

BRIDGING THE GAPS IN THE KAONG SUBSECTOR A Case Study on Building Win-Win Relationships Value Chain cum BDS Market Development

USAID IGP-BDS LEARNING NETWORK



SDCAsia
Strategic Development Cooperation - Asia

I. INTRODUCTION

The *Arenga Pinnata*, a variety of wild sugar palm tree, abounds in the forests of Davao del Sur - Mindanao as well as in other parts of the Philippines. Known as 'kaong' to Tagalogs and 'ediok' to the Bagobo indigenous communities, the sugar palm is a multipurpose species used for a variety of purposes such as: edible starch, sweet sap (fermented to vinegar), fruit thatch, and construction materials.

The more popular and commercial by product is the sweetened fruit of the sugar palm, which is used as an ingredient for fruit salads and desserts. The country's export performance on processed kaong fruit grew annually by an average of 5.3 % during the last five years. Bottled kaong preserves are also very popular in the domestic market and are most saleable during the Christmas season, graduation months, and the fiesta months.

The kaong industry players in Davao are generally outside of the national and export markets. The semi-processing communities, on the other hand, are not connected to the city-based processors. Processors are not able to significantly grow their business mainly because of supply constraints. Semi-processors, on the other hand, have not evolved from micro household based production due to lack of access to bigger and more lucrative markets.

This case study describes the strategies implemented by SDCAsia in improving relationships in the processed kaong value chain toward a vision of MSE growth and subsector competitiveness. Specifically, it focuses on our ongoing efforts in building mutually beneficial longer term business relationships between and among communities of semi-processors comprised mainly of the Bagobo indigenous peoples, traders, and the processors.

II. THE CONTEXT

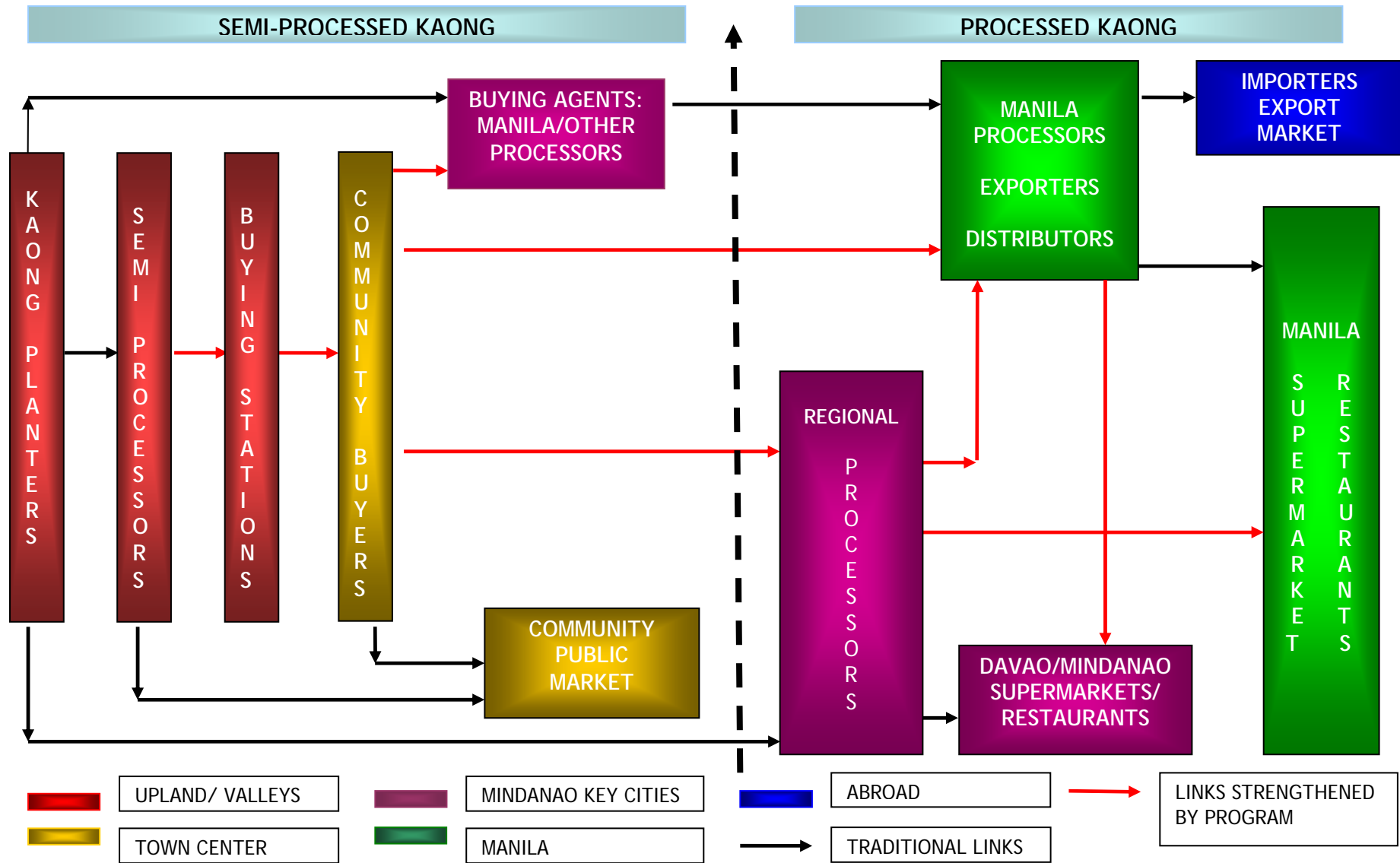
A. The Indigenous Group of Kaong Semi-Processors

