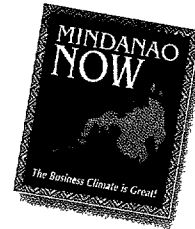




GROWTH WITH EQUITY IN MINDANAO PROGRAM

A Partner in

MINDANAO DEVELOPMENT



A MIDTERM REPORT : October 1995 - March 1998

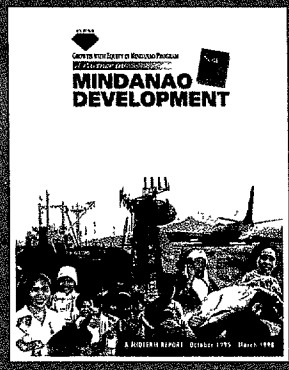
**GROWTH WITH
EQUITY IN
MINDANAO
PROGRAM**

**MIDTERM REPORT
OCTOBER 1995
TO MARCH 1998**



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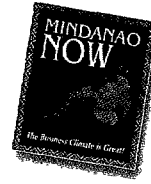
Randolph S. Sierra



GROWTH WITH EQUITY IN MINDANAO PROGRAM

A Partner in

MINDANAO DEVELOPMENT



The goal of the Growth with Equity in Mindanao (GEM) Program, which is funded by the United States Agency for International Development (USAID), is to help accelerate the economic transformation of Mindanao while ensuring that the benefits of growth are widely distributed among the people of Mindanao. GEM is a joint program of USAID and the Office of the President-Mindanao (OPMin).

Since it was launched in October 1995, GEM has helped more than 17,000 farmers raise their annual incomes by an average of 164 percent through planting higher value crops, adopting improved technologies and selling their crops to new and more profitable markets. GEM has helped improve income-earning opportunities for disadvantaged groups (including Muslim and indigenous communities) by involving them in various agricultural, aquaculture, agro-forestry and handicraft enterprises.

Through its institutional strengthening programs, GEM has extended technical assistance to 160 non-governmental and other people's organizations with a total membership of 38,000.

Working closely with the Moro National Liberation Front (MNLF), GEM is helping sustain the peace process through its "Emergency Livelihood Assistance Program" (ELAP). The program is helping 4,000 former combatants and their families to initiate or expand production of hybrid corn and seaweed.

The GEM Agriculture, Trade and Investment Development Program has helped attract US\$580 million worth of new private investment to Mindanao, resulting in the creation of 32,400 new jobs.

In order to further integrate the growing market centers of Mindanao into the global economy, GEM is promoting and supporting public and private infrastructure investment in roads, air and sea transport services, and telecommunications facilities. These infrastructure investments will link the island's producers with markets around the island, the country, and the world.

MINDANAO

Progress and Transformation

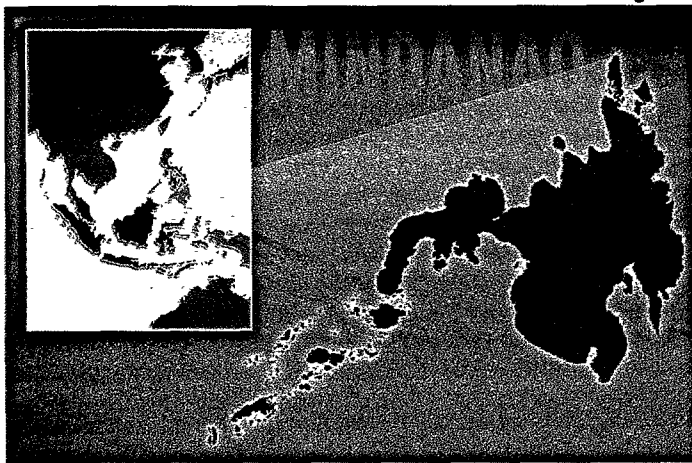
The shift to more market-oriented national policies, adoption of institutional reforms, and the implementation of Philippine Government peace initiatives with the Moro National Liberation Front and the New People's Army have launched Mindanao onto its current growth path. Successful efforts by the national government to deregulate and privatize the telecommunications, shipping and power sectors have resulted in the emergence of a more attractive investment environment. Large investments in infrastructure have brought improved ports, airports and roads that provide better, more efficient farm-to-market transport.

For many years Mindanao was a "land of promise" that drew thousands of settlers from Luzon and the Visayas, seeking new opportunities. However, from the mid-1970s to the early 1990s, a combination of deteriorating peace and order and a national government that was able to give only limited attention and financial support to the island, resulted in a poorly performing economy and a general sense in the remainder of the Philippines and the world that Mindanao was at best a land of little opportunity and at worst a dangerous frontier.

Strong support for Mindanao development coming from the national leadership elected in 1992 began rapid and far-reaching changes in both the economic realities and the public perception of Mindanao.

Developing Infrastructure Takes Top Priority

After years of under-investment in Mindanao, the Philippine Government, beginning in 1993, substantially increased its budget allocation for constructing and improving the island's physical and social infrastructure. Over the last five years, 773 kilometers of roads were paved, equal to more than half of all Mindanao road construction during the previous 17 years. Continued improvements in land and water transport are assured with a budget from the national government of PhP7 billion in 1998. More national government and donor funds continue to be invested, particularly in the Special Zone of Peace and Development (SZOPAD) and the Autonomous Region of Muslim Mindanao (ARMM). The SZOPAD is the area of Mindanao which, under the terms of the peace agreement signed between the GOP and the MNLF in 1996, is to receive a larger share of GOP infrastructure and other resources. The area encompasses the western half of Mindanao and the Sulu Archipelago. ARMM includes the Lanao del Sur, Tawi-Tawi, Sulu and Maguindanao provinces.



The Mindanao economy gained substantially from the Philippine Government shift from regulated to market-driven and private sector-oriented economic policies. More airline routes to and from Mindanao have been established. Growing passenger and cargo volumes are being accommodated through new, faster water transport services. Telephone installations have increased five-fold and availability of cellular phone services is widespread.

To promote business travel and regional tourism, the tax for travel to the East ASEAN Growth Area (EAGA) has been waived. Bongao Port in Tawi-Tawi has been declared an international port of entry. Travelers coming from or going to Malaysia need only border-crossing permits instead of passports.

From Raw Material Supplier to Agro-processing Center

In the past, Mindanao functioned primarily as a supplier of raw materials to the Metro Manila and Cebu markets. There was very little value-added processing on the island. During the past few years, however, a surge of investment, particularly in agro-processing, has begun.

All of the major broiler producers have expanded their operations into Mindanao. New breweries and ice cream plants have opened. A new cocoa processing plant will open shortly in Davao. Several major feed mill projects are under way. (See page 16)

Major investments are being made in the formerly shunned ARMM-SZOPAD. Development of what will eventually be a several thousand-hectare banana plantation, with a world-class clone nursery and a state-of-the-art drip irrigation system, is under way in Maguindanao utilizing foreign investment and technology. A Japanese corporation has committed to investing in a major seaweed processing facility in the Sulu Archipelago. A \$285 million investment in sugar production, processing and refining, also in Maguindanao, is in the final stage of negotiations.

As the pace of economic development increases with national government support, the different regions of Mindanao are beginning to define their own specialized but complementary roles in the economy of the island. Western Mindanao is becoming a flourishing commercial center; Northern Mindanao is leading the island's industrial development; Central Mindanao is firming up its position as the island's food bowl; Southern Mindanao is establishing itself as the island's center for tourism and agro-processing; and the Caraga Region is emerging as an agro-forestry corridor.

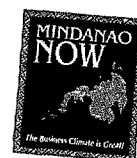
From Instability to Peace




A major milestone in the turnaround of Mindanao was the signing of the peace agreement between the Philippine Government and the Moro National Liberation Front (MNLF) in September 1996.

This has resulted in greater investor confidence, a more bullish economy and increased government spending for infrastructure projects. The SZOPAD has become the special focus of assistance for many donors, such as USAID, the Canadian International Development Agency (CIDA), the World Bank, the United Nations Development Programme (UNDP), the Japan International Cooperation Agency (JICA), and the Governments of the United Kingdom and New Zealand. (See *Partnerships*, page 34)

Mindanao Now!



While optimism abounds in Mindanao, more challenges lie ahead. Many Mindanao farmers and agricultural workers have yet to benefit from ongoing economic growth. More infrastructure (including farm-to-market roads and irrigation facilities) must be built to increase agricultural productivity. The new peace between the government and the MNLF needs to be nurtured and strengthened through meaningful social and economic interaction among the people of Mindanao, between Mindanao and the rest of the Philippines, and between Mindanao and the global community. Trade relations within BIMP-EAGA (Brunei Darussalam-Indonesia-Malaysia-Philippines/East ASEAN Growth Area) must be further augmented.

Mindanao development through the 21st century, as charted by the Mindanao 2000 Development Plan, must be aggressively pursued. The plan has been instrumental in integrating the regions of Mindanao while ensuring their specialized roles in the economy of the island. Helping accelerate investment growth in all areas of Mindanao while ensuring that the poor and disadvantaged areas and people receive a fair share of development benefits are key GEM objectives. 



THE GROWTH WITH EQUITY IN MINDANAO (GEM) PROGRAM

Growth with Equity in Mindanao (GEM) Program activities are designed to help accelerate private and public investment in all areas of Mindanao while ensuring that as many people as possible benefit from the improved economic conditions brought about by increased trade and investment.

GEM's activities are divided into three broad areas including: agribusiness and trade and investment development (Page 6), infrastructure development (Page 22), and policy reform (Page 30).

The GEM program focuses on "economic clusters" consisting of key cities and their hinterlands, including: the **Davao Gulf Region** (Davao City and the "Davao provinces"); the **Greater Northern Corridor** (the cities of Cagayan de Oro and Iligan and the provinces of Bukidnon, Misamis Oriental and Occidental, Lanao del Norte and Camiguin);

Central Mindanao (Cotabato City and the surrounding provinces of Maguindanao, North Cotabato, and Lanao del Sur); **Western Mindanao** (Zamboanga City, Zamboanga del Norte, Zamboanga del Sur and the Sulu Archipelago), **Sosksargen** (General Santos City, South Cotabato, Sarangani and Sultan Kudarat provinces); and **Caraga** (Butuan City, Surigao City, Surigao del Norte, Surigao del Sur, Agusan del Norte and Agusan del Sur).

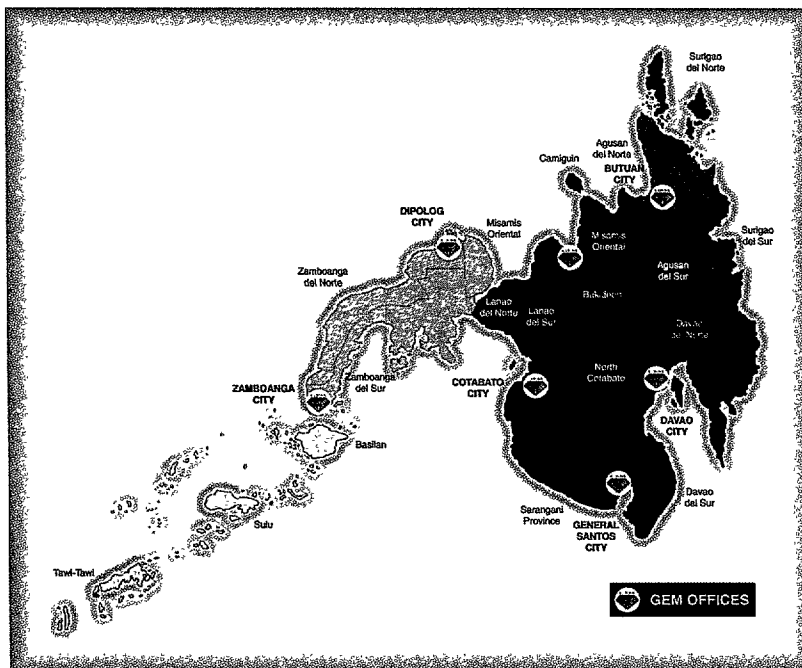
GEM's principal beneficiaries are the lower income strata of the Mindanao population. In 1995, these people made up about half of

Mindanao's 17 million population, with 65 percent living in rural areas and most earning their living through low-technology farming and fishing.

Agribusiness and Enterprise Development

GEM helps proponents identify and access markets, facilitates technology transfer, and assists producer associations, cooperatives, and small enterprises to obtain funds through bank loans or joint venture investments. It assists chambers of commerce and other business support organizations in their trade promotion and business development activities.

Linking Farmers and Fisherfolk with Markets. GEM helps link producer groups, including cooperatives, with potential buyers for their products and helps them forge marketing agreements. Once preliminary agreements are reached between producers and buyers, GEM assists the producer group to meet buyer specifications by providing technology and technical training and by helping producers access proper planting materials, production credit and other needs.





Supporting Producer Associations. GEM works closely with established industry and producer groups to make their members aware of business opportunities. The GEM program supports the conduct of workshops and conferences at which information on new markets, technologies, and other relevant data is disseminated. GEM also prepares and distributes information on opportunities arising from new or expanded markets, new technologies, improved trade policies, and a better business environment.

Supporting Investors. For potential investors, GEM provides market information, business referrals, business matching, joint venture linkages, financial packaging, and assistance in securing business licenses and permits. GEM also provides technical inputs to business plans and feasibility studies.

Assisting SMEs. GEM identifies suitable investment projects in which SMEs can

participate. It assists "key or strategic" SMEs (those SMEs identified by GEM whose establishment and/or functioning can trigger the establishment or expansion of a large number of related enterprises) draw up pre-feasibility studies and obtain bank financing, technical assistance, and training support. GEM helps promote joint ventures between SMEs and other investors. GEM works with the Mindanao Business Council (MBC), chambers of commerce, and industry associations to assist key SME sectors.

Promoting Investment Opportunities. Vital to the success of Mindanao's trade and investment development efforts is the effective dissemination of information on existing and potential business opportunities. GEM supports trade missions, provides technical assistance in designing

and publishing promotional materials, helps arrange business promotion seminars and workshops, and assists proponents in designing and implementing public relations campaigns.

GEM gives particular emphasis to investment projects that generate employment and those that significantly benefit women, Muslim minorities and other disadvantaged groups. Also targeted are transport firms and banks, whose services are vital to economic growth.


Infrastructure Assistance

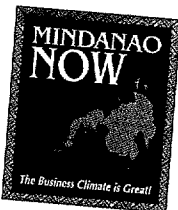
To ensure that infrastructure development is sustained, GEM works closely with the Mindanao Economic Development Council (MEDCo) to monitor major current and planned infrastructure projects whether funded by government, donor agencies, or the private

sector. GEM helps identify existing or potential problems with ongoing projects and suggests solutions. It also identifies possible new projects. GEM helps local government units identify, prioritize and

implement their own infrastructure projects. The GEM Program also helps build capacity for planning and obtaining financing for farm-to-market roads and rural water supply systems.

Policy Modification Assistance

Because Mindanao is a major producer and exporter of agricultural products, some national policies, particularly those pertaining to agricultural tariffs, agricultural quotas, land titling, shipping, and banking, have a major impact on the economy and people of the island. GEM helps private groups identify policies that may be detrimental to Mindanao's growth, explores alternatives that could increase development benefits and helps these groups design advocacy programs in support of the alternatives. 



Growth with Equity: Helping Farmers and Fisherfolk

In partnership with a range of government, non-government, and private organizations, GEM has assisted more than 17,000 farmers and fisherfolk to produce higher value crops, adopt new technologies and access more profitable markets. More than 18,000 jobs have been created directly and an equal number indirectly through GEM efforts.

