

## **Rice is Life: The Story of the Matin-ao Rice Centre Surigao del Norte Province, Mindanao**

**Community Economies Collective Kioloa Writing Group<sup>1</sup>**

**“The community needs social enterprises, it does not simply need employment”**

Over the past years Elsa, the woman behind the Matin-ao Rice Centre, has struggled with this statement. Elsa’s story exemplifies the tension felt by entrepreneurs who want to develop an enterprise that will generate a good return for a community of international investors and who are also pulled by the local community’s needs and aspirations for a better life. For Elsa and her group of migrant savers working in Taiwan the Matin-ao Rice Centre is an avenue of investment, a way to move from being an employee to being an investor and, for Elsa, a manager. For the Matin-ao community the Rice Centre has extended beyond a source of employment and trade in rice to become a source of community life, meeting basic food and farming needs, with Elsa herself providing community leadership and counseling. While Elsa had brought these two communities together, the migrant investors and the Matin-ao community, this is not what she had in mind at the outset.

Elsa always had strong business aspirations and saw her care work in Taiwan as only a beginning of a successful career. She began saving and joined a migrant savings group so that she could bid on a rice mill in her home town of Matin-ao, in the Province of Surigao del Norte, Mindanao. The seller and other bidder, a barangay captain, “completely underestimated Elsa” recalls May-an Villalba, Executive Director of Unlad Kabayan, and Elsa’s bid was successful. Elsa’s primary goal was to get the mill working so that it made a profit and generated interest for her investors, and she was willing to sacrifice her own income to meet this goal. Yet competition in rice is fierce and Elsa needed to offer farmers something better than the other rice traders. What began as a centre offering a higher price for rice to mill, has evolved into a center that supplies farm machinery to farmers on credit and a grocery store which enables the community to buy goods with credit.

The community that has grown around the Rice Centre has pulled Elsa’s attention away from sole interest in business and profits and towards consideration of the ways in which an enterprise might provide for the community—socially, economically and in relation to health and well-being. For Elsa these different directions each produce tension, for instance, she struggles to ensure that farmers pay off their credit in time and she is constantly trying to find new investors to ensure the Centre has the latest technologies to keep up with competition. Yet these tensions are productive ones and today the Rice Centre is described as a social enterprise to reflect its success as a business and at the same time its success in creating new assets and enterprises in response to community needs and aspirations.

### **Origins and Philosophy**

The Matin-ao Rice Centre began in Taiwan with a migrant investment savings group. Having worked for someone involved in a rice mill in Taiwan, Elsa directed the savings group to invest in a rice mill in her home town in the Philippines. By the time the bid for the rice mill was opened the savings group had gathered half of the money required for the bid. The first bid failed

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as it was too low. In December 2002 a second bidding round for the rice mill was opened. Elsa's savings group put in a second bid, which was successful.

Shortly after the bid, in January 2003, the mill was opened. In March, Elsa came home and immediately asked for assistance from Unlad Kabayan Migrant Services Foundation Inc. Unlad Kabayan sent a staff investment adviser and an engineer to appraise the property and discovered that the property was worth more than the migrant investors paid for it. This gave the group of investors, including Elsa, assurance that their money was well invested.

After the first rice harvest in 2003 the mill had losses. One reason for this was the initial repair work required on the mill. A business plan was developed with Unlad Kabayan. The planning process revealed that because that rice is seasonally produced, "milling rice is not enough" to sustain regular returns. After visiting other rice mills to see how they operated Elsa began *palay* (unhusked rice) trading in the second year of operation. However, there wasn't always rice to buy as rice farmers already had relationships with traders and Elsa did not have enough cash to buy their rice. So Elsa took out a loan, mortgaging and risking the entire enterprise. She also asked farmers "why aren't you coming to my rice mill?" and farmers told her about their relationships with traders, who they were often in debt to. Elsa responded by providing credit to farmers, especially for farm inputs. After talking to farmers' wives Elsa decided to provide credit in kind, so that cash wouldn't be diverted to gambling and drinking.

From the business plan and listening to farmers, Elsa knew that she needed to generate other enterprises. After accessing further investment, she opened an agrivet (agricultural and veterinarian) supplies store and later, in the fourth year, a grocery store. Elsa was confident in initiating these enterprises because she knew farmers wanted them. These new enterprises rented the property from the rice mill, providing an income stream to the rice mill and generating a profit for investors. All of the businesses lacked capital so in 2005 Elsa returned to Taiwan to promote enterprise investment by migrant workers. In 2006 the Rice Centre opened a farm machinery service in response to farmers' requests so that they could plough early before the rains stopped. In 2007 the Rice Centre bought a hauling truck.

