

**Can livelihoods develop into SMEs? :  
The case of the coconut industry of Davao Oriental, Philippines**

**Abstract**

Coconut is one of the main agricultural industries in the Philippines and coconut oil is one of the revenue-making export product in the country. However, coconut farmers and producers remain in poverty, particularly in Davao Oriental, Philippines. One of the strategies to alleviate farmers' poverty is to engage into producing other coconut goods. Establishing coconut-based SMEs in the province is another strategy that can help augment poverty situation through utilization of other parts of the coconut, employment generation and promotion of local economic development.

Analysing the situation of the coconut industry in Davao Oriental determines how far can the coconut farmers go into livelihood diversification and develop it into SMEs. Identifying the problems farmers encounter in copra production (their main coconut production activity) and assessing their existing capital (financial, social, physical, natural and human). Through this, an enabling environment is determined for the feasibility of diversified coconut livelihoods developing it into SMEs.

**Keywords:** coconuts, Philippines, small and medium enterprises, enabling environment

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A third of the Philippine population today lives in poverty (NSCB, 2005); many of which are in agricultural industries such as coconut farming. One of the strategies of the National government to address this societal problem is the promotion and establishment of Small and Medium Enterprises (SMEs), especially in the poorest regions. In this way, niche products and services are exploited, providing employment to the local people and boosting local and regional economies.

Davao Oriental in Southern Philippines has a typical agricultural industry; however, while there is much natural resources to exploit farmers remain poor. Coconut farming and production is the main activity in the area. Most of the farmers produce copra. Coconut oil extracted from copra is one of the country's main export products. Farmers are not getting any share of the coconut oil revenue. Assets/ capitals of the local producers may not be able to support any diversification endeavors if they intend to. The challenge now is whether the industry has an enabling environment or existing necessary capitals for other forms of livelihoods and the promotion of other coconut-based SMEs. Livelihood diversification in this context means producing coconut-based goods other than copra production. What then are the essential factors that can support the promotion and establishment of SMEs in the coconut industry in this province? Can the existing capital of the farmers and the industry attract establishment of SMEs? What is the immediate answer to the industry's problem, particularly the poverty of the coconut farmers in Davao Oriental? Questions raised are answered in the following paper.

## I. Coconuts and SMEs: Its role in the Philippine Economy

The coconut tree, known in the Philippines as the "tree of life" because one can make various products out of it, is important for its contribution to the national income and to employment. About 25 percent of the total estimated 12 million hectares of agricultural lands in the country is devoted to coconut growing. Producing copra has been a traditional activity in coconut farming. Some 3.5 million Filipinos make a living out of it. With national average of family size of five, translated into 20 million people, household-head and their households, directly or indirectly, depend on the industry for their own livelihood.

Of the 2 million metric tons of coconut produced in a year, more than 80 percent is exported. The Philippine coconut industry accounts for 60-64 percent of the total world coconut exports in traded vegetable and lauric oil, ranking as one of the country's top 5 net foreign exchange earners for an annual average of USD 760 million a year. It contributes about 1.14 percent of the GNP (Akbayan, 2005). The Philippine coconut industry posted an impressive performance in 2003, generating annual export revenue of US\$727.090 million. The country remains as the top producer and supplier of coconut oil in the world market. It accounts for 44 percent of the world production of coconut oil (Ostrea, 2004).

Coconut oil produced out of copra production categorized as Organic and Natural Products, is one of the priority industries of the SME development Agenda of the Philippine government. The organic industry, which is still in infancy, refers to the cultivation and processing of agriculture-based items produced under conditions that conform to the standards for organic products (DTI, 2005).

According to the Department of Trade and Industry [DTI] (2005), the global retail market for organic products is estimated at US\$23 billion to US\$25 billion as of end-2003. The major markets include European countries (primarily Germany, United Kingdom and France), the United States, Canada and Japan. Organic production is well developed in the industrial countries. In Asia, the areas of organic farming are very limited (less than 1 percent of total). China, Korea, Sri Lanka and India have the larger areas devoted to organic production. Its low labor cost among rural farm households, year-round tropical climate (highly suitable for organic farming), rich biodiversity, huge supply of trainable workforce, and the existence of producers willing to switch to organic production are the country's in producing organic goods..

