly from the farmers.

The Task Force then made a preliminary identification of potential sites where the required crops are produced. This search was particularly made more convenient by the fact that JGF has already been working with local chief executives through its Citizen-Responsive Leadership Program. Through the program, JGF got acquainted with three local chief executives: Mayor Sonia Lorenzo of San Isidro, Nueva Ecija; Mayor Marivic Belena of San Jose City, Nueva Ecija; and Mayor Florante Gerdan of Santa Fe, Nueva Vizcaya, whose smallholders in their respective towns produced onions, bell pepper, and tomatoes.[19]

The identification of potential program partners was not easy. In a follow-up meeting, Mr. Bacani recommended the Northern Mindanao Vegetable Producers Association (NorMinVeggies) and the Catholic Relief Services (CRS) because of their experience in organizing vegetable farmers in Mindanao. The CRS is an international relief and development agency of the United States Conference of Catholic Bishops which has implemented agro-enterprise development in Latin America and Africa. In the Philippines, it was able to undertake agro-enterprise development with

18 Interview with G. Tiongson, August 7, 2017.
19 Ibid.

smallholders, particularly with NorMinVeggies in Mindanao. Through Joan Cua Uy, a NorMinVeggies member and CRS consultant who was instrumental in developing its clustering program, JGF got invited to CRS's launching of its first book on agro-enterprise clustering in November 2007.[20]

Meetings between JGF and CRS were subsequently undertaken to explore the feasibility of a partnership. The CRS recommended the inclusion of the National Livelihood and Development Corporation (NLDC) because of its network of microfinance institutions (MFIs) that could provide access to financing to the farmers. The NLDC was a government corporation that provided wholesale loans to MFIs.[21] During this time, the NLDC was considering the idea of incorporating loans into innovative agro-enterprise projects. When they were invited by the CRS to join the partnership with JGF, the NLDC believed that the program will be a good platform for going beyond financing.[22]

The first formal meeting of JGF, CRS, and NLDC managers was held on March 13, 2008 with the aim of drawing up the project concept. It was followed by an institutional buy-in process among the heads of the three institutions. On April 28, 2008, the three institutions signed a memorandum of agreement that formally established the "Bridging Farmers to the JFC Supply Chain" project, which became the precursor of the FEP.

The phases of the development of the FEP could be summarized into four junctures that took place from 2007 to 2019 (see Table 2 on next page). Phase 1 saw the program's establishment which entailed JGF's search for partners and the co-development of the program's design and administrative and financial backend. Phase 2 covered the period May 2008 until December 2010 when JGF, CRS, and NLDC piloted the "Bridging the Farmers to the JFC Supply Chain" project. This period, which is analogous to the product development stage, involved continuing conversations on the principles and mechanics of the program and fixing implementation glitches. Some of the activities during this juncture include site selection, trial production of crops, accreditation of clusters by JFC, securing financing for the farmers, training and mentoring on the agro-enterprise clustering approach, test market deliveries, and entry and exit of farmer groups.

From May to December 2008, the site selection was finalized. JGF shared the program to the mayors of San Isidro and San Jose City in Nueva Ecija and

20 Ibid.; interview with Joan Cua-Uy of NorMinVeggies, June 30, 2017.

21 The NLDC was closed down in 2015 and its assets were transferred to the Land Bank of the Philippines.

22 Interview with Onesimo L. Cuyco of the former National Livelihood Development Corporation, August 27, 2017.

Table 2
Timeline of the FEP

	1	2	3	4
Phase	**Setting up the partnership for the FEP**	**Piloting the program**	**Expanding the program**	**Refocusing the program**
Period	September 2007 to April 2008	May 2008 to December 2010	2011 to early 2014	End of 2014 to present
Highlights	• Discussions and agreements on objectives, motivations, and desired goals • Formalizing the partnership through the signing of a memorandum of agreement (MOA) among the program partners	• Site selection based on presence of crops and existing partnerships • Training, mentoring, and coaching of farmers on the eight-step clustering approach to agro-enterprise • Securing financing for clusters • JFC's accreditation of farmer clusters • Conduct of test market deliveries • Meetings with different stakeholders (e.g., with the DA to explore farmer financing) • Market learning visits and quality orientations provided by	• JGF began linking FEP groups to its business network (e.g., CDO Foodsphere, Waltermart, Splash Foods Corporation • Conduct of two batches of FEP training for site working groups (SWGs) • Test marketing of products from new groups • Conduct of the 1st Farmer Leaders Training • Creation of a Core Group as part of the Program Partnership Management Structure • Introduction of the FEP Development Framework to monitor the varying progress of	• Transition planning for partnership rearrangement between JGF, CRS, and NLDC • Piloted the direct-to-store modality with the Lamac MPC delivering to Chowking branches in Cebu City • Implemented the FEP Leadership on Agro-enterprise Development (LeAD) program for farmer-leaders • JGF worked closely with JFC QM to plan and target farmers' Good Agricultural Practices (GAP) accreditation • JGF partnered with STI Foundation to formalize the curriculum of and to

Table 2
Timeline of the FEP (continued)

Phase	1 Setting up the partnership for the FEP	2 Piloting the program	3 Expanding the program	4 Refocusing the program
		JFC Purchasing and JFC Quality Management • Continuous capacity building of farmers and local partners	the groups and sites • Discussions with academic institutions that are part of the SWGs to produce case studies • Conduct of a study by the Asia-Pacific Policy Center	co-conduct the Agro-enterprise New Facilitators' Training for new partners • Launched the FEP Advocacy Agenda with the youth and academe as target sectors • JGF partnered with EMIT C4C for the conduct of an action research on the FEP and two other agricultural value chains

Source: JGF, "History of the Farmer Entrepreneurship Program (FEP)" (2017; unpublished document), as summarized by the researchers of the EMIT C4C

Santa Fe in Nueva Vizcaya, while the CRS offered the program to its partners in Mindanao, namely the Kaanib Foundation and the Zamboanga Sibugay High Value Crops Marketing Cooperative. Farmer recruitment and supply planning were commenced in these sites. The program partners also agreed that aside from onions, bell pepper, and salad tomatoes (the initial crops that JFC wanted to source from farmers), other crops will be added, including lettuce, carrots, *calamansi*, and rice.

By 2009, the San Isidro, Nueva Ecija site was dropped out of the project because crop specifications (for onion and rice) were not acceptable to JFC. The site in Siay, Zamboanga Sibugay was similarly relinquished because of high freight costs. The partners added three new sites and expanded Kaanib Foundation's coverage to include the municipality of Sumilao in Bukidnon. Of the five sites, two were able to deliver to JFC: Kalasag, which delivered 60 MT of white onion, and the Santa Fe clusters, which delivered three MT of bell pepper.

Recognizing the early positive results, the program partners reached out to the Department of Agriculture to explore support for farmers. They also met with seed companies for product samples, production trials, and extension services. However, the program also encountered challenges, including the MFIs' lack of financing models for lending to farmers without requiring collateral. The farmers also needed to develop scale and maturity to meet JFC's requirements. These issues were eventually acted upon by the program. With Kalasag's success and ongoing initiatives in the other sites, JFC and its program partners validated their hypothesis that smallholders, if given the appropriate support, can sell directly to a big company.

Phase 3 of the program covers its expansion involving (1) a search for more groups and sites, (2) capacity building of local partners in order to train farmers, and (3) invitation to companies to also purchase from smallholders. These actions were also instrumental to the renaming of the program into the Farmer Entrepreneurship Program to signify that it also covers the delivery of farmers' products to other corporate buyers.

In 2011, one of NLDC's MFI conduit that was oriented on the FEP was able to assist a site in Pangasinan, where farmers were able to deliver green bell pepper and salad tomatoes for test marketing to JFC. The program partners then realized that it is possible to let a local institution take the lead in clustering and capacity building; hence, the CRS did not have to be the one to do it (akin to the approach taken in the five pilot sites). This led to another major shift in the program: instead of the CRS training the farmers, the program will engage in a trainers' training of local partners so that they will be the ones who will train smallholders on agro-enterprise development.

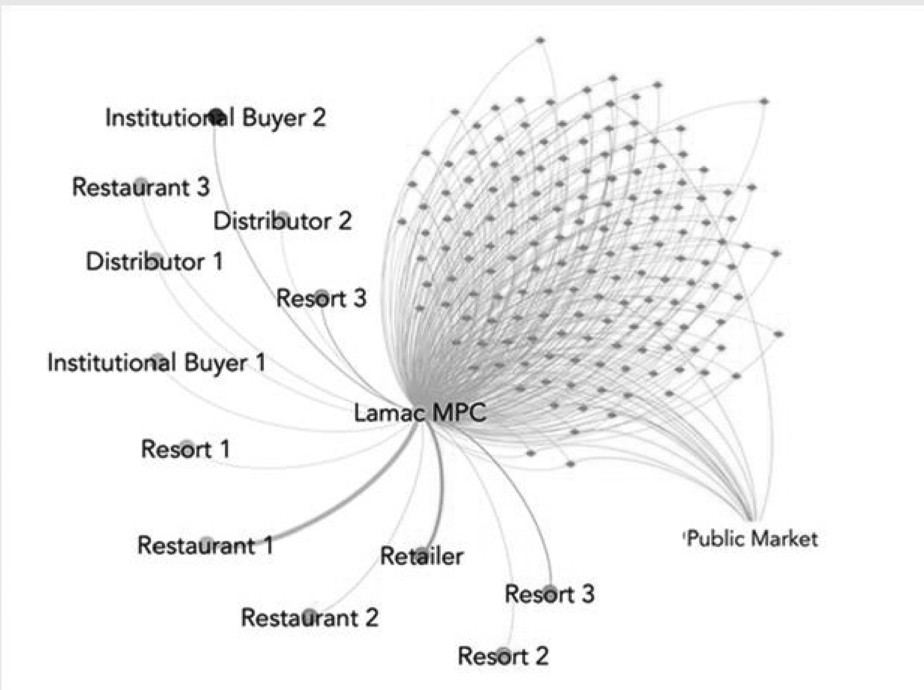
While more sites were added in the program, some were foregone due to different reasons (e.g., areas were geographically far, crops failed the test market requirements, farmers were not cooperating). Such decisions were collectively made by the program partners. With regard to companies joining the FEP, JFC linked the program partners to CDO Foodsphere and other buyers. Two challenges were apparent during this process. First, there was uneven program implementation by local partners, and as a result, the appreciation and capacity of farmers to undertake clustering were uneven. Second, tapping other companies to form part of the FEP, and thus to buy from farmers, is difficult if they do not have a unit or a corporate social responsibility (CSR) arm (such as JGF) that could bridge their companies and the farmers.