GEM has worked with 160 producer cooperatives and NGOs to help them take advantage of economic opportunities in Mindanao. About 18 percent of those assisted are Muslims and 11 percent are members of indigenous communities.

One GEM-assisted effort that shows exceptional promise is with farmer associations that are pursuing agro-forestry enterprises. Dramatic increases in income are projected for these timber farmers when they harvest their mature trees eight to 10 years after planting (annual income increases in the range of 400 to more than 1000 percent appear likely).

GEM monitoring documents and an independent survey by Mindanao State University confirm Program impact on the target beneficiaries. The MSU survey indicated that GEM has contributed significantly to creating jobs and increasing incomes for Mindanao farmers and fisherfolk.

GEM has played a valuable role by providing training, technology transfer, technical assistance, and links to markets for farmers, fisherfolk and enterprises.

SUPPORTING FARMERS AND FISHERFOLK

In less than three years, GEM extended the following services to smallholder farmers and fisherfolk:

- introduced more than 17,000 farm and fisher families to more lucrative markets, higher value crops and new technologies;
- assisted in establishing 32 contract-growing arrangements and helped negotiate 52 marketing agreements valued at PhP4.5 billion involving 13,700 farmers and fisherfolk;
- assisted in the establishment of 18 “key” agribusiness enterprises valued at PhP 8.6 billion;
- funded or conducted 152 training seminars for more than 8,600 farmers and fisherfolk.



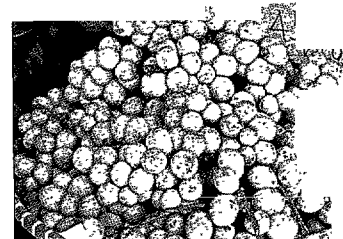
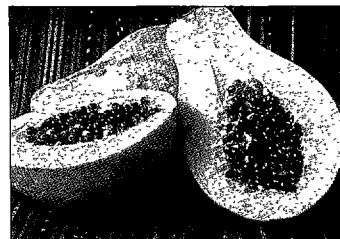
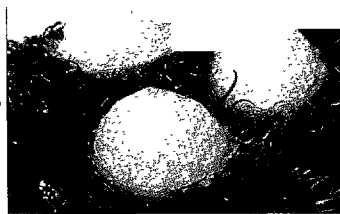
AGRIBUSINESS DEVELOPMENT

GEM's agribusiness development strategy emphasizes helping Mindanao farmers and fisherfolk by:

- linking farmer and fisherfolk cooperatives and other producer groups with buyers and providing the required training and technology for these groups to meet buyer-mandated product specifications;
- facilitating the entry into Mindanao of established large-scale agro-industrial corporations, both foreign and domestic, which can provide markets, technology and other essential services to farmers;
- encouraging existing small and medium agro-processing and agro-industrial enterprises to expand and promoting the establishment of new firms, particularly those whose establishment will facilitate the creation or expansion of large numbers of related enterprises.
- promoting investment in new large-scale agro-industries in which Mindanao has a comparative advantage because of access to markets, favorable agro-climatic conditions, and availability of raw materials.

Market development efforts are intended to improve the variety, volume and value of Mindanao-grown crops and to help provide access to profitable markets. Emphasis is given to adding value through improved post-harvest handling, quality control, and further processing. GEM agribusiness specialists are focusing on:

- increasing production of crops that can be competitively grown in Mindanao and for which large markets exist, but which are not currently being produced in substantial amounts;
- taking advantage of the year-round growing season; and targeting counter-seasonal production for domestic and foreign markets;
- promoting exports of high-value fresh fruits and vegetables, such as mangoes, durian, solo papaya, and asparagus to countries within the Asia-Pacific region;
- promoting value-added processing to produce products such as corn and potato-based snacks, peanut snacks, and fruit juices and purees; and promoting expansion of corn, flour, and feed milling and downstream cassava processing.



TARGETED CROP EXPANSION PROGRAM

In 1997, GEM initiated a series of "Targeted Crop Expansion Programs." TCEPs are focused on those commodities which have major scope for expansion of production, provide a good return to the producers, and can involve large numbers of farmers.

Mango, white potato, peanut, cacao, bananas, cassava, rubber, high value fruit (durian, mangosteen, lanzones, and rambutan), seaweed, and industrial tree crops are currently targeted.

In all cases, these TCEPs involve collaboration with other organizations such as the Department of Agriculture, Land Bank of the Philippines, various universities and others. This collaboration often involves financing or co-sponsorship of training support activities. (See *TCEP partners list, page 36*).

The following outlines efforts being undertaken under the various TCEPs:

Mangoes

GEM support for developing and expanding the smallholder-dominated mango industry in Mindanao has resulted in the availability of mangoes year-round. Production has expanded from 30,000 metric tons (mt) per year to about 40,000 mt. This is expected to increase to 50,000 mt by the year 2000. GEM assistance includes:

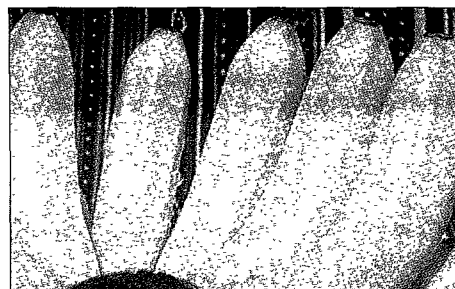
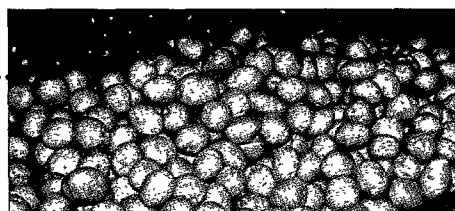
- facilitating the organization of several mango producer associations that eventually merged to create the Mindanao Mango Council;
- organizing and partially financing a continuing series of congresses and workshops to disseminate new information on market opportunities, varieties, and production and postharvest techniques;
- co-sponsoring and helping organize a successful Mango Industry Consultative Meeting in Davao City for about 400 key industry participants;

- preparing a database of major mango buyers and producers, indicating volume requirements and production and harvest schedules;
- negotiating with financial institutions to make more credit available to producers;
- successfully encouraging various local government units (LGUs) to organize mango growers, introduce growers and community leaders to GEM, and provide facilities and trainers for workshops;
- persuading Mindanao State University to set up a nursery for mango and other high value fruit crops; and
- obtaining technical and logistical support from commercial input suppliers.

High Value Fruit

GEM supports the expanded production of other high value fruit including durian, rambutan, mangosteen, and lanzones, which have good regional export potential.

The thrust is to expand production areas in order to cater to both domestic and foreign markets. To promote production of exportable varieties of durian, 11,000



seedlings were planted through GEM assistance. GEM is also promoting development of plantations of seedless lanzones for export as well as special sweet varieties for the domestic market.

Potatoes

The first harvest of the GEM-assisted white potato production project in Bukidnon yielded encouraging results. Chips processed from those potatoes equaled the quality of imported chips. (See *Partnerships*, page 36)

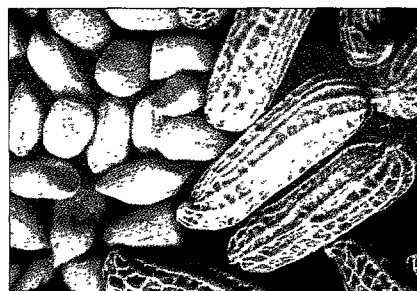
The project, undertaken by local farmer groups and the Universal Robina Corporation, is the Philippines' first successful cultivation of potato varieties suitable for processing. GEM is expanding the project to include additional buyers and growers. The target over the next three years is to increase growers from the present 200 (each planting an average 2.4 ha) to at least 2,000 farmers. The program is being undertaken in cooperation with the Bukidnon provincial government and with the DA *Gintong Ani* program. GEM plans to expand the program to other regions with suitable agro-climatic conditions. GEM is also working with the International Potato Center (CIP) to develop economical planting materials.

Cacao

GEM has linked several cacao producer groups with buyers and is working with them to help improve product quality through better post-harvest practices, which will help ensure higher buying prices. GEM is focusing on training and technology transfer with growers. The program will involve more than 1,000 farmers over the next two years and is expected to eventually affect 4,000 new growers and spread the growth of the cacao processing industry throughout Mindanao.

World supply of quality cacao products is projected to fall increasingly short of demand. Future GEM efforts will concentrate on making Mindanao a major supplier of quality cacao products for both domestic and world markets. (See *page 13*)

"The Targeted Crop Enhancement Program (TCEP) focuses on key commodities to bring economic opportunities to Mindanao farmers."



Peanuts

GEM has initiated a program to encourage growers to produce more peanuts of the varieties preferred by processors. Growers will need to learn new cultivation practices to obtain better yields and meet quality specifications. Serg's Products, Inc., Universal Robina Corporation, and other processors/buyers are cooperating with GEM in this program.

The Philippines currently imports 80 percent of its domestic peanut requirements (import demand has been growing at a rate of 20 percent over the past several years) and almost 100 percent of the peanuts used for processing. The GEM peanut program will benefit 3,000 farm families over the next two years and indirectly benefit, through its demonstration effect, some 10,000 Mindanao farmers within five years.

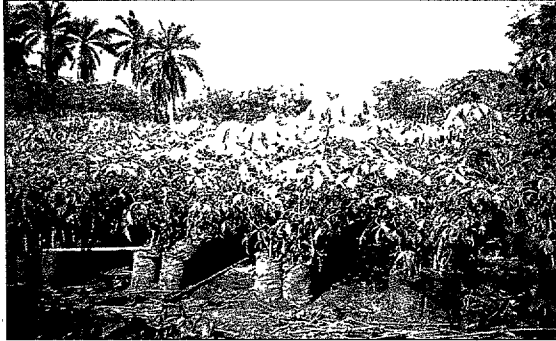
Bananas

Banana is considered the premier fruit crop in the Philippines today, since it constitutes the largest fresh fruit export. GEM is helping arrange several supply agreements between major *cardava* banana processors and producer cooperatives in Zamboanga and Butuan. The program is expected to directly benefit 4,000 farm families within the next two years and to benefit some 13,500 Mindanao farmers within five years.

Root Crops

GEM has linked several grower associations with two cassava buyers and forecasts expansion of the crop from the current level of 13,000 ha. to at least 23,000 ha. in the next five years. GEM agribusiness specialists are also supporting the expansion by La Tondeña (a rum producer) of an alcohol-processing plant that uses cassava as the principal raw material.

Boosting Rubber Production



A rubber industry development program supported by GEM is providing rubber producers in Basilan and Zamboanga del Sur with technical training in production, post-harvest and processing technology.

The two provinces produce more than 30 percent of the total Philippine rubber supply. The GEM program is also providing support for the establishment of processing facilities and development of rubber nurseries.

Natural rubber is an important commercial crop in Mindanao, with 200,000 ha planted. More than 50,000 farm families depend on rubber as their major source of income. Over 2,000 rubber growers in the two provinces will benefit from GEM initiatives.

Domestic and export demand for rubber continues to grow. Natural rubber, which accounts for about 40 percent of world supply, is mainly used for producing tires.

The Philippines produces about 67,000 mt of dry rubber per year with 60 to 70 percent consumed domestically. Production has not been increasing to meet the growing demand. A study conducted by the University of Asia and the Pacific forecasts that unless steps are taken to increase production, there will be a domestic shortfall of at least 23,000 mt of dry rubber by 2005.

In collaboration with the Philippine Rubber Industry Association (PRIA), the Management Association of the Philippines and the Department of Agriculture, GEM supported the first Mindanao-wide rubber congress in August 1997. The Congress provided an important forum for discussion of industry problems and directions by key industry players. ♦



Rubber

GEM briefed representatives of a Singapore-based company interested in developing 10,000 ha for a rubber plantation and introduced them to potential Mindanao-based cooperators and partners. The investor is considering a joint venture with an "ancestral domain association" in South Cotabato as well as with other potential partners.

GEM also helped arrange a rubber supply agreement between the Overseas Agricultural Development Corporation and the United Workers Agrarian Reform Beneficiaries Multipurpose Cooperative in Basilan.

GEM's rubber TCEP will directly benefit 2,260 rubber growers. It will ultimately benefit an estimated 10,000 Mindanao farmer families as they are induced to shift to rubber, which has a greater income potential than their current crops.

Timber

In addition to working with 12 groups of small-scale tree farmers to help upgrade their operations, GEM provided other growers with technical training and assistance in establishing nurseries. GEM has linked timber firms with farmer associations in the Caraga Timber Corridor. A timber congress is planned for mid-1998 to further develop these relationships.

GEM assisted in the organization of an NGO called Technology for Reforestation and Enterprise for Ecological Sustainability (TREES). This organization, whose main purpose is to promote reforestation, will co-sponsor the congress. (See page 11).

Proposed Timber Corridor to Engage Farmers



Training Support

Mango: Fifteen training activities for 1,101 mango growers were held under the Mango TCEP.

High Value Fruit: Thirteen training sessions on fruit production and post-harvest handling practices benefited 963 durian, mangosteen, rambutan, and lanzones farmers.

Banana: A GEM-assisted lakatan banana project in Cotabato Province trained 78 growers in "bunchy top control." One of the first activities was to set up a one-hectare model farm in cooperation with several commercial agribusiness firms. The project is expected to help substantially increase banana production in the area.

Rubber: GEM and the Department of Agriculture co-sponsored a rubber congress in Davao. Training seminars on rubber production and management were also held for more than 30 participants in Basilan and more than 40 in Agusan del Sur.

Outreach to Agrarian Reform Communities (ARCS)

GEM has also provided technical assistance and training in potato and high value fruit production for several ARCs.

GEM has also sponsored market-matching activities for other ARCs. Nine major buyers attended the first market-matching workshop in Davao. Products offered included bananas, cacao, peanuts, palm oil, coffee, corn, cut flowers, and vegetables. Three additional GEM-facilitated ARC market-matching sessions were held in Cagayan de Oro, Butuan, and Zamboanga. The sessions, co-sponsored by the Department of Agrarian Reform (DAR) and the United Nations Food and Agriculture Organization - Technical Support to Agrarian Reform and Rural Development (FAO-TSARRD) program, resulted in the signing of 12 marketing agreements between ARC beneficiaries and various commercial buyers.

Public and private sector leaders in Caraga are asking the Philippine Government to designate 303,688 hectares of forestlands in the region for sustainable community-based tree plantations.

Referred to as the Caraga Timber Corridor, development of the area for tree plantations will help strengthen the Philippine timber industry by increasing the sustainable supply of timber products for domestic and international markets. GEM is actively supporting this initiative and is advocating maximum NGO and private sector participation to manage the corridor.

The Philippines imports at least PhP4.5 billion worth of lumber a year to meet the supply gap of 1.3 million cubic meters for construction. Rising demand for lumber has drawn attention

to the need to identify more areas where trees can be planted and managed for sustainable production.

The GEM timber plantation project aims to provide local farmers with additional income opportunities by engaging them as outgrowers.

Caraga, which includes the provinces of Agusan del Norte, Agusan del Sur, Surigao del Norte and Surigao del Norte became the 13th Philippine region in 1995. The climate and topography of Caraga are ideal for timber production. ♦

Women's Co-op Taking Lead in Sericulture



SURALLAH, SOUTH COTOBATO—Women producing silk cocoons in this agricultural community can attest to the positive changes the industry is making in their lives.

