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Empowering Small Farmers through Cooperative: The Success Story of Subasta Integrated Farmers Multi-Purpose Cooperative

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Abstract

This paper aims to demonstrate the important role and contribution of cooperatives in empowering small farmers in the Philippines. It presents evidences from the case study of Subasta Integrated Farmers Multipurpose Cooperative (SIFMPC), a micro cooperative of small cacao farmers in Davao City, Philippines that has successfully created opportunities and provided benefits to its farmer-members to improve the quality of their lives. The success story shows how SIFMPC has effectively empowered small and weak farmers, particularly in terms of increasing their participation in the supply and value chain and expanding their market reach, promoting their rights and improving their access to adequate human and physical resources and business development services, strengthening their voice and representation at various levels through democratic control and social equity, and building their identity as a partner in agricultural development. SIFMPC's practices are highly coherent with the empowerment process of small farmers, although the cooperative still needs to strengthen its efforts towards environmental protection. Overall, SIFMPC validates that a cooperative can be a key driver for empowering small farmers, especially in terms of improving their farm productivity and economic opportunities.

Key Words: *Small Farmers, Cooperatives, Empowerment, Cooperative Marketing, Cacao.*

Introduction

The Philippines is among the many developing countries that have substantial proportion of population depending on farming for their livelihood. The farming sector of the Philippines comprises two-thirds of the country's total population or at least 5.3 million farmers. Of this populace, 91% are small farmers, who often belong to the marginalized and rural sector, are exploited by dominant groups, and are vulnerable to the rapidly changing social, political and environment conditions. Despite their weakness as individual producers, the contribution of small farmers as a considerable segment of the society, to rural development and food security have been significantly recognized by the Philippine government. Hence, various policies and programs have been implemented to support and empower small farmers in order to harness their full potentials in contributing to the country's socio-economic development.

In 1992, the importance of improving the lives of small farmers has been emphasized and given high priority through the enactment of the Republic Act (RA) 7607, otherwise known as the Magna Carta of Small Farmers in the Philippines. Under RA 7607, small farmers are defined as "natural farmers dependent on small-scale subsistence farming as their primary source of income and whole sale, barter or exchange of agricultural products that do not exceed a gross value of one hundred eighty thousand pesos (PhP180,000) per annum based on 1992 constant prices". The declared policy aims to empower small farmers by fostering sustainable livelihoods among them, particularly through enhancement of their farm productivity

and natural resource management. However, in a policy review done by the World Agroforestry Centre (2009), it was found out that the benefits from the Magna Carta of Small Farmers have not been fully optimized by small farmers. Instead, large farmers seem to benefit more because they have better access to policy information and more resources to leverage the associated cost of implementation of national policies compared to smallholders. On the other hand, small farmers remain to have limited rights and weak voice and representation in policy- and decision-making processes; poor access to natural resources, farm assets, and markets; inadequate knowledge and skills on farming systems; and poor recognition of the farmers' identity as important partner in the national economic growth.

In overcoming these weaknesses and barriers, organization of small farmers into self-help groups like farmers associations and cooperatives has been seen to have an important role to play, particularly in terms of providing small farmers with the enabling conditions for their empowerment. Generally, organizing small farmers into agricultural cooperatives allows for the achievement of economies of scale and bargaining power in production and marketing. They can also have enhanced access to natural resources, input and output markets, information and knowledge and can be represented well in government agencies (McInerney, 2014; World Agroforestry Centre, 2009). This significant role of cooperatives in unlocking the potential of smallholder family farmers for enhancing productivity and livelihoods and in a broader way, for reducing rural poverty have been reemphasized during the International Year of Family Farming in 2014.

Despite the increasing advancement of the global agenda for agricultural cooperatives as important vehicle for empowering small farmers, the agricultural cooperative sector of the Philippines remains small and not widely held. As of 2014, agricultural cooperatives constitute less than 2% of the country's total number of cooperatives. However, its small share in the whole cooperative sector does not mean that agricultural cooperatives are not worth organizing. The success of agricultural cooperatives in the Philippines has been evident, may it be a large cooperative or a micro cooperative. But because of the limited evidence-based researches showcasing the contributions and potentials of these cooperatives, its success and advantages are often overlooked. Moreover, the notion that only large cooperatives are capable of providing opportunities to small farmers is often overemphasized while the capabilities and potentials of small-scale cooperatives are understated.

Given the dearth in literature of agricultural cooperatives, this paper aims to demonstrate the important role and contribution of cooperatives in empowering small farmers in the Philippines. Particularly, it seeks to provide evidences from one of the country's micro agricultural cooperatives – the Subasta Integrated Farmers Multipurpose Cooperative (SIFMPC), to show how a very small farmers' cooperative can create the enabling conditions for smallholders' empowerment. This study hopes to contribute to the frontier of cooperative literature and to serve as an instrument for promoting cooperative awareness and knowledge creation among cooperative stakeholders, policymakers, and farmers and farmers' groups.

Materials and Methods

This study conducted a qualitative analysis of the potentials of cooperatives in empowering small farmers using the case study method. Case study method is "a systematic inquiry into an event or a set of related events to describe or explain the phenomenon of interest" (Bromley, 1990). It involves either the use of focused stories based on real-life situations or carefully crafted hypothetical or disguised versions of events rooted in actual experiences to illustrate a particular set of learning objectives. For this study, focused story of SIFMPC was used to demonstrate the role and contribution of an agricultural cooperative in empowering small cacao farmers in Subasta, a village or *barangay* in Calinan District, Davao City.

SIFMPC was purposely selected to represent a micro cooperative composed of small farmer-members from a rural community. Its geographic location and economic situation also served as the basis for its selection. SIFMPC is situated in Davao City, which is among the country's most populous city, but whose economy

remains to be largely agriculture-based. Among the key agricultural commodities produced in Davao Region are banana, coconuts, coffee, and cacao. About 39% of its labor force is employed in agriculture, fishery and forestry sector, of which many are small-scale farmers and poor. Despite the increasing economic output level and high growth rates in the region, high rate of poverty incidence still prevails, wherein 26% of the region's population falls below the poverty threshold, a rate higher than the national average poverty incidence of 21% (NEDA-RDC XI, 2011).