By 2013, the second batch of trainings for site working groups was conducted, this time with a more rigorous screening of potential partners. The program partners asked for recommendations from existing networks and likewise issued a call for partner applications. The training on the clustering approach, spanning for around

BOX 1

Network map of Lamac MPC*

The following network map shows how 157 farmers reach buyers through the Lamac Multipurpose Cooperative (Lamac MPC)'s participation in the Farmer Entrepreneurship Program (FEP). It also shows the centrality of the Lamac MPC to the whole network as it serves as the pathway for the farm products to reach institutional buyers. Under the FEP, smallholders are enjoined to diversify their markets (as well as their crops and partners). For instance, farmers from the municipality of Dalaguete can still sell their produce to the Mantalongon Public Market, while the farmers from Sudlon in Cebu City also sell to the nearby Carbon Market.



The map shows two directed edges (representing the flow of goods from one node or actor to another) connecting the Lamac MPC and the farmers. One edge shows the

* The EMIT C4C was tapped by the International Bank for Reconstruction and Development/ The World Bank to create network graphs of select agriculture value chains, including the FEP. Acknowledgement goes to Roberto Martin Nolan Galang and Maria Beatrice Anne Tanjangco for tapping the EMIT C4C for the project. EMIT C4C researchers Reinier de Guzman, Anthony John Rodriguez, and Jane Lynn Capacio worked on this and other network maps.

Lamac MPC as input and financing supplier and the other shows it as buyer of farmers' products. The network diameter, which refers to the shortest distance between two most distant nodes in the network, is valued at 3,** while the average path length, which measures the shortest path between any two nodes within the network, is less than 2 because the farm products only need to pass through the Lamac MPC.

** Network diameters tend to be small (e.g., 3) if the network is integrated. If there are transaction costs involved, a lower network diameter means lesser costs for sending the farm products to end buyers or consumers.

six to seven months of face-to-face sit-in sessions and application of lessons in the field, became a means to ensure the commitment of the participants. Those who were interested to join the FEP stayed for the whole duration of the training and took their homework seriously. In these trainings, the Lamac MPC sent three staff members even if only one is required. This was after their general manager, Elena Limocon, was trained herself. Ms. Limocon realized that their role as local partner is critical so she decided to send three staff to the training—in case one or two of them fell ill.[23] These trainings, however, were not free, so to ensure co-ownership, participants were asked to cover the cost of their food and accommodation.

A results framework was also developed during this three-year expansion phase. The program partners started documenting the net income of farmers in the sites covered. By the end of 2014, they discovered that the farmers' net income is higher for crops delivered to JFC than for crops delivered to local markets or other corporate buyers. Their data showed that for white onion, the difference is 139 percent; 100 percent for hot pepper; 149 percent for salad tomato; 64 percent for bell pepper; and 40 percent for *calamansi*.

JGF also engaged the Asia-Pacific Policy Center (APPC) to do a preliminary study of the program. Their findings revealed that the successes of Kalasag (as well as Sitio Mapita in Aguilar, Pangasinan) gave a concrete example of what the program can achieve. However, the study notes that there are constraints to the program's expansion, particularly on its technical aspects, because of limited human resources. The appreciation by and capacity of local partners are also uneven.

The fourth and current phase involves both a refocus on JFC as a market and a restructuring of the partnership among JGF, CRS, and NLDC (from 2014 to present). JGF decided to deepen its assistance to smallholders who sell to JFC, which meant

23 Interview with Elena Limocon of the Lamac Multipurpose Cooperative, July 24, 2017.

reaching a lesser number of farmers (although the number of farmers increased later on). Two realizations contributed to this decision: (1) that it is difficult to link farmers to other companies if the latter do not have a mechanism like JGF that absorbs transaction costs and (2) that farmers selling to JFC get a higher net farm income (from more stable pricing at higher volumes) compared to selling to other companies. JGF officials and staff felt that it could contribute more if it refocused on assisting these partners. For their part, the CRS and the NLDC wanted to expand to other farmers and other companies. Eventually, the program partners decided to end their formal partnership but agreed to continuously consult one another for advice and coordination for the common FEP sites. For Ms. Tiongson of JGF, it was one of the lowest points of the program because it meant "letting go of the space of collective learning that has steered FEP's developments."[24]

With this agreed-upon refocusing, JGF, CRS, and NLDC in 2015 cascaded the transition and partnership rearrangement to all FEP sites. They noted that JGF will focus on sites delivering to JFC, which was composed of twelve farmers' groups. That year, the program also piloted a direct-to-store modality (aside from the modality of coursing products through the commissary) with the Lamac MPC helping farmers deliver directly to Chowking branches in Cebu City on a daily basis. While the FEP relies mostly on local partners to implement the program, JGF also recalibrated its office by assigning account officers per site to be able to support them.

Among the issues encountered in 2015 was the limited capacity of local partners to manage the issues of farmer groups. They were also confronted by the challenge of empowering farmer leaders since they are critical to the success of farmers' groups. This birthed the idea of training farmer leaders who could manage day-to-day concerns and conflicts within the clusters. In 2016, the FEP started its leadership training program called "Leadership on Agro-enterprise Development" (LeAD), which was held from June to December 2016. The LeAD trained 22 farmer leaders from the program sites, including Kalasag- and Lamac MPC-assisted farmers, to come up with solutions to challenges faced by their respective organizations or clusters.

The JGF Board of Trustees also recommended the foundation's partnership with an academic institution to develop and standardize the agro-enterprise training. This was seen as a way to standardize the content and rollout of agro-enterprise trainings to site working group members, and eventually, to smallholders. In 2017, JGF partnered with the STI Foundation in developing the curriculum for the agro-enterprise training and in co-conducting the training sessions for new facilitators. Likewise, JGF enhanced the qualification criteria for new partners and directly assessed the project sites.

24 Interview with G. Tiongson, August 7, 2017.

By 2017, FEP had nineteen sites in eleven provinces of the country, with twelve farmers' groups regularly delivering various crops to JFC and another ten groups undergoing FEP training on agro-enterprise development (see Figure 3 on the next page). Since 2009, over four million kilograms of assorted crops have been delivered by smallholders to the company.

In the succeeding parts of this section, the results of the first loop of action research will be discussed. EMIT C4C used a value chain perspective in asking the smallholders to recall their agricultural situation prior to the FEP or when it was just starting and how it is now that they are part of the program. Still using the value chain approach, the smallholders were also asked about their hopes for an improved program. The same questions were asked to the FEP partners (e.g., JGF, CRS, NLDC, Lamac MPC) in order to validate the results. The responses were then culled and categorized.

5.2 Pre-FEP and early FEP period[25]

In one-on-one interviews and focus group discussions, smallholders were asked to describe the agriculture value chains prior to the introduction of the program and when it was just starting.[26] Three aspects emerged from the responses: (1) access to buyers, (2) access to financing, and (3) leadership.

5.2.1 Buyers of agricultural products of smallholders

The Kalasag farmers distinctly remember two pre-FEP junctures. The first was around the late 1990s when onion production was seen as promising because production

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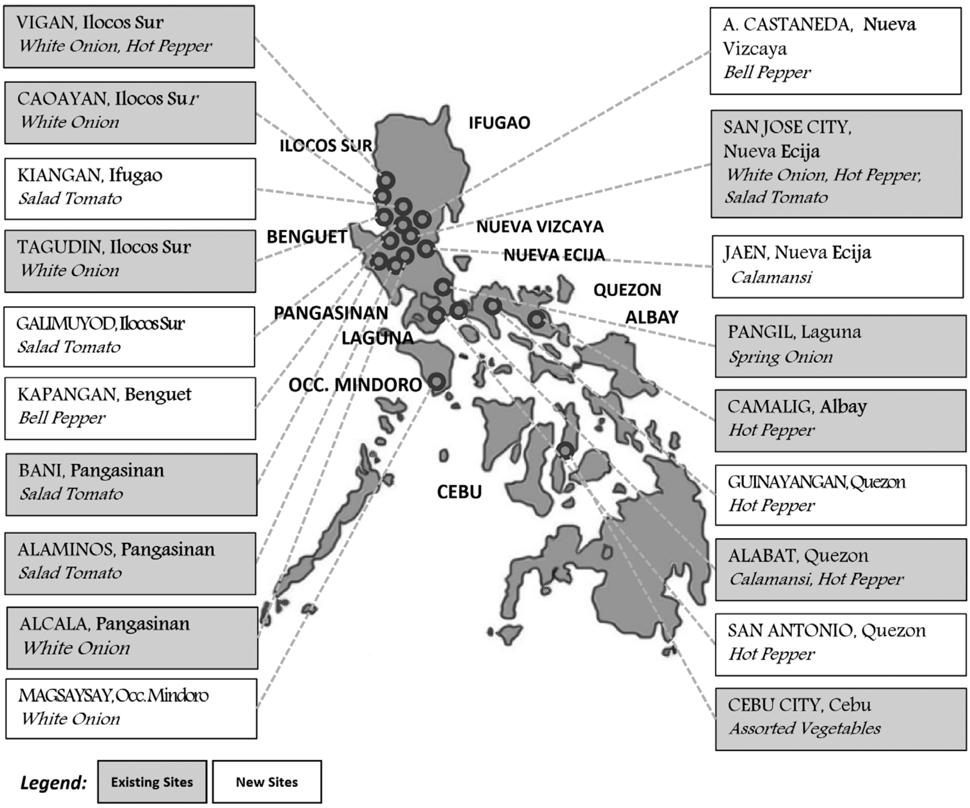
25 The FEP was not able to gather key information about the farmers at the start of their intervention. Attempts were made to reconstruct the baseline situation, particularly on farm costs and returns, from the stories of farmers.