One hectare of land planted to corn nets a farm family from PhP5,000 to 10,000 in four months. The same family can net PhP12,000 in only 28 days by selling dry cocoons cultivated from silkworms fed from one hectare of mulberry trees.

GEM helped introduce the cultivation of silkworms, or sericulture, to South Cotabato. The industry started as a part-time job for homemakers in Surallah, about an hour's drive from General Santos City. Members of 17 women's associations from every neighborhood in the municipality learned the basics of managing mulberry plantations and producing cocoons in April 1996.

"People said we'd never make money," says Dr. Sally Habaluyas, director of the project. But less than a year-and-a-half after they started, the project was prospering.

For members of the Federation of Surallah Women's Association, the spun silk project is a dream come true. GEM introduced them to joint venture partners, helped with their business registration, packaged the

project and introduced the association to the bank that financed the project.

Silkworm cocoon production requires adequate feed for the worms, which eat mulberry leaves. Mulberry grows easily in any type of soil and can be planted on hillsides to combat erosion.

The spun silk project is the first step toward establishing a Mindanao silk industry. The project has led to a Filipino-Italian joint venture, Philitalia Silk, Inc., which is currently building a spun silk processing plant in Surallah. The Italian partner in the joint venture is bringing advanced technology in spun silk production.

The joint venture is expected to produce 162,000 kg of high quality combed silk tops and yarns annually, for top fashion markets. The silk will be blended with other fibers, such as linen, cotton, piña, and ramie.

If the venture performs well, once sleepy Surallah could become the first silk cloth spinning center in the Philippines. ♦

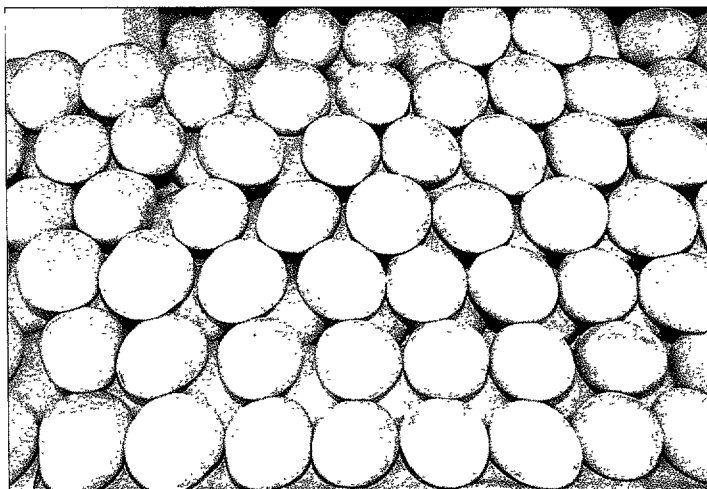
"With the help of GEM we were able to better focus our company vision of establishing a cold-chain trucking and roll-on-roll-off ferry service between Mindanao and Luzon."

Ireneo S. Ansaldo, *President and Chairman, ANSUICO*

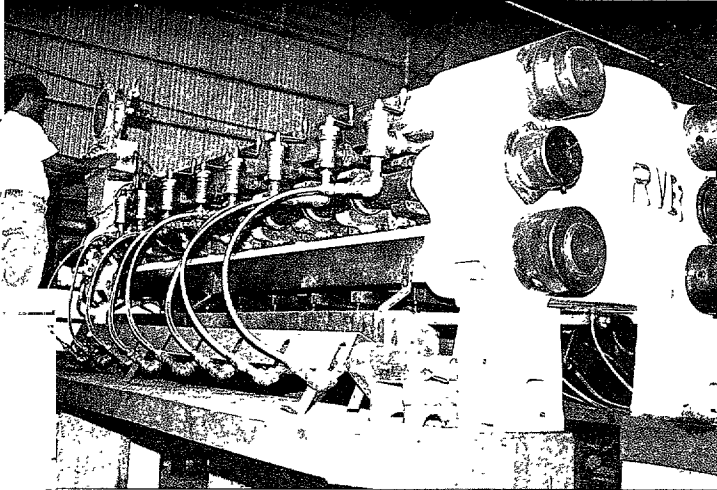
Vapor Heat Treatment Plant Establishment

GEM helped the Northern Mindanao Mango Growers Federation negotiate a joint venture with a Japanese firm. The firm intends to establish a Vapor Heat Treatment (VHT) plant in Cagayan de Oro to process mango and papaya for export to Japan. Land, labor and raw materials will comprise the federation's equity while Nissho Iwai will build and operate the plant.

The VHT process, which is used to destroy bacterial and fungal contamination on the surface of mangoes, papaya, and other fruit, is required for fruit exports to Japan. There are currently only five VHT plants in the Philippines, with four of these located in Manila. Until recently, mangoes from Mindanao had to be shipped to Manila for VHT treatment before export to Japan, resulting in serious quality losses and higher costs. The Japanese government recently agreed to provide an inspector for a Davao VHT plant. In mid-1998, a commercial VHT plant opened in Davao City. With a second plant to be constructed in Cagayan de Oro and perhaps more to follow, Mindanao is well-positioned to become a major mango and papaya supplier to the lucrative Japanese market as well as the Korean market, which is beginning to open.



Cocoa Processing Group to Help Develop Local Suppliers



GEM helped negotiate a partnership agreement between the Cocoa Foundation of the Philippines, Inc. (Cocoaphil) and Mindanao cacao farmers in a move to revitalize an industry that never entirely recovered from a mid-1980s slump in world cacao prices.

Sourcing Raw Materials For Processors

GEM is helping put in place a cacao, peanut, and palm oil procurement program for a recently established cocoa processing plant in Davao. At peak capacity, the plant will produce 10,000 mt of cocoa butter annually for export and chocolate powder for use by the company's Manila processing operation for production of chocolate confectioneries. Substantial quantities of cacao, palm oil and peanuts are needed for processing. GEM is helping identify grower associations that can supply these raw materials and is providing training for the growers. Palm oil for the processing plant will come from an oil palm plantation being organized by the mayor of the municipality of Datu Paglas, a Muslim community in Maguindanao Province.

Cold Chain Project

GEM is facilitating negotiations among three firms which could result in an integrated "cold chain network" in Mindanao. The existence of this cold chain will make possible a major expansion in shipments of fresh fruit, vegetables and fish from Mindanao to Manila and other regional markets. The firms involved are Ansuico, Inc., a trucking company based in Davao; Fresh Asia Produce, a Lapanday Group subsidiary involved in fresh fruit exports; and Cryo Refrigerated Transport Services Inc., a Manila-based container van manufacturer. These firms have initially agreed to synchronize their existing operations to achieve an integrated multi-modal refrigerated container transport service.

Cocoaphil, the Philippine representative in the ASEAN Cocoa Club, is composed of major cocoa processing companies such as Nestle Philippines. As the implementing agent of the Cocoa Industry Development Program (CIDP) of the National Agricultural and Fisheries Council (a DA-associated body), it has organized a pool of experts to identify high-yielding and disease-resistant cacao clones and to teach cacao farmers better farm management practices as well as improved harvesting and post-harvest techniques.

30,000 mt of dried fermented beans annually, farmers in Mindanao can currently supply only about 7,000 mt. The remaining requirements are being purchased from other supplying countries.

Mindanao cacao farmers are expected to benefit from the GEM-facilitated arrangements with Cocoaphil member-companies, which have committed to regular local purchases. GEM will monitor the supply arrangements between Cocoaphil members and growers to ensure their continued smooth operation. GEM is arranging technical training, including production of training materials under its cacao Targeted Crop Expansion Program (TCEP) to ensure that growers can meet Cocoaphil member requirements. The cacao TCEP is also funding some of the CIDP management expenses. GEM has been instrumental in helping cacao growers obtain production credit from Land Bank of the Philippines and other credit sources. ♦

The Philippine cocoa industry nearly collapsed in the mid-1980s when world market prices dropped precipitously as a result of oversupply. Southern Mindanao, where most of the cacao farms were located, was hit hardest. Large buyers such as Nestle increasingly shifted their sourcing to Brazil, which was a lower-cost, higher-volume source of beans.

While domestic cocoa processors require some

Mindanao Seafood Traders Target China Market

Mindanao seafood processors and exporters are confident that there is a promising future for their products in China, the largest and fastest-growing world market for seafood.

A Mindanao delegation organized by GEM joined seafood traders from throughout the world at the 1997 China Fisheries and Seafood Expo in Beijing. The Expo is the largest and most important exposition of seafood technology, equipment, and services in Asia. Some 200 firms from 27 countries joined 182 China-based companies in the 1997 exposition. GEM will send a similar delegation to the 1998 China Seafood Expo in late October.

China, with a population of 1.2 billion, is expected to be the largest single seafood importing country by the year 2000. Per capita annual seafood consumption in the past decade increased from less than five kg per person to more than 20 kg. Since 1990, China's reported annual seafood imports have increased from 370,000 mt to almost 1.4 million mt. Value of marine product imports rose from US\$400 million in 1990 to US\$1.5 billion in less than five years. This represents a promising opportunity for Mindanao seafood manufacturers.

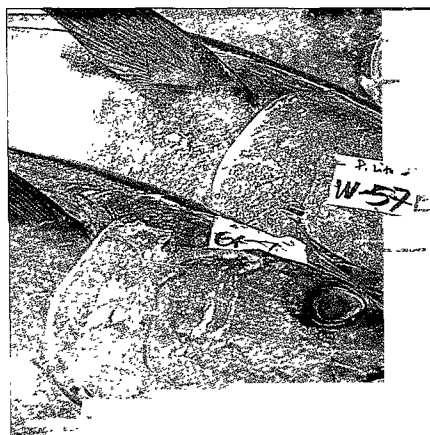
The delegation exhibit booth, "Seafood of Mindanao," showcased delicacies such as milkfish, sashimi-grade tuna, canned tuna and abalone. The Mindanao delegation included Sarangani Agri-

cultural Company, RFM Tuna Cannery, Celebes-Japan Food Corporation, Nova Farms and Rapid Air Freight.

The need for expansion of exports by the Mindanao seafood industry, which is utilizing only 30% of current production capacity, is obvious. GEM is actively encouraging Mindanao seafood industry participation in trade events of this type as a means of expanding industry exports.

The Expo gave Mindanao exhibitors the opportunity to meet with and learn from Chinese fleet operators, aquaculture producers, technical experts and researchers. Chinese seafood processors are upgrading their processing and packaging technologies to meet the demands of China's rapidly growing export and domestic markets.

In May 1997, GEM sponsored the attendance of Mindanao suppliers at a similar show in Hong Kong. The Mindanao business people who participated in these two shows made about 900 new market contacts. At least three firms have modified their product lines to meet the requirements of these markets. ♦



FISHERIES AND AQUACULTURE DEVELOPMENT

Fisheries Support Program

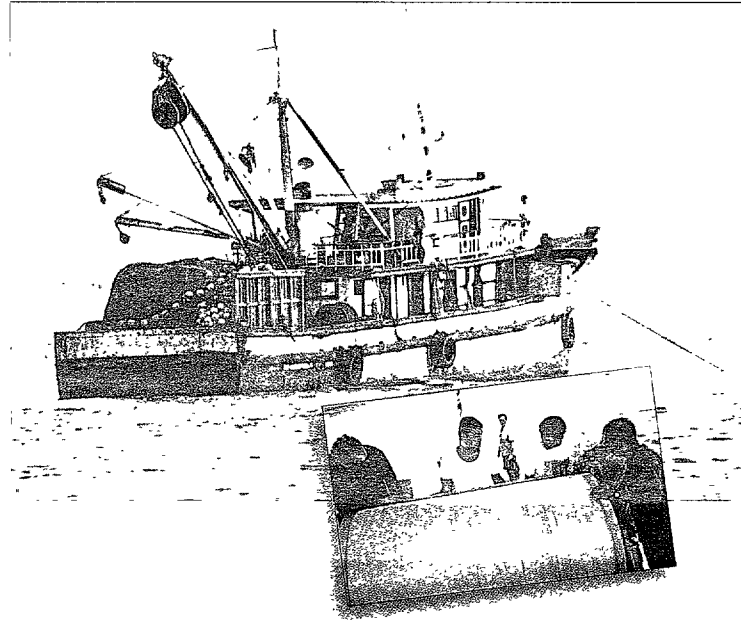
GEM works with small-scale fisherfolk throughout Mindanao to help improve their income earning capabilities. GEM's support activities for the Mindanao deep-sea fishing industry are focused on General Santos City, the second largest fishing center in the Philippines and the leading producer of sashimi-grade tuna. The fishing sector in General Santos has developed from subsistence level in the 1970s to the current multi-billion peso industry.

Combined commercial and municipal fish landings in General Santos average about 85,000 metric tons per year, with a landed value of more than PhP2 billion. Six major tuna canneries generate another PhP1 billion in value-added income. The fisheries sector employs about 30,000 people.

Catches in local waters have been declining in recent years, however. Average fish size is also decreasing, from 2.5 kilograms in 1985 to 300 grams in 1997. Principal reasons for the decline are over-fishing and the use of non-sustainable catching methods.

Changes in ocean currents and temperature associated with the El Niño phenomenon resulted in an estimated 40 percent decrease in fish landings in 1997. Local purse seine fleets as well as smaller vessels that fish in coastal waters have had to search further afield for fish. This resulted in higher operating costs. Incomes of subsistence fishing families have been severely affected.

The pending ban on Philippine vessels fishing in Indonesian waters represents another blow to the Mindanao commercial fisheries industry. Only Indonesian boats will be permitted to fish in Indonesian waters after 1998.



GEM fisheries strategy focuses on the adoption of sustainable and resource-sensitive fishing methods, as well as on reducing the pressure on local fish stocks by finding alternative income opportunities for small-scale fisherfolk. GEM fisheries sector development activities include:

Tuna Resource Management. GEM has been working to convince the General Santos-based tuna fishing fleet to convert to larger mesh nets in order to stop catching immature tuna. Members of the three purse seine associations based in General Santos City have agreed to make this change and some boats have already begun the practice.

Fish Aggregation Devices. GEM helped the General Santos Tuna Cooperative package a financial proposal to develop the first cooperative-owned *payao* system. (Payaos are offshore artificial floating shelters that attract tuna and other pelagic fish). The project promotes hand-line fishing as a sustainable fishing method.

The *payao* project aims to increase coastal fish resources and reduce operating costs for small fishing vessels. The first 25 *payaos* have been put in place, with more than 1,000 *banca* (small boat) fishermen benefiting from larger catches and lower operating costs.

Night Hand-line Tuna Fishing. GEM has introduced a new method of sustainable night hand-line fishing which will increase catch rates and improve fish quality for the *banca* operators. Twelve vessel owners have already adopted this technology.

Trap Fishing Program. GEM has helped 125 fisherfolk to change from small-mesh net fishing to the much more sustainable practice of catching fish in traps.

