

SOROSORO IBABA DEVELOPMENT COOPERATIVE (SIDC): BEST PRACTICES AND INNOVATIONS FOR THE ASEAN ECONOMIC INTEGRATION¹

ABSTRACT

This paper presents the case of Sorosoro Ibaba Development Cooperative (SIDC), the biggest and most successful agricultural cooperative in the Philippines. SIDC has been operating for 47 years already and currently has a total membership of 20,991. Its key business activities include feed milling and hog raising. In the advent of the ASEAN economic integration, the cooperative has continuously made an effort to prepare itself to the opportunities and challenges associated with the establishment of the ASEAN Economic Community (AEC). Among the best practices and innovations adopted by SIDC are the following: (a) the balance between economic viability and social relevance; (b) the two-level enterprise operation of the cooperative; (c) the assured quality and safety of goods and services; and (d) vertical integration of SIDC’s feed-to-hog businesses. All of these can potentially improve the competitive and comparative advantages of SIDC in hog and feeds sectors when it becomes part of the AEC. However, in ensuring its position in the ASEAN markets, strategic actions must be further taken to improve its competitiveness in terms of price and quality as well as its efficiency in production and marketing. The institutional support of the Philippine government, particularly of DA, and its cooperation with other cooperatives and private swine businesses are also equally important in optimizing the potentials of SIDC and the whole Philippine swine industry in the international hog and meat markets.

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I. HOG INDUSTRY IN BATANGAS, PHILIPPINES

The hog industry is one of the most important agricultural subsectors in the Philippines, contributing 16% to its total agricultural output. It is the second largest revenue earner after rice and a major source of food, income, and employment in the agriculture sector. Region IV-A (CALABARZON) is the country’s second largest hog producing region next to Central Luzon. In 2015, CALABARZON had a share of 15% to the total volume of hog production in the country while Central Luzon made up 20% of it (CountryStat Philippines 2015).

Among the provinces, Batangas is the largest producer of hogs in CALABARZON, producing a total volume of 131,416 metric tons (MT) or 42% of the region’s total hog production in 2014 (Figure 2). It is also the second top producing province after Bulacan. The hog industry of Batangas draws its competitive advantage from its proximity to urban markets and commercial centers in Metro Manila, Laguna Province and in Batangas itself. The availability of source of raw materials, facilities, and labor in the area is also a source of competitiveness. In terms of consumption, the strong demand for pork in Metro Manila and its adjacent regions has created the high viability of venturing into hog production business. As such, many residents in rural communities of Batangas have endeavored in small-scale or backyard hog production. However, the constraints in terms of high cost of feeds and other inputs, lack of access to affordable credit, inadequate access to profitable market, and tough competition with large-scale producers and foreign suppliers have made the avenue for productivity hard for them.

In order to address the constraints, small-scale hog producers have made a collective action in production and marketing of hogs and its products through a cooperative. Sorosoro Ibaba Development Cooperative (SIDC) is a leading agricultural cooperative situated in Batangas that has been helping its members and their communities in attaining a sustainable and viable hog business ventures.



Figure 1. Map of the Philippines

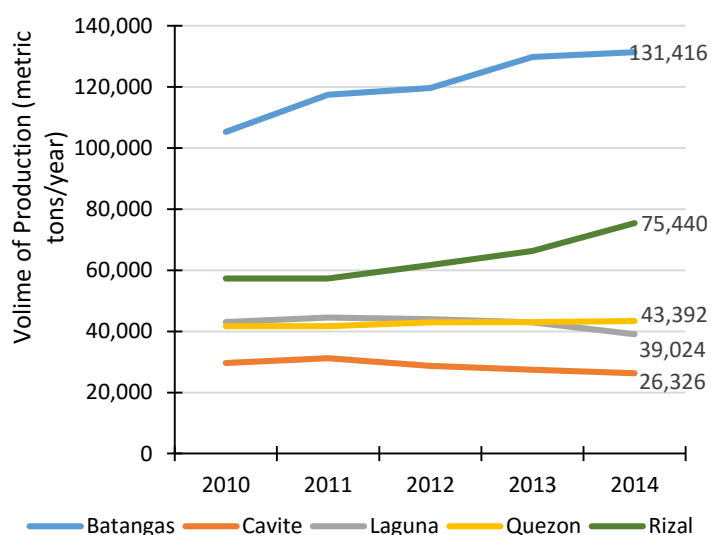


Figure 2. Volume of Hog Production by Province, CALABARZON, Philippines, 2010-2014