Both secondary and primary data were used in the case study. Secondary data, which came from SIFMPC annual reports and existing related articles and literature, were collected to describe the cacao industry in Davao City and the profile of SIFMPC. Primary data were also gathered to elicit information on the operations and management of the cooperative, its production and marketing activities, and the problems and challenges facing the cooperative. This was done through a conduct of key informant interviews (KIIs) with the cooperative leader and officers and a personal interview with a few randomly selected cooperative members to share their cooperative experiences and testimonies. The conduct of the interviews was guided with prepared sets of questionnaire. All the data collected were then consolidated, summarized, and analyzed for use in the study.

Conceptual Framework

The analysis of the contribution of SIFMPC to the empowerment of small cacao farmers in Davao City is guided by the framework used by the World Agroforestry Centre in its policy review of RA 7607. The framework presents the process of empowering small farmers, which is composed of five sets of enabling conditions: access, rights, capacity, voice, and identity, which can pave the way towards achieving the twin goals of farm productivity and economic opportunities and environmental protection (Figure 1).

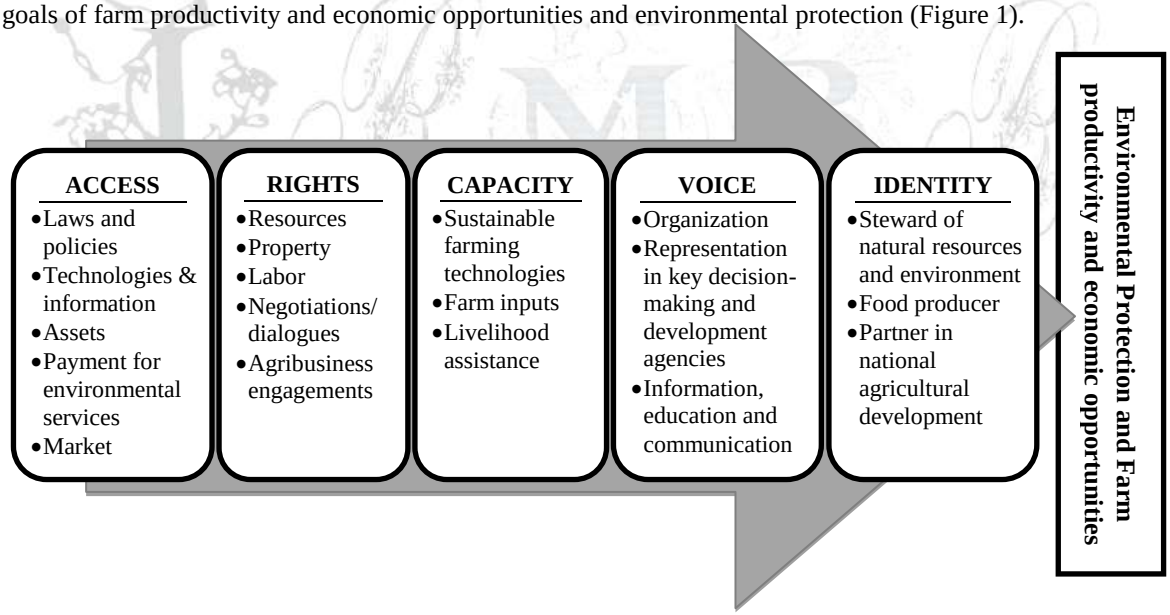

Figure 1. The Process of Empowering Small Farmers. From "A Closer Look on the Magna Carta of Small Farmers in the Philippines," by World Agroforestry Centre (ICRAF-Philippines), 2009, Policy Brief Issue no. 2, Retrieved from http://pdf.usaid.gov/pdf_docs/Pnadu403.pdf. Reprinted with permission.

Enhancing access and rights of small farmers involves efforts to recognize their rights and access to land, natural resources, and farm assets as well as to policies, technologies and information; to enable their participation in key decision-making processes at organizational, community, or local and national level; to engage small farmers in agribusiness ventures and link them to markets; and to develop mechanisms for payment for environmental services provided.

Developing capacity of small farmers include efforts to innovate and integrate technology and management options in the current farming systems of small farmers; to combine science and indigenous knowledge systems on farming options; and to invest in agricultural infrastructure and inputs that are necessary in building their capacities.

Strengthening the voice and representation of small farmers at various levels is also necessary in empowering them. A key approach to achieving this is by organizing them into farmers groups and self-help organizations that can facilitate their participation in decision-making process and their access to information, education and communication. Through collective action, they can also have a voice in airing their issues and problems on production and marketing systems to the government.

Lastly, part of empowering the small farmers is raising the farmers' identity. Their significant role and contribution in the overall value chain, in ensuring continuous production of food, fiber and environmental services, and in sustainable agricultural development must be recognized by the society. This can be done through the efforts of creating public awareness and further enhancing the capabilities of small farmers to harness their full potential and acquire support to sustain their roles as environmental stewards, food producers, and partners in national development.

With these five elements of empowerment, small farmers can be enabled to enhance their farm productivity, expand their economic opportunities and achieve environmental protection. Using the empowerment framework, this study examined the success of SIFMPC in empowering its small farmer-members vis-à-vis the elements of empowerment attained by the cooperative.

Results

Cacao Industry Status of Davao Region

Davao Region is the key producing region of cacao in the Philippines. In 2013, the region produced 3,844 metric tons (mt) of cacao, which comprised 79% of the total cacao production of the whole country (Table 1). Davao del Norte and Davao City are the top two cacao producing provinces in the region and nationwide. They contributed 45% and 29% respectively to the total volume of cacao production of the whole Davao Region in 2013 (PSA-BAS, 2015). As of 2012, there are more than 9,000 cacao farmers in the region, of which more than half reside in Davao del Norte and Davao City (DA, 2014).

