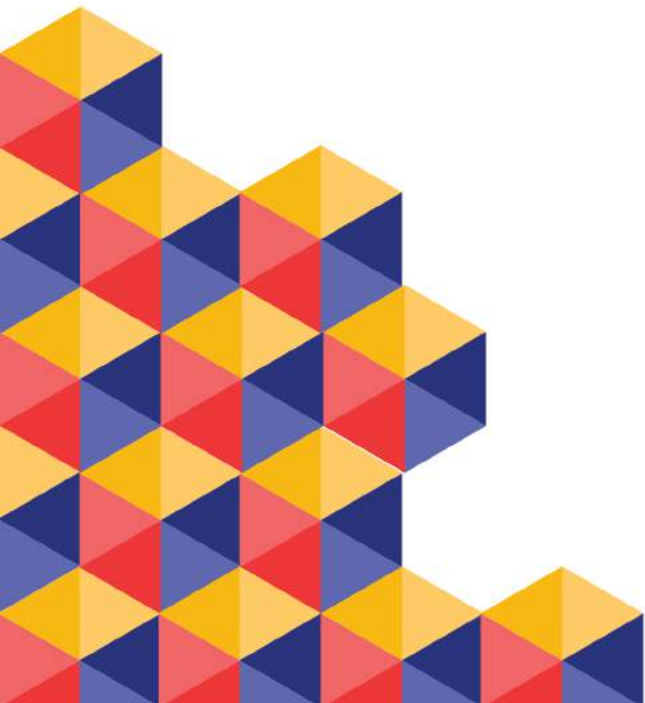




# BALI OIL PALM

PRODUCE CORPORATION





IB Imperative is a platform that calls for a collective response from the business communities, national and local government agencies, civil society organizations, and international development organizations that will actively work towards shaping an enabling environment for the development and implementation of more inclusive business projects.



Philippine Business for Social Progress (PBSP), the Philippines' largest corporate-led social development organization committed to poverty reduction and corporate social responsibility, is at a strategic position to effectively lead the promotion and implementation of this rapidly growing concept of Inclusive Business due to its experience, reputation, and access to resources.

# BUSINESS PROFILE

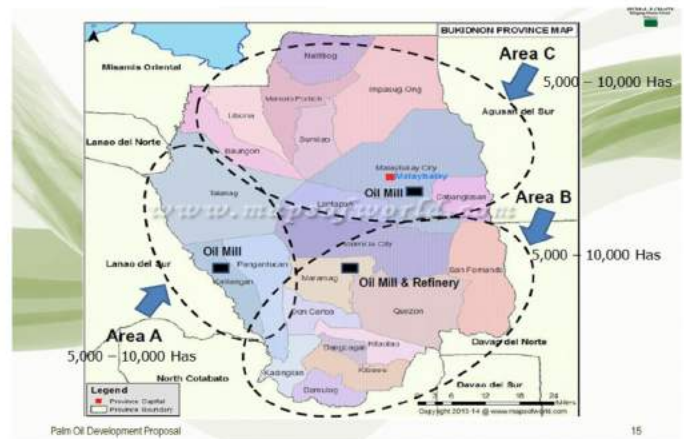
Bali Oil seeks inclusive prosperity with small farmers of Bukidnon. The lives of indigenous people, land reform beneficiaries, and other smallholder farmers of Bukidnon at the Philippine food basket of Mindanao are a study in irony. They lay claim to hectares of land, gently rolling and fertile and peaceful, nourished by year-round rainfall that fed into rivers, lakes and waterfalls. Yet, for generations, their families have been among the poorest Filipinos, and could only expect to remain so in the coming years. That is unless they can enter into active collaboration with enlightened companies and relevant stakeholders that would transform their farms into inclusive businesses.