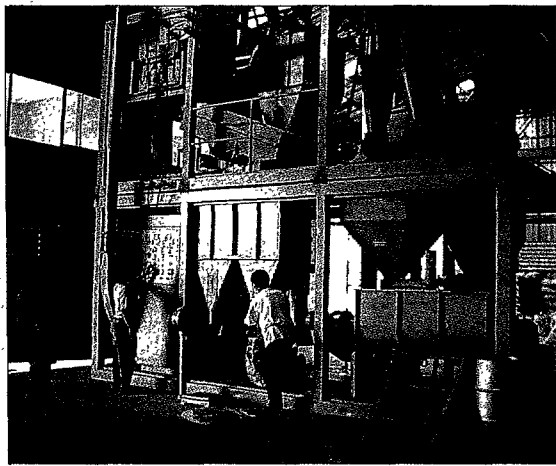
Negotiation of Access to Alternative Fishing Grounds. In cooperation with the Office of the President - Mindanao, GEM initiated fisheries access discussions with the Government of the Republic of Palau, which has indicated willingness to grant licenses to Philippine boats. GEM will also be involved in future negotiations with the Solomon Islands, the Federated States of Micronesia, and Papua New Guinea regarding fishing rights and right of passage through the waters of these countries to reach the southern Pacific fishing grounds.

Alternative Enterprises. GEM is helping develop mangrove crab and tilapia hatcheries, which will provide the foundation for new and profitable aquaculture enterprises. Fisherfolk will be able to participate in the grow-out operations.



SOSKSARGEN

Fish Feed for One Third Less Cost



Fish farmers in Mindanao can now purchase lower cost fish feed from a recently opened aqua-feed mill in Polomolok, South Cotabato.

The Jewel Feedmill, Mindanao's first commercial aquaculture feed producer, is producing fish feed that retails for one third less than similar commercial products. GEM assisted in establishment of the new mill. Because feed makes up the bulk of their costs, the lower cost translates into higher incomes for fish farmers.

The plant is currently manufacturing feed specifically for tilapia, but it can also custom-formulate feed for other species. The feed mill is targeting monthly production of 50,000 bags. ♦



Aquaculture Support Program

Fish and other marine and aquaculture products are important sources of income and food for the rural population in Mindanao. The main aquaculture products produced in Mindanao are seaweed, bangus (milkfish), tilapia, and prawns. Total Philippine aquaculture and seaweed production in 1996 amounted to 800,000 mt valued at US\$900 million. In the same year, Mindanao produced an estimated 461,000 mt valued at US\$200 million including 432,000 mt of seaweed and 29,000 mt of other aquaculture products (mainly bangus, tilapia and prawns).

The prawn industry slump in the 1980s, caused by disease and worldwide oversupply, left about 10,000 brackish water ponds idle in Mindanao. Increased production of milkfish, tilapia, and crabs, however, has partially compensated for the disappearance of much of the prawn industry.

GEM's aquaculture strategy consists of promoting the sustainable production and marketing of profitable marine and aquaculture products. GEM involvement to date includes 21 aquaculture projects, which have directly benefited nearly 5,000 fish and seaweed farmers. Notable among these projects were: the establishment of a tilapia hatchery in Maguindanao, a bangus de-boning facility in Cagayan de Oro, and an aquaculture feedmill in General Santos City; conduct of training seminars on growing tilapia in South Cotabato; assistance in setting up "grow-out" operations for mangrove crab in North Cotabato and Surigao del Norte; increasing seaweed production in the Sulu Archipelago; and linking tilapia and mangrove crab producers with domestic and export markets.

Future GEM fisheries and aquaculture support will be aimed at:

- establishing seaweed processing facilities in Tawi-Tawi and Jolo;
- creating a seaweed research and extension center at the Tawi-Tawi campus of Mindanao State University;
- establishing a hatchery in General Santos City for the production and distribution of an improved strain of tilapia;



- establishing mangrove crab hatcheries in Sarangani, Zamboanga, and North Cotabato provinces;
- expanding freshwater eel production in the Liguasan Marsh area; and
- promoting joint ventures for freshwater eel processing and marketing.

Support To Small And Medium Enterprises (SMEs)

Thirty-nine new “strategic” SMEs (those identified as being able to trigger expansion of related enterprises) have been created as a result of GEM support. Total investment in these SMEs has amounted to more than PhP656 million. They are involved in operating crab and tilapia hatcheries, manufacturing coconut coir, processing coconut oil, producing lime, processing charcoal, grain milling, organic fertilizer production, sweet potato and cassava processing, furniture manufacturing, marketing of cut flowers and ornamentals, seafood processing, freight forwarding, coffee processing, transport services, operation of tourist facilities and production of housewares.

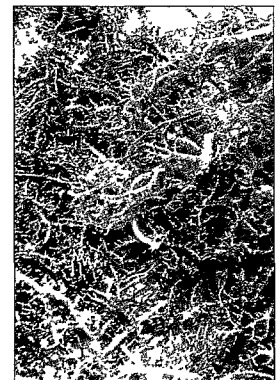
Under GEM’s Business Outreach and Strengthening Service (BOSS) Program, GEM is helping improve productivity and profitability of important SME sectors. The goal of the BOSS program is to strengthen the capabilities and competitiveness of SMEs in sectors with significant potential for growth and impact on the economies of their local communities. The program is being implemented in collaboration with the Mindanao Business Council and lead chambers of commerce. BOSS support made possible the participation of the Northern Mindanao Producers Association in the Kahimunan ’97 Trade Fair in Cagayan de Oro City. The BOSS program allowed the Philippine Food Processors and Exporters Organization (Philfoodex)-Northern Mindanao Chapter to host an international food show; and it assisted the Philippine Chamber of Handicraft Industries, the Chamber of Furniture Industries in the

NEW TECHNOLOGY

Testing the Waters: New Ways to Farm Seaweed

GEM is helping test improved technologies for seaweed farming in waters near Davao City with promising results.

The “net tube system” uses a cylindrical shaped floating net to house and protect *Eucheuma* seaweed growing in deep water. A trial conducted by GEM near Samal Island in cooperation with the Krislam Seaweed Growers Association indicates that seedlings grow much more rapidly with the tube system than with traditional techniques.



Floating deep water systems are more productive than those used in shallower waters because they can be placed out of the range of grazing herbivores, such as rabbit fish and sea urchins, which live close to shore. They also have better nutrient exchange and are free from much of the sedimentation that accumulates on seaweed grown close to the bottom.

GEM is also supporting the Mindanao State University Department of Fisheries in Tawi-Tawi in its seaweed research, development and information extension services. Tawi-Tawi and Sulu produce more than 70 percent of total Philippine seaweed output. ♦



Philippines, and the Tagum Chamber of Commerce and Industry to organize the Mindanao Trade Expo '97 and '98, which featured handicrafts, furniture, jewelry, and horticultural products.

BOSS helped train members of the following organizations:

- The Metalworking Industry Association of the Philippines-Butuan Chapter, in basic foundry operations;
- Classic Interiors (Caraga) and SME franchisees in advanced techniques in wood framing;
- The Association of Sosksargen Producers and members of the General Santos City Chamber of Commerce and Industry in fabric-based and fossilized flower making;
- The members of the Zamboanga Chamber of Commerce and Industry in wood finishing technology.

In cooperation with several SME associations and the Department of Trade and Industry, BOSS sponsored the fourth Mindanao-Palawan Trade Exposition at the Sabah Trade Fair in Malaysia in August 1997. Furniture, housewares, fashion accessories, gifts, toys, garments, processed food and other products from the ARMM and other regions of Mindanao valued at Php12.1 million were sold during the fair.

PROMOTING AND FACILITATING INVESTMENTS

From its inception the GEM Program has focused on identifying and helping provide access to more profitable markets for small-scale farmers and fisherfolk and on creating additional employment through attracting more private sector investment to Mindanao. The resulting new investment financed the establishment of processing facilities that add value to Mindanao agricultural and fisheries products; helped put in place business support facilities such as transport and banking services; and led to the establishment and expansion of numerous secondary industries which supply and service the needs of the major investors.

GEM-ASSISTED PRIVATE INVESTMENT PROJECTS

Implemented or being implemented
(October 1995 – March 1998)

Project Type	Number of Projects	Investment Value (In PhP million)
Contract Growing	26	1,478.10
Market Linkage	46	365.38
Key Agribusiness Enterprises	14	6,461.10
New SMEs	7	28.00
New SMEs/Joint Ventures	16	142.30
Other New Investments	37	3,440.95
Telecoms Investments	12	5,548.00
Infrastructure Investments	4	12.01
TOTAL	162	17,475.84

GEM staff work closely with potential investors to acquaint them with the favorable Mindanao business climate, and to help them identify prospective sites and local partners, financial sources, and potential markets. For food processors and others needing a reliable supply of raw materials, GEM identifies qualified groups of growers, links them with processors and provides the technology and technical training required for the growers to meet buyer specifications.

GEM has provided technical assistance to 274 businesses to facilitate their planned investments. Some 162 of these firms have already established ventures involving a total investment of PhP17.5 billion. GEM staff have conducted briefings on Mindanao trade and investment opportunities for more than 10,500 potential investors, other interested business representatives and government officials.

GEM continues to assist the Mindanao Business Council, chambers of commerce, non-government organizations and other business service organizations in the design and conduct of joint investment promotion programs. GEM has assisted numerous trade associations and government agencies to organize and/or participate in 44 major trade fairs and business conventions and has hosted and briefed trade and investment missions from Australia, Belgium, Brunei, Canada, Germany, Guam, India, Indonesia, Italy, Japan, Malaysia, Middle East, New Zealand, Palau, Papua New Guinea, Republic of Korea, Singapore, Taiwan, the United Kingdom, the United States, and Vietnam. GEM also organized, assisted and/or participated in 42 Philippine overseas trade missions. GEM is currently providing advice and technical assistance in the planning and promotion of four agro-industrial centers, in Koronadal, ARMM, Cotabato City, and Cagayan de Oro.

PROJECT	DESCRIPTION	GEM ASSISTANCE	IMPACT
Aqua-Feedmill Plant*	development of an 18-mt daily capacity aquaculture feedmill plant in Polomolok, South Cotabato by Jewel Feedmill	technical assistance	some 500 local fish farmers now benefiting from 30 percent cheaper feed cost
Mangrove Crab Hatchery"	development of the world's first commercial crab hatchery	GEM linked a mariculture R&D firm, Nova Pacific Research Foundation, with a large aquaculture company, SAFI	ready availability of crablets to interested crab growers
Mangrove Crab* Grow-out	promotion of crab fattening activities among Cotabato's marginal fish farmers	technical assistance and market linkage	450 crab growers producing approximately 50 tons of crabs in 1997 valued at PHP 9 million.
Trap Fishing Program	transition of Suluan Lecom Fishermen's Association from small-mesh net fishing to trap net fishing	technical information, shoreside demonstrations and financial packaging	150 association members employing trap fishing by end of 1997
Tuna "Farming"*	setting up of 30 payaos (fish aggregation devices) by the GSC Tuna Cooperative. First payaos were owned by handline fisherfolk	program design and implementation	The program attracted over 100 bancas, each with a crew of 10 handline fishermen, to concentrate on catching yellowfin tuna for the sashimi market
Tuna Management	three-phase program in cooperation with OPM in emphasizing resource conservation and encouraging self-regulation of the GSC tuna industry	preparation of economic model showing economic viability of shifting to large-mesh nets and increased profits through proper fishery management	
Fisheries Access	initiative to request Pacific Island states to provide access to Philippine vessels to their fishing zones	initiation of talks with concerned officials of requested countries in coordination with the DFA	verbal support from Palau and Guam senior officials to grant access to Philippine vessels as well as indication of desire to open regular trade with Mindanao
Diversified Seafood Processing	promotion of processing of farmed fish	technical assistance and provision of market information	emphasis on value-addition, particularly for aquaculture products that are traditionally sold whole such as milkfish, tilapia, and eel
Market Research and Product Promotion	campaign to introduce Mindanao seafood traders to the world market	sponsorship of booths at two major Asian seafood shows, the Hong Kong Seafood Show in May 1997 and the China Seafood Show in Beijing in Nov.1997	nine companies participating in the two shows established more than 900 marketing contacts, at least three of the firms are modifying their product lines to Asian market requirements
Seafood Marketing*	trading of mangrove crabs, tilapia, lobster, and seaweed	linkage of producers/processors with domestic and overseas buyers	market expansion of Mindanao seafood products
Tuna Workshops*	two workshops discussing "On-board Fish Handling" participated in by 50 purse seine vessel captains, three onshore workshops on night tuna handline methods	sponsorship of workshops aimed at convincing fishermen of the recommended methods' viability	quality of fish from 10 of the vessels improved markedly resulting in premium prices, 90 participants have adopted night fishing

Major Investment Projects

Most of the new investments facilitated by GEM in Mindanao have been made by Philippine firms, although several foreign investors have also been attracted through the GEM program. Some examples of new investments involve:

Tuna Cannery Modernization. GEM linked a financially troubled tuna cannery in General Santos City, which



was on the verge of going out of business, with another firm, which was seeking to expand its existing canning operation.

GEM helped to package a P60 million

credit line with an international bank, making establishment of the new venture possible. The cannery was modernized and expanded. New cold storage facilities were installed and a new wharf was constructed at a total cost of P615 million. The new investment saved 2,500 jobs.

Mindanao Express. The entry of Mindanao Express, owned by Corporate Air, an American firm, is helping solve the shortage of airline services between cities in

Mindanao. GEM helped Corporate Air secure its business registration, its right to the name Mindanao Express, the various permits and licenses required by the Civil Aeronautics Board, and its appointment as an official Philippines flag carrier in BIMP-EAGA. The new airline operates six commuter aircraft from its hub in General Santos City to destinations throughout Mindanao, including Davao, Cagayan de Oro, Zamboanga, Cotabato and Jolo. A general service agreement recently signed with Sabah Air has set the stage for launching Zamboanga-Sandakan flights. With the recent severe cutback in Mindanao services by Philippine Airlines, Mindanao Express has become even more important for business and other travelers in Mindanao. (See page 24)

Metal Plant Expansion. GEM helped a firm in Cagayan de Oro City expand and modernize a metal casting plant that produces spare parts. The upgrading of the plant at



a cost of approximately Php250 million involved installing overhead cranes and new foundry equipment. GEM assisted the firm in developing and packaging its business and financial plans. At least 250 new jobs resulted from the expanded operations.

Cement Trade Set with South Pacific Islands

DAVAO CITY — Mindanao is now exporting cement to Palau, a former United States trust territory in the Pacific.

In April 1998, the Davao Union Marketing Corporation (DUMC) shipped 1,500 metric tons of Portland cement to Palau, marking the start of trading activities between Mindanao and the Pacific Rim.

Art Milan, assistant vice-president of the Davao Union Marketing Corporation, says the company is also eyeing cement shipments to Saipan, Guam, and Yap Island this month. "We are hoping to regularly supply the cement requirements of the Federated States of Micronesia by the end of 1998," he adds.

In November 1997, GEM organized a top-level Mindanao business mission to explore trade and joint venture opportunities in Palau and Guam. The delegation was composed of businessmen and corporate executives involved in construction and construction materials, fisheries and aquaculture, tourism, general trade and air and sea transportation.

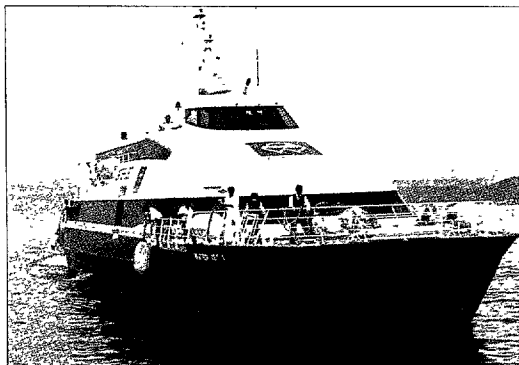
During the mission, GEM set up business-matching sessions between the Mindanao delegates and their Palau counterparts. Potential business deals discussed

included exporting cement, construction materials and aggregates to both Palau and Guam; housing projects in Mindanao; establishing a cement depot in Palau; and arranging distributorships for Mindanao products, such as marble tiles and roof materials.