Elsa has the spirit of an entrepreneur. She has been 'driven' to build up the Rice Centre as a business that attracts ongoing investment and has demonstrated that sacrifice, hard work and creativity are key to new enterprise development. This is exemplified by Elsa's investment in piglets. This venture was planned so that the capital invested in the pigs would be realized at a particular time. Pigs are an ideal sideline to rice milling as they eat the rice husks and household scraps. Elsa also has strong expectations that her workers will follow her example. She is committed to improving work conditions as profits allow and encouraging workers' entrepreneurial spirit.

Entrepreneurs, however, do not work in a vacuum. Nor is their market shaped solely by competition and supply/demand factors. What makes a *social* entrepreneur is the willingness to recognize the multiple and diverse factors that influence enterprise success and to direct business activity so that it contributes to and develops a community around the enterprise. The community thus shapes the enterprise, creating further opportunities for development by instigating ventures that branch out in avenues that might not have otherwise been pursued.

There would be no Rice Centre without the Matin-ao community and no community without the Rice Centre. An entrepreneur is not enough and the rice mill will not work on its own. The community's aspirations have been intertwined with those of the rice mill and its investors to generate the Matin-ao Rice Centre.

## Critical Success Factors

**Social entrepreneur:** The type and qualities of an entrepreneur can make or break the business. Elsa's determination to realize the dream of becoming a manager and employer was the initial driving force. Once a manager, she was even more determined to make the business viable and profitable. She was a risk taker but ensured that these risks are measured. She was not afraid to make mistakes and quickly learned from them. Her commitment to help the community through the enterprise helped to establish good community relations. Elsa had a tremendous reservoir of ideas and creativity that she put to practical use, and this eventually gave the Rice Centre a head start in the rice business in the community.

**Access to capital investment:** Economies of scale are critical to the viability of the rice milling business and this requires substantial capital. As a social enterprise, the Matin-ao Rice Centre had access to relatively patient equity investment from Elsa's fellow migrant workers and soft loans from government and the NGO.

**Social enterprise incubation:** Guidance, support and technical assistance from Unlad Kabayan, acting as a social enterprise incubator, allowed the Matin-ao Rice Centre to learn, make mistakes and grow into what it is now, a P3.5 million concern. Through Unlad's services, e.g. Savings and Investment Mobilization and lobbying work, the Centre was able to mobilize the resources it needed, when it needed them—the equity investment, the incubation fund, loans, business planning assistance, training in entrepreneurship and technology transfer and support of some government agencies. Persisting in its social mission and measuring its social return on investment, the incubator was able help the Rice Centre balance its social and business bottom lines.

**Relevance to community:** To be in the rice business in a rice farming area can never go wrong, so it is said.

**Good community relations/being one of the people:** Because Elsa was one with the community, had strong family relations among the farmers and returned migrants from the Middle East, her efforts were accepted as sincere. From just building good customer relations, Elsa's new business initiatives have become increasingly based on the needs of the community.

## Challenges

**Lack of capital:** It requires substantial capital for a business to maintain its position in the production chain and achieve a viable scale of production that allows it to have a competitive advantage. The Matin-ao Rice Centre had only a modicum of equipment and operating capital in the early years and this was one of the reasons why it incurred losses. Migrant workers could not generate capital fast enough to respond to the needs of the business. Unlad Kabayan, the business incubator responsible for generating investments, had its hands full with other businesses needing capital.

**Cash flow:** The seasonality of the business requires reserve capital to cover regular recurring expenses. A reserve fund must also be maintained for investors who decide to withdraw their investments after the required security period of three years.

**Increasing operational costs:** The prices of electricity and fuel which are the major operating expenses continue to increase. On the other hand, the price of *palay* and rice vary only so much from season to season.

**Inadequate government support:** In all these years, Elsa and the incubator tried to access financial support from the Philippines Overseas Workers Welfare Administration (OWWA) under their credit and reintegration program. Elsa kept on filling in forms and submitting documents for loans under the “Groseriya ni Gloria” program. At present, all of these are caught up in bureaucracy and not a single centavo has come in sight. The head office of OWWA encouraged Elsa to join the contest of “Overseas Filipino Worker family of the year”. But the winner was a doctor who worked in Brunei and who donated a clinic.