II. HISTORICAL DEVELOPMENT OF SIDC (1969 to present)

SIDC was first established as a small farmers’ association (Sorosoro Ibaba Farmer’s Association) on March 19, 1969. With an initial capital contribution totaling to PhP11,800, the association was organized by 59 farmers from Sorosoro Ibaba, Batangas City under the leadership of Mr. Victoriano A. Barte. Its first business was a goods store offering basic food commodities for the village or *barangay* residents and poultry and livestock farm inputs (e.g. feeds, veterinary supplies, etc.) for those who were raising hogs and poultry.

In 1972, the Sorosoro Ibaba Farmer’s Association was registered as the Samahang Nayon ng Sorosoro Ibaba, Inc. under the Philippine government Samahang Nayon Program. During the same year, it started to venture in hog and poultry contract growing to address the needs of its members whose key source of living then was hog and/or poultry raising. The success of contract growing attracted more Sorosoro Ibaba residents to join the organization.

In November 1978, when SIDC membership increased to 500, the Samahang Nayon ng Sorosoro Ibaba, Inc. was registered as a full-fledged cooperative under the name Sorosoro Ibaba Consumer’s Cooperative, which was later renamed as the Sorosoro Ibaba Development Cooperative Inc. (SIDCI) in 1983 and finally registered as Sorosoro Ibaba Development Cooperative (SIDC) in 1997. As a cooperative, it started an additional business activity in 1987, which was feed milling. Since then, SIDC has continued to invest in more agricultural and non-agricultural business activities, thereby better serving the needs and demands of its members and their communities and generating more employment for them.

Along with the expansion of its business operations, the membership base of SIDC, which is comprised of farmers, small entrepreneurs, workers, and households, as well as its areas of operation have also expanded substantially over the years. As of 2014, the cooperative has 20,991 members from more than 100 *barangays* in Batangas, majority of which are from Sorosoro area, and in other provinces of CALABARZON and nearby regions (e.g., Quezon, Laguna, Rizal, Bicol, Mindoro, Panay Island, Nueva Ecija and Tarlac). In terms of employment, it has a workforce composed of 284 employees. To further increase its reach to communities, SIDC has adopted three dying consumer cooperatives in Batangas City and two others from the provinces of Nueva Ecija and Mindoro. This “Lazarus Effect” initiative of SIDC does not only help members of failing cooperatives to continue their cooperative actions but also helps SIDC to substantially increase its membership at a lower cost and less amount of time.

At present, SIDC is considered the biggest and most successful agricultural cooperative in the Philippines. From a mere PhP11,800, the total equity of the cooperative has increased to PhP435.30 million with a savings mobilization (share capital) of PhP377.54 million as of 2014. Likewise, its total assets already reached PhP1.85 billion in 2014. In the same year, SIDC generated a total net surplus of PhP50.78 million (See VI. Annexes for more details).

This year marks the 47 years of success of SIDC. The success of SIDC is reflected in the several recognitions and awards it has received over the years (See VI. Annexes for the list of awards). Among its recent awards are the “Gawad Pitak 2013 Platinum Award,” the first and highest recognition given by the Land Bank of the Philippines as “an engine of growth,” and the “Internationally-Accredited Animal Feed Manufacturer Award” during the 2nd Livestock Philippines 2013 Expo and Conference. In 2014, SIDC also received a cash award from the Villar Institute of Poverty Alleviation and Governance as one of the ten leading community enterprises in the country.