Palau is a small island with a population of about 17,000 (less than one third that of Camiguin, the smallest province in Mindanao). About 5,000 Filipinos work in the island state.

A Mindanao-Pacific Rim Growth Corridor was established in 1997 to promote trade ties within the Pacific area. A market-led development approach is being pursued that focuses on large-scale trading opportunities with the Pacific island nations of Guam, Federated States of Micronesia, and Palau.

The economic growth zone concept focuses on expanding trade and other relations in fisheries, agro-industry, agro-forestry, natural coastal resources management and conservation, mining, infrastructure and sea and air transport services. ♦



Fast Ferry Services. GEM provided market information and market linkage assistance to Water Jet Shipping Corporation, leading to the opening in April 1996 of inter-island routes between Cebu-Tagbilaran-Cagayan de Oro and Cebu-Maasin-Surigao. The services are helping to greatly expand trade and travel between these destinations. GEM also helped organize similar fast ferry services in Zamboanga and Surigao cities.

Bukidnon Development. GEM is providing technical support for the implementation of the agricultural and agro-industries development components of the five-year Bukidnon Development Plan. Much of its support is coordinated through an agribusiness development task force created by Bukidnon Governor Carlos Fortich. GEM assistance includes identifying agro-industry investment opportunities such as high value crops with good market potential, helping to package and promote these opportunities, briefing locators, linking growers to buyers, and providing the growers with technology and technical training.

First Cagayan de Oro Business Park. A consortium made up of All Asia Capital, MinEnergy, CEPALCO, and Brierly Associates, a New Zealand venture capital company, is developing a 600-ha agro-processing industrial park near Cagayan de Oro. GEM is assisting in identifying potential agro-industries for the park and helping promote the advantages of establishing processing facilities in the Park.

Cold Storage Facility. A firm is setting up a 1,500-mt capacity cold storage facility in Tagum, Davao del Norte. The facility is intended to hold bananas pending their shipment to China on the firm's three charter vessels. The new facility and the vessels have the capacity to store and transport refrigerated produce in addition to bananas for the China market. GEM is assisting the firm to identify and source other commodities that can be marketed in China. An initial shipment of 2.5 mt of mangoes was recently made to China.

Kenaf. GEM is assisting a Japanese firm in determining the feasibility of a kenaf plantation and processing facility for specialty paper. The proposed project would also include several hundred contract growers. GEM is

"We look forward to improving our product quality and the income/employment status of the local agribusiness chain through a value-added contract growing approach. Thanks to GEM for its continued support."

Lance Y. Gokongwei, EVP-General Manager
UNIVERSAL ROBINA CORPORATION

providing information on kenaf production, potential plantation sites and qualified joint venture partners. It is also helping the Japanese firm in negotiating a cooperation agreement with the Fiber Industry Development Authority.

Seaweed Processing. A Japanese firm is interested in developing seaweed-processing facilities in the Sulu Archipelago, in partnership with the MNLFF-affiliated SugBahgo Corporation, which will source the seaweed. GEM is helping the firm find a strategic partner to operate the plant. Construction of the facility is scheduled to begin in 1999.

Tilapia Hatchery. A Bacolod-based aquaculture company is developing an integrated tilapia production operation in Mindanao. The company, with GEM assistance, established a feed mill in the municipality of Polomolok (South Cotabato) and has imported a fast-growing, saltwater-tolerant strain of tilapia from Arizona. The imported tilapia have performed well in growth trials here.

Assistance to Enterprises

GEM helped several Mindanao enterprises source machinery, equipment and engineering services from U.S. suppliers. A total of US\$87 million in capital equipment, ranging from commercial aircraft to telecommunications equipment to metal processing equipment, has been brought into Mindanao as a result of the GEM Program.

GEM is making a difference. Farmers and fisherfolk, as well as other Mindanao residents at all levels, are benefiting from the increased economic activity fostered by the Program. GEM is committed to further strengthening the impact of those efforts during its remaining three years, with continuing emphasis on helping marginal farmers and fisherfolk, indigenous peoples, the Muslim community, and other disadvantaged groups in Mindanao to fully participate in Mindanao's economic progress. ♦

BIMP-EAGA:

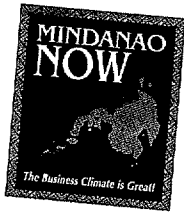
**Expanding
Mindanao's
market base
to 45 million**



The East ASEAN Growth Area (EAGA), comprising Mindanao, Brunei Darussalam and parts of Indonesia, and Malaysia provides an excellent opportunity for furthering economic development. Formally created in 1994, BIMP-EAGA is a promising regional market for Mindanao's farmers, fisherfolk, agro-enterprises and other industries.

The following developments associated with the BIMP-EAGA were accelerated through the assistance of GEM:

- International telephone service was expanded and rates discounted by up to 20 percent for calls within EAGA.
- Port charges were reduced by 50 percent for ships plying Mindanao-Indonesia routes.
- A new international port of entry was designated at Bongao in Tawi-Tawi.
- EAGA-bound travelers from Mindanao were exempted from travel tax.
- The implementation of Indonesian fishing restrictions on Philippine fishing vessels was delayed.
- At least US\$279 million in EAGA-related joint venture agreements were signed.
- Trade missions to and from Indonesia, Malaysia, and Brunei Darussalam were organized.
- A Mindanao/ARMM-Sabah Business Center in Cotabato City was established. ♦



Integrating Mindanao's Economy Through Infrastructure Improvement

Significant progress has been made in constructing vital infrastructure in Mindanao. GEM helped OPM lobby to increase Mindanao's share of the national infrastructure budget from an annual average of 11 percent prior to 1992 to 23 percent in 1997. GEM is also working with various national government agencies and local government units to foster improvement of the Mindanao arterial and feeder road system, airports and seaports, fish ports, water systems and telecommunications facilities.

The GEM infrastructure development program acts as a catalyst for the implementation of key projects. In the transport sector, emphasis is being placed on projects that result in more efficient and less costly movement of agricultural commodities.

GEM has developed a database of existing and planned infrastructure projects in Mindanao to serve as the basis for monitoring fulfillment of critical needs. By the end of 1997, 62 priority private infrastructure projects had been listed in the database. Detailed investment profiles for 24 Build-Operate-Transfer (BOT) infrastructure projects had been prepared.

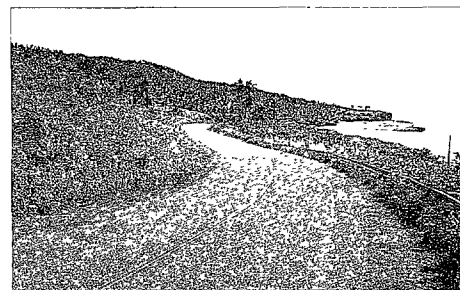
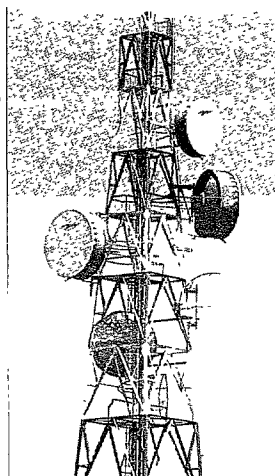
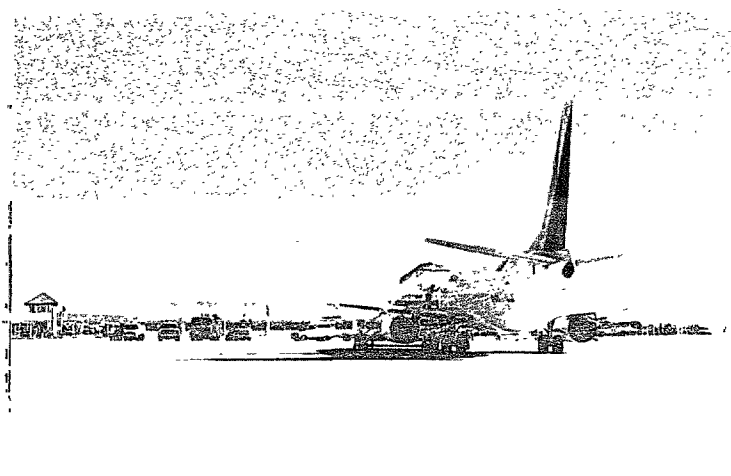
GEM is assisting in promoting the implementation of 15 large BOT and/or donor-funded projects that have the potential for major impact. GEM infrastructure involvement also includes seven LGU-financed projects.

KEY ACCOMPLISHMENTS

Key infrastructure projects assisted by GEM include the following:

Laguindingan Airport, Cagayan de Oro. GEM helped arrange a grant for engineering design services and for conduct of technical surveys to validate the suitability of the proposed airport site, in cooperation with the Cagayan de Oro-Iligan Corridor Special Development Project Management Office. An Official Development Assistance (ODA) loan agreement for \$25 million from the Republic of Korea was signed in February 1998, while the Philippine Government committed to provide counterpart funding in the amount of \$10 million.

Telecommunications. GEM provided needed information and identified local partners to assist the major telephone service providers decide what areas to service and how to go about providing those services. GEM also assisted in the implementation of 12 small-scale projects involving a total investment of \$87 million in 24 municipalities which were not scheduled to receive services from the major providers for several years.



Tacurong Bus Terminal. A pre-feasibility study for a public market and bus terminal was prepared by GEM for the municipal government of Tacurong, Sultan Kudarat Province. The study led to private sector investment in the project and construction of a commercial center adjacent to the terminal. Total investment in the terminal and the commercial center amounted to P32 million.

Lamitan Water Service Expansion. GEM reviewed and then restructured the LGU proposal for the project, which was subsequently funded by a grant from the New Zealand government.

Pikit Fish Landing. GEM assisted in preparing the project proposal, design, cost estimates and area surveys. The project, which is already operational, is part of the government peace initiative in former MNLF-controlled areas.

Lake Buluan Farm-to-Market Road. In coordination with the Maguindanao Provincial Engineering Office, GEM helped prepare an application for donor funding, organized local communities to provide fill materials and obtained available equipment for necessary road construction activities. The road is already in use.

TACURONG BUS TERMINAL



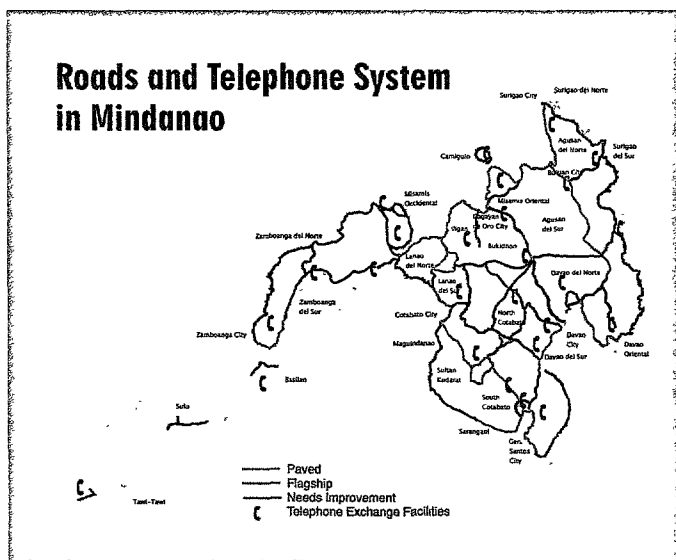
First LGU-BOT Project in Mindanao

TACURONG, SULTAN KUDARAT PROVINCE — The recently opened Tacurong bus terminal complex is making it easier for people to get where they need to go. But it is significant in another way. It is the first local government unit (LGU)-Build-Operate-Transfer (BOT) Project in Mindanao and only the second in the Philippines.

The bus terminal complex is a joint project between the Tacurong government and Roberto Ang, a local rice trader. The municipal government had originally planned an integrated bus terminal and public market under a BOT scheme. GEM prepared a pre-feasibility study for the project. Difficulties associated with relocating the public market forced the LGU to change the plan for a P7-million bus terminal, but the BOT-design was retained. As a complementary support project, the provincial engineering office agreed to concrete 0.5 km of the provincial road from the national road to the site at a cost of P5 million.

Mr. Ang constructed the facility under a BOT arrangement after donating 2.5 ha to the city for developing the bus terminal. He also built a 71-stall commercial center at an investment of P20 million on an adjacent 7.5-ha lot. Mr. Ang is planning to construct a P40-million shopping mall beside the terminal complex. Petron has constructed a service station in the vicinity.

The LGU retains 40 percent of the annual bus terminal parking fees while Mr. Ang receives 60 percent as a direct repayment. ♦



Flying High in International Skies



GENERAL SANTOS CITY — Mindanao Express, the first commuter airline in Mindanao, has launched an aggressive campaign to fly to East Asia. In 1997, the Civil Aeronautics Board granted Mindanao Express second official Philippine carrier status to BIMP-EAGA, allowing the airline to service key destinations in this growth region.

Mindanao Express is a subsidiary of Corporate Air, Inc., a Philippine-American joint venture. GEM was instrumental in convincing Corporate Air to operate feeder routes in Mindanao under the wings of Mindanao Express and to help the firm identify priority routes.

Mindanao Express uses a fleet of six Beechcraft 1900s and C-99s for its intra-Mindanao operations. The C-99s, which are 19-seater twin-engine pressurized aircraft, are the most widely used commuter plane in United States. The aircraft has one of the best safety records in its class as certified by the US Federal Aviation Administration.

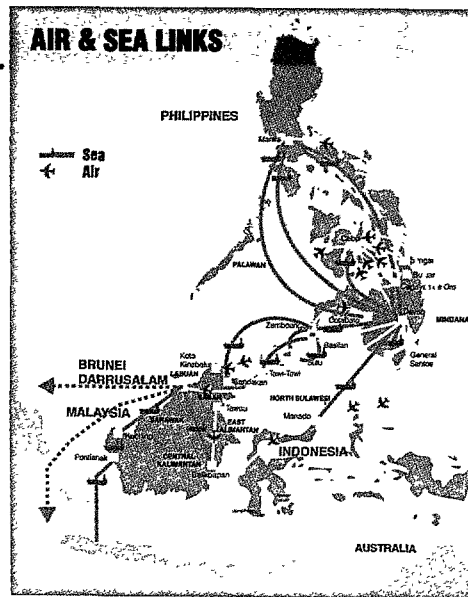
The company started operating in October 1996 with twice daily Davao-General Santos City passenger service and all-cargo flights out of Davao, General Santos City, Cebu, and Manila. In February 1997, Mindanao Express launched additional Mindanao flights. The airline now serves the major Mindanao cities of Cagayan de Oro, Cotabato, and Zamboanga, and the more remote Jolo and Tawi-Tawi.

In March 1997, Mindanao Express signed a general service agreement with Sabah Air for the planned Zamboanga-Sandakan air link.

"Our flights provide access to strategic areas in Mindanao, making it faster and more efficient to move people and goods within the island," says the airline's chairman, Alberto Lina. "It complements the existing services of the national airlines."

To support its route expansion program, the airline transferred its operating base and maintenance center from Davao to General Santos City, where it set up a hangar on a 1-ha. lot leased from the Air Transportation Office at the new General Santos City international airport.