In reality, there are other products aside from copra that can be processed from the coconut tree. Uses of the coconut are summarized in the table below from which farmers can choose from as forms of diversification s many of these potentials are yet to be explored by Filipino coconut farmers (See Table.1):

Table 1. Uses of the coconut tree

Part of the coconut tree	Uses
a) leaves	roofing materials, the stiff midribs into a variety of products such as brooms, chairs, baskets, braids, toothpicks, fans, mats, hats, and bags
b) coconut flower	alcoholic beverage called as "tuba"; if fermented, then vinegar
c) coconut lumber	house construction, bench making, furniture, picture frames
d) husk	coir fiber, kitchen brushes, ropes, doormats, bottlebrushes, mattresses, polishers, coir yarn, and cushions. The coir dust can be

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**Comment [S1]:** Run-on sentence. Maybe you want to chop it into a couple of sentences to make the message clear.

**Comment [S2]:** As a reader of this paper I would be interested to see the **trend** in production of coconut in previous years... say in terms of volume and value (which I think is available on the DA website). Exports of coconuts along the years can also be examined. How about the geographical distribution of coconut farming? This can be presented in graphs or tables para clear. Suggestion lang.

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	converted to plastic boards, wallboards and insulators
e) coconut shell	buckles, trays, coffee pots, ceiling lamps, ash trays, lamp shades, shell blanks, buttons, tiles, gun powder, wood preservatives
f) the shell firmly grounded	filler in thermoplastics, preparation of certain types of active carbon, for making containers and can be carved into ornaments
h) coconut meat	copra, candies, poultry food, dessert, nata de coco, jam, pies, milk, oil, butter, lard, and dessicated coconut, ingredient in many local dishes

Coconut products presented can be used as raw materials and/or main product of a coconut-based SME sector.

## II. The SME sector: a national situationer

Small and medium enterprises (SMEs) in the Philippines significantly improve the national economy. Becoming an integral part of the Philippine economy, it contributed 32 percent of value added and accounts for 31 percent of employment. However, effective SME operation is constrained by lack of supportive policies, cumbersome and costly registration and licensing processes, lack of a national business Nonetheless, the country plans to increase the SME share in value added from 32 to 40 percent by 2010, and has highlighted the central role SMEs will play in creating jobs. Two out of 3 employees work in SMEs (DTI, 2005). Thus ideally its promotion helps in reducing abject poverty in the country.

SME definition may vary from different setting to another. In the Philippines, an SME is defined as any business activity or enterprise engaged in industry, agriculture, and/or services (whether single proprietorship, cooperative, partnership, or corporation) with total assets (inclusive of those arising from loans but exclusive of land on which the particular business entity's office, plant and equipment are situated) of a value falling under the following categories (DTI, 2005) [See Table 2]:

Table 2. Categories of Enterprises		
Category	Total Asset (in Pesos)	No. of Employees
Micro-enterprises	less than P3,000,000	1-9
Small enterprises	P3,000,001 – 15,000,000	10-99
Medium enterprises	P15,000,000 – 100,000,000	100-199

While practically in all major manufacturing subsectors, SMEs are concentrated in fairly traditional product groups: the food industry, organic and marine groups, wearable industry (garments, fine and costume jewelries, footwear and accessories), leather goods, crafts and home furnishings (gifts, toys and house ware, and handicrafts), furniture and building materials, micro-electronics and automotive and machine parts and components (DTI, 2005). Coconut products may belong to one or more SME subsectors mentioned above. As such, producing other kinds of goods out of coconut may alleviate the poverty of the farmers used to copra production. However, developing SMEs in local areas such as Davao Oriental, which is known to be abundant in natural resources and a largely coconut growing province, can spur economic development in the locality.

## III. Coconut production in Davao Oriental: challenges farmers face

With higher export revenues, some 3.5 million Filipino farmers and farmerworkers' living standards have yet to improve with better international prices. The coconut farmers languish in abject poverty (Akbayan, 2005). According to the Coconut Industry Reform Movement (COIR)<sup>1</sup>, ~~the oil millers~~ monopolize the coconut industry and control that export industry (Guieb, 2000). Problems faced by the coconut industry sector are evident in one of the top coconut producing provinces in Southern Philippines: Davao Oriental. It is one of the 68 coconut-producing areas, and historically the highest producer<sup>2</sup> of the crop. Total coconut production in the country in 2001 reached 12,499,098,000 nuts. Davao Oriental accounted for about one-third of total nuts produced in the region (32.6 percent).

### *Loco over coco: Importance of coconut to Davao Oriental*

The province devoted about 73 percent of its crop land to coconut cultivation, compared to corn at 13 percent and rice at ~~four~~ percent only. Davao Oriental produced one-third of the total produced in the region.

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Copra, the dried meat of coconut, is the main product of the coconut industry in the province. It is valued for the coconut oil extracted from it and for the resulting residue, copra cake, which is used as livestock feed.