D. Organic Fertilizer Production and Biogas Digester

With the increasing cost of fertilizer inputs, SIDC has come up with a business activity to help rice, corn and vegetable farmers save on input expenses. At present, it is operating the Koop Likas, a business engaged in organic fertilizer production and marketing for rice, corn and vegetables. Koop Likas fertilizers are primarily made of chicken dung and hog manure, which come from its own poultry and hog farms. These fertilizers are sold at SIDC CoopMart branches and are also provided to members as input loans.

The above business initiative is also part of its commitment to ensure environmental sustainability, given that the continuously expanding hog enterprises of SIDC raises an issue on waste accumulation in creeks and other water sources, which might be causing human and animal health problems among community households. To complement this action, SIDC put up its own covered in-ground anaerobic reactor (CIGAR) biogas digester to further control its farm wastes. The biogas digester turn organic wastes into low-cost renewable fuel, which supplies part of the power requirements of the SIDC main building.

In addition, SIDC maintains a “green farm” and organizes trainings on organic fertilizer production to provide technical knowledge and skills on production and use organic fertilizers as well as to raise their awareness on environmental protection and green growth.

IV. BEST PRACTICES AND INNOVATIONS OF SIDC

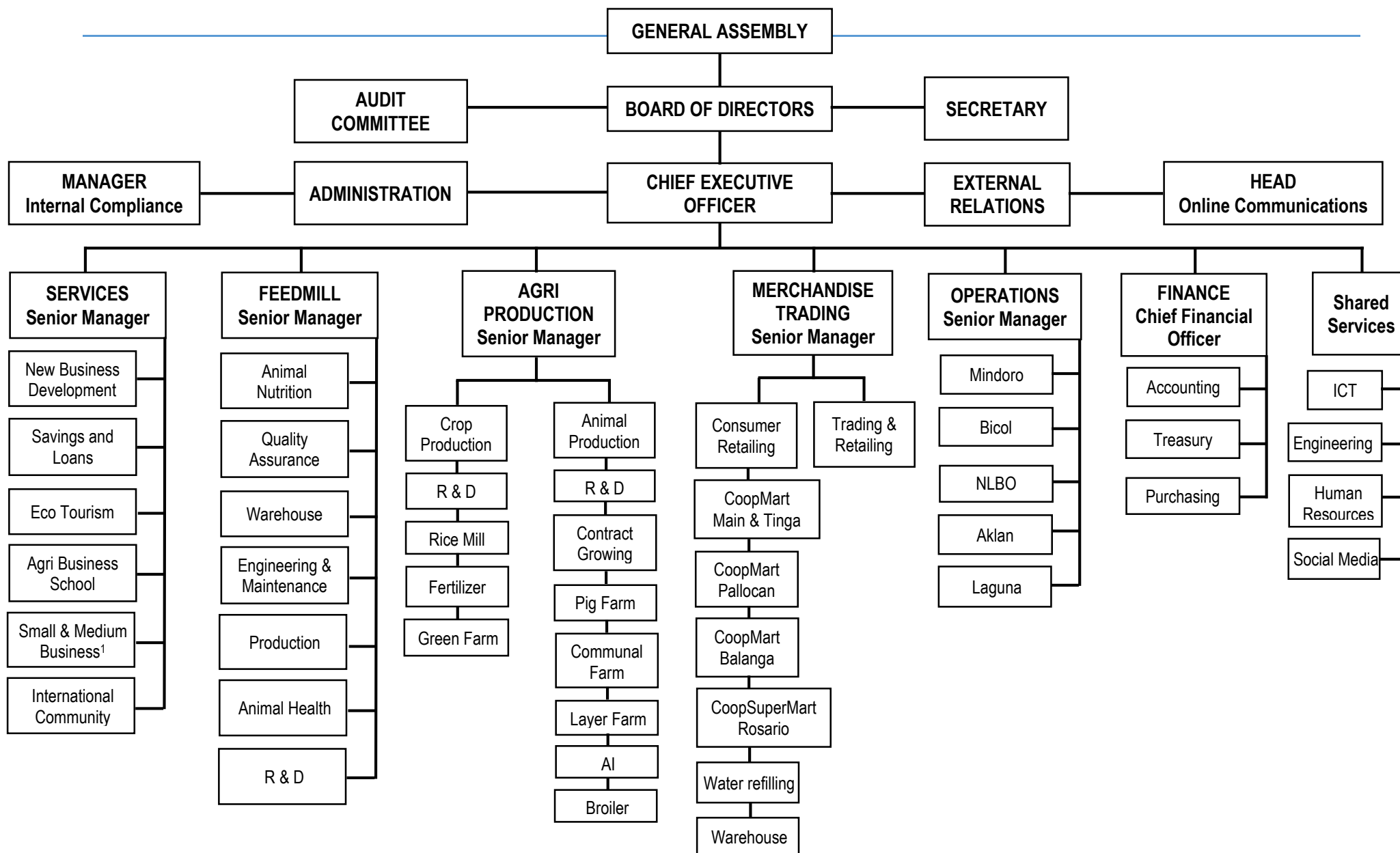
A. The Balance Between Economic Viability and Social Relevance