Table 1. Cacao Production in Davao Region, Philippines, 2013

Province	Number of Cacao Farmers (as of 2012)	Volume of Production (mt)	% Share to Total Production of Davao Region
PHILIPPINES	-	**4,875.60**	-
Davao Region	**9,132**	**3,844.30**	**100.00**
Davao del Norte	3,904	371.82	9.67
Davao del Sur	863	1,718.04	44.69
Davao Oriental	568	483.13	12.57
Compostela Valley	1,672	141.58	3.68
Davao City	2,125	1,129.73	29.39

Source: DA (2014) and PSA-BAS (2015)

Calinan District, where SIFMPC is located, is Davao City's agricultural production center and one of the city's top cacao producers. Cacao farming is a major source of income and employment in Calinan District, where 42% of all its villages or *barangays* have cacao production (Sarmiento, 2014). In 2013, a total land area of 494 hectares (ha) was estimated to be planted with cacao by 567 farmers from Calinan (Table 2). Particularly, 191 ha (38.7%) of the total area planted and 160 of the cacao farmers were found in Subasta,

the *barangay* where SIFMPC is situated. Most of the cacao farmers in Subasta are smallholders with an average farm size of only 1.19 ha.

Table 2. Area Planted to Cacao and Number of Cacao Farmers in Calinan District, Davao City, 2013

Barangays in Calinan	Total number of farmers	Total area planted to cacao (ha)	Average cacao farm size (ha)
Subasta	160	191.09	1.19
Sirib	143	107.72	0.75
Wangan	127	134.90	1.06
Others	137	60.14	0.44
Calinan District	**567**	**493.85**	**0.87**

Source: City Agriculturist Office as cited in Sarmiento (2014)

At present, the share of the Philippines to global cacao production is merely less than 1%. However, the country, particularly Davao Region, is seen to have a competitive advantage in cacao production in Asia because of its strategic location, favorable climatic conditions, and soil characteristics. Opportunities become even greater because of the increasing presence and proximity of integrators or consolidators who are affiliated with multinational grinders and chocolate companies and Davao-based exporters. As of 2014, there are five integrators based in the region. The outgrowership contracts initiated by these integrators are a recent development in the export value chain of cacao beans in Davao. This is not to mention the increasing demand for cocoa and cocoa products in the recent years and the current deficit in world's cocoa supply estimated at 75,000 mt (ICCO, 2012). The global demand for cocoa products, particularly chocolates, continues to grow substantially in both developed and developing countries, with American and European consumers' preferences gradually shifting from lighter milk and white chocolates to dark chocolates and gourmet chocolates, which both require more cacao beans (ICCO, 2012).

While the opportunities are wide at the regional level, limitations and weaknesses are evident at the individual farmer's level. Since majority of the farmers in Subasta are smallholders, they usually have limited capacity in production, particularly in terms of volume and quality of produce; logistics; and marketing. One of their major concerns is the inadequate access to advanced agricultural practices and farming techniques, to production and postharvest facilities, and to viable and sustainable market for their produce. These constraints have been recognized by the government and international agencies and thus find strategies to address them, particularly by encouraging the small farmers to form an association that can enable them to optimize their potentials and access greater opportunities.

Brief Profile of SIFMPC

In 2008, a group of 27 cacao farmers from Subasta, who all graduated from a farmer field school conducted by the United States Department of Agriculture (USDA) Agriculture Cooperative Development International and Volunteers in Overseas Cooperative Assistant (ACDI/VOCA) under its Success Alliance Phase II Program, founded a village-based farmers' organization. Through the encouragement and assistance of USDA ACDI/VOCA, the organization was then registered with the Cooperative Development Authority (CDA) to have a legal personality as an agricultural multipurpose cooperative under the name, Subasta Integrated Farmers Multi-purpose Cooperative or SIFMPC on March 29, 2009. As of 2012, SIFMPC already has 100 farmer-members. In the same year, it had a total assets of PhP1.4 million and a total paid-up share capital amounting to PhP516,133.81. Its net surplus also increased significantly from only PhP43,291.31 in 2009 to PhP174,002.88 in 2012 (SIFMPC 2012).[1]

[1] Average exchange rates of Philippine pesos (PhP) per U.S. dollar (US$) were PhP42.23, PhP42.45, and PhP44.40 in 2012, 2013, and 2014, respectively (BSP, 2015).

SIFMPC envisions to build "a community where stakeholder-farmers have attained sustainable development in terms of socioeconomic and environmental protection" (SIFMPC 2012). Guided by this vision, its mission revolves around adopting "a diversified farming system to improve and sustain source of income by producing premium quality fermented cacao beans for international market with the support of the country's Department of Agriculture (DA) and USDA ACDI/VOCA." Specifically, SIFMPC aims to: (1) to engage in the production and processing of cacao beans and its by-products; (2) to engage in the marketing of agricultural products such as but not limited to cacao, coconut, and banana; and (3) to generate funds and extend credit to members for productive purposes.

The key activities of SIFMPC include buying and selling of cacao beans produced by its farmer-members and non-member farmers and enhancing its members' technical know-how on production and postharvest activities through trainings and seminars. The cooperative has also set up its own nursery of cacao seedlings and started to venture into processing business of cacao beans such as drying, fermenting, and just recently, into making *tableas*[2]. Although part of its mission, SIFMPC still does not have credit and loan services because the cooperative is not yet financially-capable of providing adequate credit to its members (E. Coquilla, personal communication, February 21, 2014).

SIFMPC hopes to help cacao farmers in Subasta to have the capacity to maintain a competitive position in the domestic and international markets through production of quality and high-value cacao beans from a top-notch variety called Trinitario, which is a key ingredient found in finest dark chocolates today. It also hopes to achieve economies of scale, bargaining power, and efficiency in marketing fine cacao beans through collective action. Enhancing the market competitiveness of the smallholder farmers, particularly against large agribusiness firms and corporations, will enable them to build sustainable and decent income and thereby, improve their living standards.

Cooperative Practices Adopted by SIFMPC

As a cooperative, SIFMPC promotes democratic governance and social equity among its members. Democratic governance pertains to the good governance that upholds respect for human rights, functioning democratic institutions, freedom of expression, and equal rights for women and men (ILO, 2007). In an organization, promoting participation, representation and empowerment of members enables them to influence policy-making and to demand greater accountability from the decision-making bodies, which fosters democratic governance. On the other hand, social equity is described as social inclusion in terms of gender, ethnicity or any other factor and promoting equality in income distribution. With social equity, high levels of income inequality and disparities in income opportunities which constrain the ability of the poor to participate in and contribute to economic growth can be controlled.