Government policy is crippling rather than enabling. Instead of supporting rice production to increase yield through technical support, access to capital, irrigation systems, improvements of farm to market roads and development of an accessible rice market highway, the government has left these critical areas of support to private hands and the workings of the market. The national government continues to import cheap rice from Vietnam and Thailand. This may have led one farmer to say “Crime does not pay, neither does farming.”

**Non-entrepreneurial practices:** For many years Filipinos have been taught non-entrepreneurial values and practices, such as a) to be employees instead of job creators and employers; b) to gamble for high stakes in the short term rather than to invest over the long term and get rewarded for hard work; c) to adopt the mendicant subject position, relying on charitable handouts—indeed in some cases, demanding that government and NGO resources should be ‘doled out’ because their workers are paid to serve us (the victims).

**Economic and business literacy:** Many migrants think that investment is something you put in and take out anytime, like savings in a bank. Others expect a quick return on investment and demand “instant and substantial” dividends. While they lack an understanding of mainstream business principles, they know even less about how an alternative economy might work and how they could be contributors to and beneficiaries of alternative wealth-creating and distributing business.

**Weather:** Weather changes pose problems to rice production and the business as well. An extended rainy season is good for farmers and production but delays *palay* drying. Milling *palay* with high moisture content results in broken or poor quality rice. Wet *palay* if kept too long starts to decay or sprout.

### **Final Words of Advice**

For more than 30 years, the Philippines has been sending migrant workers overseas on fixed term work contracts and receiving billions of US dollars in remittances during any given year. As a strategy to address unemployment and foreign exchange reserves, labor export has failed. There are more unemployed and underemployed today than 30 years ago. There more people leaving than ever before (almost a million annually).

Yet migrant remittances can be harnessed and turned into productive investments in a way that creates and mobilizes other local assets. As the case of Elsa and the Matin-ao Rice Center shows, social entrepreneurship and social enterprises create and distribute wealth in local communities. Entrepreneurs from local communities will not always start out with a vision of community development. Rather they are driven by the vision of a successful business.

Likewise, one cannot assume that there are pre-existing communities that will contribute to the development of a social enterprise. Both investment communities and local communities often need to be created and maintained. Responding to the two different communities is not easy and involves difficult decisions, including for instance, the decision to put the entire enterprise on the line for capital.

It is socially entrepreneurial incubators, like Unlad Kabayan, who help to put people at the center of development and the core of an enterprise's mission so that assets and resources are seen and acted upon. An alternative development paradigm involves building a community of social entrepreneurs, that is, everyday people who will initiate change, from bidding for a rice mill to, in the case of an employee of the rice mill, acting on one's own accord to fix a fence. These diverse actions at different scales demonstrate an important change in the mind-set of people, a change for better worlds.

## Business Profile

### Type of business:

Core business is a rice mill with 6 affiliate micro-enterprises

Farm credit; Farm machinery services; Agrivet Supply Store; *Palay* trading and Mini-grocery Store

**Year started:** January 2003 (rice mill)

**Structure:** Linked small businesses owned by migrant savings groups, operated by local managers.

**Headquarters:** Barangay Matin-ao, Mainit, Surigao del Norte

**Geographic market:** Six barangays in Mainit, rice outlets in Surigao City and Cabadbaran, Agusan del Norte

**Current Financial Performance** (January to August 2007)

Annual sales: P4.4 million

Net profit: P207,000.00

### Social Return on Investment:

Number of Employees: 19 (Full-time, 11 Part-time, 1 Seasonal, 8)

Number of farmers served: 129

Number of migrant investors: 66

### Investment:

Initial investment for the bid: P450,000.00

Total equity investment :

### Capital structure:

#### Equity

Taiwan 2,448,520.15

Korea 648,772.36

#### Loan

Quedancor 650,000

Unlad Kabayan 420,000

#### Donation

(Incubation Fund)

Hope Workers Center not available at present

Unlad Kabayan not available at present

**Net worth: P3.5 million**

### Assets:

#### Rice Mill:

Land 1,680 sqm; Building-

#### Palay trading:

hauling truck

#### Farm machinery services:

2 mud boats; 2 threshers;

warehouse; 2 milling  
machines; 99 sqm solar dryer;  
tool shed; weighing scale

turtle