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Coconut belongs to the top five merchandise exports of the Philippines. It accounts for 6 percent of total agricultural gross value added and 1.2 percent of the gross national product. In 2000, Davao Oriental earned \$25,262,657 and \$2,227,200 from exports of crude coconut oil<sup>3</sup> and coconut expeller cake, respectively.

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### The industry's problem

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Coconut farmers in the province have largely focused on copra production. However, the income it brings is just enough for the family to survive. Non-diversification to other products becomes a dilemma. There are several factors affecting the poverty of the coconut farmers.

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One factor is the local governance's lack of support facilities to farmers' endeavours: poor physical infrastructures i.e. farm-to-market roads in the area, potable water, and fertilizers provision to improve nut production. Few extension workers from the provincial office of the Philippine Coconut Authority (PCA) limit the opportunity of the farmers to avail of livelihood trainings. Cases of technological advances in coconut production have yet to be disseminated by the PCA or Department of Science and Technology (DOST) to the coconut producers. The department has enough studies and technologies to disseminate yet lacks the funds to implement them.

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Copra production leads the farmers to more problems that somehow farmers were stuck into this cyclic effect of the situation (Taya, 2004). One of the problems is its high cost of production and this has conspired with the relatively weak buying price of copra thus preventing small coconut and copra producers from earning profits. Farmers can barely make it to the next production and harvest period. "Overdraft" is the frequent litany of the farmers after harvest.

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A second problem is patronage relationship of farmers with the traders or middlemen: somehow exploitative but is deemed vital for the small coconut farmers especially in times of emergency. Traders provide farmers with financing for food, medical supplies, and other household and personal outfits. Since the coconut farmers already owed the traders money in the previous harvest seasons, they had no choice but to pledge their produce for the next season to the same coconut trader at a much lower price. Through advance financing the farmers avail, traders implicitly recover the debt of the coconut farmer by buying the produce at a much lower price.

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¶ Near-absolute dependence of small coconut and copra producers on the coconut industry as a source of livelihood does not enable them to rise above subsistence. Whatever meagre income they could manage is barely sufficient for basic needs.

The buying price of copra is clearly one variable that is beyond the control of small coconut and copra producers, but to which they are helplessly bound. At the farm level, copra traders dictate the price. Between trader and miller, the latter fixes the prices. But the oil miller relies to movements of prices in the international market for coconut oil and other coconut by-products as the determinants of domestic copra prices. Needless to say, fluctuations in the international market for coconut (and vegetable and corn) oils are reflected all the way to the coconut farm. Being structurally tied to the global market, there is little reason to wonder why trends in the country's major foreign markets affect the price of domestic coconut products.

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Apart from the farmers debts to the traders, another problem of the farmers comes in the form of standard deductions for moisture content allowance that traders usually call "rescada" that continues to arouse the ire of coconut farmers and farmworkers. The deduction is normally for every kilogram of copra. In 1991, PCA imposed to establish moisture standards<sup>4</sup> primarily to meet the requirements of the world market. This system gives copra dealers or buyers undue advantage. The copra traders in the province do not have moisture meters. Copra traders in the province also subject dried copra is being sold through ocular assessment. Rescada system becomes a tradition. There is a problem of high moisture content because from the farm, it takes a long time for the copra to reach the oil mill. Such length of time is usually enough for aflatoxin-producing mold to develop.

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Since farmers have been experiencing problems in copra production amidst the fact that there are other goods produced from the coconut industry, assessing the locality's existing capital can help in determining the opportunity for other types of livelihoods and the SME sector to thrive.

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### IV. Assessing the existing capital of the farmers

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According to Farrington (1999), it is assumed that people pursue a range of livelihood outcomes (health, income, reduced vulnerability, etc.) by drawing on a range of assets to pursue a variety of activities. The activities they adopt and the way they reinvest in asset-building are driven in part by their own preferences and priorities. Assets/ capitals of coconut farmers in Davao Oriental are assessed to verify the viability of engaging into other coconut goods production and the feasibility of establishing a coconut SME sector in the province.

DFID distinguishes five categories of assets (or capital) which people can build up and/or draw upon – natural, social, human, physical and financial (Carney, 1998). The capital assets are assembled by Ellis (2000) pertaining to the basic building blocks upon which households are able to undertake production, engage in labour markets, and participate in reciprocal exchanges with other households.

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### Human capital

Human capital pertains to skills, knowledge and ability to do labor. It is increased by investment in education and trainings, as well as skills acquired through pursuing one or more occupations. At a household level human capital is a factor of the amount and quality of labor available; this varies according to household size, skill levels, leadership potential, health status, etc (Ellis, 2000).