SIFMPC, like any other cooperative is a jointly-owned and democratically controlled socio-economic enterprise, where members are considered as the highest policy making body of the cooperative. Under democratic arrangements, the cooperative provides its farmer-members the rights and obligations in the use, control and financing of SIFMPC. As part of the general assembly, members are given the right to participate in decision-making, policy-making process, and governance of the cooperative in a manner that adheres to the cooperative values and principles. This practice is supported by the cooperative value of democracy and the principles of "democratic member control" and "member economic participation", which are defined in Statement on Cooperative Identity (ICA, 1995) as follows:

1. *Democratic member control.* "Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives

[2] Tablea is a traditional Filipino cocoa (dark chocolate) drink molded from pure (raw and untreated) chocolate liquor (a thick, liquid chocolate paste ground from roasted fermented cacao beans).

members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner."

2. *Member economic participation.* "Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership."

SIFMPC conducts a general assembly meeting every year, where members are given the opportunity to be heard by the cooperative leaders and have dialogues with them, the right to select their leaders during elections, the right to information about the cooperative performance and plans, and so on.

Equality and equity among members is also observed within SIFMPC. The cooperative adheres to the cooperative value of "equality and equity" – equality in terms of members' rights and access to products and services in the cooperative and equity in terms of fair and unbiased business activities and equitable distribution of benefits such as patronage refunds and dividends among the members. It promotes social inclusion by practicing the cooperative principle of "open and voluntary membership", which states that "cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination" (ILO, 1995). It provides opportunities for both women and men with freedom, equity, and fairness. In 2012, more than 50% of all the farmer-members of SIFMPC were women (SIFMPC, 2012). The principle of democratic member control, as mentioned earlier, also emphasizes the promotion of equality, particularly by implementing one member-one vote policy in elections, wherein members are given equal voting rights regardless of the size of their share capital contributed to the cooperative.

Integrating Small Farmers into Global Supply Chain

A typical supply chain of cacao beans from individual farmers to consumers in Davao Region involves the following stakeholders: (1) input suppliers; (2) nurseries; (3) farmers; (4) traders; (5) cooperatives; (6) domestic and global grinders and manufacturers; (6) integrators; (7) exporters; (8) domestic retailers; (9) institutional buyers; and (10) end-consumers.

In a supply chain without cooperative's participation, individual small farmers normally do not have direct access to integrators, exporters and international grinders and chocolate manufacturers. The typical flow of cacao beans would be from farmers to the traders, who then sell the wet cacao beans either to commercial tablea producers or to integrators for processing and/or for export to global grinders and chocolate manufacturers (Figure 2). As of 2014, there are 12 exporters cum grinders/processors based in Davao Region. These exporters buy beans in large volume and sell them primarily to global grinders and manufacturers or sometimes, to integrators if they find it more profitable than exporting beans directly themselves. Exporters are generally hesitant in dealing with individual small farmers due to high transaction costs it entails. Some traders sell the beans to local grinders and artisanal and domestic chocolate manufacturers, whose products are then distributed for sale to institutional buyers, specialty stores and other domestic market outlets. Tablea producers and some farmers who make their own tableas directly sell to the retailers for sale to end consumers.

Small farmers' participation in the supply chain typically covers only cacao production and then ends at local trader's level, wherein traders buy their produce through spot market sales at a price dictated by the trader. Farmers are price-takers, who often do not have bargaining power especially over the trader who

finances their production expenses. Some traders even take advantage of the lack of access to price information of farmers and tend to manipulate prices when transacting with farmers in remote areas.

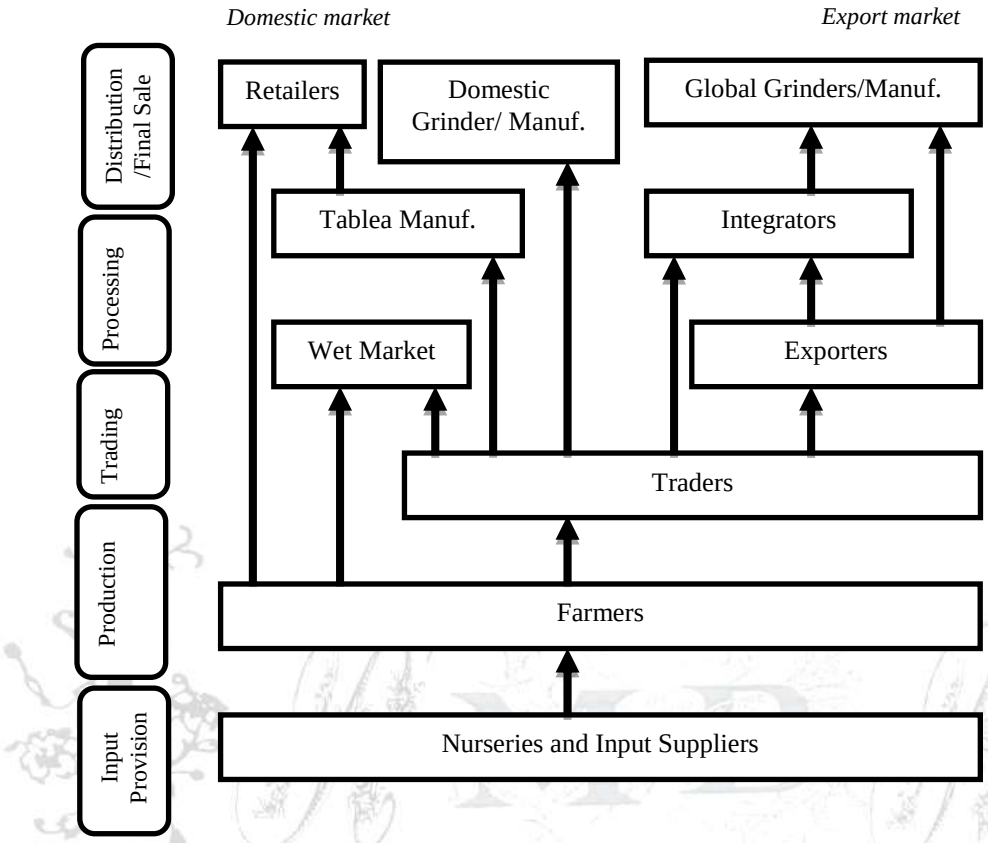

Figure 2. Typical Flow of Cacao Beans without Cooperative, Philippines. From "Value Chain Analysis and Competitiveness Strategy: Cocoa Bean - Mindanao" by Department of Agriculture, 2014, Philippine Rural Development Project (PRDP) I-PLAN Component: Mindanao Cluster, Retrieved from http://www.drive.daprdp.net/pdf/vca/mindanao/Cacao%20Beans%20VCA%20%28MINDANAO%20CLUSTER%29.pdf