With the vision to be recognized as “a world class cooperative empowering stakeholders for sustainable progressive life,” SIDC fully adheres to the core values and principles of cooperatives. It is guided by the values of trust in God, integrity, excellence, teamwork, and nature stewardship and by its “S-I-D-C” quality policy, which stands for “**S**atisfaction of our members and customers, **I**ntegrity in everything that we do, **D**evelopment and involvement of our people, and **C**ommitment to continually improve our processes and our quality management system.”

In SIDC, the leaders and management team ensures that in every decision and action that they make, a balance between economic and social goals is achieved. As how SIDC Chief Executive Officer (CEO) Rico B. Geron describes SIDC’s commitment, it is about “doing good while doing well” – that is, doing good to and for its members and doing well in its business activities. The sustainability of SIDC as a socio-economic enterprise is a combination two elements: (i) democratic governance through participation and social equity and (ii) economic efficiency through better business environment and workplace practices.

The three-tier organization of SIDC is characterized by having democratic governance and strong member participation and structured management system. Members, as represented by the General Assembly, is the highest policy-making body of the cooperative (Figure 3). Under the General Assembly are the Board of Directors and then the CEO who manages and supervises the multi-level management and operations system of the cooperative.





¹ include catering, printing, and SMATV cable services

Figure 3. Organizational Structure of SIDC

B. The Two-Level Enterprise of SIDC

“Cooperatives do not just help build enterprises but are in themselves small or medium enterprises.” This is how CEO Geron explains in layman terms the two-tier enterprise operations of SIDC. To further explain, SIDC adopts two levels of enterprise operation:

- (i) *Member-level enterprise:* In SIDC, what a member does is his own enterprise. A member can engage in an enterprise according to his business plan and using his own capital. This opportunity is created by SIDC as conduit of the members’ enterprises. It support its members in many ways: as a source of capital (through its financing program); as a source of affordable and quality inputs (e.g., feeds, fertilizers, seeds, livestock animals, etc.); as a technical service provider (through trainings/seminars and veterinary services for livestock); and as a market for members’ products.
- (ii) *Cooperative-level enterprise:* SIDC engages in diverse businesses for two key reasons: to cater to the range of personal needs of its members and to generate income for the cooperative itself, which will then be shared among the members. In such endeavor, the cooperative is not only ensuring the stability and sustainability of the cooperative enterprise but also creates jobs and livelihood activities for SIDC members, which helps uplift their economic status. In addition, through SIDC, networks and linkages with government, non-government/private and other development agencies and organizations, which further expand the business and market opportunities of the cooperative, can be established and strengthened, which are otherwise impossible if done at individual or small-scale level.

With this approach, SIDC ensures that small entrepreneurial households and individuals are included in the local enterprise development. At the same time, organizing them as a cooperative strengthens them as a group of entrepreneurs. This allows them to achieve economies of scale and bargaining power in production and marketing, which in turn enables them to compete with larger enterprises and to tap existing profitable opportunities in the markets.