"We wanted to take advantage of the world-class facilities of the General Santos City airport. We'd like to develop it as a commuter and cargo hub in Mindanao and in the East ASEAN region," Mr. Lina says. A secondary hub is located in Zamboanga City to support operations in western Mindanao. ♦



Participation in Mindanao Infrastructure Development Task Forces

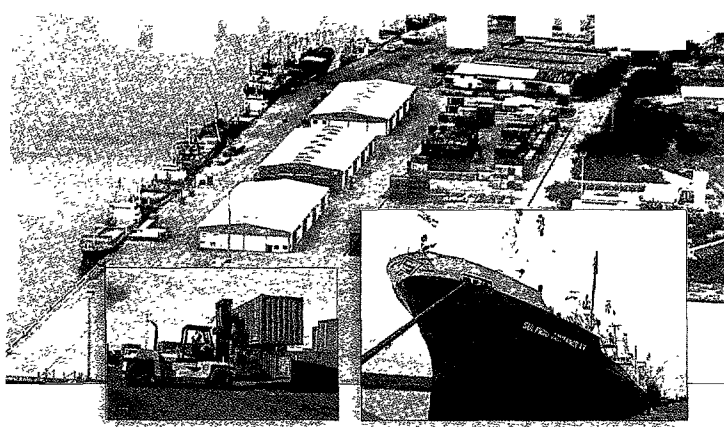
At the request of OPMin, GEM prepared a concept paper defining the functions and roles of the "Infrastructure Monitoring and Advisory Group" (IMAG) and the "Mindanao Water Transport Task Force" (MWTTF). Both organizations monitor the implementation of committed projects, particularly in roads and water transport. OPMin adopted the GEM recommendations for organizing the two groups and their technical working committees.

The two groups include significant private sector and LGU participation. GEM is a member of the MWTTF technical committee.

Other Initiatives

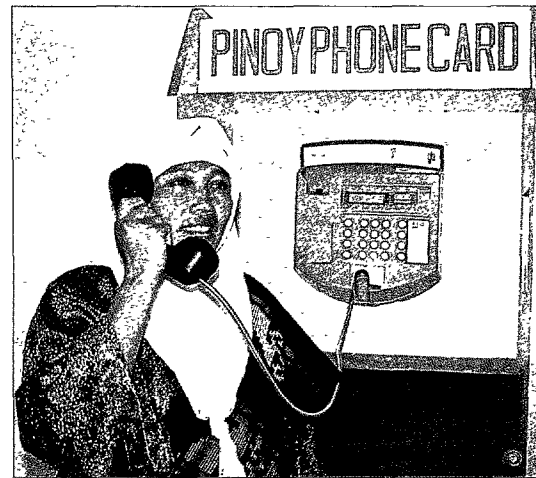
The GEM infrastructure team carried out a number of other infrastructure development efforts. These included:

- Responding to a request by OPMin, GEM conducted "infrastructure rationalization" workshops with key agencies and LGUs in the Greater Northern Corridor, Caraga, Zamboanga, and ARMM. The purpose of these workshops was to assist the agencies and LGUs to identify and prioritize projects that needed immediate action. The workshops resulted in commitments to carry forward several of the projects.
- At GEM's suggestion, the Philippine Ports Authority (PPA) agreed to conduct a feasibility study and develop a master plan for 13 Mindanao ports including their privatization. GEM also advocated for public review of these studies.
- The Zamboanga municipal government agreed to move forward with the relocation of the Zamboanga International Airport;



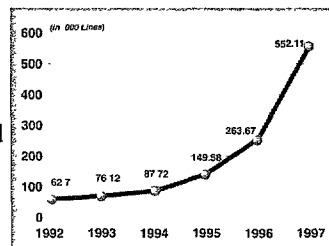
Island Phones: Linking Farmers to the World

- The ARMM regional government began discussions on port privatization as a result of GEM intervention;
- GEM successfully advised the municipalities of Malalag and Maluso to open negotiations with PPA leading to privatization of their ports;
- GEM infrastructure staff suggested that the administration and document processing buildings in Bongao and Jolo ports be constructed through BOT programs.
- GEM prepared port investment profiles and arranged for eight interested proponents to discuss these with PPA.
- GEM developed models for public markets in the communities of Bongao and Labason, which were used as pre-feasibility studies for BOT and related programs;
- GEM developed similar models for integrated bus terminals and shopping complexes in General Santos City and Tacurong, which were also used successfully to leverage financing by proponents in both communities.



Telecommunications Roll-out Assistance

Installation of 550,000 new telephone lines in Mindanao by March 1998 exceeded the initial targets established under the National Telecommunications Plan (NTP). By way of contrast, only 150,000 total telephone lines were in place in 1995.



GEM helped major telephone service providers meet their service commitments to the government and encouraged them to introduce telecommunications services in more remote areas.

Twelve GEM-assisted telecommunications projects covering 24 municipalities were completed by mid-1998. Thanks to the GEM assistance, these two dozen municipalities received telecommunications up to five years earlier than originally planned. ♦

TAWI-TAWI — The southernmost Philippine province of Tawi-Tawi is now linked to the world through the Bongao Nationwide Telephone Services, Inc., a local firm assisted by GEM in the installation of the first-ever telephone facilities in Tawi-Tawi.

Until recently, Tawi-Tawi residents had to make a six-hour boat ride to Sabah, Malaysia, to telephone Zamboanga City. Today, the Tawi-Tawi capital of Bongao boasts one of the first modern phone card pay stations in the Philippines, which was installed by the Philippine Long Distance Telephone Company. Tawi-Tawi also has cellular phone services and a public calling office.

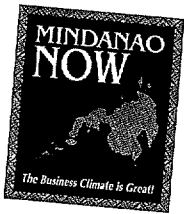
The new service will significantly benefit Tawi-Tawi seaweed farmers, who will gain direct access to processors instead of being forced to sell to local traders at lower prices.

The tourism industry is also expected to gain. One of Tawi-Tawi's biggest ecotourism attractions is the Turtle Islands, where large numbers of sea turtles

spawn. Another attraction is Simunul Island, which features the oldest mosque in the Philippines, site of the first Philippine landing by Muslim missionaries.

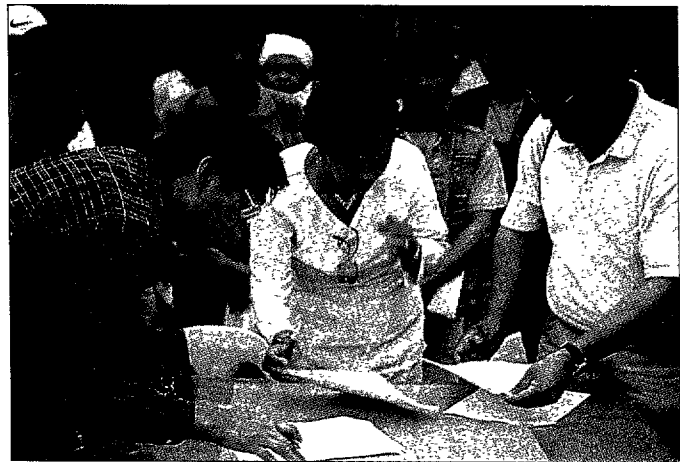
Providing telephone services in the Sulu Archipelago, which consists of Tawi-Tawi and Sulu provinces, was considered an unprofitable undertaking until recently. Therefore, those provinces were excluded from the National Telecommunication Commission original telephone roll-out plan. GEM, however, was able to persuade President Ramos to issue an Executive Order including the Sulu Archipelago in the plan.

Recently Jolo, capital of Sulu, also received modern phone card and cellular phone services. ♦



Working to Benefit Mindanao's Muslim Community

GEM is working with Muslim groups in Mindanao to help attract investment in aquaculture, agro-forestry, seaweed production and various high value crops. GEM is also helping develop transport and telecommunications services in predominantly Muslim areas to accelerate the integration of these areas into the mainstream Mindanao economy.



Prior to the peace agreement, GEM was already providing enterprise development assistance to Muslim communities in Mindanao. Of 162 GEM-assisted investment projects through 1997, 49 significantly benefited Muslims. Overall, about 18 percent of GEM beneficiaries are Muslims.

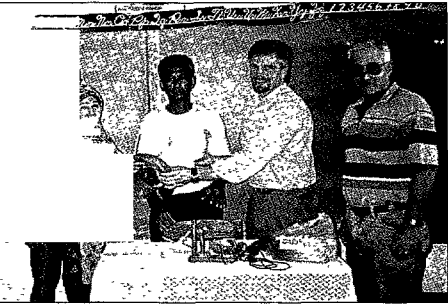
The Emergency Livelihood Assistance Program

The GEM-administered Emergency Livelihood Assistance Program (ELAP) is providing immediate income-earning opportunities for former MNLF combatants in Mindanao. The program was initiated in August 1997 through a memorandum of agreement signed by the Southern Philippines Council for Peace and Development (SPCPD) and the United States Government. Planting of the first corn crop started one month after the signing of the MOU.

The goal of the program is to provide income earning opportunities to former MNLF combatants by training them to grow hybrid corn and seaweed and providing the necessary production inputs for the first crop.

The ELAP was planned and is being jointly carried out by SPCPD and GEM. The USAID Office of Transition





Initiatives (OTI) financed the purchase of production inputs needed by participating former combatants. The program started with the participation of 2,000 former combatants and their families. It has been expanded to 4,000 participants.

GEM, through the ELAP, provides the former combatants with seeds, fertilizer (and a limited amount of pesticides where required). GEM provides technical training in production and post-harvest handling in cooperation with commercial input suppliers including Pioneer Hi-bred Technologies, Rhone Poulenc Inc., and others. Marketing assistance is also provided.

A Management Committee chaired by the SPCPD and including representatives of USAID, NEDA and the Bangsamoro Women Foundation for Peace and Development oversees the ELAP.

UK Government Joins Efforts

The United Kingdom joined USAID in sponsoring the ELAP program. The UK provided funds for production inputs needed for 380 former MNLF combatants living in communities near the Sultan Kudarat-Maguindanao border. Deputy Head of Mission for the British Embassy Michael Reilly commented that ELAP is the type of grassroots program that the British Government wants to support.

ARMM Provides Support

The ARMM Department of Agriculture and Fisheries (DAF) financed the construction of solar dryers (concrete drying platforms) at each of the ELAP corn production sites. The dryers were deeded to farmer

cooperatives. The ARMM DAF also committed to work closely with the ARMM Department of Public Works and Highways to identify ELAP sites that require improved farm-to-market roads and to make construction of these roads a top priority.

Private Sector Firms Participate

Several commercial agribusiness firms, in addition to supplying production inputs, are providing technical support to the ELAP. Technical staff of Pioneer Hi-bred Technologies and Rhone Poulenc Inc. have assisted in production training. Pioneer continues to provide corporate-funded follow-up training for key farmer beneficiaries and for GEM-ELAP technical staff.

GEM arranged for the firm of Monsanto Philippines to lend a mechanical planter and provide technical training to farmer-members of the Tre-Wan Islamic Farmers Multipurpose Cooperative. The members practice the *bayanihan* system, in which 10-20 farmers work together on a site for speedy planting and then move on to the next site.

GEM was also instrumental in getting the Mandawi Foundation to provide a tractor to the Sebangon Kutawato State Revolutionary Committee for use of the ELAP beneficiaries.

Promoting Biological Pest Control

GEM obtained 30,000 *trichogramma* cards from the DA for 600 ELAP beneficiaries in Lanao Sur and Lanao del Norte. GEM is successfully advocating the use of *trichogramma*, an insect that preys on corn borers, as a biological alternative to chemical pesticides. Designed to hang on the corn stalks, the cards contain the eggs of the *trichogramma*, which attack the pests.

Reaping the Benefits

Many of the former combatants and their families previously had virtually no income and lacked funds to purchase inputs for growing corn or other crops. Planting hybrid corn varieties using the technologies recommended by GEM and the commercial suppliers enables them to produce yields as high as six mt per ha. and earn up to PhP 25,000 at each cropping for each hectare. Traditional farming methods in the ELAP areas produce average yields of around two metric tons per hectare. Although yields at a number of the ELAP sites were reduced substantially due to an El Niño-associated drought, those ELAP farmers who planted prior to the onset of El Niño realized enough





income to purchase draft animals, rehabilitate their living quarters, purchase new clothes for their families and send their children to school.

Bangsamoro Women as Valued Allies

Early in the formative stage of ELAP, a working relationship was forged with the Bangsamoro Women's Foundation for Peace and Development (BMWF), which is led by Chairwoman Eleonora Tan-Misuari. The partnership with the Bangsamoro Women has been critical to the success of ELAP.

Bangsamoro Women members serving on the ELAP Management Committee and on several ELAP Community Committees have:

- Helped expedite planning and implementation of the program;
- Assisted GEM in briefing MNLF State Chairmen and others concerned on all aspects of ELAP;
- Assisted in delivering and recording input distribution in each area;
- Been responsible for organizing beneficiary training, site visits and meetings for GEM-ELAP representatives.

Community Funds Organized

The concept of a community fund, designed and implemented by BMWF, was incorporated into ELAP as a means of eliminating any stigma of charity and to instill a sense of self-help among the beneficiary communities. While the production inputs are provided through a grant from USAID, some beneficiaries are repaying those costs to Community Funds established in some of the beneficiary communities. The Bangsamoro Women's Foundation is playing a key role in organizing and supervising the community funds.

The funds benefit ELAP participants and other members of the community. They can be a source of financing production inputs, construction of post-harvest facilities, and other community development projects.



ELAP Expanded

Cost savings during the first phase of ELAP are allowing an increase in the number of beneficiaries from the original 2,000 to 4,000. An agreement for the increase was signed by USAID Assistant Administrator for Asia and the Near East Kelly Kammerer and former SPCPD Executive Director Muslimin Sema. The ELAP expansion allowed implementation of the program in two additional provinces.

ELAP's Implementation Status

Project Type	Provinces Involved	Number of Municipalities	Number of Participants to Date	Area in Hectares
Corn Production	6	38	2,480	5,672
Seaweed Farming	3	16	960	240

Pigcawayan Tilapia Production



GEM is assisting Muslim fisherfolk, most of whom are former MNLF combatants, to initiate tilapia production. In Pigcawayan, North Cotabato, 78 former combatants have organized the Taliawid Multipurpose Cooperative and are raising tilapia under a grow-out arrangement with the Mindanao GIFT Corporation. (GIFT stands for Genetically Improved Farm Tilapia). The cooperative received 30,000 tilapia fingerlings in October 1997 through the joint efforts of GEM, the Department of Agriculture, and the Land Bank of the Philippines. A 40-ha pond expansion program is under way, assisted by GEM in cooperation with national government agencies.

Aqua-feed mill



To complement the tilapia effort, GEM provided technical assistance for construction of the first feedmill in Mindanao producing exclusively fish feeds. Located in Polomolok, South Cotabato, the mill provides aquaculture producers with lower priced fish feeds. This should allow a significant expansion of tilapia and other fish production in Mindanao as well as boosting the overall competitiveness of the Mindanao aquaculture industry. (See page 16).

Crab Fattening



In Kalanganan, Cotabato City, GEM assisted a crab-fattening project that helped 450 fisherfolk, half of whom are Muslim, make full use of their fishponds. GEM is providing market links for these crab growers. These growers produced 50 tons of crabs valued at P9 million in 1997.