The limited access of small farmers to more profitable markets is primarily due to low volume of harvests and lack of form utility added to the cacao beans, which do not meet the buyers' requirements. However, with the presence of cooperatives in the chain, small farmers can have access to these higher markets, including the export market. As shown in Figure 3, farmers who are members SIFMPC can directly sell their cacao beans to integrators, trader-exporters, and global grinders and international chocolate manufacturers.

SIFMPC Cooperative Marketing

SIFMPC participates in the global supply chain of cacao beans by acting as an assembler or consolidator of the harvests of its farmer-members and some non-member farmers from Subasta and its nearby *barangays*. Instead of selling to the local traders, farmer-members sell their cacao beans to their own cooperative. From the cooperative, the consolidated beans are sold as wet beans or processed into fermented or dried beans for sale to the global traders or exporters, integrators and global grinders and chocolate manufacturers as well as to domestic grinders and local cocoa product manufacturers.

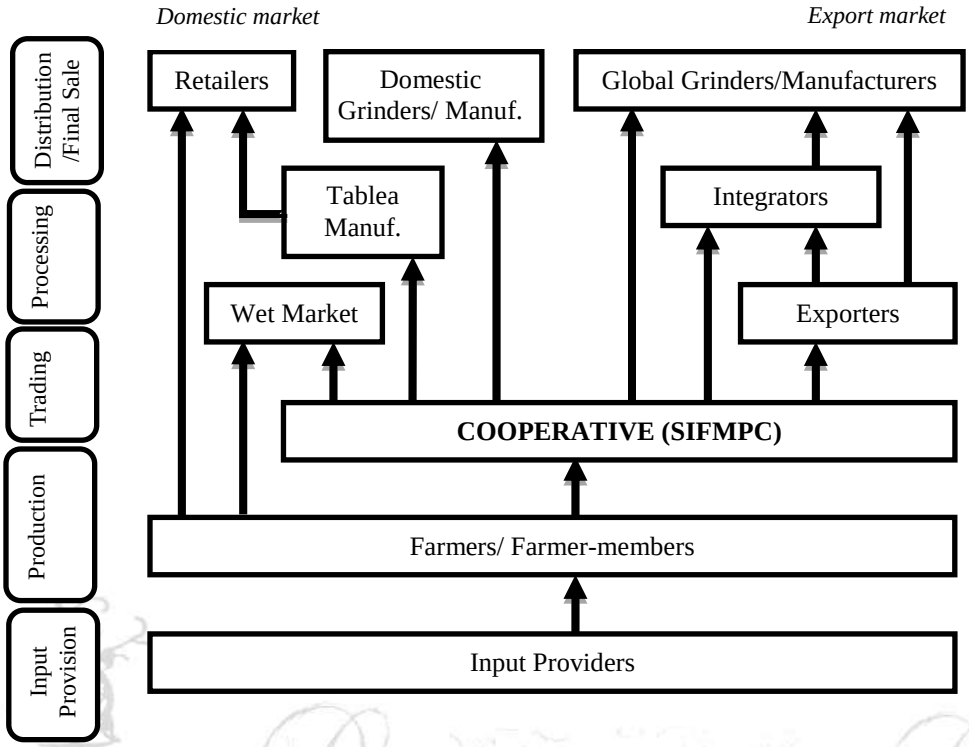

Figure 3. Typical Flow of Cacao Beans with Cooperative, Davao City, Philippines.
Sources: Author's own findings and DA (2014)

Nurseries, local traders and processors are eliminated in the chain since SIFMPC assumes their roles or functions. The cooperative has its own nursery and produces some of its organic fertilizers. It also has the capacity to consolidate and buy large volume of quality cacao beans and to collectively market them with economies of scale and bargaining power. Its capability to process wet beans, given its access to processing facilities and human resources with adequate knowhow and skills further put SIFMPC in a better position in the chain. In addition, SIFMPC serves as a source of accurate and timely market information, which is often not reached by individual small farmers, especially if they do not have access to information and communication technologies.

Figure 4 shows the specific buyers of the cacao beans procured by SIFMPC from its farmer-members and other cacao farmers. Since its organization in 2009, SIFMPC has already supplied cacao beans in wet, fermented, and dried form to a global chocolate manufacturer, integrators, an exporter, and a global trader.

1. *Askinosie Chocolate*. This is a small-batch bean-to-bar chocolate manufacturer based in Springfield, Missouri, United States that uses 100% traceable, single-origin cocoa beans from four regions in the world: San Jose Del Tambo, Ecuador; Cortes, Honduras; Tenende, Tanzania; and Davao, Philippines. It manufactures dark chocolate bars, milk and white chocolate bars, cocoa powder, cocoa nibs, and chocolate spread, among others. Its chocolate bars made of Davao-origin cacao beans are branded as follows: 77% Davao, Philippines Dark Chocolate Bar; 62% Davao Dark Milk Chocolate Bar + Fleur de Sel, and White Chocolate Davao, Philippines. (Askinosie Chocolate, n.d.). Askinosie Chocolate directly imports 12 mt of dried beans from SIFMPC every year. According to SIFMPC Chairman, Mr. Ernesto Coquilla, Askinosie Chocolate offers a relatively higher buying price for cacao beans compared to the average world price (E. Coquilla, personal communication, February 21, 2014). In 2012, the cooperative sold its dried beans at US$ 2,358/mt to the company. Aside from the premium price, Askinosie Chocolate normally shares a

portion of its profit with SIFMPC by giving the cooperative 1% of its year-end net income. This monetary incentive, which contributes to the capital build-up of SIFMPC, is given to the cooperative as a gratitude for the high quality beans the company received and the trustworthy and smooth business transaction with SIFMPC.

