The Role of Socially Responsible Small & Medium Enterprises in Agricultural and Rural Development

by
Benjamin R. Quiñones, Jr., PhD
Founder & President
Coalition of Socially Responsible SMEs in Asia

The Global recession is a wake up call for Asia

- The global economy is unbalanced, unstable, uncoordinated, and unsustainable
- We need to challenge the old way and find a new recipe for a sustainable growth model
- A bold step is to call for a shift from manufacturing-led export growth to a less energy and resource-intensive model of sustainable communities.
The Current Global Recession

- The U.S. consumer is still the dominant consumer in the global economy
- Continental Asia is overly reliant on exports that feed U.S. consumption
- *Key source of tension:* Companies in high-cost developed countries realized efficiency gains by shifting production to low-cost platforms in developing countries. Multinational corporations increasingly substituted well-educated, highly motivated low-wage workers in developing economies for high-wage workers in their home markets. This has contributed to a stagnation of real, or inflation-adjusted, wages in many industrial economies.

FACTS (Stephen Roach, 2009)

- U.S. consumption expenditures totaled over $9.6 trillion in 2008, or 19% of world GDP (at market exchange rates).
- Growth of real consumer demand was nearly 4% over the 1996-2006 interval, *three times* the pace of consumption growth in Europe & Japan.
- America accounts for only 4.5% of world population, but its consumers spent about $10 trillion in 2008. By contrast, China and India collectively account for nearly 40% of world population, but their combined consumption was only about $2.5 trillion in 2008.
• Private U.S. consumption surged to a record 72% of real GDP in early 2007. This dropped to 71% in 2008, but still 4 percentage points above the pre-bubble norm of 67% that prevailed from 1975-2000. The boom became a bubble that has burst

• Personal saving rate fell from 5.7% in early 1995 to nearly zero from 2005 to 2007.

• Household debt hit a record 133% of disposable income by end of 2007, an enormous leap from average debt loads of 90% just a decade earlier.

• World exports moved up from 25% to a record 34% of global GDP trade over the 2000-2008 period. This was a boon to export-led economies.

• Export share of panregional Asian GDP hit 47% in 2007, 10 percentage points higher than the portion in late 1990’s. Around 50% of those exports were earmarked for rich countries.

• Meanwhile, the private consumption portion of panregional Asia’s GDP fell to a record low of 47% in 2007, down from close to 55% in 1997.
EFFECTS (Stephen Roach, 2009)

- Huge current account deficit and heavy foreign borrowing in the U.S. Huge foreign currency reserves in China & developing Asia.
- Export-led economies recycled their massive reservoir of foreign exchange reserves into US dollar-based assets. This kept longer-term US interest rates at exceptionally low levels.
- The interest rate subsidy became a key prop to bubble-prone US asset markets and the asset-dependent American consumer.

- The Asian region became overly reliant on exports, ushering in a savings-led growth. For China, nearly 80% of GDP went to exports and fixed investment, over 1/4 of which went to U.S.
- Surplus capital was recycled into infrastructure and dollar-based assets.
- Overreliance on energy, industrial materials, and base metals for export-oriented econ. growth.
- Pollution and environmental degradation. Asia now makes the largest contribution to total growth in global pollutants.
The SMEs in the Globalization Paradigm
(B. Quiñones, Jr., 2007)

SMEs are the backbone of developing economies.

In APEC economies, SMEs comprise 95% of all enterprises, employ between 40% to 80% of the workforce, contribute 30 to 60% of the GNP of APEC economies, and account for 35% of total APEC exports.

· But, SMEs have a host of weaknesses. Most of them are not able to export due to: incompetent management, inadequate skills, obsolete technology, lack of market information, low quality control, and inability to deliver on time. They are heavily dependent on General Trading Companies (GTCs) for access to export markets.

· They also lack access to bank credit. Financial institutions perceive them as highly risky because of low profitability, shortage of collateral, inadequate information disclosure, and systemic weaknesses in terms of human, technological and managerial resources.
The SMEs in the Globalization Paradigm

- Globalization has benefitted the export-oriented SMEs but adversely affected a greater number of them, particularly those whose local products are facing stiff competition from cheaper imports.

- The bulk of micro and small enterprises financed by Microfinance Institutions are engaged in trading activities. Many of them have become retail distribution channels for imported goods.

- The development of SMEs in developing economies are greatly influenced by consumption patterns in the rich countries of the developed world.

The old neoliberal economic model is a failure

- Neoliberal economic thought puts the individual enterprise - the FIRM - as the fundamental unit of development and economic analysis.

- This economic thought: (a) supports the role of industrial capital in driving contemporary economic development; and (b) subordinates the needs of the community to the commodity -oriented development of the enterprise.

- Communities are fragmented by vested interests of of business enterprises

- Communities are shaped by employment & income- generating opportunities generated by dominant enterprises. The lifestyle of the captains of industries greatly influences the local culture.
We need to rebuild sustainable communities

A sustainable community is a place where people thrive to enjoy good health & create a high quality of life. A sustainable community reflects the interdependence of economic, environmental, and social issues by acknowledging that regions, cities, towns and rural lands must continue into the future without diminishing the land, water, air, natural & cultural resources that support them. Housing, transportation & resource conservation are managed in ways that retain the economic, ecological and scenic values of the environment. It is a community where the consumption of fossil fuels, emissions of greenhouse gases, water resources and pollution are minimized.