26 The recall of the farmers was facilitated by the following questions:

- *Batay sa inyong pagkakatanda o alaala, puwede niyo po bang ikwento sa amin ang sitwasyon bago kayo nakasali sa* FEP?
- *Saan po kumukuha ng binhi at* fertilizer *ang mga magsasaka, saan sila nagbebenta, at magkano ang kita?*
- *Kung iguguhit natin ang dating* value chain *ng inyong produkto, ano po ang hitsura nito noon?*
- *Saan po kayo at ang mga ibang magsasaka madalas na nagbebenta noon ng sibuyas/gulay?*
- *Saan po ninyo madalas kinukuha ang binhi at* fertilizer?
- *Paano po ang* hauling *o* trucking arrangements?
- *Meron po ba kayong* farm laborers?
- *Sino-sino po ang mga* partners?

As the farmers recall their situation, the facilitator wrote or drew on the sheet of paper. Probing questions were asked to deepen the conversation. The same questions and manner of asking are also used to ask for their situation during the FEP and their hopes for a better value chain.

Figure 3
Sites, partners, and products of the FEP (as of October 2017)



Source: JGF, "FEP Fact Sheet" (October 2017; unpublished document)

costs were low, they had regular buyers, and the climate was favorable. Farmers from Barangay San Agustin delivered to Taiko Philippines, while farmers from Barangay Kaliwanagan sold onions to Farm Fresh. Both were export-oriented businesses that sent onions to Japan. However, after a few years, both Taiko Philippines and Farm Fresh folded up and the farmers were told that they had shifted to China.[27]

The latter juncture, which were the years after the export market ended and just before FEP was introduced,[28] was described to be unfortunate ("*malungkot*") by the smallholders. Many of them sold red onions and spring onions to agents and traders and the buying price was erratic. Frederico Dizon, a Kalasag member, recalls a year when, despite incurring huge production costs, the price of red onion was just two

27 Interview with A. Dizon and Wencelito Gomez, July 20, 2017
28 This period was approximately from 2000 to 2007.

pesos per kilo.[29] Wencelito Gomez, Kalasag MPC's general manager, even remembers the price plunging to a peso per kilo.[30] In those instances, the farmers did not harvest the onions because labor and hauling costs would just add to their expenses.[31]

Farmers from Barangay Sudlon II, Cebu City, remember that before the FEP, they had no buyers except traders who bought within the community or buyers in the wet market. When there was overproduction of certain crops, the prices of traders were very low and some of them would not buy from the farmers. The smallholders did not have a mechanism to coordinate with one another to prevent supply glut.

Alijandrin Ocariza, a cluster leader from Sudlon II, shared that prior to the FEP and before becoming a member of Lamac MPC, he had two buyers: he sold lettuce, his main crop, to his *suki* at the Carbon Market and his other vegetable products to agents and traders in Sudlon II. He said that buyers from Carbon gave higher prices than buyers from Sudlon II but only a few of the farmers have a *suki* in Carbon; thus, this option was not available to everyone.[32] Moreover, even if Mr. Ocariza had a *suki*, this person only bought one product (lettuce) from him because he was also committed to buy from other farmers and agents. There were a few times when Mr. Ocariza's *suki* did not buy all his lettuce.[33]

The farmers from Dalaguete, Cebu also shared their pre-FEP situation. In 2014, the smallholders produced various vegetables and sold these in the markets at Mantalungon and Nug-as, which are approximately 18 to 20 kilometers from their farms. To be able to do this, the farmers needed to go through several processes that incurred costs (see Figure 4 on the next page).[34]

(1) The farmers need to haul the vegetables from their farms to the main road, and usually, this means spending around 20 percent of their net income for this expense;

29 Interview with Frederico Dizon, July 21, 2017.

30 Interview with A. Dizon and W. Gomez, July 20, 2017.

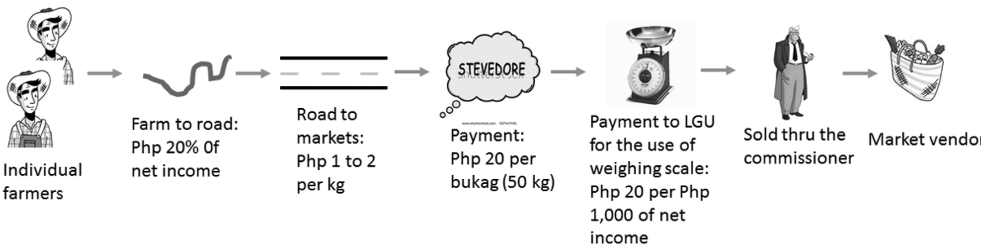
31 In 2006 and 2007, pests infested onions in Nueva Ecija, prompting then Mayor Marivic Belena to look for technical assistance. Experts told her to rest the land to stop pests from growing and spreading.

32 Catalino Panaginip, another cluster leader from Sudlon, remarked that the Carbon Market is only for those who can endure endless haggling (*tawaran*), thus the usual tendency is for prices to plunge. Interview with C. Panaginip, August 6, 2017.

33 There were times when Mr. Ocariza also tried to rent a stall to sell vegetables in Carbon. He gave this up because the market usually operates at night and he had no strength to undertake farming during the day and still sell vegetables at night. Interview with Alijandrin Ocariza, August 5, 2017.

34 FGD with FEP farmers from Dalaguete, Cebu, August 4, 2017.

Figure 4
Value chain of Dalaguete, Cebu farmers prior to the FEP



(2) They need to haul the produce from the main road to Mantalungon and Nug-as Markets by hiring vehicles that costs them from Php 1 to 2 per kilo of vegetables;

(3) In the market, the smallholders need to hire stevedores to carry their produce and this costs around Php 20 per 50 kilos;

(4) They need to pay the local government for using the weighing scale and this eats up around Php 20 per Php 1,000 of their net income;

(5) They could only sell to "commissioners" in the wet markets; commissioners are middlemen who secured permits and paid fees to the local government to be able to receive the vegetables and sell these to market vendors. For this transaction, they earn commissions.[35]

The farmers went to Mantalungon and Nug-as markets without knowing the buying prices. In some cases, they returned home with meager income. In 2014, the farmers remember that the commissioners bought their products for the following prices: cabbage for Php 3 per kilo, *pechay* for Php 5 to 8 per kilo, eggplant for Php 15 per kilo, and spring onion for Php 80 per kilo.

5.2.2 Access to financing

The Kalasag farmers and the farmers assisted by the Lamac MPC (both in Sudlon II and Dalaguete) had no access to formal financing prior to FEP. While some of them might have had financing in the distant past, this was either not systematic (not part of a program) or not related to farming.[36]

35 It can be seen that the commissioners added to the farmers' production costs. The commissioners pay Php 1,600 to the LGU to be able to perform their role.

36 Ms. Limocon, general manager of Lamac MPC, was aware that many farmers, including the ones they serve under FEP, have had negative experiences with lending.

The Kalasag farmers recalled that from 2008 to 2009 or just before the FEP, most of them borrowed from moneylenders (through the "5-6" scheme) who asked for 25 percent interest every four months. When the buying price of onion was low, they found it difficult to make ends meet and to pay their loans. The women farmers also had no other means of employment so they sought loans from moneylenders.[37] When prices were low, rains hit hard, pests were unmanageable, and they had to deal with shocks (e.g., death in the family, enrollment of children in school), they resorted to pawning or mortgaging their land, jewelry, and documents of their vehicles and farm animals so they could undertake production.[38]

In Sudlon II, Mr. Ocariza had no source of formal financing; thus, he was not able to fully utilize his land.[39] Other farmers from Sudlon and Dalaguete also shared that prior to FEP, they were not able to maximize the landholding they occupied because of lack of access to financing.

5.2.3 Leadership

The Kalasag farmers were shy and unconfident before the FEP was introduced in their site. Kalasag MPC's general manager remembers that he was so shy that he trembled whenever he needed to speak in front of an audience. JGF President Grace Tan Caktiong also remembered that during the time when Kalasag MPC was just starting their deliveries to JFC, the farmers were nervous and quiet whenever she spoke with them. She recalls that their eyes were downcast and they did not look at her in the eye during their conversations.[40]

The JFC Purchasing Group's assessment of Kalasag in 2008 summarized their condition (La'O 2016). Based on a standard set of criteria, they noted that the farmers had:

- No strong leadership;
- No prior experience in entering into business contracts and selling to institutional buyers;
- Financial constraints;

37 FGD with Kabiyak (the women's committee of Kalasag MPC), August 8, 2017.

38 According to Esguerra (1993), surrendering the ownership titles for pledged assets is a mechanism of informal lenders to deny borrowers the chance to secure loans from other lenders therefore preventing them from having multiple obligations that could jeopardize their repayment. It also prevents borrowers from selling the asset before the loan is repaid. It is also a convenient way to screen borrowers for their ability to repay. The sharing on farmers' pawning their assets before FEP were culled from interviews with A. Dizon (July 20, 2017) and F. Dizon (July 21, 2017).

39 Interview with A. Ocariza, August 5, 2017.

40 Interview with Grace Tan Caktiong of the Jollibee Group Foundation, August 15, 2017.

- No storage capacity; and
- No form of transportation.

But the JFC Purchasing Group also underscored that the Kalasag farmers had two advantages: the quality of the sampled white onions passed the quality control of JFC and that they have the support of JGF and FEP partners.

In Sudlon II, Mr. Ocariza remembers that prior to FEP, he did not go to capacity building activities and did not join organizations. He did not have any leadership or managerial roles and did not coordinate with anyone regarding farming. Ligaya Miras, the cluster head of Sudlon II, recalls that she was very shy like Mr. Ocariza. Her self-confidence laid in doing actual farming, sewing, and beadwork. She had no experience in leading a group and had no confidence in speaking her mind.

5.3 FEP's inputs and interventions

When the FEP was introduced to the Kalasag farmers in 2008, they described it as "complete" because it included (1) production financing, (2) marketing to JFC, and (3) capacity building, which included clustering and organizing. The Kalasag farmers said that these interventions were critical when they were starting because these allowed them to mobilize and deliver to JFC. Their other needs—such as hauling trucks, cold storage, onion hanger, buying funds, and capital expenditure funds—were also important but were not urgently needed. Eventually, these other needs were addressed when the farmers continued delivering to JFC and began paying their arrears to the Alalay sa Kaunlaran, Inc. (ASKI), the microfinance institution that helped them in their early years.[41]

The general manager and staff of the Lamac MPC also describe the FEP as "*kumpletos rekados*" or having all the needed ingredients. The complete package includes production financing, marketing to Chowking and other buyers, cluster organizing, capacity building, and agriculture extension.[42] The farmers echo this view and said this set of interventions made them decide to join the program.