**FIGURE 1. BUKIDNON PHASE 1**



Agribusiness entrepreneurs Manuel Boniao and Romeo Posadas, partners in palm oil farming and marketing, thought the situation was unacceptable from both the business and social perspectives. From the time they established their Bali Oil farm in Balingasag, Misamis Oriental in 2001 with its strong social enterprise features, they had

**FIGURE 2. BUKIDNON PHASE II: THREE OIL MILLS**



map of Bukidnon and nearby areas where Bali Oil is establishing new business model

been carefully studying how the said Bukidnon families and their landholdings could be made productive and sustainable, even replicable at significant scale in comparable farmlands. Over the years, the two farm entrepreneurs tried to fashion a business model that would be pioneering, innovative and reliant on holistic partnerships, driven by a shared vision of combining profitability and inclusiveness for, ideally, the entire value chain.

Bonio and Posadas were convinced that palm oil was an ideal anchor crop while providing for other high-value crops for the Bukidnon farming families they wanted to help and partner with. At the same time, they were aware of the hard work and risks involved in such a partnership, the issues that some palm oil growers in the region have had to deal with, the search for companies with financial and scientific resources and best practices in palm oil, and also the huge opportunities arising from the unmet demand for palm oil.



### FIGURE 3. BALI OIL'S VISION AND BUSINESS MODEL



Contract growing was the common scheme for palm oil growing, and in fact the Bukidnon farmers were familiar with its terms and resulting relationships with mostly Manila-based or multinational manufacturing companies. In this traditional model, the companies derived substantial profits from controlled investments with low levels of risks, while the farmers remained poor and uneducated.

But Boniao and Posadas thought this traditional contract growing model would not bring about the improved incomes, dignified standards of living, and sustainable enterprises that they envisioned for the Bukidnon farmers who would collaborate with Bali Oil and other stakeholders across the value chain. They established the Bali Oil Palm Produce Corporation in 2014 with the more inclusive business vision and strategies.

## BUSINESS MODEL: FUNDAMENTALS

In effect, they knew that had to make Bali Oil become a pioneer in inclusive business engaged in palm oil in the Philippines and perhaps in East Asia by crafting and launching

a business model that encourages convergence among large financial institutions, multinational companies, and government agencies tasked with supporting agribusinesses in impoverished areas. The same convergence must involve the small farmers themselves in an aggregated organization trained and supervised by Bali Oil and its technical partners. In a less explicit manner, the concerns of environmental conservation and the cultural heritage and uniqueness of the Bukidnon communities are taken into account and assured due care, as in the choice of idle lands, preservation of trees and living creatures, and the non-displacement of human and natural inhabitants in the areas to be cultivated or otherwise utilized.

### FIGURE 4. BALI OIL'S VISION AND BUSINESS MODEL

Region	Province	Municipality/City	Poverty Incidence	Standard Error (SE)	Coefficient of Variation (CV)
Region X	Bukidnon	Baungon	49.1	4.7	9.7
		Darmulog	52.2	4.9	9.4
		Dangcagan	39.9	4.8	11.9
		Den Carlos	42.0	3.3	7.9
		Impasug-ong	46.1	4.7	10.1
		Kadingilan	50.7	5.3	10.4
		Kallangan	51.3	5.1	9.9
		Kibawe	46.8	3.2	6.9
		Kifaotao	54.8	4.6	8.3
		Lantapan	40.8	4.6	11.3
		Libona	35.5	3.5	9.9
		Malaybalay City	34.6	2.7	7.8
		Maitubog	61.4	5.6	9.1
		Manolo Fortich	33.5	3.3	9.9
		Maramag	33.5	3.7	11.0
		Pangasinan	53.2	3.8	7.1
		Quezon	52.0	4.0	7.7
San Fernando	52.1	5.1	9.8		
Sumitao	40.2	7.0	17.3		
Talakag	50.3	3.9	7.8		
Valencia City	35.8	3.1	8.5		
Cabanglasan	45.2	5.7	11.4		