When it comes to acquisition of skills, majority of the farmers possess only hand-me-down skills. Formal training related to agriculture, cooperativism and coconut production intensification is availed through membership to organization. PCA prioritizes delivery of services to farmers who have acquired members to legitimate farmers' organization. PCA promoted intercropping because it utilizes idle parts of the coconut farm and labor of the farmers. However, only few farmers in the province have formal training in this kind of agricultural practice because not many of them are members of farmers' organization accredited to PCA (Taya, 2004).

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Elementary school education is the highest educational attainment the farmers have acquired. Many of the farmers were able to finish high school but most have struggled to reach college. Most barangays in the Philippines usually have public primary schools. However, secondary schools are only located in the capital town and some few provinces.

### Social capital

Many of the coconut farmers do not have membership to government accredited farmers' organizations. *Social capital* attempts to capture community and wider social claims on which individuals and households can draw by virtue of their belonging to social groups of varying degrees of inclusiveness in society at large. These are developed through: networks and connectedness, membership of more formalized groups, and relationships of trust, reciprocity and exchanges that facilitate co-operation, reduce transaction costs and may provide the basis for informal safety nets amongst the poor (Ellis, 2000).

Coconut farmers are placed at a disadvantage in accessing programs and projects of government agricultural agencies because these services are usually exclusively extended to such organizations only. In Davao Oriental, majority of the farmers are involved in religious organization and are in no way related to coconut farming or agriculture. The presence of cooperatives or farmers' organizations is rare in municipalities farther from the capital.

Members of small farmers' organization which are affiliated to provincial umbrella organizations have opportunities in expanding their networks. Some farmers' organizations in the province have membership at the Provincial Planning and Development Council (PPDC). Farmers are better off if they have expanded networks as they can extend further collective action, particularly in pushing the local government to incorporate development for coconut industry in the province.

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In copra trading, transaction cost is lower for farmers who come together and assemble their production<sup>5</sup>. INTERCO, the sole coconut oil mill in the province, buys copra only from middle men and cooperatives. They do not accept copra sold by individual farmers. Buying price from the coconut oil mill is higher [higher value for the coconut farmers' produce] than streamed through middle men's prices. Membership to organizations serves as a safety net for the farmers for copra bought at a higher price.

Having a solid level of social capital leads to provision of other benefits, such as free skills training and access to interest-free loan facilities.

### Natural capital

More than half of the land in the province is classified as forest timberlands while the rest is classified as alienable and disposable; coconut land is classified under the former type. *Natural capital* comprises the land, water and biological resources utilized by people to generate means of survival. It enhances or augments when it is brought under human control increasing its productivity. There is a wide variation in the resources that make it up, from intangible public goods such as the atmosphere and biodiversity to divisible assets used directly for production (trees, land, etc.) (Ellis, 2000).

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Plantations in Davao Oriental with more than three hectares are subject to Comprehensive Agrarian Reform Program (CARP) while some are yet to be distributed to farmers and farmworkers. Based on 2001

data, Davao Oriental devotes about 155 thousand hectares of land for the cultivation of coconut that is almost 50 percent of the forest timberlands.

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The major land classification has been subclassified also by the province. These are according to use: agriculture, agroforest, industrial, residential, mineral, grazing land, protection forest, fishpond/ natural parks, wildlife and outdoor recreation and unclassified forest land. There are 10 watersheds currently managed by the province while on the other hand, the province has the largest hillylands of about 240,392 hectares (DENR, 2005). Intercropping and raising livestock may promote biological diversity along the way. By producing a limited selection of crop plants and animals, humankind has greatly reduced the level of biological diversity over much of the earth.

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### Physical capital

This type of capital comprises aspects created by economic production process, e.g. the basic infrastructure and producer goods needed to support livelihoods and/ or SMEs. Producer goods are the tools and equipment that people use to function more productively. Infrastructure consists of changes to the physical environment that help people to meet their basic needs and to be more productive that includes: affordable transport; secure shelter and buildings; adequate water supply and sanitation; clean, affordable energy; and access to information (communications) (Ellis, 2000).

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The following components of infrastructure are usually essential for sustainable livelihoods:

**a. Affordable transport** More than 80 percent of the 1,024,611 kilometer-road network of Davao Oriental is still gravel. Only 15 percent of the provincial road is paved with concrete and these roads are mostly limited to the capital municipality. Buses have frequent trips as far as the last municipality but farther areas have lesser trips within 24 hours. To augment the transportation scarcity in municipalities farther than Mati, some jeepneys for-hire and service-utility-vehicle are infiltrating already in distant areas.