5.3.1 FEP's "complete recipe" at the start of an intervention

The "complete recipe" is an interlinked bundle of interventions that entails: (1) clustering, organizing, and capacity building, (2) financing, and (3) linking to

41 Kalasag chairman Arnold Dizon said, "*kinukuha lang muna namin ang kaya namain yakapin*" (we only get what we can embrace/absorb). He said this is true in the past when they received resources for post-harvest facilities and farm machines and equipment when they already hurdled initial challenges, and it is also true in the future as they only strive for those that they can handle.

42 FGD with Lamac MPC staff, July 24, 2017.

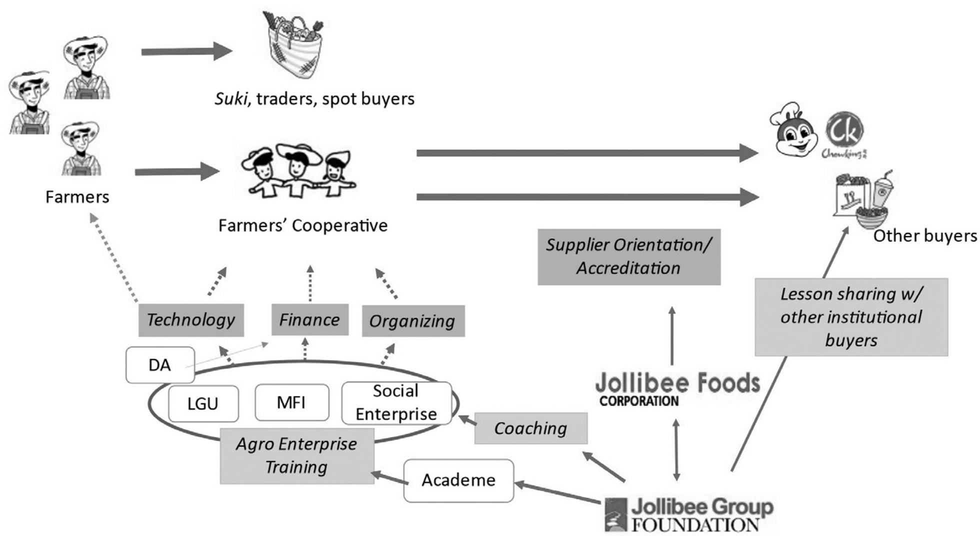
institutional buyers. Figure 5 (below) gives a snapshot of the FEP value chain. It shows that the FEP makes available services to farmers through the partnership of JGF and local institutions (e.g., LGUs, MFIs, cooperatives or social enterprises). If Figure 4 is compared to Figure 5, it can also be seen that with the FEP, various intermediaries are skipped.

5.3.1.1 Clustering, organizing, and capacity building

The FEP clusters smallholders, which means that the program organizes them as production and supply units that are responsible and accountable to various stakeholders. Clustering allows the smallholders to reach a minimum scale and to collectively decide on production techniques and delivery mechanisms. This is crucial for planning and implementing who supplies on certain dates and who provides the buffer supply in case the predetermined suppliers could not meet their commitment. Clustering enables the farmers to meet the quantity and timing required in agreeing to supply to institutional buyers like JFC.

Clusters are composed of around fifteen farmers. When Kalasag started, they were composed of thirty farmers from two barangays. In 2017, Kalasag is composed of 92 members with farmers coming from Barangays Kaliwanagan, San Agustin, and Villa Marina. The farmers assisted by the Lamac MPC are composed of three clusters from Sudlon II and seven from Dalaguete.

Figure 5
Value chain of the FEP



Source: Gisela Tiongson and Sharleene Kay Alayan of JGF and Jane Lynn Capacio of EMIT C4C developed the illustration, which was slightly revised in November 2020 for clarity

Clusters, through their respective leaders, are taught, trained, and mentored on the eight-step agro-enterprise clustering approach, which is composed of the following:

(1) Site selection, partnership building, and cluster formation;
(2) Product selection and product supply assessment;
(3) Market chain study;
(4) Cluster commitment setting;
(5) Business planning and mobilization;
(6) Production/product supply organizing;
(7) Test marketing; and
(8) Scaling up or sustaining the enterprise.

This clustering approach, which was a technology developed by the CRS, is a sequential process with the first step leading to the next. Steps 1 to 5 can be categorized as social preparation, while step 6 is production, and steps 7 and 8 are marketing and sustainability.[43]

Along with clustering, the FEP also involves community organizing efforts to ensure that the farmers will have unity on the same goals and aspirations. Organizing is also geared to build the capacity and confidence of farmer leaders in managing their clusters or groups, in generating and managing resources, and in fulfilling contracts and agreements. With the Kalasag farmers, organizing and clustering efforts were provided by the program partners (particularly the CRS) from 2008 until 2014. In the case of Lamac MPC, organizing cluster members and mentoring of farmer leaders are undertaken by the cooperative with JGF's support.

The FEP also builds the capacity of smallholders on various aspects. Local partners ensure the provision of agriculture technology and extension services. This also involves technical assistance in the use of farm machines and equipment and enabling farmers to have Good Agriculture Practices (GAP) accreditation.[44]

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43 When it is introduced to a new group of farmers, agro-enterprise facilitators advise the farmers to follow the steps accordingly. But in the course of implementation, the steps could be adjusted based on various situations.

44 By 2017, 60 Kalasag farmers received GAP accreditation from the Department of Agriculture for white onion production. This was a response to JFC Quality Management's launch of a GAP roadmap and the company's target for all its suppliers to be GAP-accredited by 2018. JGF developed an approach to facilitate GAP accreditation of smallholder farmers and invited the DA for assistance. The DA trained the farmers on proper usage of fertilizers and pesticides, disposal of wastes, and keeping the records of all inputs and outputs, as well as costs and returns.

5.3.1.2 Access to financial services

The FEP made available production lending to the farmers which is done through a combination of production inputs (e.g., seeds, fertilizers, pesticides) and cash.[45] The costs are precomputed according to production modules, which is part of the FEP training.[46] Payment for the production loans is in-kind or by delivering their committed supply, which is around 60 percent of their harvest, to their cooperative. Such arrangement is referred to as inclusive interlinked financing (Capacio, de Dios, and van Tulder 2018).[47] Aside from production financing and other farm-related funding needs, the Kalasag MPC and the Lamac MPC also have emergency loans that the farmers can tap.[48]

The Lamac MPC and the Kalasag MPC also needed financing for working capital to be able to purchase the crops harvested by the farmers. Having access to both production capital and working capital allowed the cooperatives to approximate the mechanisms of local buyers/traders and wet markets that financed the production and subsequently bought the harvest of the smallholders in cash.[49] The Lamac MPC had sufficient resources for such mechanism, but the FEP purposely looked for a financing partner for Kalasag MPC. ASKI was tapped to provide both production financing for individual farmers and working capital for the Kalasag MPC. Initially, it had doubts given the lack of collateral and track record of farmers, aside from a history of bad loans in the area.[50] What made ASKI decide to join the FEP and lend

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45 This is also a way to ensure the fulfillment of the clusters' or group's supply plan.

46 The smallholders participate in this exercise given that most of them know how to compute the break-even volume and cost.

47 Acknowledgment goes to Emmanuel S. de Dios, Ph.D., Senior Fellow and former Convenor of EMIT C4C and Professor Emeritus at the UP School of Economics, for recognizing this mechanism, which was initially thought to closely resemble trader-lender arrangements. Compared to trader-lender relations, interlinked financing in the FEP is formal, thereby giving the farmers a financial record, and is part of a bundle of interventions that enables farmers to sell to JFC and other buyers.

48 When they still need more funds, the farmers borrow from relatives, neighbors, other MFIs, and informal lenders.

49 Eventually, as the farmers stayed in the program as they matured, they have accepted other means to be paid aside from spot cash (e.g., receiving it in cash from the cooperative or depositing it in their savings account). This was evident in the case of FEP farmers who are part of the Lamac MPC. At first, they wanted cash and the Lamac MPC wanted to show that the cooperative could be trusted. The general manager of the Lamac MPC instructed the cooperative's staff to deliver payments to FEP farmers even at night. The first delivery to Chowking happened close to Christmas of 2015. The staff knocked on farmers' household on Christmas Eve to pay the farmers for their delivery. Eventually, the farmers themselves informed the cooperative that they were willing to open up savings accounts in the nearby Lamac MPC branch.

50 "Bad loans" in this context refer to unpaid arrears despite apparent abilities of borrowers to repay and efforts of lenders to recoup.

to the Kalasag farmers was the commitment of the partners of the program. In the selection of cluster members, ASKI was part of the screening process: those who had bad loans in the past were not included as cluster members.[51]

5.3.1.3 Linkage to institutional buyers

A critical input of the FEP in the initial phase of a partnership with a farmers' cluster is their linkage to corporate buyers. As part of the eight-step agro-enterprise clustering approach, a market chain study is undertaken by the clusters. In this step, the farmers identify the possible buyers of their products, including JFC and other buyers. The farmers undertake test marketing and when successful, FEP facilitates the linkage of the farmers and the buyers.

The linkage to JFC was undertaken by JGF by working with JFC's Purchasing Group and ensuring that both sides—the farmers and the Purchasing Group—understand each other's context and the rationale for the requirements. JGF also assists in the accreditation of the farmers to become suppliers. When new requirements were implemented by the Purchasing Group, JGF ensured that it was properly rolled out to Kalasag, Lamac MPC, and other partners. In several cases, JGF tapped its staff to undertake the training of farmers regarding the new requirements of the Purchasing Group. Where other suppliers only required an email, smallholders often needed to be personally met and oriented. JGF ensures this smooth flow of information.

The linkage to other buyers aside from JFC was likewise undertaken by JGF during the early years of the FEP. JGF linked the Kalasag farmers to CDO Foodsphere, Splash Foods Corporation, and other buyers. JGF also facilitated the capacity building of farmers and their linkage to companies on one hand, and it coordinated with the companies in working with smallholders on the other.