*Bukidnon with its 1.3 M people is the 7th poorest province in Mindanao, 13th in the Phils. Nearly half of 270,000 families earned less than Php 7,000 a month.)*



**FIGURE 5. BUSINESS MODEL: MULTI-PARTITE PARTNERSHIP**



*Multi-partite partnership will ensure inclusive and sustainable business.*

- Government agencies such as the Departments of Agriculture, Agrarian Reform, TESDA, local government units to provide local infrastructure, capacity building, and agricultural inputs, health, education and housing subsidies

- Bali Oil is principal but non-exclusive buyer, provides training and technology, and constructs oil mills and refineries in accessible areas

To ensure inclusivity, the Bali Oil model provides for the following features:

- Affordable and accessible financing – Development Bank of the Philippines, Land Bank of the Philippines, Philippine Exim (Export-Import), and private sector lenders
- Assured market for the growers' produce – Bali Oil will purchase all the produce and either export them or sell to local companies, but will not prevent farmers from selling to other buyers
- Philippine Business for Social Progress, other non-government organizations, corporate sponsors will provide social preparation, capacity building and community development

**FIGURE 6**



*Entire value chain must be inclusive.*

Bali Oil's inclusive business model calls for the integration and financing of the entire value chain from seed production, fresh fruit bunch production, oil milling, refining, and sale of finished products. This will assure benefits to be shared by all participants in the value chain.



## OUTCOMES SO FAR

On Sept. 25, 2014, the Development Bank of the Philippines granted a Php 300-million loan to the Kalilangan Oil Palm Growers Association Inc. (KOPGA) to develop 3,000 hectares for oil palm production intercropped with corn. The beneficiaries are 1,500 poor farmers. The loan, with a term of 10 years at 8% interest per year, is guaranteed by Philippine Exim Inc., making it collateral free. The farmers will not get cash but instead Bali Oil, with which the growers will have marketing agreements, will deliver all inputs to the growers' farm site. DBP as well as Landbank will grant similar loans to their borrowers who have marketing agreements with Bali Oil.

## FORMAL INCENTIVES AND COMPLIANCE

The project will go for all available government and corporate incentives that will help ensure inclusivity to the business, especially the farmers. The required but non-exclusive Marketing Agreements with Bali Oil actually signify that the engaged farmers will have the best financing terms, training in best practices in various aspects of cultivation and farm maintenance, subsidies and grants from government agencies and other stakeholders, and ready buyers in Bali Oil itself and its network of companies.

## BUSINESS NETWORKS AND PARTNERSHIPS

The farm budget per hectare, as validated by Bali Oil's experience in Balingasag, Misamis Oriental, is Php 164,000, covering both labor and materials including fertilization program for the four-year gestation period for the oil palm to mature. During this time, the farmer will be assisted in intercropping the farm with corn and other high-value crops.

The DBP loan covers 60% of the farm budget while the grower provides the 40% as his equity. Landbank, meanwhile, is willing to cover the whole farm budget with a loan.

Bali Oil is working with a Malaysian consultant for best farm practices which will be taught to the growers. Bali Oil is also working closely with Atlas Fertilizers to develop a fertilizer blend specially for oil palm and the soil conditions in the Philippines.

The Philippine Coconut Authority has granted a budget to the Central Mindanao University to establish a nursery for oil palm good for 400 hectares. The seedlings from the nursery will be given free to Bali Oil growers which will effectively reduce their loan obligations to DBP. Other alternative sources of support are to be sourced from: the Philippine Rural Development Program, Asian Development Bank, and Peace and Equity Funds in separate programs to support inclusive growth projects.

## SKILL AND INFORMATION NETWORKS

Bali Oil's management team will organize growers' associations into subdivisions by clusters, sub-sectors, sectors, and areas, depending on the size and contiguity of their farm areas. Each subdivision will have a leader and an agricultural technician. For growers with huge tracts of land, such as Indigenous Peoples, 50 families at five hectare per family can establish a sub-sector with 250 hectares around which a community can be developed.