C. Assured Quality and Safety of Goods and Services

SIDC believes that every consumer has the right to have access to affordable, safe, and quality goods and services. One of the strategies of SIDC to ensure quality and safety of its products is by producing its own inputs (e.g. feeds and fertilizers with most of the ingredients coming from the cooperative itself) and providing in-house services (e.g., own pig multiplier farm and artificial insemination center) in the process of production and distribution. It also manages a class AAA (HACCP-compatible) and National Meat Inspection System (NMIS)-accredited slaughterhouse owned by the city government of Batangas to ensure control of food safety requirements for hog meat. In these ways, quality control and tracing are easily done and compliance standards are strictly implemented by SIDC across its businesses.

With a strong commitment to provide safe, reliable and good quality feeds to its members while ensuring productivity and competitive advantage in the feeds sector, SIDC has also conformed to International Standards and finally got an ISO 9001: 2008 Certification last December 2011.



D. Vertical Integration of Hog Enterprises of SIDC

Vertical integration is a business strategy that seeks to own and control two or more complementary business activities at different stages or processes of production and marketing (FAO 2002). Over the years, SIDC has expanded its business activities in a manner that controls a series of stages of the hog supply chain – from feed milling and input supplying to contract growing and retail marketing.

Under vertical integration, SIDC performs the interrelated business activities of feeds production, hog breeding, hog fattening, slaughtering, meat processing and selling. These activities are complemented with enabling mechanisms that the cooperative provides such as financial support, technical services and capacity building activities. SIDC serves as a sure market for the produce of its member contract growers and hog raisers. The purchased live hogs are then slaughtered and sold as fresh or as processed meat by SIDC in its CoopMart and CoopSuperMart, gasoline stations, and members’ retail stores.

Vertical integration provides a number of advantages. First, it can improve efficiency in terms of reducing cost of production (especially, input costs) of SIDC and its individual members and lowering transaction costs. Second, it minimizes the impacts of price risks and market shocks on its business. Lastly, it can enhance productivity and quality and sanitary standards of the products, allowing the cooperative to become more competitive especially in the export market.

V. Lessons Learned and Recommendations in the Frame of the ASEAN Economic Community (AEC)

A. AEC Opportunities for the Local Swine Industry and SIDC

In the ASEAN Vision 2020, “promoting ASEAN agricultural cooperatives as a means to empower and enhance market access of agricultural products, to build a network mechanism linking agricultural cooperatives, and to fulfil the purpose of agricultural cooperatives for the benefit of farmers in the region” has been identified as one of the strategic approaches that are deemed necessary to prepare the region’s agriculture sector for the ASEAN Economic Community (AEC) (ASEAN Secretariat 2008).

AEC opens up a range of opportunities for the Philippine cooperatives in different sectors of agriculture. However, failure to be prepared of the associated changes in the trade and business policies and environment might turn these advantages into disadvantages and challenges. Hence, it is important to be AEC-ready in the following years to come.

It is anticipated that demand for livestock products will continue to rapidly increase by 40% by 2025 as a result of rising population strong income growth and increasing number of ASEAN countries graduating to middle-income status (FAO 2015). Hence, livestock industry is one the region’s top priority sectors. Likewise, the industry is a priority sector of the Philippine government and gets full support from the Department of Agriculture in terms of improving productivity and competitiveness of the sector.

In the processed meat industry, hog meat is specifically identified as the commodity with the largest import demands that are not yet filled by ASEAN producers due to concerns over hygiene and animal diseases (Medrano 2015). With the supply and demand gap estimated at



US\$20 million value of demand for hog meat, the ASEAN market offers promising prospects for processed hog meat exports.