In the case of the farmers from Dalaguete, Cebu, the link with institutional buyers like Chowking changed the "rules of the game." Before the FEP, capacity building and formal financing were made available to the farmers, but these were not bundled with the presence of buyers like JFC. At that time, some of the farmers from Dalaguete's Cluster 1 incurred debts which they found difficult to repay.[52] In this situation, formal financing without the interlinked bundle of interventions led to farmers' indebtedness.

5.3.2 FEP's interventions when smallholders reach tipping points

When a cluster or group is progressing and reach tipping points akin to the experience of the Kalasag farmers, "start-up" assistance like clustering, community

51 Interview with Rodolfo C. Padua, Jr. of Alalay sa Kaunlaran, Inc., July 21, 2017.
52 FGD with Dalaguete farmers, August 4, 2017.

BOX 2

Why buy from farmers?: Creating shared value motivates Jollibee Foods Corporation

Jollibee Foods Corporation (JFC)'s core business is in the development, operation, and franchising of quick-service restaurant brands. In the restaurant business, JFC is the largest in the Philippines in terms of sales and stores (JFC n.d.).

In 2004, JFC created the Jollibee Foundation, later on renamed as Jollibee Group Foundation (JGF), because it wanted to give back to communities in a structured way and with concrete results. JFC wanted to ensure that their "success in business creates inclusive success in communities" (Tan Caktiong 2015, 2). Top officials of JFC and JGF wanted a concrete mechanism with clear programs and metrics that will contribute to positive change. To be able to do this, JFC donates 1.5 percent of its net profit annually to JGF to support its programs and operations.

The Board of Trustees of JGF decided to focus their efforts on community needs within the area of their corporate strength: food and livelihood. Their Busog, Lusog, Talino (BLT) School Feeding Program aims to improve the nutrition of undernourished school children through the provision of daily lunch meals, training of parents, and partnerships with local stakeholders (e.g., teachers, principals, and health workers). Their other program, the employment-driven scholarship grants (called Project ACE (Access, Curriculum, Employability)), enables students to attend college courses in Hotel and Restaurant Management or Business Management and be trained by JFC during their internship. Their technical skills training covers scholarships for courses such as repair and maintenance of restaurant equipment and commissary machineries (G. Tan Caktiong, interview, August 15, 2017). After finishing their degrees, it is possible for the scholars to be hired by JFC and its business partners.

It was in 2007 that JFC and JGF firmed up their belief in creating shared value. By linking JGF with the core business, they could sustain their social development work.

organizing, and constant mentoring scale down and eventually end. Specific FEP interventions like linkages to JFC and other buyers and agriculture extension services remain, but assistance in accessing growth financing and mentoring of farmer leaders escalate.

In their almost a decade of being part of the FEP, the Kalasag farmers needed more than just production financing and working capital at certain junctures. They felt the need for a bigger truck, an onion hangar, and a cold storage facility to better manage their deliveries. When the Kalasag farmers had the capacity and confidence to expand, they, along with their partners (i.e., JGF, CRS, ASKI, and the local government of San Jose City) scouted for means to obtain the needed assets.

Eventually, the Kalasag MPC was able to have a bigger truck, onion hangar, and cold storage facility through the FEP. The Kalasag leaders emphasized that they were able to secure the financing for the machines and facilities when they gained the track record for continuous delivery to institutional buyers and for consistent payment of loans. Their financial statements showed proof of continuous positive performance.[53] This sequencing of assistance to the Kalasag farmers might have been unintended. However, it appears to be a critical aspect to the success of the group. It could be surmised that if the fixed assets were provided when the group was just starting, the management of the assets could have likely been an additional burden to the farmers.

5.4 During the FEP: Results that smallholders attribute to the program

The Kalasag farmers and the smallholders assisted by the Lamac MPC attributed these key improvements to the FEP: improved confidence, enhanced leadership abilities, and increased income.

5.4.1 Kalasag farmers: Changes in confidence, leadership skills, and resources

The capabilities of the Kalasag farmers improved over time. They have become equipped in handling the day-to-day management of their cooperative, getting agreements and cooperation of fellow farmers, managing disagreements, and crafting mechanisms to ensure the delivery of their commitments and the payment of their arrears. They became adept at consolidating production, processing, hauling, marketing, and financing. They said they learned how to do business as a group.

This was validated by Dominador Mariano (of the CRS) who organized them and taught them the eight-step agro-enterprise clustering approach. The Kalasag farmers absorbed the lessons through training and mentoring and were willing to take on risks and try different strategies in managing their group.[54] During their first

53 By then, they felt ready to manage the fixed assets and to set aside funds for equipment maintenance and replacement.

54 In the early years of piloting the program, Mr. Mariano was assisting Kalasag and two other farmer groups from Nueva Ecija and Nueva Vizcaya. What made the Kalasag leaders different from the other groups was their willingness: Mr. Mariano remembers that when an activity needs to be undertaken, he invited all three pilot groups; but the leaders of the two other groups were often constrained by their lack of resources. One of the groups was so dependent on their mayor that whenever they need something, their recourse was, "*magtatanong kami kay Mayor*" (we will ask the Mayor) or "*susubukan naming humingi kay Mayor*" (we will try to ask from the mayor). The Kalasag leaders were different: When they committed to activities, they looked for means to be able to finance the expenses on their end.

delivery in 2009, they did not understand that JFC needed to issue a purchase order (PO) prior to each delivery. They harvested all their onions for that season without a PO. JFC accepted the delivery that was required only for that week leading to the rest of the harvested crop to be sold elsewhere. Despite this setback, the leaders encouraged the group to continue with the program.[55]

Regarding farm income, the farmers believe that their income increased since they joined the FEP. They attribute this from the higher buying price of onions of JFC and the availability of other buyers who were linked to them by JGF. Their other buyers purchased additional products like hot pepper and off-sized onions.

They stated that since they started with the FEP, most of them were able to (1) redeem their pawned lands, jewelries, and other assets (e.g., vehicles, farm animals); (2) improve their houses and expand their farm lands (either through sale or land leases); and (3) purchase farm equipment and vehicles. In 2017, nine Kalasag farmers shared that they manage two to three parcels of land covering around 2.1 hectares (see Table 3 below).

The Kalasag farmers try to expand their land size by renting or buying land from other people, usually from those who have portions of landholdings that are uncultivated. Land rental of two- or three-year leases are the main mechanisms for expansion because other owners also do not want to sell their parcels. The difference in the average size of land being managed—0.85 hectare bigger than that of non-

Table 3
Land being managed by Kalasag, non-Kalasag farmers from same barangays, and non-Kalasag farmers from another municipality, 2017

	Kalasag	**Non-Kalasag onion farmers in same barangays**	**Non-Kalasag onion farmers in San Isidro, Municipality of Lupao**
Number of interviewees	9	4	4
Average number of parcels	2 to 3 parcels	1 to 2 parcels	1 parcel
Average land size of managed farm	2.1 hectares	1.25 hectares	0.74 hectare

Source: Interviews with FEP farmers

55 Despite learning many lessons in the course of the program, Mr. Mariano notes that the Kalasag leaders are not “all knowing;” they are willing to learn new things and new ways of doing things.

Kalasag members in the same barangays and 1.36 hectares bigger than that of non-Kalasag members in the Municipality of Lupao—is significant given that one production module of onion (or one can) fits on 1,500 square meters of land. A small increase in land size could be consequential to farm income.

5.4.2 Farmers assisted by Lamac MPC: Changes in their leadership and resources

While less pronounced, improvements in leadership, confidence, and skills are also visible among the farmers from Sudlon II and Dalaguete. Cluster leaders in Sudlon like Ligaya Miras, Catalino Panaginip, and Alijandrin Ocariza are now able to address the day-to-day management of their clusters. As the head of all the three clusters, Ms. Miras addresses the problems that are elevated to her.[56] In Dalaguete, cluster leaders, particularly Mr. Zosimo Velazquez, exemplify leadership. He remembers instances when clusters had difficulty in filling up the truck of Lamac MPC with their harvested vegetables. This led him to suggest and eventually set up another cluster to help buffer the supply. Mr. Velazquez, who heads Cluster 2, was instrumental in establishing Cluster 7.[57]

The cluster leaders from Sudlon and Dalaguete did not have prior formal leadership posts. They said they learned to lead during the course of the implementation of the FEP. The help of Lamac MPC and JGF staff in solving problems was instrumental in honing their leadership capabilities.

The farmers also underscored that their income increased when they joined the program. Mr. Ocariza highlighted the importance of access to production loans that Lamac MPC made available through the FEP. In 2016, he obtained a loan from the cooperative, which was payable in one year with an interest rate of two percent per month. Because of this loan, he claimed a patronage refund or his share of the profit based on his purchases. He was also entitled to receive dividends from that year. He said that aside from the actual financial benefits of being part of the FEP, he also does not have to go to the Carbon Market to sell lettuce to his suki, which gave him free time. He noted, however, that since he is the cluster leader, his free time is spent in managing the daily activities of his cluster. He hastened to add that he does not complain about this and that he is happy to help the members of his cluster, especially since most of them are his relatives.

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56 There was a time when one of the clusters had problems with a cluster leader who was busy with his networking business and had no time for cluster work. Ms. Miras intervened by speaking to the cluster leader, convincing him that leading a cluster is hard work, and that devoting time is important for the whole group to grow, which eventually led to the person deciding to resign as cluster leader.

57 Interview with Zosimo Velazquez of Lamac Multipurpose Cooperative, August 4, 2017.

BOX 3

The trader who made a costly trade-off

Kalasag members find their chairman, Arnold Dizon, to be an excellent leader. He, along with the rest of the Kalasag Board of Directors and Wency Gomez successfully hurdled trials and challenges and have led their farmer clusters into the enviable cooperative that it is today.

Before he became the chairman of Kalasag, Arnold consolidated onions for exporters who sent these to Japan. This was in the mid-1990s. When the Japanese buyers stopped purchasing from Nueva Ecija, Arnold tried the onion trading business. His father is a former agent-trader who decided to run for a barangay position. He then took over his father's network and business.