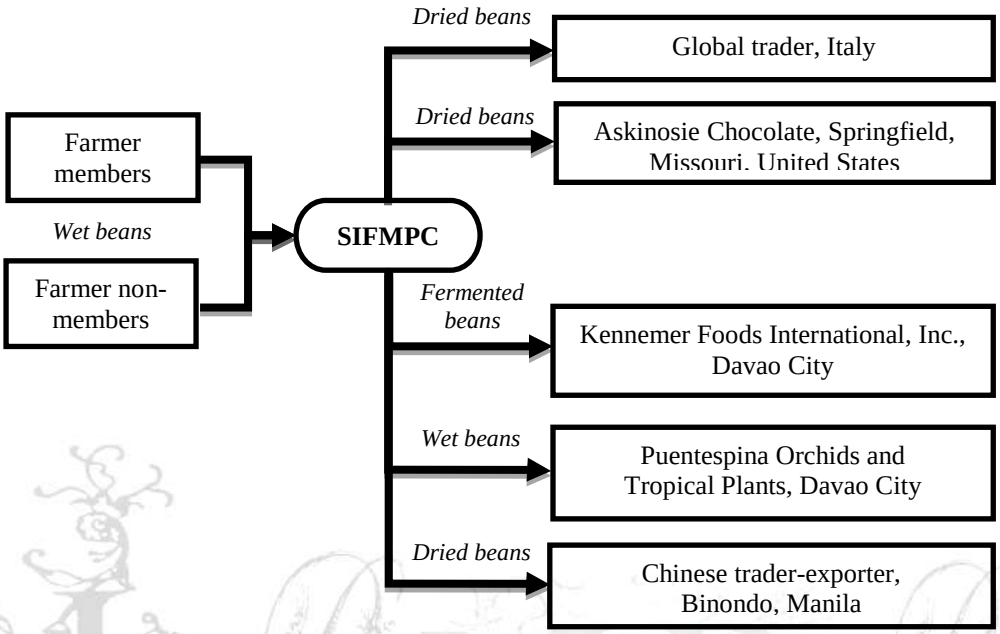

Figure 4. SIFMPC Market Channel for Cacao Beans, 2009-2013
Source: Author's own findings

2. *International trader based in Italy.* SIFMPC also has a purchase contract with a global trader based in Italy who supplies beans to a large grinder and chocolate manufacturer in his country. In 2013, SIFMPC supplied 12 mt of dried beans to the international buyer at a negotiated price of PhP120 per kilogram (kg).

3. *Puentespina Orchids and Tropical Plants*. Puentespina is one of the most established and biggest integrator and processor of cacao beans in Davao City. Through its establishment of Mars Cocoa Development Center, it spearheaded the sourcing and consolidation of cacao beans in Davao City and its nearby provinces in order to meet the demand requirement for dried beans of its international buyer, Mars, Inc. – one of the biggest confectionery company in the world that makes the famous chocolate products such as M&M's, Snickers, Twix, and Mars, among others. It also owns the Malagos Chocolate, a local chocolate manufacturer that makes the All Dark Davao Chocolates, which are sold in Davao City and Metro Manila. SIFMPC is one of the key sources of wet beans of Puentespina Orchids and Tropical Plants. Since 2009, SIFMPC has been supplying high-quality wet beans to the said integrator.

4. *Kennemer Foods International, Inc.* This is a Dutch cocoa company with six strategically located cacao hubs in the country, one of which is in Calinan District, Davao City. As an integrator, Kennemer Foods International Inc. specializes in the growing, sourcing and trading, and exporting of high-quality cacao beans, particularly fermented beans. It is one of the largest buyers of cacao beans in Davao and is also affiliated with Mars, Inc. SIFMPC regularly supplies fermented beans to Kennemer Foods International, Inc.

5. *Chinese trader-exporter based in Metro Manila.* SIFMPC also supplies dried beans to a Chinese trader-exporter based in Binondo, Manila, who in turn exports the beans to its identified buyers outside the Philippines. In 2013, the trader-exporter bought 12 mt of dried beans from SIFMPC.

SIFMPC ensures to offer a competitive farmgate price for wet beans to its farmer-members. Its officers closely monitor the prevailing buying prices of the traders and in the municipal market center as the basis of the cooperative buying price, which is usually set at par or even higher than the prevailing price. In 2012, SIFMPC was able to offer a buying price of PhP25.54/kg of wet beans in Calinan District, which was higher compared to the prices offered by local traders in the area, which only averaged at PhP22.88/kg (Sarmiento, 2014). SIFMPC pays even higher buying prices, which is made on the spot, to its farmer-members if a good price deal is closed with an international buyer, thus giving the farmers a premium price and satisfying their need for immediate cash. Aside from the premium price, members earn additional income from patronage refunds and interests on their share capital from SIFMPC as a result of its good annual financial performance.

Through SIFMPC, small farmers are also able to get involved in the supply chain management, wherein they become part of decision-making process in terms of identifying target markets, building partnerships or linkages, defining volume and quality requirements, setting prices and terms of payment, and performing value-adding activities. This is part of the horizontal integration developed by SIFMPC among cacao farmers and with other entities outside the cooperative. A significant horizontal linkage created by SIFMPC is with the Peace for Equity Foundation (PEF), a non-government organization that provides financial assistance to the cooperative. PEF grants affordable loans to SIFMPC to enable it to purchase and consolidate the volume of wet cacao beans needed for supplying the required volume of dried beans of the global traders and grinders as well as to have adequate working capital for processing wet beans. In 2012, SIFMPC had to spend a total of PhP5,344,460.80 for purchasing 63 mt of wet beans and therefore needed a cash advance to immediately pay its farmer-members.