The experiences and description cited in this case study are drawn primarily from our work in linking indigenous people communities of semi-processors in Binaton and Matti in Davao del Sur to the mainstream market. The indigenous community is made up of various tribes and of which majority are of the Bagobo ethnic group. The Bagobos are proud people with a strong social structure that enabled them to blend well with the main political body while retaining many of their indigenous customs, beliefs, and values.

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

Harvesting of kaong is usually done by the male members of the household since this entails climbing up the palm and cutting off the bunches of fruits. In the past, it was primarily the women who did the semi-processing. At present, the male members have become active participants in semi-processing. When the program started, there were only about 40 households into the business of kaong processing. At the present, there are 250 households who generate an average of 40% of their monthly income from kaong processing.

MOVING THE KAONG FROM THE MOUNTAINS TO THE CITIES



B. The Kaong Market Situation

Below are the main features of the kaong market mainly from the perspective of the upland communities.

Table 1. Key Features of the Market	
BASELINE	CURRENT
The villagers' access to markets and their social networks are historically limited within the town "public market"	4 different market channels have been reached by the target groups
According to processors, quality of semi-processed kaong was very poor. As such, buying price was also low. According to the semi-processors, their quality was good and acceptable based on their traditional/local norms.	Semi-processed kaong from the communities acknowledged by the industry players to be of very good quality.
The only kaong processor based in Davao del Sur bought from the villages on an intermittent basis (usually also at peak season). Representatives of Davao-based processors sourced out their semi-processed kaong requirements only when they are desperate for supply	Buyers consist of buying agents/distributors and processors from Davao, nearby Mindanao cities, and Manila.
The barangay assemblers and buying agents engaged in semi-processed kaong trading only during peak seasons	In 2004, production and trading of semi-processed kaong continued even during the supposedly lean months. This was brought about by orders from processors serving the export markets and institutional buyers like restaurants and hotels.
The more established traded product was the raw kaong nut. Trading of semi-processed kaong was in small volume --- referred as the 'Caltex years'. Semi-processed kaong bought by 'small Caltex containers' and not by weight.	Semi-processors and community trading intermediaries are now talking in terms of kilos and tons. Manila-based exporter via buying agent buy 10 to 15 tons every two weeks. Local processors buy average of 10 tons per month.
Buying price of semi-processed kaong ranged from US\$.09 to US\$.15 per kilo	Buying price ranges from US\$.18 to US\$.26 per kilo of semi-processed kaong

C. Relationships that Matter Most

The goal of the program is to increase the income earning capacity of resource poor entrepreneurs by facilitating their access to bigger and more lucrative markets. Given the characteristics of the Bagobo communities and the environment in which they operate, the team, in consultation with the various community-based stakeholders, decided on the following strategies:

- a) To strengthen the semi-processing activities of the Bagobo communities rather than immediately moving up the value chain or producing end products¹; and
- b) To build on the traditional trading system which meant that semi-processors do not deal directly with the Manila and Davao-based processors but rather via community-based marketing intermediaries

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

Relationships that the team identified to be more crucial in bringing the resource poor enterprises to the mainstream market are between:

- a) semi-processors and community-based intermediaries; and
- b) community-based intermediaries and buying agents of processors/processors.

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

Market relationships, in general, did not permit close cooperation between semi-processors and buyers and hardly contributed to the systemic upgrading of the supply chain in Davao del Sur. There was a high degree of mistrust among all parties. Consequently, the system was not well positioned to respond to market change. Necessary change was either slow or perhaps missed altogether. There was an inefficient flow of information along each link of the chain.