In 1997, Arnold got his license for onion trading. In the community, he is referred to as an agent who had several trader bosses or "amo," one of whom supplied to Jollibee Foods Corporation. Some of his bosses gave cash advances to farmers, while others simply bought onions on the spot. Either way, his trader bosses paid Arnold an overhead fee of Php 50 per bag of onion, of which Php 40 per bag is spent for costs like hauling (from Nueva Ecija to Divisioria or to cold storages in Valenzuela and Malabon) and allowance for spoiled or non-saleable onions.

From 1997 until 2007, or prior to the formation of the Kalasag MPC, he delivered plenty of bags per month during the onion season. This gave him and his family huge revenues from trading alone.

This drastically changed when the Kalasag MPC was formed and he accepted the challenge of serving as its chairman. When the organization was starting, he drastically reduced his onion trading to a meager ten percent of his previous operations because he only traded in barangays that were not part of their cooperative. On top of this, when they were just starting with the Farmer Entrepreneurship Program, he needed to attend meetings, seminars, and other capacity building activities so he had less time for trading. For these activities, he also spent personal money for his and other farmers' expenses. His wife and even other Kalasag farmers could not understand why he was so invested in their cooperative at the expense of his own earnings. He answered that it was his dream to sell directly to Jollibee.

"Noon pa, nangarap na akong maka-diretso sa Jollibee*. Kung kaya nu'ng amo ko, iniisip ko, kaya ko rin, kaya din namin na mga magsasaka. 'Nung nagkaroon ako ng pagkakataon, kinuha ko. Kasi makakatulong din 'yun sa marami sa amin."* (Even then, I dreamed of selling directly to Jollibee. I was thinking if my trader boss was able to do it, I could also do it, and the other farmers could also sell to Jollibee. When I had a chance, I grabbed it because it will also help many farmers.)

The farmers from Dalaguete shared that they too had increased income because of better prices and reduced production costs. Table 4 (on the opposite page) compares the income of the farmers in 2014 (before the FEP), in 2015 (when the Lamac MPC provided access to finance but had no institutional buyers and no hauling facilities), and in 2016 (when the Lamac MPC implemented a combination of access to finance, clustering of farmers, presence of Chowking and other buyers, and hauling services).

5.5 The farmers' hopes for the future

For the future, the smallholders want the FEP to expand or scale up to include more crops and more markets. In this way, the program could expand to more farmers.

5.5.1 Kalasag farmers

Many of the farmers who were interviewed said that they want to expand their farming and peeling business to include other community members. They also want the associate members and applicants to be able to join their organization. The leaders of the cooperative said that they will do an internal assessment of their capacity and an external assessment of market demand before they recruit other members. The Kalasag MPC also wishes to be the consolidator of the onion supply from FEP farmer groups from Northern Luzon. Instead of these groups going all the way from Northern Luzon to the Commissary in Southern Luzon, Kalasag MPC can gather the onions mid-way (being located in Central Luzon) and will then store, peel, and deliver these to JFC.

5.5.2 Farmers assisted by Lamac MPC

The farmers assisted by the Lamac MPC want to have more stable buyers (aside from Chowking). One of the grocery stores that buys from Lamac MPC occasionally plunges its buying price. When this happens, the cooperative lessens their bid from farmers and would not sell to this grocery store. The cooperative intends to address this through the creation of Farm Fresh, a distribution area to be set up in Cebu City that can absorb unsold vegetables from the FEP clusters.

Being located far away from the downtown area, Dalaguete farmers find it expensive to buy basic necessities (e.g., soap, condiments, and school supplies) so one of their hopes for the future to have a store nearby. The manager of the Dalaguete branch of Lamac MPC intends to address this by selling basic goods in Dalaguete. Many cluster leaders also wish that the farmers would take their responsibilities more seriously, so they propose the conduct of activities that could impress the values of accountability and commitment on cluster members. Cluster leaders likewise want to be better equipped with management skills to be able to handle their clusters better.

Table 4
Comparison of costs and buying prices before and after the FEP

Cost items	2014 (Before Lamac MPC/FEP)	2015 (With capacity building and financing, but without marketing)	August 2016 (FEP with clustering, financing, and marketing)
Buying of inputs (i.e., transportation to downtown stores)	Spent for transportation costs from homes downtown and vice versa	Did not spend on transportation; Lamac MPC lends production loans through inputs, which it then delivers to Dalaguete	Did not spend on transportation; Lamac MPC lends production loans through inputs, which it then delivers to Dalaguete
Cost of inputs	Retail price	Wholesale/discounted price (through Lamac MPC), which is lower than the retail price	Wholesale/discounted price (through Lamac MPC), which is lower than the retail price
Hauling of products from farm to main road	20% of net income	20% of net income	20% of net income
Hauling from main road to Mantalungon and Nug-as Markets	Php 1 to 2 per kilogram of vegetables	Php 1 to 2 per kilogram of vegetables	No cost; the consolidation area or pick-up point is along the Dalaguete main road
Payment to stevedore	Php 20 per *bukag*;* usually, a delivery consists of five to ten *bukag*	Php 20 per *bukag*; usually, a delivery consists of five to ten *bukag*	None
Use of weighing scale	Php 20 per Php 1,000 of net income	Php 20 per Php 1,000 of net income	None
Selling through "commissioners"	Yes	Yes	No
Buying price per kilogram	Mantalungon and Nug-as Markets: • Cabbage: Php 3 • Pechay: Php 5 to 8 • Eggplant: Php 15 • Spring onion: Php 80	Mantalungon and Nug-as Markets: • Cabbage: Php 3 • Pechay: Php 5 to 8 • Eggplant: Php 15 • Spring onion: Php 80	Lamac MPC: • Cabbage: Php 8 • Pechay: Php 10 • Eggplant: Php 20 • Spring onion: Php 100

* *Bukag* is a basket that can carry around 60 kilos of lettuce or leafy vegetables.
Source: Focus group discussion with leaders of the 7 FEP clusters in Dalaguete, August 4, 2017

5.6 Analysis of the FEP's strategies

The program has key strategies that were surfaced during the action research.[58] Two interesting strategies are highlighted in this section.

5.6.1 FEP tapped farmers for recruitment and screening

The FEP was introduced to smallholders through referrals. Lamac MPC's limited interaction with and knowledge of the farmers in both Sudlon II and Dalaguete led to a mixed bag of farmers.[59] The various challenges experienced by the initial clusters could be referred to as "the Cluster 1 phenomenon." These include farmers reneging on their committed volume of harvest if the buying price of the FEP local partner is lower than the price of traders or spot buyers, as well as farmers not following agreements on planting calendar and plant care.

Choosing the succeeding clusters was an improvement. There was an unintended but profitable consequence from Cluster 1 problems: the local partners got acquainted with smallholders who are ideal for the FEP, including Ligaya Miras. She was tapped to search for and screen subsequent cluster members, which resulted in visible progression in the FEP implementation in Sudlon II.

The leadership role of the Lamac MPC, particularly of their general manager, in addressing the Cluster 1 phenomenon is evident. Ms. Limocon's timely intervention became a turning point in the screening process.[60] This also shows the crucial role of local partners in addressing shocks.[61]

5.6.2 Ties that bind reduced the cost of monitoring and enforcement

As the clusters progress, the farmers are increasingly being relied upon to screen and select cluster members and leaders. Their selection included farmers who are known to them and who share their values and principles. In other words, they chose the ones they trusted, especially family members and relatives. For example, 70 percent of Kalasag farmers are relatives. In Sudlon II, half of Cluster 4 is from the same family.

Choosing relatives does not guarantee success, in fact, it could backfire. But in the case of Kalasag and the Cluster 4 of Sudlon II, the farmers did not simply choose their family members; they selected relatives who are neighbors, those who

58 One of the contributions of the of the first loop of action research was pointing these out or making these strategies explicit to program partners.

59 Most of the Lamac MPC members were not planting the crops needed by JFC and other buyers so they had to screen smallholders who will join the FEP (and thus the cooperative).

60 Acknowledgment goes to Dr. Annette Balaoing-Pelkmans for this insight.

61 Acknowledgment goes to Tara Alessandra Abrina for this point. She hypothesizes that cooperatives are ideal "transition institutions" from locally-based collective action (Wade 1987)

BOX 4

The Cluster 1 phenomenon

Ligaya Miras still remembers all the hurtful things that were said to her by the members of what used to be Sudlon's Cluster 1. Ligaya was part of Cluster 2, which provided buffer to the first cluster. When the price of Lamac MPC/FEP was higher, Cluster 1 members sold their vegetables to Lamac MPC, but when the prices of traders were higher, they sold to traders. Ligaya felt that they were not committed to a long-term relationship with the Lamac MPC and with institutional buyers like Chowking because they had other market options and most of them can cover their farm financing requirements. Cluster 1 officers were angry at Ligaya for voicing her thoughts and they accused her of many things. Lamac MPC's Ellen Limocon told Ligaya that for the succeeding clusters, she would be relied upon for farmer recruitment and screening.

are close to them, and those they consider as longtime friends. In other words, they chose those who have polyvalent ties (Evans 1995) with them. They wanted their relatives, friends, and neighbors to share in the benefits of the program. This explains why farmer leaders were willing to extend a helping hand to the members, even beyond the requirements of their roles.[62] This choice of members reduced transaction costs because the farmers (1) must have worked together in the past and they already know their work habits; (2) live or farm near each other; and (3) trust each other. (See Annex A for ideas on smallholders becoming successful with the FEP.)

5.7 Social investments: Shouldering the costs of plugging institutional voids

The provision of the bundle of interventions at the start of an FEP partnership and the provision of strategic assistance during tipping points meant the spending of resources to build the capacity of farmers and other stakeholders in value chains. There is also the transaction cost of searching and recruiting farmers and monitoring

(e.g., farmer cluster management) to formal institutions. This could be a subsequent area of research.

62 Alijandrin Ocariza and his sister Aileen Ocariza shared that one of the most stressful moments is whenever Lamac MPC's truck was on its way to Sudlon and a farmer who was set to deliver for the day had not yet harvested his/her vegetables for whatever reason. When such happens, cluster leaders and neighbors felt they had no choice but to go to the field and help the farmer with his/her harvest (without being paid labor fees for the day).

their actions. We refer to these as "social investment costs," which are costs for human capital improvement.[63]

From 2008 to 2013—the period when the FEP was implemented, tested, and iterated—the partners (i.e., JGF, CRS, and NLDC) spent on social investment costs that were used for different purposes, such as capacity building[64] and creating linkages to the Purchasing Group and other units of JFC and to other buyers and partners. Aside from the smallholders, the FEP also trained the local partners, particularly on the eight-step approach to agro-enterprise development. These social investments were important for "institution building" when formal and informal rules of the FEP were being made.