Value Chain Upgrading through SIFMPC

Value addition is a change in the physical state or form of the commodity in a manner that results in the enhancement of the value of the product (AgMRC, n.d.). Performing value-adding activities for cacao beans such as processing creates more income opportunities in the cacao business. However, individual small cacao farmers often do not have the means and ways of doing value addition because of inadequate capital required and due to their need for immediate cash from selling. In addition, global traders, exporters and integrators generally prefer to buy wet beans because not all farmers are able to meet the quality standards and achieve uniformity required due to farmers' inadequate access to facilities and skills needed for doing the activity. As such, it is generally most convenient and easiest for small cacao farmers to sell their cacao beans in its raw form or as wet beans, even if the price is relatively low. In 2012, wet beans were sold at an average price of PhP22.88/kg in Calinan District. When wet beans are processed into dried beans, the price becomes about four times higher. In 2012, average local buying price for dried beans was PhP97.06/kg (at 32% drying recovery).

SIFMPC is able to help address the value chain constraints that small cacao farmers face. Through the cooperative, the farmers are given access to processing facilities, capacity building trainings, financial service, and other resources needed to facilitate cacao value chain upgrading. Although individual farmer-members still sell their harvests as wet beans to the cooperative, their market involvement and returns do not end there. As user-owners of the cooperative, the farmer-members become more capable of processing their wet beans into quality fermented and dried beans, which are then sold at a higher price to more profitable markets through collective action. This is made possible as they are able to develop a balanced vertical integration as a cooperative, that is, a business strategy that seeks to own and control two or more complementary business activities at different stages or processes of production and marketing (FAO, 2002).

The marketing function of SIFMPC is not limited to the exchange function of buying and selling. As mentioned earlier, to some extent, SIFMPC is able to perform part of the input provision function as it has already put up its own cacao nursery that supplies quality seedlings to its farmer-members and has capacitated its members to produce their own organic fertilizers. It is also involved in physical functions of processing (fermenting and drying), storage and bagging, and transportation of the beans and in facilitating functions of sorting and grading, coordinating farm trainings and skills development, and facilitating access of the farmer-members to business development services (Figure 5). Through the cooperative, farmers can effectively access services from government agencies like the Bureau of Plant Industry (BPI), Department of Agriculture (DA) and its units/agencies and programs (e.g. DA-Regional Field Unit XI and Agricultural Training Institute, Bureau of Agriculture and Fisheries Product Standards (BAFPS), High Value Commercial Development Program), Department of Trade and Industry (DTI) and its Export Pathways Program, Department of Labor and Employment (DOLE), CDA, and the provincial and municipal local government units (LGUs). Likewise, SIFMPC has successfully linked its farmer-members to non-government business development service providers like ACDI/VOCA, Mars Cocoa Development Center, and PEF.

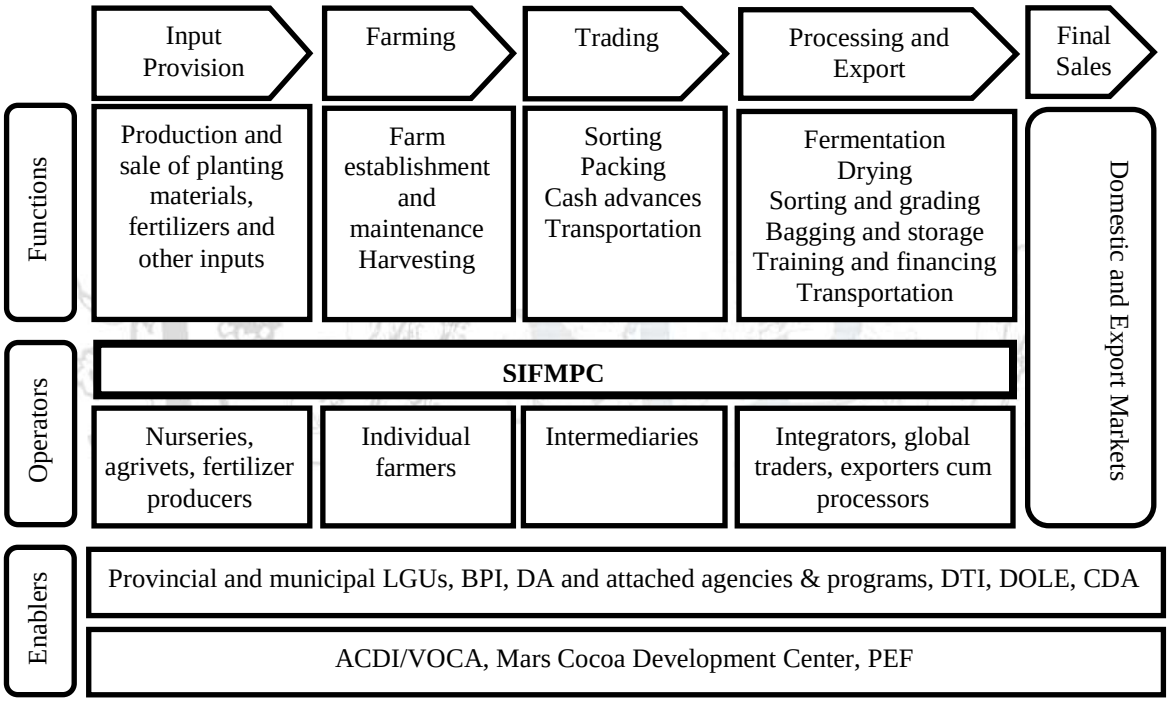

Figure 5. Value Chain Map for SIFMPC Cacao Beans, 2013
Source: Author's own findings and DA (2014)

As of 2013, SIFMPC owns two fermentary and solar drying facilities. These facilities with a bean capacity of 1-mt per week were granted by ACDI/VOCA in 2009 and 2010, along with a series of sponsored trainings on cacao processing that was conducted for SIFMPC farmer-members. With the strong linkage of SIFMPC with ACDI/VOCA and other enablers, the cooperative has also learned to apply good and sustainable agricultural and manufacturing practices (e.g. pest management, weed control, and plant rehabilitation) and quality control and proper sorting and grading of cacao beans as taught in the trainings and seminars provided by SIFMPC's partner agencies. In addition, values formation and cooperative education done by SIFMPC taught its members of the practice of honest selling, wherein farmers deliver and sell only the "good beans" to the cooperative based on its standards.