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

Baseline, current, and future 'picture' of the relationships are presented in Table 2.

¹ Just recently, we found a good market for kaong vinegar which is relatively more within the capabilities of the communities. Development is in progress and the product is being market tested locally. Network and connection building also ongoing.

Table 2. Baseline, Current, and Future Picture of Relationships					
SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS			COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS		
Baseline	Current	Future	Baseline	Current	Future
Supplier and Buyer Selection/Procurement					
<p>Spot selling and purchasing</p> <p>No prior commitment or orders but there was some informal guarantee of business beyond today. Some degree of recognition of past transactions/relationships.</p> <p>Price and terms of payments were the main determinants on whom to sell and from whom to buy. Info dissemination re: trader with higher buying price spread fast within the community.</p> <p>Flexible and subjective pricing and payment terms</p>	<p>Some semblance of long term relationships. Each trader has informal network of suppliers. Traders absorb deliveries and outputs of regular suppliers.</p> <p>Verbal orders and commitment of volume for delivery --- relayed from main buying agent to barangay buying station to semi-processors. However, buying stations and semi-processors still prone to 'better offer gets supply' attitude.</p> <p>Preferred supplier/ buyers. Semi-processors manifest higher degree of loyalty to traders who helped them improve their skills, offer facilities/infrastructure near their residence, etc.</p> <p>Product quality is already factored in addition to price</p> <p>Cash on delivery.</p> <p>Evolution of schemes vis-à-vis various conditions.</p>	<p>Long-term partnerships/ relationships to mutually grow business</p>	<p>Spot market sales</p> <p>No regular transactions. Processor or its buying agent initiated transactions. Usually visit area when they needed additional semi-processed kaong.</p> <p>Subjective pricing. Flexible payment terms.</p>	<p>Preferred suppliers/ buyers. Some semblance of long term relationship and some form of predictability in orders. Traders more loyal to buyers who provide add-on services (seeds, packaging materials, assistance in opening ATM bank accounts, etc.) even if volume may be lower than other buyers.</p> <p>Traders already exercise some proactive booking of orders rather than waiting for buyers.</p> <p>Cash on delivery. Traders give preference to buyers who pay cash on delivery.</p> <p>Buyers tend to be more accommodating and open to negotiations when they know that products are of good quality</p> <p>Still some degree of bidding and bluffing game re: price between two parties. During lean season, buyer has dominance. Peak season: supplier can to some extent influence price.</p>	<p>Trader and processor jointly conduct forecasting and decide time and size of delivery and with pre-agreed mutually acceptable prices (price stability).</p>

Table 2. Baseline, Current, and Future Picture of Relationships					
SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS			COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS		
Baseline	Current	Future	Baseline	Current	Future
Information Sharing/Transparency					
<p>Some degree of information sharing on pricing and costing from traders and demand --- but more for their benefit or sometimes distorted to serve their interest</p> <p>Prices vis-à-vis standards are arbitrarily set and which micro enterprise accepts in exchange for immediate cash.</p>	<p>Sharing of demand info --- current and potential.</p> <p>Suppliers and traders aware of standards. Purchasing and pricing decision almost always based on agreed standards.</p>	<p>Significant and two-way sharing and optimal use of information on planning and operations of business</p>	<p>Directive. One-way. Limited. Just focused on current transaction.</p> <p>Different quality standards: trader vs. processor</p>	<p>Indicative information on short and medium term demand, production matters, etc. provided at ad hoc basis. Buyers though are still uneasy when traders ask for information on market and company's operations.</p> <p>Traders and buyers, at times, employ price info distortion to get better prices.</p> <p>Standards recognized and used as basis for pricing most of the time.</p> <p>Discussions regarding transaction/relationship related problems not yet that open.</p>	<p>Workflow and information are exchanged in a manner that permits the introduction of innovation, better relationships and joint efforts to better respond to market demands. Both parties use information positively --- how to jointly take advantage of market opportunities rather than taking advantage of each other.</p>
Quality Control/Inspection					
<p>Focus on counting of number of 'caltex container' or the weight.</p>	<p>Quality control at buying station. Improved understanding and acceptance of semi-processors on rejects vis-à-vis standards.</p> <p>Final weighing at buying station</p>	<p>Quality control and assurance at the level of semi-processors. Self-initiative to sort out products.</p>	<p>Price used as quality control mechanism. Basically subjective.</p>	<p>Quality assurance and control at trader's site.</p> <p>Still some issues on where final weighing should be done although majority of buyers have accepted on-site weighing policy since traders have also adopted this with their</p>	<p>Institutionalization of standards and quality control practices at all links of the chain. Standardization of weighing practices and allowances for moisture content --</p>