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Motorcycles are also an important form of public transportation, particularly in barangays farther from the area center. This is a common transport facility in municipalities farther from Mati since it is faster especially with gravel road. In other municipalities, tri-cycle is more common. Significant means of transportation of the farmers are the public buses, motorcycles and tri-cycles.

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Installation of bridges scattered in different municipalities in the province also facilitated the easy flow of goods in the recent years. Of the 3,290-total-meter of bridges all over the province, 61 percent are concrete. Installing concrete bridges illustrates that the provincial government is determined enough to interconnect its districts which are divided by lakes and rivers.

Households living farther from the capital and municipality center incur higher transportation cost. Those who travel over unpaved roads tend to pay more because vehicles have more difficulty traveling over these roads, especially during the rainy season.

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There are two secondary airports and a private airstrip. However, there are no commercial flights servicing the province. The eastern side of the province is facing the Pacific Ocean. Coastal areas have two existing municipal ports and five other private ports scattered in strategic areas.

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The type and quality of transportation the province is providing to its constituents create limitations for the farmers if they choose livelihood activities that would require them to market their products in other areas and provinces. Good road conditions are essential in lowering transaction and production costs, thus deliver more income for the farmers and their households.

**b. Adequate water supply and sanitation** Potable water is accessed by 62 percent of the total households in the province. A big portion of the water supply in province comes from spring, river, lake and rain since the province is surrounded by mountainous slopes and rain is frequent in the area. Other sources of drinking water are from the community water system and piped-deep well which the local government installed in most of the barangays. These types of water systems are communal. About 10 percent of the household have their own faucet at home, particularly those households who are living in the center of the municipalities. Very few of the households in the province depend on their own piped deep well, dug well, piped shallow well or from peddlers. However, some 5 percent of the households have no access to safe water.

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Aside from households being able to access safe water, some 19 irrigation facilities are installed all over the province serving 3,808 ha of land.

**c. Clean, affordable energy** All the municipalities and barangays in the province are now provided with electricity. However, only 42 percent of the households can afford to subscribe to the respective local electricity providers. Kerosene is the most utilized form of energy for more than half of the households in Davao Oriental. The rest use LPG, oil and wood as source of energy, either for lighting and cooking.



d. Access to information (communications) Three telephone companies operate in the province. Their services, however, are concentrated, in the capital town and in first and second class municipalities. Telephone calling stations operated by the local government or private entrepreneurs are available in all the municipalities. Furthermore, mobile service carriers are operating already in all areas of the province. Internet service providers, however, are only available in Mati (Department of Trade and Industry [DTI], 2005).

### Financial capital

Since many of the farmers find income from copra production not enough to sustain their household needs, they have to find other financial means to support their livelihood diversification activities. *Financial capital and substitutes* refers to stocks of money to which the household has access. There are two main sources of financial capital: available stocks, which can be held in several forms such as cash, bank deposits, liquid assets such as livestock and jewelry, or resources obtained through credit-providing institutions; and regular inflows of money, including earned income, pensions, other transfers from the state, and remittances. Neither savings or loans are directly productive forms of capital, they owe their role in the asset portfolio of households to their convertibility into other forms of capital or, indeed, directly into consumption" (Ellis, 2000).

It is not easy for these farmers to avail of loans or credit if they are not affiliated to cooperatives or organization that offer credit services. Those who do not have access to formal sources credit, resort to informal sources, of which the "5-6" scheme is most prevalent. This scheme is very usurious as it imposes 20 percent interest on loans which are to be paid in a very short period of time. Loans availed from "5-6" sources are expected to be paid in full within a month. With this picture, financial risks have already taken from the moment they borrowed money along with interests.

At times, some (agricultural/ social/ civic) organizations have credit facility. Other farmers who are not affiliated to organizations avail financing from other schemes i.e. NGOs that offer loans. Others avail loans from low interest credit facilities by the government but usually, the amount offered is minimal.

Fungibility of funds is another problem. At times, money acquired from credit organizations is spent on household needs and not for the livelihoods activities the farmer is supposed to venture.

Poor farmers cannot afford to accumulate savings because the income they raise from coconut farming is not even enough to support the basic needs of their families. If they manage to acquire some livestock, then it cannot be considered an asset because at times they consume as subsistence. One can only avail of social protection such as pensions or life insurances if they have rendered services in the government or private institutions. Otherwise, farmers and their household are not socially secured on long term basis. Households that have family members working outside the country become dependent on cash, attending to coconut farming on a seasonal basis.