(Maryland Department of Planning)

Case study of SE prototype: Dairy Supply Chain
### Dairy's potential for enhancing food sufficiency (1000MT)

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>TOTAL SUPPLY</th>
<th>TOTAL LOCAL PRODUCTION</th>
<th>IMPORT</th>
<th>% SUFFICIENCY</th>
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</thead>
<tbody>
<tr>
<td>Chicken (meat)</td>
<td>1,262.00</td>
<td>1,213.49</td>
<td>49.15</td>
<td>96.1</td>
</tr>
<tr>
<td>Pork</td>
<td>1,682.00</td>
<td>1,603.00</td>
<td>79.38</td>
<td>95.3</td>
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<tr>
<td>Beef</td>
<td>176.30</td>
<td>118.00</td>
<td>58.33</td>
<td>67.0</td>
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<tr>
<td>Carabeef</td>
<td>123.62</td>
<td>61.63</td>
<td>61.99</td>
<td>49.9</td>
</tr>
<tr>
<td>Dairy (source)</td>
<td>1,753.10</td>
<td>13.23</td>
<td>1739.87</td>
<td>2.0</td>
</tr>
</tbody>
</table>

We import ruminant-derived products!
Farmers are organized and trained

- Dairy farm mgt training

Continuing dialogue at the village level
Partner Farmers: completed training & become member of village dairy cooperative

Typical Small Hold Farmer
- Tills 1.7 Ha of rice farm
- P4,200 /mo; P50,000/yr
- Supports family of five

Crossbred Carabao
- Grows 2x faster
- Produce 3-4x more milk
- Potential Income P7,200/mo
- Good for work

Native Carabao
- Good for work
- Slow growth rate
- Poor milk production

Note: A similar scheme may be possible for Cattle or Goats.
The Youth (farmers’ children) are also given exposure training

Delivery of fresh milk to the milk processing plant

Dairy farmer delivering milk at the plant

Centrifuge mounted on tricycle
Students delivering milk on their way to school

Testing, pasteurizing & homogenizing fresh buffalo milk at the plant

Testing of Fresh Buffalo Milk  
Pasteurizing & Homogenizing
Bottling & packaging of fresh buffalo milk

Filling Milk in Bottles

Packaging of Buffalo Milk

Fresh buffalo milk is distributed thru mini-booths in shopping mall

SM North EDSA DVF Dairy stall
Fresh milk is also distributed via the Mall’s Supermarket

The Dairy Farm Supply Chain: Macro view
Overseas Filipino Workers (OFWs), foreign & local investors (DIP)
RICE FARMERS’ PERSPECTIVE
Economic vulnerability

Comparative Analysis – Soil Productivity

RICE FARMING:

Assumptions:
• Production hectare/year: 200 to 250 cavans – average of 80-100 cavans for rainy season & 120-150 cavans for dry season
• Price per cavan: Php 500.00
• 70% prod’n inputs, 30% net income to farmers

Projection Results:
Revenue/hectare/year (250xP500) = Php 125,000.00
Production Inputs = Php 87,500.00
Net Income = Php 37,500.00

DAIRY FARMERS’ PERSPECTIVE
Greater economic security

DAIRY FARMING:

Assumptions:
• One (1) hectare Napier grass= Feeds 20 heads of carabao
• Add’l prod’n of carabao w/ Napier grass= 3-5 liters/ day
• Milk Price = Php 45.00 per liter
• Production period of milk = 10 months

Projection Results:
Sales per hectare per year:
• 3 Liters (3x20xP45x300) = P 810,000.00
• 5 Liters (5x20xP45x300) = P 1,350,000.00
Alleviating Farm households from Poverty

Target Level __________ P 11,400

70% P 7,200

Poverty Threshold ----- P 7,017

Subsistence Income ------ P 4,870

Farm Income / Mo ______ P 4,200

Raising healthy citizens, enhancing social wellbeing

BEFORE
October 2003
Poblacion, Manolo Fortich

AFTER
December 2003
Poblacion, Manolo Fortich

ANGEL GRACE GALULA
Wealth creation thru social entrepreneurship for greater social wellbeing

Innovation by social entrepreneur helps diversify local economy

Rice straw baler manufactured by DVF Dairy Engineering being tested
Social entrepreneur enhances biological diversity, which contributes to diversification of local economy

DVF Dairy Forage Nursery

Dialogue between social entrepreneur & partner farmers builds up social capital and people’s participation
Underlying the solidarity of stakeholders are the ethical, relational, & success values inculcated by the social entrepreneur

**EDIFYING ETHICS/VALUES**

*Ethical values:* What does it mean to do the right thing for the right reason?

*Relational values:* How do you build an environment of trust & respect with others?

*Success values:* What goals are worth spending your life on?
People’s participation enhances sustainable local economic development


General guidelines for developing solidarity economy prototypes:

1. Determine (through participatory research) the current situation of a local community in terms of the 5 dimensions of a sustainable community.

   We may call this the “current mindset” on sustainable community.
**Building Solidarity Economy Prototypes**

2. Determine the aspirations of the residents (households and institutions) of the local community in terms of the 5 dimensions of a sustainable community.

   We may call this the “desired mindset” on sustainable community.

3. Design a capacity building & training program to close the gap between ‘current’ & ‘desired’ mindsets in terms of the 5 dimensions of a sustainable community. The program could identify both formal and non-formal elements of the learning process.

**REFERENCES**

Maryland Department of Planning ( ). Definition of sustainable community. As quoted by Institute for Sustainable Societies in ‘What is Sustainable Community’, downloaded from <www.iscvt.org>