Table 2. Baseline, Current, and Future Picture of Relationships					
SEMI-PROCESSORS AND COMMUNITY-BASED TRADERS			COMMUNITY BASED TRADERS AND BUYING AGENTS OF PROCESSORS/PROCESSORS		
Baseline	Current	Future	Baseline	Current	Future
				suppliers. Issue has roots on weight loss due to water content.	- acceptable to all parties concerned.
Value-added services/Collaboration and Cooperation/					
Some learning and skills transfer but limited to local norms and capability of traders	Close monitoring of production and logistics process as well as the final product at delivery stage. Training and mentoring services to solve production Buying stations set-up to reduce transportation costs and/or 'walking'.	Interdependence and partnership. Both parties will mutually exploit cost, quality, technical, or marketing advantages via their collaboration.	Almost non-existent	Some assistance to improve quality and traders' operation. Most buyers take care of pick-up of products at buying station so that traders are able to maintain decent profit margin. More respect given to weak party. Some processors feel that there is still a lack of trust on the side of traders despite their significant amount of orders during the past months. Processors also feel there is still lack of ethics which make them hesitant to significantly invest in supplier development.	Partnerships are based on a long-term commitment to cooperate to achieve mutually acceptable outcomes.
Basis of Competition/Offer to the Market					
Price Abundant supply of kaong nuts	Semi-processed kaong supply is growing Quality and price are the more important indicators	All parties able to transact business under better conditions primarily through specific differentiation factors other than price.	Price and supply availability	Quality --- community is becoming known for top quality products Economies of scale and lower cost of transaction	Quality, cost efficiency and price, dependability and reliability, socially responsible trading practices

III. FACILITATING THE SHIFT TO CURRENT SCENARIO

This section presents the activities conducted to bring about the improved and equitable market relationships in the kaong industry.

A. Drilling Deep into the Market

Market research and feedback gathering play an important role in all phases of guiding and facilitating the development of win-win relationships. Analysis and use of market data gains value as it flows and 'feeds-in' to the development process, increasing confidence and decreasing risks. Primary tools being used are: a) snapshot market research; b) key informant interviews; and c) informal group discussions. Below is the scope of information gathering:

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

- Involved info gathering and understanding of the following:
 - Nature of the markets and the value chain and how the semi-processors are currently served by them; the structure, the different players and their dynamics vis-à-vis conditions of the semi-processors
 - Indigenous culture and trading system including governance structure
- Based on info gathered, the team worked through the following set of steps:
 - Identification and selection of best route/s to promote gainful participation of semi-processors in the growing kaong market
 - Selection of links that need to be established and/or strengthened vis-à-vis the route/ways identified above
 - For links selected, identify critical constraints and opportunities as well as the requirements or standards that should be met
 - Assessment of how these may be addressed and the players involved
 - Relating these to the players' resources, objectives, and existing activities
 - Identification of initial core set of players that program would work with --- entry points/champions

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

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

At this point, the different players prefer SDCAsia to be the 'mediator' especially with regards to dissatisfaction and new issues/constraints in the relationships.

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

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

B. Strengthening Market Linkages

Market development and linkage support is provided primarily with the objectives of: a) expanding markets of the different links; b) ensuring the continuous flow of orders to the communities; c) providing the impetus or motivation for the various players to closely work with each other; and d) encouraging chain upgrading and optimization triggered by market demand. Interventions are directed towards traders and processors.

To start the ball rolling ...

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

We were successful in achieving our short-term objectives. However, it became more evident that BDS delivery capacity and capability of processors were not sufficient to improve the conditions of semi-processors and the outreach was limited.² Likewise, to a significant extent, the relationship was still 'paternalistic' since the community had a weak offer then. Making the partnership work also meant that the project team had to accept many of the responsibilities passed on to us by both parties (e.g., ensuring delivering and payments) including filling up for whatever skills deficiencies. It gave us the opportunity to learn more about the trade but we also felt that it was not a healthy situation.

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

Shifting gears ... gearing up

We made the following shifts:

- Concentrated first on building up the BDS system in the communities and, consequently, strengthening their offer and position in the market
- Passive role in brokering of transactions and, instead, market development activities focused on:
 - Promotion with product quality and food safety as the main themes
 - Providing opportunities for the different players to interact with each other (formal and informal settings --- more of the latter)
 - Market development/expansion support to processors

Reducing the risks, enhancing the rewards ...

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

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

Restoring the balance ...

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

Improving trade practices ...