The most concrete financial assistance scheme being supported by the government for helping the poor small coconut farmers and farmworkers in the province is available from United Coconut Planters Bank (UCPB). The bank's program intended for the development of the coconut industry is in collaboration with the Coconut Industry Investment Fund (CIIF). These institutions authored the Direct Copra Marketing (DCM) scheme. The DCM program provides assistance to coconut farmers' cooperatives in marketing their copra directly to the oil processor bypassing the small and medium copra buyers posing as middle men in the whole marketing chain of copra. The program provides warehouse and transportation (trucks) facilities including needed financial and technical assistance, such as trainings and other logistics to coconut farmers' cooperatives which are accredited by both the PCA and the Cooperative Development Authority (CDA). This program has resulted to increased creativity of coco farmers in certain parts in the country to initiate new income-generating activities for their cooperatives and less dependency on coconut traders. However, in this case, coconut farmers in Davao Oriental has yet to benefit from such program, which caused by bad bureaucracy.

Aside from this, QUEDANCOR, a government supported credit facility targeting small enterprises offers loans where small coconut farmers in the province can avail. The institution believes that achieving food security and economic stability in the Philippines requires access to better technology by farmers, more efficient government procedures, and timely and appropriate policies in the areas of agri-fishery production, markets and trades. Poverty, low crop productivity and depletion of agricultural resources, still contribute to the downward spiraling of Philippine development.

Getting into other forms of livelihoods or putting up an SME require significant amount of financial capital. Funds are important to start up livelihoods and sustain the activity, however prone to fungibility.

Farmers have difficulty to exclusively have all the capitals needed for the success and sustainability of livelihoods. Venturing into diversification means a challenge to the farmers.

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Social capital is the most important among the set of assets to acquire but difficult to measure and assess. Being connected to networks, engaging in collective action and solidarity is relevant for a farmer as a pre-requisite before venturing into other livelihoods or SMEs. Having social capital may give the farmer access to financial capital such as loan facility or even related skills training for various forms of diversification.

However, all the other types of capitals are also important to be able to leap forward to other livelihood activities, other than copra production, and sustain it. The assessment of the capitals of the coconut farmers in the farmers also determines the existence of an enabling environment for SME development in the province.

#### V. Existing enabling environment: can livelihoods evolve into SMEs?

Promoting and sustaining the role of SMEs in economic development in the Philippines entails heavy challenges for the government and those entities that want to invest in the coconut sector.

In the case of the coconut industry in the Philippines, it is known to be widely grown and coconut oil is being exported. However, many of the coconut farmers remain poor and are not getting much out of the revenues from the coconut oil export. Farmers then are encouraged to venture into producing other coconut-based products other than producing copra. But this undertaking may require enormous courage from the farmers and support from private and public entities. If the local coconut industry intends to create an enabling environment for coconut-based SMEs in the province, farmers must begin by diversifying to producing other coconut goods.

Coir production has a potential to thrive. Farmers in Davao Oriental can use the coir after extracting the coconut meat. According to Thampan (2003), the coir industry of Kerala, India sustains the livelihood security of nearly half a million people with women workers forming the predominant group. India is another largely coconut producing country. The coir products enjoy both domestic and export demand, and in most cases, the coconut farmers are directly involved in the processing at the primary stage. The coir yarn as well as fiber traded at different levels, further processed into different coir products in the industrial units operating mainly in the private sector. The principal end uses of coir yarn are for the manufacture of mats, rugs, carpets, cordages, ropes, fishing nets, among others. Fiber obtained from unretted husks, find many uses in the making of utility articles and in the transport industry.

Buko pie making is another coconut-based product farmers can produce. It is commercially produced in several households in Northern Luzon [Philippines] particularly Laguna. For example, the famous buko pie enterprise of Letty's buko pie is one successful case (PCA, 2004). The family started using their free time baking their buko pies and getting their neighbours in their village to taste them at P200 as start-up investment. On the other hand, they learned to bake their buko pies from how-to books and came up with the perfect buko pie crust and filling in several testing until they got the perfect one. They believe that with the support of the government, serious entrepreneurship and patronage of the local people are the ingredient for a successful home-based enterprise. Therefore, tapping the full economic potentials of these products poses an opportunity for the case of the coconut farmers in Davao Oriental.

Handicrafts and woodworks is another form of coconut-based diversification that opens an opportunity for farmers in the province. A case of a small poor socio-economic condition of a particular coconut village in Kerala, India, followed the fortunes of the coconut sector by producing goods out of coconut wood and other parts of the tree relevant for handicraft making. The effort was brought into reality though the assistance of international organization as Rome-based International Plant Genetic Resources Institute (IPGRI), the Malaysia-based International Coconut Genetic Resources Network (Cogent) and Asian Development Bank (ADB). These organizations envisaged empowering poor coconut farmers through a community-based approach to product diversification and creation of multiple sources of food, income and employment (Thampan, 2002).