It can be seen from Table 5 (on the opposite page) that during the pilot years of the program (from 2008 to 2010) and its expansion (from 2011 to 2013), the program partners spent a total of Php 27,928,341, which was shared by the three institutions. Local partners also spent their own resources to implement the FEP. The LGU of San Jose City estimates that from 2009 until 2017, they spent around Php 1,919,325 per year for the cost of assisting the Kalasag farmers and leading the site working group.[65] This is based on the yearly FEP allocation of three offices of the city government: the Cooperative Development Services Office, the Agriculture Services Office, and Office of the Mayor. Lamac MPC shouldered the counterpart amount for the agro-enterprise training of their officers and staff. It also shouldered the cost of setting up a new branch in Sudlon and the establishment of the Business Development Center (BDC), a dedicated department that facilitates the implementation of FEP and other marketing activities. While the BDC's operational costs were initially subsidized by the cooperative, it became self-liquidating after a year. After two years, the BDC started earning profits so Lamac MPC began recouping their social investment.[66]

6. Results: Drivers of inclusion in the FEP

In this section, the research question on the effects of the FEP value chains on smallholders will be answered. Recall that both inclusive business and inclusive

63 EMIT C4C thanks Danilo Songco of PinoyME Foundation for introducing us to this term, which they use for the lump of expenses for building the capacity of farmers, organizing them for collective actions, and facilitating the efforts of various actors so the value chains work, among others.

64 This includes training, mentoring and coaching on organizing, agriculture technology, marketing, financing, cluster or cooperative management, and leadership development.

65 Interview with T. Corpus, August 7, 2018; *Annual Investment Plan*, City Government of San Jose, Nueva Ecija.

Table 5
Shares in cost of FEP implementation by JGF, CRS, and NLDC, 2008–2013

	JGF	CRS	NLDC	Total
Amount (in Php)	10,156,115	11,433,626	6,338,600	27,928,341
% of share	36%	41%	23%	100%

Note: Data came from MOAs executed by the three institutions; it does not include other funds that NLDC extended to its MFI partners; funding from CRS was supported by a project grant from the US Department of Agriculture (USDA).

Source: JGF, "History of the Farmer Entrepreneurship Program" (2017; unpublished document)

value chains have a strong focus on economic growth and how the profit bottom line complements with societal goals; hence, the metric on poverty reduction of smallholders is increase in their income. Aside from this metric, the inclusiveness dimensions of inclusive business and inclusive value chains will also be used to look at the drivers of inclusion in the FEP.[67] Other dimensions that were not captured by the metrics will also be considered.

6.1 "Lifting smallholders from poverty"

With regard to impacts on lifting primary agricultural producers from poverty, which is the "litmus test of inclusion" (Balaoing-Pelkmans 2020, 12), the farmers attribute their ability to pay for arrears and having increased farm income to their participation in the FEP. They also appreciate the stable buying prices of the FEP since it gives them more predictable income and allows them to plan for their investments. They likewise note that because the program is designed so that they can still sell to other buyers, they are able to maximize price spikes from their *suki*. With higher income, the smallholders prioritized the redemption of their pawned assets, expansion of their farmland, and purchase of farm machines and equipment.

6.2 Inclusive business metrics

Recall from the discussion of the conceptual framework that inclusive business is delivering on the double or triple bottom line where both company and smallholders benefit from "win-win" outcomes. Pelkmans-Balaoing (2019) pointed out that not

66 Data on costs and returns of the Lamac MPC's BDC operations are not yet identified and is the main focus of the second loop of the EMIT C4C's action research.

67 EMIT C4C is reserving the metric on increased income of other actors in value chains for the second loop of its action research.

BOX 5

The Lamac MPC's Business Development Center

The marketing head of the Lamac Multipurpose Cooperative's Business Development Center, Benzenil "Benz" Neri, is in charge of getting the bids of farmer clusters from Sudlon II and Dalaguete. The bids correspond to the available vegetables for the day, which were already estimated based on the supply plan of the clusters and the farm plan of every farmer. Benz is also in charge of dealing with institutional buyers for orders and deliveries.

To know their bids and preferred prices, he calls Ligaya Miras, the cluster head of Sudlon II, daily, and every two days, the cluster leaders of Dalaguete. Afterwards, he calls the various buyers—18 Chowking company-owned restaurants, two Chowking franchise restaurants, seven supermarket branches, two hotels, a religious seminary, and a caterer—to collect their orders and relay Lamac MPC's prices. On some days, he negotiates with the supermarket regarding prices.

While Benz undertakes this daily task of bidding the vegetable variety, volume, and prices with the farmer clusters, Lamac MPC's trucks, each carrying around 1,000 tons of assorted vegetables, are all over Cebu delivering the orders from the previous day and picking up the vegetables from Sudlon II and Dalaguete to be packed and sold the next day.

The truck that covers Southern Cebu leaves the Lamac packing center at Parian, Cebu City, around 5:30 a.m. The truck that covers Northern Cebu also leaves the packing center at the same time. The simultaneous deployment of two trucks enables Lamac MPC to meet the required delivery times of multiple buyers.

After the trucks deliver the orders, these proceed to the consolidation areas which were set up by the Jollibee Group Foundation in partnership with the farmer clusters. Every afternoon, one of the trucks goes to the consolidation area in Sudlon II to pick up vegetables. Every Monday and Thursday, the other truck goes to the consolidation area in Dalaguete.

all opportunities for inclusive business are seized by companies because of huge transaction costs associated with enabling farmers to become part of value chains. It is also noted that some literature on inclusive business, particularly that of CSV, underscores that it is not philanthropy or charity. This latter criterion led to queries about the FEP: Is it an inclusive business initiative given that it is led by the company's corporate foundation?

The action research reveals that the FEP is an inclusive business program of the company for it involves the core of their business—the supply chain. That the program is led by its corporate foundation, in close cooperation with other business units of the company like Purchasing, Research and Development, and Quality Assurance, gives it its inclusive business flavor. First, in the early years of the FEP, JGF led the process of program iteration and the testing of novel ways of working with smallholders and value chain partners to overcome wicked problems and plug voids. This "incubation" period resulted in farmers being able to organize for collective marketing, financing, and other activities. Second, JGF's efforts at bridging the smallholders to JFC, other institutional buyers, and other stakeholders is a critical function. It ensured the flow of information and resources and it attracted other partners to participate in the program (e.g., ASKI lending to Kalasag farmers). Other companies also had intentions of buying from farmers or being part of the FEP but they had no entity like JGF that performs facilitation and bridging roles. Third, JGF and other partners internalized transaction costs.[68] Putting JGF as lead, therefore, ensures that the social development aspect of the program (and not just its business aspect) is seriously considered.

Responding to the drivers of inclusion offered by Ros-Tonen et al. (2019), the discussion below shows key results.

6.2.1 Embeddedness in "issue-driven" networks that could balance the economic relationships between companies and smallholders

In Capacio et al. (2020), it was noted that FEP partners are embedded in various networks and sectors. The locally-based partners of the FEP are embedded in local culture and language and they encourage the farmers to partner with other institutions. The Lamac MPC, for instance, involves the farmers of the FEP in different undertakings, including national and local networks of farmers' cooperatives that could potentially balance their economic relationship with JFC. The Kalasag farmers, for example, are linked by FEP partners to agricultural universities and to the government's post-harvest and mechanization offices. These linkages gave opportunities to the farmers to learn different farming strategies.

68 In their book, van Tulder et al. (2014) note that a major problem is that social and environmental issues remain to be peripheral research topics in mainstream management studies. They cite Blowfield (2005, 173) who pointed out that having yet to develop the means for internally critiquing their field, CSR is "unable to recognize its own assumptions, prejudices, and limitations" (p. 6).

6.2.2 Alignment with local conditions and the need for producers to have diverse livelihood and strategies

The program encourages the diversification of products, buyers, and partners, which allows the farmers to be aligned with local conditions. This also ensures that they are not trapped in the FEP value chains or in their partnership with JFC, JGF, and local partners.

6.2.3 Creation of "grassroots innovations," including solutions that are sustainable and socially and culturally appropriate

One of the challenges of the Kalasag MPC and the Lamac MPC farmers is erratic weather. They tried experimenting with do-it-yourself greenhouses which proved to be mostly unsuccessful. JGF has been scouting for organizations, academic institutions, and individuals that could work with the farmers on other innovations.

6.3 Inclusive value chains[69]

The action research shows the efforts of FEP partners to address wicked problems through (1) partnering to fill institutional voids, (2) shouldering social investments costs, and (3) enabling farmers to participate not just in the FEP, but in other value chains. These are elaborated below following the dimensions proposed by Ros-Tonen et al. (2019).

6.3.1 Smallholder empowerment

There are at least three indications of the FEP's efforts at empowering smallholders. First, the farmers are trained and mentored on the eight-step agro-enterprise program. It is tailored so that it could surface particular problems of clusters and groups and provide solutions.[70] The FEP also equips farmer leaders on leadership. Moreover, since one of the institutional voids in smallholder agriculture is limited access of farmers to agriculture technology and extension, the FEP ensures that these are provided by the partners and that the technology is acceptable to the farmers.

As mentioned, since the FEP only insists on smallholders committing an average of around 60 percent of their output, then the farmers are not locked in to producing specific crops and selling exclusively to JFC. The FEP does not encourage dependence

69 "Social upgrading of workers" was not included in the metrics that EMIT C4C used during the data gathering so no information on this aspect was culled about farm laborers and other workers in the FEP value chain.

70 A study on the FEP (Abad Santos, Piza, and Tutor 2012, 22) notes that

> by integrating farming and business concepts, small farmers see the potential of farming as an income-generating endeavor and not just a means to make both ends meet. This entirely new paradigm broadly affects how the farm household formulates production decisions.

on JFC or other buyers; rather, the capacity building of farmers centers on having various markets.