Sugar Milling

A group of former MNLF commanders have developed a sugar production, milling and refining project in Maguindanao. GEM provided technical support and assistance in financial packaging for the effort. GEM is also assisting them in identifying and attracting foreign investors. The enterprise will provide 750 permanent jobs and 2,500-5,000 seasonal jobs.

Telecommunications

Technical assistance from GEM was key in establishing telecommunications services in the predominantly Muslim islands of Sulu and Tawi-Tawi. (See story page 25)

Hotel Development



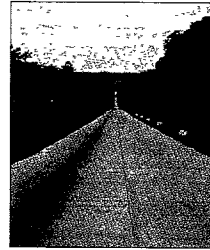
GEM is supporting the proposed establishment of tourist-class hotels in Tawi-Tawi and Sulu. The joint ventures among Malaysian, Singaporean, and local investors are expected to spur business and tourism development in the islands.

SZOPAD Social Fund

In coordination with the International Bank for Reconstruction and Development (World Bank)-financed "SZOPAD Social Fund," GEM is providing technical assistance to identify and package short-term, small-

scale infrastructure projects in Special Zone of Peace and Development areas that benefit MNLF communities. The Social Fund was created to fund projects for small communities in the zone, which includes poor areas in the southern Philippines, mainly in Muslim Mindanao.

Farm-to-Market-Road



In coordination with the local government, GEM assisted in developing a project to construct a farm-to-market road from rural areas to Lake Buluan, Maguindanao. This road facilitates Muslim farmers' access to convenient trading and transportation facilities.

Fish Landing

GEM prepared a project proposal and facilitated the construction of a fish-landing port in Pikit, a town which abuts the Liguasan Marsh. The Department of Agriculture offices in Region XII provided the funding for the fish landing port. About 2,000 Muslim fisherfolk are benefiting from the all-weather concrete fish landing, which makes possible more efficient handling of fish products.

Road Study


GEM was instrumental in convincing JICA to include Mindanao Regions IX and XII in their ongoing "Mindanao Strategic Road Study." (Regions IX and XII cover the provinces of Basilan, Zamboanga del Norte, Zamboanga del Sur, Sulu, Tawi-Tawi, Lanao del Norte, North Cotabato, Sultan Kudarat, Lanao del Sur, Maguindanao, and the cities of Zamboanga, Iligan, Marawi, and Cotabato.) This study is a component of the "Master Plan Study on Visayan and Mindanao Islands Strategic Network Development Project" that JICA is conducting with the Department of Public Works and Highways.

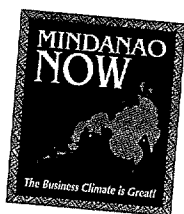
Air Links

The entry of Mindanao Express, facilitated by GEM, is improving the tourism and trade links of Muslim Mindanao, including Tawi-Tawi and Jolo provinces and the cities of Zamboanga and Cotabato.

ARMM Investment Conference

As a part of its trade promotion activities, GEM supported the first ARMM Investment Conference in Manila. The event, which featured trade and investment opportunities in the region, drew numerous MNLF leaders, potential investors and donor agency representatives.

GEM's work with the Muslim community has been extremely rewarding and is expected to continue to be so as it expands its activities in the SZOPAD. 



Mindanao and the Global Market: Leveling the Playing Field

In cooperation with the Mindanao Business Council (MBC), USAID and OPMin, GEM supports research and advocacy efforts in 15 policy areas identified as important by the private sector in Mindanao and by the Office of the President-Mindanao (OPMin). While success has been achieved in critical areas, such as ensuring that Mindanao receives an appropriate share of public infrastructure resources, these still require persistent effort and follow-up. Other areas, such as lowering inter-island transportation costs, have met with only limited success and require substantial additional effort.

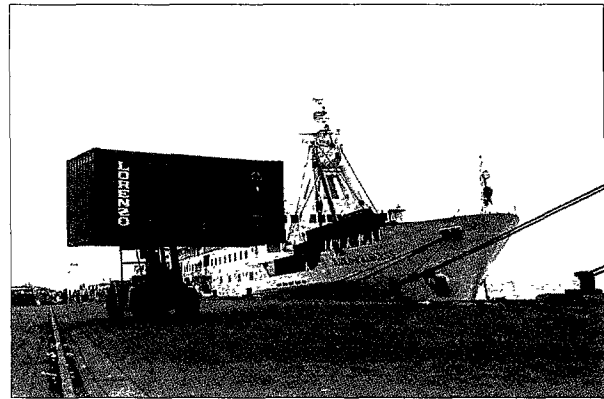
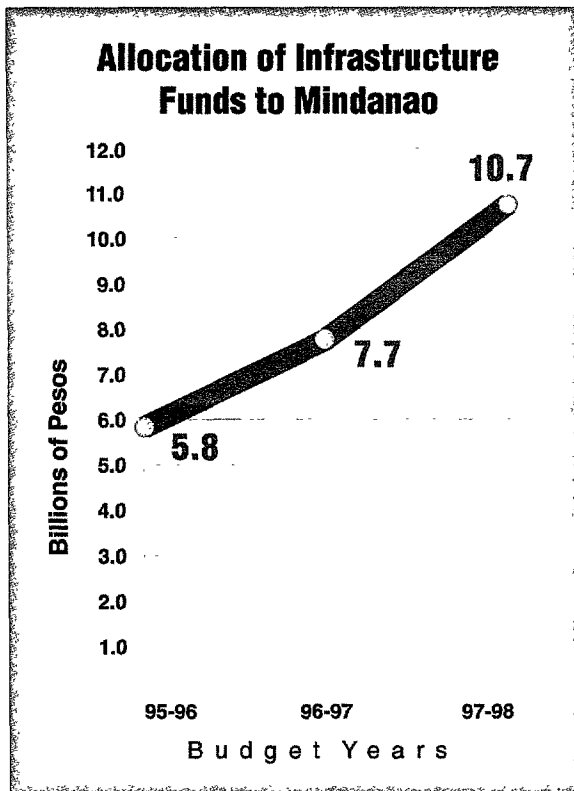
GEM's main accomplishments in the 15 policy areas are summarized below.

1. Continued Allocation of an Appropriate Share of Public Infrastructure Resources, including WTO "Safety Net" Resources.

In 1995, Mindanao was allocated only 20.9 percent of the Philippines' total public infrastructure resources. In 1996 the proportion increased to 24.6 percent. For 1998, the amount will be more than 25 percent. The amount of infrastructure resources allocated to Mindanao has almost doubled from the pre-GEM period. GEM documented the resource deficit and provided substantial support to OPMin, Mindanao legislators and the MBC to help them make the case for more infrastructure resources for Mindanao.

GEM also conducted two policy studies that have proved to be useful to the infrastructure development effort. LGU performance in infrastructure development was analyzed and various mechanisms for augmenting LGU financial resources for infrastructure development were identified. In the second study, agriculture-related infrastructure allocations and investment for Mindanao were evaluated. Related to this study was an assessment of the WTO "safety net" funds earmarked for Mindanao's agriculture sector. Actual disbursements were found to be minimal. This information is being used by OPMin in its lobbying for additional resources.

The recently enacted Agriculture and Fisheries Modernization Law (RA 8435), for which GEM provided substantial background analyses, could lead to a substantial increase in investment in agriculture related infrastructure.

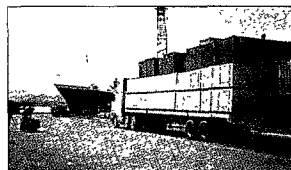


Mindanao's Policy Agenda

1. Continued allocation of appropriate share of public infrastructure resources, including WTO-GATT "safety net" resources.
2. Reduced costs of inter-island shipping, trucking, and air transport.
3. Greater availability of financing for long-gestating crops.
4. Establishment of appropriately empowered and locally responsive offices of key national agencies.
5. Adoption of equitable and production-enhancing land ownership/control policies.
6. Philippine Government's full and prompt compliance with GATT obligations.
7. Adoption of Mindanao-compatible sanitary and phytosanitary standards (SPS) by the WTO.
8. Removal from the AFTA-CEPT exclusion list of corn and marine products.
9. Freer movement of people and goods within EAGA.
10. Extensive and appropriate use of private profit incentives for the protection and development of Mindanao's coastal and forestry resources.
11. Spread of an appropriately interconnected telecommunications network throughout Mindanao.
12. Elimination of barriers to the development of a vibrant seed industry in the Philippines.
13. Establishment of a more level playing field for all banks and non-bank financial institutions in Mindanao.
14. Optimal utilization of Mindanao's share of funds emanating from the coconut levy.
15. Privatization of idle and grossly under-utilized post-harvest facilities in Mindanao.

2. Reducing Costs of Inter-Island Shipping, Trucking, and Air Transport

A Memorandum of Agreement (MOA) to harmonize tariffs of Philippine and Indonesian flag vessels traveling between the two countries (the first reform GEM



pursued) became effective in October 1997. The MOA is in effect through 1999. It provides for lowering port tariffs and other vessel charges by as much as 50 percent. GEM is working on similar agreements with Brunei Darussalam and Malaysia.

Another measure involves privatizing three strategic seaports in Mindanao. A policy brief and a resolution adopted by the MBC, which supported the privatization of these ports, were presented to Philippine President Fidel V. Ramos during the 6th Mindanao Business Conference in Zamboanga City. President Ramos signed the Resolution and the Philippine Ports Authority, in response to the President's instruction, has committed to prioritize their privatization.

In the air travel sector, GEM is promoting arrangements to allow Philippine flag carriers to enter into bilateral agreements with other flag carriers in the region to provide direct air services to Mindanao.

3. Ensuring Greater Availability of Financing for Long-Gestation Crops



A GEM study exploring options for financing for long-gestation crops, such as rubber, palm oil, and some fruit tree fruits was completed. Subsequently, GEM drafted an amendment to Section 79 of the General Banking Act (RA 337). This amendment will permit banks to make loans with grace periods exceeding three years for long-gestating crops. Action on this amendment, which the

Bangko Sentral has endorsed, is pending.

As a result of GEM recommendations, Quedancor (an arm of the National Food Association responsible for rural credit guarantees) has earmarked a portion of available Quedancor funds for perennial crop development. Another Php 100 million from the DAR Agrarian Reform Fund was released to LBP for use by Western Mindanao rubber farmers needing financing for replanting.



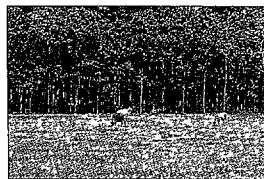
In the *Gintong Ani* Rubber Development Program launched in North Cotabato in March 1998, a credit fund of P100 million was set aside by the Development Bank of the Philippines for rubber and high value crops. Both DBP and the Land Bank of the

Philippines have agreed to restructure long-gestation crop loans differently from other crop loans, which require repayment within three years, and a GEM-proposed provision in the Agriculture and Fisheries Modernization Act will serve the same purpose.

4. Establishing Appropriately Empowered and Locally Responsive Offices of Key National Agencies

A research paper, "Decentralization of Key National Agencies in Mindanao," was completed. As a result, some functions of the Department of Trade and Industry (DTI), such as business and contractor license and business name use approval, have been decentralized to DTI Region XI.

5. Adopting Equitable and Production-Enhancing Land Ownership/Control Policies



The first draft of the post-Comprehensive Agrarian Reform Law (CARL) paper was completed, and is being revised to account for the issues involving land arrangements that

apply to many commercial farms in Mindanao and which are due to expire this year.

More rational land-use conversion policy guidelines released by DAR incorporate some of the reforms advocated by GEM, including using watersheds as the basic unit for land-use planning, imposing a tax on the conversion of publicly irrigated lands, and levying a land conversion tariff.

6. Obtaining Philippine Government Full Compliance with WTO Obligations

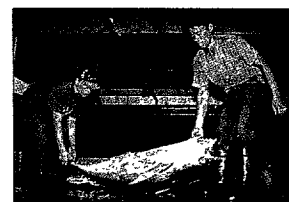
A GEM paper, "Status of the Legislative and Executive Measures Related to the Safety Nets for Agriculture," showed that policy commitments at the executive level are consistent with the World Trade Organization (WTO) rules. Legislative amendments (anti-dumping and substantial damage WTO escape clauses) have yet to be refined.

Because of GEM's timely intervention, the Administrative Order (DA AO #8 Series of 1997, Sec. 1-C) has been revised to make access to funds less bureaucratic, allots a board seat on the Minimum Access Volume (MAV) Committee (which governs the use of the MAV funds) to a representative from Mindanao, ensures the participation of new players who wish to use the MAV quota, and penalizes those holding MAV allotments for speculative reasons.

7. Adopting "Mindanao-Compatible" Sanitary and Phytosanitary Standards (SPS)

In the GEM Study, "Sanitary and Phytosanitary Measures for Fresh and Processed Fish and Fishery Products of Mindanao," a matrix of possible GEM SPS actions was suggested.

GEM worked successfully for inclusion of SPS for fresh and processed fish and fishery products in RA 8435 Implementing Rules and Regulations.



8. Removing Corn and Marine Products from the AFTA-CEPT Exclusion List



The removal of corn and marine products from the AFTA-CEPT exclusion list was included in the proposed implementing rules and regulations of RA 8435 at GEM's suggestion.

9. Freer Movement of People and Goods within EAGA

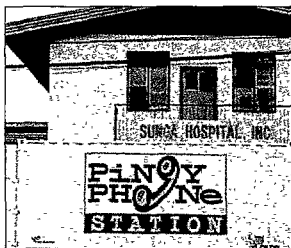


In response to joint advocacy efforts of MEDCo, DOT, MBC, and GEM, President Ramos extended the travel tax exemption for all air and sea passengers traveling from Mindanao ports to any destination within the BIMP-EAGA until March 2000.

10. Extensively and Appropriately Using Private Incentives for Protecting and Developing Coastal and Forestry Resources in Mindanao

GEM helped draft a Presidential Proclamation declaring 303,688 hectares of land in Northeastern Mindanao as the "Caraga Timber Corridor." Landowners in this "corridor" will be supported by government infrastructure investment in their efforts to convert their land to industrial tree plantations. GEM also drafted a resolution submitted to the President urging the Philippine Government to rescind the suspension of renewing forestland grazing lease agreement renewals in Mindanao.

11. Spreading an Appropriately Interconnected Telecommunications Network Throughout Mindanao



Through GEM's encouragement and assistance, the previously isolated island provinces of Tawi-Tawi and Sulu are now connected to the mainland by telephone services including both cellular and land lines.



12. Eliminating Barriers to Developing a Vibrant Seed Industry in the Philippines

The GEM paper, "The Philippine Seed Industry: Challenges and Prospects for the 21st Century," helped in the effort to pass an Intellectual Property Law that will partially protect seed and plant material intellectual property rights.

GEM recommendations regarding easier access to seeds and planting materials have been included in the draft implementing rules and regulations for the Agriculture and Fisheries Modernization Law.

13. Establishing a More Level Playing Field for All Banks and Non-Bank Financial Institutions in Mindanao

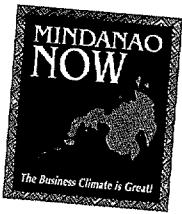
Rural banks are now allowed to compete with commercial banks for non-agricultural accounts. Discussions aimed at introducing Islamic banking practices continue, as do attempts to revitalize the Al-Amanah Islamic Investment Bank of the Philippines.