As mentioned earlier in Davao Oriental's case, acquiring finance to start new livelihoods prevent these farmers to venture into producing other coconut products. To address this dilemma, the national government is taking serious steps in harnessing the opportunity in this field. Recently, the Asian Development Bank (ADB) offered support for the SMEs in the Philippines through an assistance package approved comprising a US\$25 million loan, a partial credit guarantee facility of about \$18.4 million, and an equity investment of up to \$1 million. The Government-owned Small Business Guarantee and Finance Corporation (SB Corporation) is the executing agency for the project, which will be carried out over five years to around October 2010. ADB's loan, backed by a Government guarantee, will serve as a credit line to SB Corporation, which will lend the loan in local currency to viable SMEs with a sound business foundation that do not have access to bank financing (ADB, 2005).

Other financing opportunities are being offered now by other developed countries where we have existing bilateral cooperation or special agreements. Apart from the ADB, SME promotion is also being

**Comment [S9]:** Ok so conclusion na ito. Maybe you can tie together all the factors involved above, and even weigh which in particular has the heaviest impact on the under-development of the coconut industry. Pero this section is good enough. Questions:

•However, I was also looking forward to what exactly are the diversification potentials? Are we talking about diversifying from the copra production to other coconut-based products? Or totally diversifying to other non coconut-based products? What type of products are these and how viable are these in terms of financing sources and market viability (such as the trend in virgin coconut oil, cocowire, furnitures (if possible)? Do you have a model locality in the Philippines that has been able to successfully diversify their basic industry/crop, especially among coconut products?

•In terms of diversification also, aside from infra and credit access, you might also want to cite the importance of product development (DTI's byword) for other products. I assume they have programs on this, together with the DOST and maybe TESDA also.

•In terms of social capital, what is the ideal model for networking or clustering the producers so that they have better market control? How about the possibility of establishing a local coconut oil processing plant in the locality (through a private investor in the area) so that producers/farmers can go into value-adding and promoting downstream industries? Speaking of clustering, what is the potential consolidating farmlands or products to achieve economies of scale, particularly in farm inputs and logistics?

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supported by Japanese Government through Japan Fund for Information and Communication technology. They support through technical assistance to strengthen credit management systems for SMEs and to develop the Philippine business registry. The International Finance Corporation, the private sector arm of the World Bank Group, launched the *IFC-Asenso, Assistance to Small and Medium Enterprises in the Philippines*. The IFC-managed multidonor initiative aims to support the growth of small and medium enterprises in the Philippines, especially Mindanao (IFC, 2005). Davao Oriental may take advantage of IFC's program since Mindanao is its core target for SME assistance.

Apart from this, the DTI regional offices have special assistance program for SME promotion. Their services ranged from providing information and communication plan, implementing and monitoring the Micro-Business Enterprise Law, harmonizing/simplifying/standardizing government business forms and fees, and reviewing government rules and regulations that impede the efficient conduct of business (DTI, 2005).

However, there remains numerous problems that SMEs face in keeping their sustainability. UNCTAD's study of SMEs in Asia indicated that obstacles include issues of unfair competition, complex business regulations, difficult investment approval systems and corruption (UNCTAD, 1998).

With the poor situation of the coconut industry in the province, there's a great need for farmers' problems be addressed by the provincial and other government agencies. Diversifying into producing other coconut product is a very attractive endeavour for the farmers, however, they would need all the support for them to prosper. And if courage is already given, and support facilities are in place, encouraging the locality to turn their livelihoods into SMEs is viable.

To encourage further establishment of SMEs, the provincial government must improve its physical (farm-to-market roads, transportation facilities, energy distribution and other public utilities as legitimate trading places for buying and selling coconut products) and social infrastructures (establishing addition high schools in farther municipalities in the province as well as vocational schools and health facilities. Since the country is still a leader in coconut oil export, the province must maintain its coconut areas. However, farmers are encouraged to venture into other livelihoods activities provided the presence of financial facilities.

The province has many aspects to offer. As a top coconut producing province, a coconut based SME sector have chances of prosperity if government bodies i.e. PCA, DTI, DOST, the Technical Education and Skills Development Authority (TESDA), Provincial Government, local and international credit institutions and the coconut farmers work together for its endorsement. In terms of diversification, the DTI and DOST plays an important role here in introducing innovations in coconut production. Product development is also vital to enable the farmers engage in producing other coconut goods. PCA has been promoting other coconut products for sometime now. PCA's regional office has yet to disseminate these kinds of advancement. PCA can ask the coordination of TESDA in educating the coconut farmers to new coconut technologies.