DA deems that the local swine industry has a great potential to benefit from AEC because of its several advantages over its counterparts in the ASEAN region. One of the country's biggest advantages, is that it is free from transboundary animal diseases such as foot-and-mouth disease (FMD) and zoonotic disease as declared by the World Organization for Animal Health. This makes the country an attractive trading partner and exporter of swine meat and other livestock products. To maintain this comparative advantage, DA has committed to have a strict surveillance and monitoring to maintain the country's FMD and avian-flu virus free status. It also continues to set up diagnostic laboratories for more effective diagnosis of animal diseases and to ensure safety of products sold in the market. In addition, DA recognizes the adequate human capital in the sector and strong organization of hog producers as another plus points of the industry. The country's low labor cost increases its potential be competitive exporter of meat to international markets.

Given the greater market opportunities for the swine industry expected from AEC, SIDC as an agri-based cooperative may take advantage of the expanding ASEAN market for livestock products in two ways – first, as a hog (live and processed) producer and second, as a feed supplier. SIDC is in the right track of preparing itself to AEC as it continues its efforts to expand its hog enterprises and improve the quality and safety standards of its products through technological advancement and innovations. Contract growing is the way to go to increase production in a cost-efficient way and to meet the volume requirements of the potential importers. Having its own source of inputs (e.g., feed mill) is also an advantage to the cooperative because it ensures stable supply of low-cost and quality feeds for its hog production. Physical facilities like the meat processing plant are also readily available as the cooperative invests in advanced technology and equipment. Lastly, with its ISO 9001: 2008 certified feed mill and HACCP-compatible and NMIS-accredited slaughterhouse, SIDC is gradually establishing the reliability of its products, which is a critical step towards penetrating and competing in the export markets.

B. Potential AEC Challenges and Recommendations to Address Them

Along with the opportunities from AEC are the possible challenges that may face the local swine industry and SIDC in particular. First is the need to have competitive advantage over other ASEAN countries, given that they are also expected to take advantage of the AEC opportunities. By being competitive, we mean being able to offer goods that are competitive in terms of quality and price. The challenge therefore is how to increase the quality of the hog products and/or feeds without substantially increasing the cost of production or while maintaining a competitive pricing for the products.

With the collective action and vertical integration approaches adopted by SIDC, it has, to some extent, effectively lowered the cost of production and marketing of its hogs and feeds. However, as the ASEAN economic integration approaches, stronger competition is expected because of the freer movement of goods and services across borders. Hence, there might be a need to further lower production cost and/or do value addition to the product to command premium prices.

At domestic level, hog meat imports have already tremendously since the mid-2000s as a result of trade liberalization. The increase is attributed to the decreasing tariff rates for

imported pork parts as well as to increasing incidence of technical smuggling and misdeclaration of pork imports in the country. The huge volume of imported pork offal, skin and fats sold at a very low price in the domestic wet markets has dampened the demand for local pork and has caused substantial losses on the part of local hog raisers and meat processors and distributors, including SIDC.

SIDC used to produce processed meat products using its own meat processing plant for sale at the local markets. Unfortunately, it halted its meat processing business in 2010 because of the stiff and unfair competition with the meat imports. With the full implementation of the ASEAN economic integration, there is a possibility for the situation to be exacerbated. While the smuggling issue is more of a regulatory concern (which, will not be further discussed in this paper), the local swine business must still continue to improve its competitiveness, if not in terms of price, at least in terms of quality and value added.

Given the increasing demand for hog meat and meat products in the world market, it is recommended that SIDC start planning the revival of its meat processing business. Processing meat is a form of value addition that can command higher prices at the local and global market. Packaging and labeling the processed products will further increase its price premium.

In terms of quality, SIDC must be aware of the non-tariff barriers that might constrain it from entering the ASEAN market and find strategies to deal with it. For instance, in Singapore, there is a strict sanitary and phytosanitary standards while in Malaysia and Indonesia, there is halal standards. If these are the markets to be targeted, SIDC has to make an effort to adopt Good Animal Husbandry Practices (GAHP), improve health services and standard requirement for animal and animal products, and maybe, if necessary, consider aiming for halal certification. Linking closely with DA and other concerned government agencies is also suggested to tap the available related technical and financial assistance offered to the local swine industry.