Social preparation will be conducted with the help of the Philippine Business for Social Progress and its partner organizations.

GIZ of Germany has provided Php 2 million for the one-year operations of KOPGA to train its members in managing, establishment of accounting and logistics systems, and for transparency, good governance and management controls.

*The Cooperative Development Authority will be tapped to assist in the human development of cooperatives that will join the Bali Oil program.*

## **ACHIEVING SCALE AND PROSPECTS FOR REPLICATION**

This cultivation of 3,000 hectares under KOPGA in West Bukidnon paves the way for long-range business plan of Bali Oil and its partner - stakeholders. The initial contract grower base consists of a minimum of 50,000 hectares in Bukidnon in the next three years. In South Bukidnon, Bali Oil has ongoing negotiations for a Marketing Agreement covering 15,000 hectares, and in North Bukidnon, another 15,000 hectares.

The Bukidnon Sugar Farmers Association has expressed strong interest to convert 20% of their 72,000-hectare land into oil palm. They are waiting for Bali Oil to start its oil palm nursery and its oil mills which will serve farms within a radius of 75-90 kilometers of the mills.

For Misamis Oriental, a potential customer wants to partner with Bali Oil for the supply of CPO to its bio-diesel plant project which will need up to 500 tons of CPO per day.

In Davao City's Marilog district, two districts are interested to offer some 40,000 hectares in a partnership with Bali Oil, while in Davao del Norte, 100,000 hectares are available.

**Nurseries will be set up close to three oil mills in Bukidnon**, the first one to be built in Maramag. It will have a capacity of 30 tons per hour expandable to 60 tons per hour. A fourth oil mill will be built in Western Misamis Oriental to support the bio-diesel project.

Both DBP and Landbank have expressed support for Bali Oil's inclusive business model and are willing to finance the whole value chain. Project financing is available up to 70% of total project costs, while Bali Oil and partners will provide 30% as equity.

Bali Oil will seek Philippine Export Processing Zone Authority accreditation so that the oil mills and the nurseries, even the plantation areas, will enjoy fiscal and non-fiscal incentives.

**Another milestone marking Bali Oil's way to its inclusive business objectives for Bukidnon** and other Mindanaoan farmers is a memorandum of collaboration it signed on May 11, 2015 in Cagayan de Oro City with Felda Global Ventures. This will ensure that the growers will be planting the best planting materials available, and will have access to FGV fertilizers, training on nursery operations and plantation development, geographical information system and laboratory services, and a possible R&D and germinated seeds production center

Insofar as marketing and sales are concerned, Bali Oil has identified several major companies that are ready buyers of quality palm oil and other products, as well as the corn, cacao, and other high-value crops that the farmers will grow during and after the gestation period for oil palm.



## CONCLUDING STATEMENT

In its active collaboration with Bali Oil Palm Produce Inc., the social preparation team of PBSP has seen how this inclusive business model has distilled from years of living and working with Bukidnon growers a formula for shared prosperity and a way to overcome decades of joblessness and poverty. Its innovativeness derives from successfully putting together in a practical, down-to-earth way the elements that would bring in smallholders and their families into the sphere of benefits generated by the palm oil business.

The business model is risk-taking and radical only in the sense that the entire value chain, and all the key stakeholders within the particular segment, is engaged to invest, participate and profit. While the bottom-of-the-pyramid is given priority attention, inasmuch as they have been most excluded in traditional business models, the financial community, the technical and knowledge sources, the business managers, and the purchasers are given commensurate importance. It is noteworthy that every possible agency, and all potential collaborators including multilateral agencies are pulled into the conversation. Bali Oil has overcome the traditional reluctance of key stakeholders to inclusivity that was seen to heighten the inherent risks of agriculture. Albeit in its early stages which nevertheless are backed up by financial commitment, this is a major achievement in crafting Inclusive Business models.