Strengthening the social capital as priority for intervention is highly needed for the case of the small farmers and farmworkers in Davao Oriental. The World Bank (1999) argues that evidences show that social cohesion is critical for societies to prosper economically and for development to be sustainable. Belonging to social groups, farmers' organization in the case of the small coconut farmers can lead to (a) lowered transaction costs due to trust and cooperation (can be within the organization or among organizations in the same network), (b) expansion of networks, and (c) reciprocity and exchanges promoted facilitating cooperation. Apart from this, membership to farmers' organization offers other benefits to members as long as they maintain their trust and cooperation to organization's goals and activities. Benefits include (a) opportunity to undergo trainings and skills enhancement related to agriculture. This aspect falls under developing further farmers' human capital. On the other hand, organizations may (b) offer credit facilities to farmers. Consequently, if social capital is in place, a component of human capital (training and skills enhancement) and an element of financial asset (resources obtained through credit institutions), are somehow secured. Social, human and financial capitals are important to secure if farmers think of diversifying from copra production.

Requisites mentioned above play significant role for the promotion of SMEs. Apart from playing a vital function in enhancing the national economy, SMEs must ensure the development of localities and communities as well as promote local participation through employment by developing sustainable income-generating livelihoods based on coconut processing.

With the poor capital the farmers in Davao Oriental have, desolately, SMEs are unlikely sprout. This is another set of challenge for policy makers who believed that poverty may be reduced through developing the SME sector especially [in this case, though the coconut industry sector]. Apart from this, general macro-policies, agricultural and trade policies, monetary and financial policies as well as direct and indirect tax policies of the country, and application of labor standards must be firm and in place supporting SME growth. For livelihoods to likely develop into SMEs, basic provisions should be addressed first.

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<sup>1</sup> A coconut-based non-government organization that leads the movement for the release and redistribution of the coconut levy fund from the Philippine Government.

<sup>2</sup> Annual production of 1.31 million metric tons while Quezon province<sup>2</sup> only posted 1.02 million metric tons. In 2001, the country had 297,438,528 coconut bearing trees, nearly half of which (47 percent) were in Mindanao; Davao Oriental had 21,040,500. In copra terms, the country brought about 2.544 million metric tons valued at PhP26, 686,560.00 at PhP10.49<sup>2</sup> per kilo. More than half of the total nut harvest (56.53 percent) came from Mindanao<sup>2</sup>. Of that contribution, Southern Mindanao region produced almost half (46.94 percent). Davao Oriental accounted for about one-third of total nuts produced in the region (32.6 percent). Among the coconut producing provinces in the country in 2001, Davao Oriental recorded the highest productivity at 8,816 nuts per hectare (Taya, 2004).

<sup>3</sup> It is a fat consisting of over 90 percent saturated fat extracted from coconuts and used in cosmetics and in baking as a cooking oil. Coconut oil provides seven percent of the total export income of the Philippines, the world's largest exporter of the product. ([www.wikipedia.org](http://www.wikipedia.org))

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<sup>4</sup> Tests have shown that to yield oil by pressing, coconut meat need not be dried to more than the ideal moisture content, now pegged by the PCA at 7 percent to 12 percent. The PCA requires copra dealers to maintain a moisture meter so as to determine the moisture content of copra that farmers trade with them.

<sup>5</sup> Taguibo Farmers Cooperative, Inc. (TAFARMCO), one coconut cooperative I have worked with in Mati does this kind of scheme so that transporting the copra is done once for the whole group in every two weeks; thus they sell copra by bulk.

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Coming up with the perfect ingredients for their buko pies is not a straight way to success. They also competed with other buko pie producers in their town. They came to rent several stalls to sell their product within their town and nearby cities as Manila. They invested also in packaging tapping the services of Packaging Research and Development Center. But to sustain further their small home-based enterprise, they sought the assistance of the Department of Science and Technology for financial support. They were able to acquire a loan of less than a million pesos without interest. The funds were used to buy equipments such as blast freezer, large capacity ovens and a mixer for mass production and export deliveries. They even furthered their production by complying to the Bureau of Food and Drug requirements for a well-maintained factory of buko pie. Letty's buko pie joined the trade expos and asked also the assistance of Center for Trade Exhibitions and Missions for marketing strategies ([www.inq7.net](http://www.inq7.net), 2004).

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Buko pie enterprise of Letty and Isagani proved that the product has potentially large demand domestically and abroad.