6.3.2 Partnerships in the value chain improve farmers' access

Partnerships plug the institutional voids in the value chains. It is not one actor alone that addresses the numerous challenges. Given the embeddedness of the FEP in the local context, the roles of partners and the nature of social investments vary depending on the configuration of partners and the specific needs of the smallholders.[71] It must be underscored, however, that searching for and maintaining partners incur costs. JGF regularly invites partners and makes the effort to screen organizations to see their potential fit in the program. Former San Jose City mayor Belena had been looking for ways to help the onion farmers with pest management and it was only after a search for solutions that she obtained information about the FEP.

6.3.3 Gender-sensitive asset ownership, benefit sharing, and participation in governance

Onion peeling became an additional source of income for Kabiyak, the women's committee in the Kalasag MPC. However, the women were not well-represented in the committees of the cooperatives at the time of the data gathering for this study. One of the recommendations of EMIT C4C back then was to improve the appreciation of gender issues and to mainstream gender in the group. Job generation among community members of the Lamac MPC, particularly for women, was not evident during the data gathering period. Perhaps this was because there was limited demand for farm labor. Nevertheless, the women held leadership positions in cluster governance.

The first loop of action research did not touch on wages of men and women in the value chains and if there are gender-based wage differentials. This is a limitation of the study and will be addressed in succeeding action research loops.

They do not anymore view one cropping cycle in isolation, but as part of their stream of costs and returns. They become conscious of the amount and prices of inputs that they procure, including the value of their own labor. Farmers become aware that every aspect of their production decision has a cost implication. Armed with this mindset and information, farmers are more equipped in dealing with the market.

71 Grateful to Rob van Tulder, Ph.D., EMIT C4C Senior Fellow, Academic Director of the Partnerships Resource Center, and Professor at the Rotterdam School of Management of Erasmus University, for pointing this out.

6.4 Other dimensions of inclusiveness in the FEP value chains

6.4.1 Long-term over short-term goals

The decision to spend on social investments (e.g., capacity building, helping intermediaries, facilitating discussions, addressing disputes and challenges) shows an inclination for long-term goals or more sustainable priorities, and not just short-run profit. The Lamac MPC also gained a long-term vision for the FEP—it created and supported the operationalization of the BDC to complement the lending services of its branches. This internal innovation ensured that the smallholders get the whole package when they join the program: agriculture extension, capacity building, and marketing services from the BDC, lending services from Lamac MPC branches, and other services from the different offices of the cooperative.

6.4.2 Thinking in terms of systems (or bundles)

One dimension of inclusiveness that could be considered in the FEP is the decision of the program partners to provide a minimum set of interventions, which could have come from viewing smallholder agriculture as a system. This goes against the prevailing thinking which is piecemeal, myopic, linear, and sequential. This also goes against the usual delivery of devolved agriculture services, which is dependent on the resources of local governments and the vision of local chief executives.

6.4.3 Inclusive way of addressing shocks

Lamac MPC's handling of the "Cluster 1 phenomenon" indicates the FEP's mechanisms for addressing shocks. The cooperative tapped the farmers themselves in searching and recruiting other farmers to be part of the program.

7. How the loop was closed, key conclusions, and areas for future action research

The findings of the action research were presented to and validated with the board of trustees, officers, staff, and various partners of JGF. Validation processes were likewise conducted with the board, officers, members, and partners of the Kalasag MPC and the Lamac MPC, including most of the smallholders who were interviewed during the data gathering phase. Among the key takeaways of the Lamac MPC, Kalasag MPC, JGF, and the local government of San Jose City included the following:

- It is important to select partners whose visions are aligned with the vision of the FEP. This includes local partners that search for and screen smallholders and implement the FEP based on local conditions and needs. When goals and ambitions are in sync, partners are more likely to make room for iterations and give allowances during shocks.

- It is important to make assumptions, motivations, dilemmas, and trade-offs explicit and to share these with partners.
- The appreciation of farmers and local partners of the FEP's provision of a bundle of inputs informed JGF of the need to proactively assist local partners that need key partnerships or interventions.

The Loop 1 findings were also shared with the Office of the Vice President of the Philippines, business groups and corporate foundations, and a number of other organizations. The following are their realizations:

- An inclusive value chain has an inclusive lead firm, which could be a firm (a company or social enterprise), a government agency (whether local or national), or a financial institution (such as a microfinance institution or rural bank). It will also need a unit or a person who will fulfill the bridging or facilitating of roles that JGF performs for the FEP value chains. Without the lead firm and the bridge, many aspects of the value chain, which incur transaction costs, will not be followed through.
- It is not easy to engage in a value chain partnership with smallholders because of systemic problems that have plagued agriculture in the Philippines. While it is easier to aim for low-hanging fruits (e.g., let the purchasing unit of a company speak directly with a farmers' group), such efforts might not result in structural changes in the chain. There must be a conscious effort to empower smallholders and to walk them through a process of collective marketing. Thus, engagements like the FEP should be premised on a common vision among partners and an alignment of business and organizational models.
- The government has an important role to play in agriculture development even among smallholders that have partners like JGF and institutional buyers like JFC. The problems in smallholder agriculture are "wicked" and the institutional voids hinder smallholders and buyers from engaging in market transactions. Some of the needed interventions are public goods in nature (e.g., agriculture technology and extension services, infrastructure) and these are best provided by the government. While some of the public goods are shouldered by FEP partners (e.g., non-government organizations and the private sector), the assistance can be scaled up given correct and strategic government interventions.

Out of the Loop 1 results, JGF and EMIT C4C also co-created an executive training program aimed at making CSR a strategic and core activity of companies. The program was participated by frontrunner firms in the Philippines. JGF and EMIT C4C also co-developed the ideas for the second loop of the action research, which will focus on the roles of intermediaries in addressing institutional voids. Data were already being gathered from the FEP sites when the COVID-19 pandemic halted all fieldwork activities.

In summary, this case study on the FEP contributed to the conceptualization of what makes agriculture value chains inclusive and competitive. This current work endeavored to add rigor to the EMIT C4C conceptual framework by including metrics from existing literature and by assessing the FEP against these dimensions. Perhaps when more agriculture value chain case studies are studied, then a novel, valid, and empirically-grounded theory on agriculture value chains could be developed.

The second loop of the action research will focus on intermediaries and how they address wicked problems and plug institutional voids. It will also look not only into efficiency in value chains ("is the pie getting bigger?"), but also about equity ("how is the pie being shared?"). It will likewise begin the tracking of panel data on costs and returns of FEP farmers.

Aside from these research questions, the FEP and other inclusive value chain models can also be studied in terms of their comprehensive outcomes or the processes of getting to the final outcomes. As Sen (1999) highlights, the merits of a market system do not rest only in its capacity to create more efficient or competitive final outcomes. Studying the adaptive capacities of the FEP value chains will be an interesting companion to the analysis of comprehensive outcomes. This entails looking at the value chain as a system that responds to and addresses shocks. This is an important angle given the vagaries of nature and the limited availability of mechanisms to mitigate its effects (e.g., crop insurance).

Clearly, there is much to be learned from the FEP and from other inclusive value chain models. It is the aspiration of EMIT C4C to continue the co-learning process with companies, social entrepreneurs, corporate foundations, civil society, local and national government agencies, MFIs, rural banks, and other stakeholders. It is hoped that the lessons result not just in co-created initiatives, but also in the sharpening of analysis of what makes a business—a value chain—or more broadly, development, inclusive. As practice is accumulated and analysis is sharpened, there is hope that inclusiveness will become the norm and not just something that goes against the grain.

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Annex

Farmers who become successful with the FEP

Integrating smallholders in value chains is not for all farmers, particularly the poorest of the poor. Having an inclusive business model or a sustainable supply chain is not a cure-all for rural development problems. This is true with the FEP.

According to Mr. Mariano of the Catholic Relief Services (CRS) and the various farmers interviewed for this action research project, the farmers who stay and become successful with the FEP are smallholders who:

- ***Need key resources including production loan and stable markets.*** In general, those who remained with the clusters were the ones who do not have those components or were generally dissatisfied with these prior to the FEP.
- ***Want to invest in the education of their children, in building their houses, and in expanding their agricultural lands.*** The FEP provides the needed stability of earnings to farmers, which is not usually available to those who deal with traders and other buyers.
- ***Want to improve their knowledge on skills on various aspects including farming, management, and leadership.*** These are farmers who do not shy away from trainings and seminars and look at these as opportunities for self-improvement.
- ***Are able to work with cluster members and have tolerance for group dynamics and low-intensity conflicts.*** A good working relationship among the farmers is also key to the success of the project.

The program, as it appears, is not for all smallholders. Culling various insights and adding the researchers' own observations, the FEP appears incompatible with smallholders who are:

- ***Satisfied with their current buyers and markets, even if these are agents and traders.*** For many of these farmers, the simplicity of transacting from one's own farm and the satisfaction of selling to their *suki* or favorite agents and traders are enough to keep them from joining or staying in clusters.
- ***Saddled with other tasks.*** For example, some farmers also serve as barangay officials, are engaged in non-agricultural businesses, or preoccupied with other advocacies.

- ***Short-sighted on their goals.*** These are farmers who value short-term enjoyment of gains rather than long-term stability of prices and relations with partners. In the context of the FEP, these were utility-maximizing farmers who wish to sell to the FEP when buying prices are high and sell to traders and other buyers when buying prices are low.
- ***Filled with greed.*** There are those who only want to gain from the program, but not invest in it and in its members.

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The UP CIDS partakes in the University's leadership in knowledge creation and public service. This is carried out through the dissemination of research-based knowledge through activities such as fora, symposia, and conferences, and through its public policy-oriented publications. These research activities are initiated by the Center's twelve (12) research programs and the Local-Regional Studies Network (LRSN) composed of research centers in UP constituent universities.

ABOUT THE PROGRAM

The **Program on Escaping the Middle-Income Trap: Chains for Change (EMIT C4C)** looks into the overall problem of the Philippines' lack of competitiveness as a result of low and stagnant productivity and the dysfunctional supply chains in the agricultural sector. The Program aims to examine the nexus of inclusion and competitiveness in the country's efforts to achieve sustainable growth by looking at inclusive business models in agricultural value chains and by addressing the marginalization of smallholder farmers and producers.

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