Improving trading practices and relationships is facilitated by helping intermediaries to develop and/or improve their trading systems. In all system development activities, we make it a point to

² At the time we were starting, it was more a question of whether we secure the market first or build the skills via setting-up the community-based BDS system.

build on the indigenous trading system as well as the Bagobo cultural practices and governance structure. Likewise, competitive forces due to entry of buyers led traders to offer better terms and conditions to semi-processors as well as upgrade their roles and functions which, in one way or another, help in improving the efficiency of the supply chain. Similarly, processors or their buying agents also offer relatively better prices to traders as well as added services such as assistance in opening bank accounts, cash payments, pick-up of products at buying stations, etc. It was observed that loyalty was higher and stronger to those who offered additional services.

C. Strengthening Supply Chain Governance

Many of the trust issues can be traced back to lack of parameters and standards. Pricing, for instance, was said to be set arbitrarily. Processors, on the other hand, claimed that products produced by the communities were of poor quality and, thus, entailed additional re-processing costs. The main problem here is that quality standards were also subjective. At the start of the program, the communities believed that they were producing products of acceptable quality --- which may also be right if based on local norms. As such, to address many of the trust and transparency issues as well as to facilitate the development of product differentiation factors, the team facilitated the strengthening of the supply chain governance (legislative, judicial, and executive) parallel to enhancing horizontal linkages. The following measures were undertaken:

- Strengthening of horizontal linkages --- identification and commitment to common objectives.
- Establishment of process and product quality standards that define the basis of participation of players in the community. The standards and norms were set by the key players in the community that were trained by specialists and with inputs from the buyers. Project team provided guidance throughout the whole process.
- Promotion of benefits of meeting quality standards among the different players. Campaign was primarily directed to the barangay assemblers since they are the nearest to suppliers in terms of location and influence.
- Strengthening of capabilities and capacities of the different levels of marketing intermediaries in good manufacturing processes and quality control processes.
- Development and ensuring the access of the different players to services that would enable them to match market requirements and quality standards through the set-up of a community-based BDS delivery system.
- Promoting the compliance of the standards via various levels of marketing intermediaries. This depended to a great extent on a strong "chain leader" in the community (in these communities, it was one of the community-based buying agent who is well-respected by the semi-processors). The explicit acceptance of the chain leader is very important to facilitate supply chain collaboration.

Effectiveness of collaboration at the supply chain in the community level and their consequent collective adherence to standards depend to a great extent on whether they view themselves as having shared goals and mutual interests. Therefore, program also provided organizational development support as well as conducted social marketing campaigns. However, the best trigger for tighter collaboration and cooperation was the pursuit of markets outside of their locality.

At present, there is already a clear concept of good quality vis-à-vis rejects which is also recognized by buyers. The traders and the Bagobo communities have started to realize the rewards of managing performance and quality along their supply chain. As one trader puts it, 90% of the time they only accept and pay for clean, well-preprocessed seeds. But sometimes, she relents and accepts discolored, poor quality kaong in consideration of the farmers' effort. "It would be uncharitable to turn them away after they have carried kilos and kilos of seeds on their back or head for hours," the trader explained. "I just tell them how to do it better and make sure they understand that next time, I won't accept poor quality seeds anymore."

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

IV. LESSONS

- The best way to convince mainstream businesses to work with communities and the micro enterprises is first to present a proof that production systems and practices including quality and volume capacity have improved. As soon as communities became known for high quality semi-processed products and capacity to produce required volume at consistent quality, the contractors started coming to the communities without too much facilitation from the project team.
- There need to be tangible benefits to all involved in the partnership/relationship, thus creating an incentive for continued participation and maintenance of the relationship.
- The issue of trust highlights the importance of facilitating supply chain governance and continuous dialogue among all parties to ensure that the objectives of the alliance are being met, and that no one member has tried to create a situation in which they benefit at the expense of the other partners. Third-party demand-led facilitation during the formative stages of the relationship help build trust by ensuring that pertinent information is exchanged.
- Facilitating win-win relationships entails in-depth understanding on the nature of the value chain and markets that are important to the resource poor enterprises, the way that the poor are currently served by them, their structure, the different stakeholders in these markets, their institutions, and their dynamics.
- It was very important to facilitate the process and not to engage in any of the core activities of the farmers or the company. The facilitator should not be viewed as the 'ever ready savior' of the partnerships. However, facilitator has to be flexible and should help find solutions to problems that may arise, including conflicts between parties.
- Strategies for building win-win relationships are influenced by conditions like the characteristics of the product and the market. Existing social and cultural structures are also important (i.e., strong community network vs. high regard for individuality).