To maintain a uniform quality of fermented and dried beans, all the good beans purchased from the farmers are consolidated and prepared for a one-week fermentation and one-week solar drying. The whole bean processing activity is done by well-trained farmer-members and laborers of the cooperative using its own facilities. After drying, the beans are sorted and graded based on its moisture content. A shedder and tool kit equipment, which USDA granted to SIFMPC, is used for sorting and grading of dried beans. Only Class A dried beans are sold for export. The dried beans are then packed into the sacks by class and are weighed using its well-calibrated weighing scale. The packed beans are stored until they are scheduled for quality inspection by the buyer. After passing the quality requirements of the buyer, the required volume of dried beans are hauled and transported to cooperative's buying station for buyer's pick-up or for delivery to the port of cargo shipment, if for export.

While the main product of SIFMPC is cacao beans, the cooperative has planned to venture into more advanced value-adding activities after receiving a new processing facility building from DA in January 2014. The building houses a cacao-coffee-shelled peanut processing equipment for roasting, grinding, and pressing. With the available facility, SIFMPC is given the opportunity to directly cater to the demands of chocolate manufacturers, cosmetics markets, and confectionery markets and therefor to expand its market and increase its profit.

Besides all the income opportunities associated with value-added cacao beans, an equally important outcome of value chain upgrading of SIFMPC is the additional employment it creates for the community. Each stage of dried bean production and marketing requires labor, thus SIFMPC hires some of its male and female farmer-members to do the related activities on an on-call basis and then pay them accordingly. Women are particularly hired to do the sorting and grading of dried beans as part of its empowerment advocacy. In 2012, SIFFMC spent a total of PhP235,826.25 for its direct labor.

Key Problems and Constraints of SIFMPC

SIFMPC is just one of the buyers and suppliers of cacao beans in Davao City. Competition in cacao marketing is very high in the area as international and large cocoa companies mostly source beans from Davao City. However, by ensuring good quality beans at a good price, SIFMPC has managed to close a deal with integrators and international buyers of wet, fermented, and dried beans. There are greater export market opportunities for the cooperative, but SIFMPC is currently constrained from supplying to additional international buyers because of the limited volume of cacao beans they could procure from the local farmers due to competition with other buyers and the fact that the membership base of SIFMPC is still small.

The major competitor of SIFMPC are the big traders in Calinan District, who also buy wet beans from individual small farmers in Subasta and nearby barangays within the municipality. There are fly-by-night traders or businessmen who are able to get supplies of wet beans from members of SIFMPC because they secretly offer a more attractive farmgate price compared to the prevailing prices in the market and to the price offer of SIFMPC. As part of the cooperative members' obligations, SIFMPC members are supposed to patronize the cooperative services and help build its capital by selling their produce to the cooperative. However, as experienced by the cooperative in 2012, about 30% of them pole-vaulted or did not bring their beans to the cooperative and instead, sold it to the traders (E. Coquilla, personal communication, February 21, 2014).

Despite SIFMPC offering competitive farmgate price and rebates for wet beans, some farmers opt not to join the cooperative as they find it more advantageous to transact with traders. Others were once members of SIFMPC but later withdrew their membership from the cooperative. As of 2012, there are 160 cacao farmers in Subasta but only 80 of them are members of the cooperative. Outside Subasta, there are more than 400 cacao farmers but only 20 have joined the cooperative, so far. According to Mr. Coquilla, the main reason for non-membership of the farmers is the financial incapacity of the cooperative to provide

them with credit services or loans (E. Coquilla, personal communication, February 21, 2014). Many farmers do not have adequate capital required for cacao production, hence need to borrow capital. Since traders are capable of providing financial services and cash advances and many of them own small neighborhood stores where farmers can get their household basic needs on credit, some farmers in Subasta choose to continue to transact with them.

In order to deal with the above situation, SIFMPC tries to have business talks with the private traders to request for proper business courtesy from the traders who want to deal with SIFMPC's members and non-member farmer suppliers. Sometimes, the conversation results to a favorable understanding between the two parties, but in some cases, it does not lead to any fair agreement. Nonetheless, this effort continues since it still contributes to minimizing the impacts of unscrupulous transactions in the cooperative's cacao marketing. The cooperative, through its leader also makes an effort to seek support from the local government regarding their business concerns and issues. In addition, special discussions with SIFMPC members are carried out to constantly educate and instill in them the importance of cooperative loyalty and business ethics and its repercussion to the cooperative and its individual members.

Conclusion

The case of SIFMPC exemplifies the significant role and contribution of a cooperative in empowering small farmers in the agriculture sector. SIFMPC has successfully provided small cacao farmers with access to several business development services and assistance from the government and non-government development agencies. It has also given the farmers the right and access to market and agribusiness engagements, both domestically and globally; to market information and policies and programs; to appropriate education and skills development; and to farm inputs and physical resources, particularly postharvest facilities.

SIFMPC has effectively developed the capacity of its farmer-members as reflected in their enhanced participation in the supply and value chain of cacao beans and greater negotiation or bargaining power in the market. Small farmers have improved their knowledge systems on input production, farming, processing and marketing of cacao beans and have been enabled to perform more marketing functions with economies of scale and efficiency through SIFMPC and its support networks and institutional linkages.

The enhanced access, rights, capacity and voice that small cacao farmers have achieved as a cooperative help build their identity as one of the significant players and business partners in the cacao industry of Davao and the Philippines, as a whole and as a key contributor, along with other local agricultural cooperatives and farmers organizations, to securing sustainable supply of cacao for the country and to providing income and livelihood opportunities for small farmers and their communities.

While the findings strongly reflect the success of SIFMPC in contributing to every element of the empowerment process of small farmers, evidences that describe its contribution to environmental protection-related efforts have been limited. The promotion and production of organic fertilizers and the application of good agricultural practices and good manufacturing practices are the only initiatives apparent in SIFMPC.

Thus, the cooperative still has to promote green practices and perhaps develop an incentive program for environmental protection to fully empower its farmer-members. But overall, SIFMPC has managed to empower small farmers in terms of improving their farm productivity and economic opportunities, and thereby improving their standards of living. SIFMPC is just one of the many cooperatives in the Philippines that can effectively empower small farmers by fostering sustainable livelihoods for them. The success story of SIFMPC provides a cooperative enterprise model that is worthy for replication in the country and in other parts of the world.

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