The other challenge is how to maintain a stable supply of hog meats to ensure that the cooperative will meet the demand requirement of the foreign buyers. In addressing this issue, SIDC has to operate efficiently in large scale with increased investments in physical capital and technological innovations. More than competing, cooperation is more important in this endeavor. Although SIDC is already venturing into contract growing, it might still need to partner with other cooperatives and private swine businesses to further increase its production and ensure adequacy of supply of the products, especially if the members fail to deliver. Pulling industry stakeholders together is necessary to make the whole Philippine livestock sector competitive in the ASEAN region. Additionally, SIDC must link closely with DA, the Department of Science and Technology (DOST). Swine Breeders Association of the Philippines on Public-Private Partnership, and other public and private institutions that are working on research and development, especially on new technologies that can increase productivity and improve efficiency of the Philippine swine industry.

To complement the suggested actions for SIDC and the whole local swine industry, institutional and policy support must be further strengthened to provide an enabling environment and to enhance the competitiveness of the sector. Government institutions play a key role in facilitating the compliance of local industry and producers to its trade partners' import standards. Its commitment to construct physical facilities like AAA abattoirs in partnership with the private sector must also be sustained for the benefit of local hog raisers.

For decades, SIDC has continued to provide affordable, quality and safe products and services to its members and the communities where it operates. It has strengthened the



entrepreneurial capabilities of its members and has created jobs in the communities through its progressive and development-oriented business activities. As an enterprise, SIDC shows great potential in tapping the opportunities associated with AEC. Its best practices and innovations that are suitable to AEC environment give SIDC an advantage to capture these opportunities and face the challenges. Continuous development and innovation of the hog business enterprises of SIDC will create brighter prospects for the cooperative as a market player in the AEC.

VI. ANNEXES

A. References

- ASEAN Secretariat. 2008. ASEAN Economic Community Blueprint. Jakarta: ASEAN Secretariat. January.
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B. Financial Portfolio of SIDC as of 2013-2014, in Philippine peso (PhP)

Items	2013	2014
Total Assets	1,649,885,973	1,852,528,702
Total Equity	392,812,539	435,295,066
Total Share Capital	345,598,880	377,540,232
Statutory Funds	29,219,140	32,278,103
Donations/Grants	2,551,656	11,682,360
Total Gross Revenues	222,951,906	274,354,254
Net Surplus	44,728,847	50,783,534
Patronage Refund Payable	10,242,693	30,028,350
Interest on Share Capital	25,987,673	11,106,313

Note: Average exchange rate of Philippine pesos (PhP) per U.S. dollar (US\$) was PhP44.40 in 2013 and PhP44.72 in 2014 (BSP 2016).

C. Awards Received

1. Most Outstanding Small Farmers Organization (1989)
2. Most Outstanding Cooperative, Gawad Pitak Awards (August, 1997)
3. Most Outstanding Cooperative, Third Place, Gawad Pitak (1996)
4. Best in Profitability, Gawad Pitak (1993, 1994, 1995 and 1997)
5. Best Co-op Citizen, Third Place, Gawad Pitak (1996)
6. Most Outstanding Filipino Enterprise, Feed Mill Project, Kabuhayan Awards (April 24, 1998)
7. Best of Hall of Fame Award, LandBank Gawad Pitak (August 6, 1998)
8. Outstanding Social Enterprise for People Development Livelihood Corporation (December, 1998)
9. Most Outstanding Agricultural Multi-Purpose Cooperative, Cooperative Development Authority (1999-2001)
10. Hall of Fame - Agricultural Multi-purpose Cooperative Category, Cooperative Development Authority (2002)
11. Outstanding Cooperative, Coop-LGU Partnership Award (July, 2003)
12. Outstanding Key Cooperative, Gawad Pitak 2006 Landbank of the Philippines (August 8, 2006)
13. Internationally-accredited Animal Feed Manufacturer Award (August 7, 2013)
14. Platinum Award Gawad Pitak 2013 Land Bank of the Philippines (August, 2013)



D. Photo Gallery of SIDC



All photos are courtesy of SIDC

SIDC-Koop