14. Mindanao's Share of Funds from the Coconut Levy

The GEM paper entitled "Legal Measures for Accessing Coconut Levy Funds by Mindanao Coconut Farmers" has been completed. President Ramos signed an Executive Order to supersede Executive Order 277, releasing levy funds for agriculture development. The high administrative court has ruled that the new Executive Order must be held in abeyance until the pending legal case over disputed ownership of levy funds is resolved.

15. Privatizing Idle or Grossly Underused Post-Harvest Facilities in Mindanao

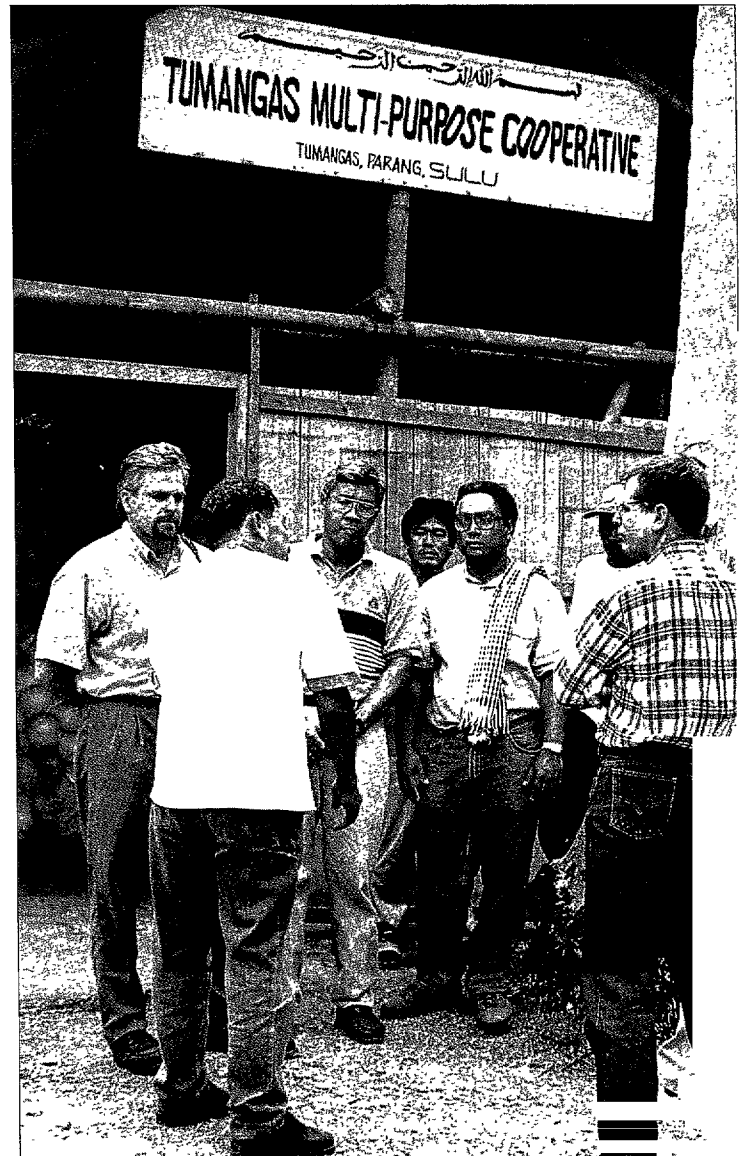
Preliminary work on the status of National Food Authority (NFA) post-harvest (processing and storage) facilities in Mindanao is underway. A bill was introduced removing the NFA procurement function for grains and transforming the NFA from a regulatory and price stabilization body into an agriculture marketing service unit. It would also privatize the NFA facilities, following the concept of the Self-Reliance Project, which was a previous attempt to devolve NFA facilities to local farmers. ♦



Partnerships & Institutional Strengthening

Forging Strong Partnerships for Mindanao Development

GEM accomplishments over the past two-and-a-half years would not have been possible without the support and guidance provided by OPMin, MEDCo, USAID, thousands of farmers and fisherfolk, chamber members, line agency personnel, local government leaders, the SPCPD, the MNLF, and other donors. Almost all the program accomplishments are principally due to the efforts of these people and organizations, with GEM privileged to provide assistance along the way.



GEM TASKS AND ORGANIZATIONAL LINKAGES

TASKS	PRIMARY CLIENTS	PRIMARY COLLABORATORS
<p>1 Enterprise and Agribusiness Development</p> <p>Support to Farmers/ Fisherfolks</p> <p>Support to Producer Associations</p> <p>Small and Medium Enterprises (SME) Development</p> <p>Assistance to Business Support Organizations (BSOs)</p> <p>Investment Facilitation and Promotion</p>	<p>Local farmers and fisherfolk associations, cooperatives, federations and groups, agrarian reform beneficiaries; potential investors/buyers and integrators</p> <p>Local producer associations; coop federations, primary coops and other groups</p> <p>Local SMEs; local SME associations</p> <p>MBC; local chambers of commerce</p> <p>Mindanao and outside investors; local producer groups, cooperatives, federations; industry associations; MBC; local chambers of commerce, and BSOs</p>	<p>DA; DAR; DENR; CDA; DTI; Land Bank ; rural and commercial banks; training institutions/universities; donors</p> <p>MBC; DA; local chambers of commerce and industry; training institutions/universities; commercial agribusiness firms</p> <p>MBC; local chambers of commerce and industry; industry associations; DTI; DOST; training institutions; other donor programs</p> <p>Banks; other donor programs</p> <p>MBC; local chambers of commerce and other BSOs; OPMin and MEDCo; DTI</p>
2 Policy Support	MBC; local chambers of commerce; industry associations; OPMin and MEDCo; national and local government agencies	MBC, OPMin and MEDCo; Mindanao Lawmakers Association; local NGOs; media groups; other advocacy groups
3 Infrastructure Planning, Packaging, and Promotion	OPMin and MEDCo; BOT/ privatization Investors; LGUs	OPMin and MEDCo; DPWH, DOTC and other Government Line Agencies; CCPAP BOT Center; LGUs and other donor programs

OPMin and Other Partner Agencies

GEM was jointly planned by the Office of the President-Mindanao (OPMin) and USAID. OPMin and USAID also oversee the implementation of the GEM Program. Other important partners include the Mindanao Economic Development Council (MEDCo), the Mindanao Business Council (MBC), local chambers of commerce in Mindanao, the National Economic and Development Authority (NEDA), the Departments of Agriculture (DA), Trade and Industry (DTI), Environment and Natural Resources (DENR), Public Works and Highways (DPWH), and Tourism (DOT), area development boards, cooperatives, non-government organizations, and local government units.

Grassroots Organizations

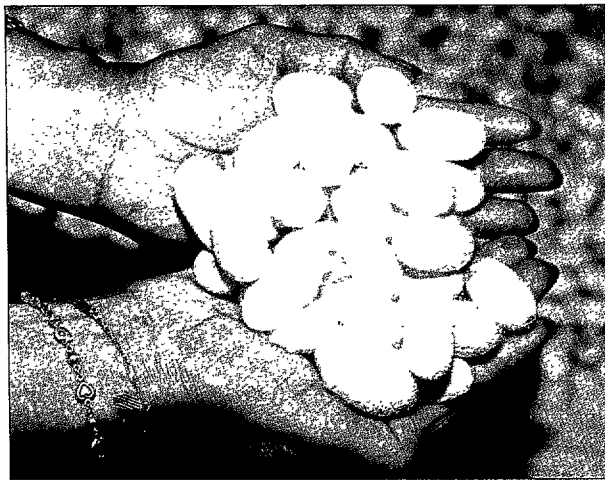
GEM is helping grassroots organizations become strong partners in Mindanao's socioeconomic development. As of March 1998, GEM had worked with 160 such organizations, most of them smallholder farmer and fisherfolk cooperatives or associations. The total membership of those 160 organizations is estimated to be 38,000.

GEM helps to build the capacity of these organizations to participate in sizable projects through a learn-by-doing process that includes linking them with potential joint venture partners, helping them access bank financing, providing them with market information, sponsoring their participation in trade events, helping them negotiate marketing contracts, and encouraging and assisting them to use new and better technologies through training and technical assistance.

The nature of GEM's assistance to these organizations can be illustrated by the following examples:

Spun Silk Production in South Cotabato. GEM introduced the women of Surallah to a company planning to build a spun silk processing plant in Mindanao. The company was looking for contract growers to grow mulberry trees, cultivate silkworms, and produce cocoons for the processing plant. The company offered to train prospective growers in silkworm production and guaranteed to purchase their cocoons.

GEM identified 17 community women's groups and organized them under the Federation of Surallah Women's Associations. GEM helped the association



CROP ENHANCEMENT PROGRAM ORGANIZATIONAL LINKAGES

POTATO: Patatas Growers Association, Xavier University; Universal Robina Corp.; RFM Corp.; International Potato Center	TIMBER: CARES; TREES; SPDA, DENR; DAR, Forest Products Research, New Zealand Government, Japan Environment Corporation; RMJ & Associates
PEANUT: Serg's, California Manufacturing Company; Lily's Peanut Butter; Tobis; FAO-TSARRD; SMARRDEC; DOST; DA -Tupi; Rhone Poulenc, Philphos; LBP, DAR; UNDP	RUBBER: Basilan FMPC; USM; Makilala Rubber; Masiag MPC; Rancho-Dagomo; MPC; Tituloc MPC
MANGO: DACOMIN; General Santos Fruit Growers Cooperative; De Oro Tropical, Diamond Star; Marsman; LBP; DA; DAR; FAO-TSARRD	BANANA: Dumalinao MPC; Celebes Agricultural Corp.; Jonas International, Inc.; Philexson Corporation; Agriculture Products Enterprises; Martinez Farms; Dow Elanco, CEMIARC; Davao Research Center; DOST; DA; DAR; LBP
HIGH-VALUE FRUITS: Min Fruit Development Corporation; DACOMIN; SMMARDEC; USM, LBP; DA; DAR	CASSAVA: VISCA; FAO-TSARRD; Quedancor; La Tondeña; Capicor; Philagro; RAFC - X; LBP; DA

register with the Securities and Exchange Commission and enter into a joint venture agreement with the firm.

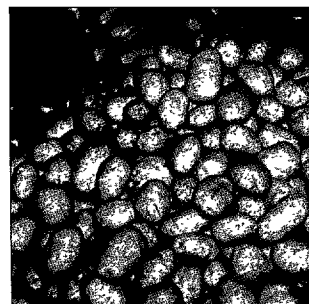
GEM also helped the federation prepare a pre-feasibility study, document the project's financial requirements and linked them with a bank that eventually financed their contract growing activities. The joint venture participants see such collaboration as the start of a silk production industry in the Philippines (*See story, page 12*)

Agro-forestry Projects in Mindanao

In the 1980s, the concept of community-based reforestation was broached as a strategy for involving smallholder farmers in sustainable management of forestry resources.

The New Zealand Embassy has provided funding to help some 800 Muslim families join and benefit from a GEM-assisted agro-forestry project following this model on Reina Regente Mountain, Maguindanao.

GEM successfully introduced an agro-forestry model for cultivating the fast-growing indigenous semi-hardwood tree species bagras (*Eucalyptus deglupta*) using the line planting system, which enables farmers to inter-crop the trees with cash crops. The Umasa Cooperative in Surallah, South Cotabato pioneered the use of the model, which was a commercial success. GEM is replicating the model throughout Mindanao as a viable community-based enterprise.



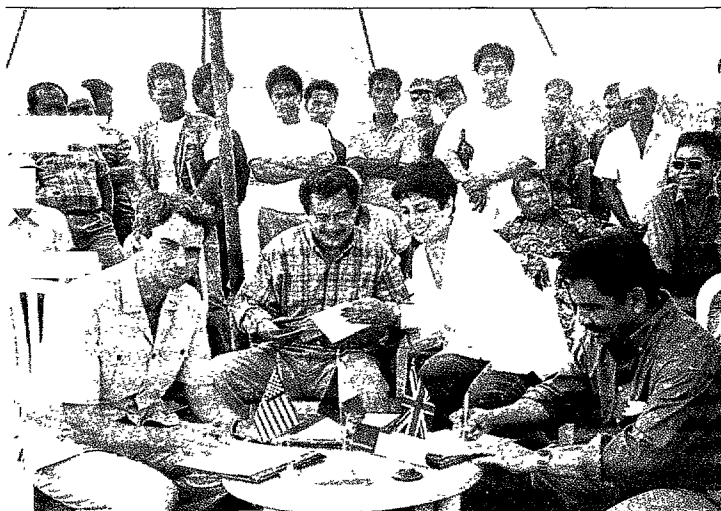
White Potato Project in Bukidnon

GEM linked farmers in Bukidnon Province with a Manila-based food processor, who provided them with planting material suitable for producing potato chips, and

contracted to buy their crop. This opens up the potential for development of a major potato production and processing industry based in Bukidnon province.

In 1997, GEM helped organize the "Patatas Growers Association" so that potato growers would have an organization to effectively implement the program.


GEM also formed a technical commodity team composed of a GEM technician and representatives from the growers, the buyer, the DA Regional Office, Xavier University and other organizations to implement a two-year white potato industry development program. GEM also hired a full-time project manager. The program started with only 33 growers but has since expanded to several hundred with more expected to follow.

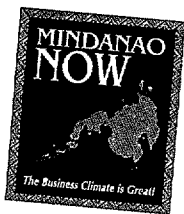


LINKAGE WITH DONOR AGENCIES (EXAMPLES)

Donor Agency	GEM support
United Kingdom Department for International Development	<ul style="list-style-type: none"> linked with USAID to sponsor ELAP corn sites in three municipalities in Maguindanao
Canadian International Development Agency (CIDA)-Local Government Support Program	<ul style="list-style-type: none"> provided technical assistance in preparing Malalag Bay Alliance Water System feasibility study in Davao del Sur possible coordination for planned eco-tourism projects in Camiguin possible assistance in use of GEM maps to display LGSP activities in Mindanao
Japan International Cooperation Agency (JICA)	<ul style="list-style-type: none"> met with JICA project formulation mission for proposed SZOPAD rural water supply package provided information assistance on proposed BOT projects in Mindanao provides information assistance to JICA-assisted Davao Integrated Development Project
Asian Development Bank (ADB)	<ul style="list-style-type: none"> facilitated meetings on Southern Philippines Airport Development package provided technical assistance to pre-appraisal mission on the Agrarian Reform Communities project assisted Bukidnon Integrated Area Development Project (BIADP) in terms of helping the provincial government develop high-value crop projects provided information assistance to project formulation mission on a rural development project in Mindanao
United Nations Development Plan (UNDP)	<ul style="list-style-type: none"> provided comments to proposed Industrial Development Programme for Income and Employment Generation in Mindanao
New Zealand Embassy	<ul style="list-style-type: none"> linked the NZ Embassy to EEMAN Institute Inc. and government agencies to provide financial assistance to the Community Assistance and Rural Empowerment through Social Services (CARES), a community-based reforestation project at Reina Regente Mountain in Maguindanao that aims to provide livelihood assistance to 800 Muslim families affected by military operations. initiated link-up between the Lamitan Water District in Basilan for financial assistance in the water district's expansion.
World Bank	<ul style="list-style-type: none"> provided information assistance to WB Team looking to fund rural infrastructure development project in Mindanao provided technical assistance to WB SZOPAD Social Fund for small infrastructure projects in SZOPAD to benefit MNLF communities.
Food and Agriculture Organization-Technical Support to Agrarian Reform and Rural Development (FAO-TSARRD)	<ul style="list-style-type: none"> co-sponsoring training for agrarian reform communities throughout Mindanao

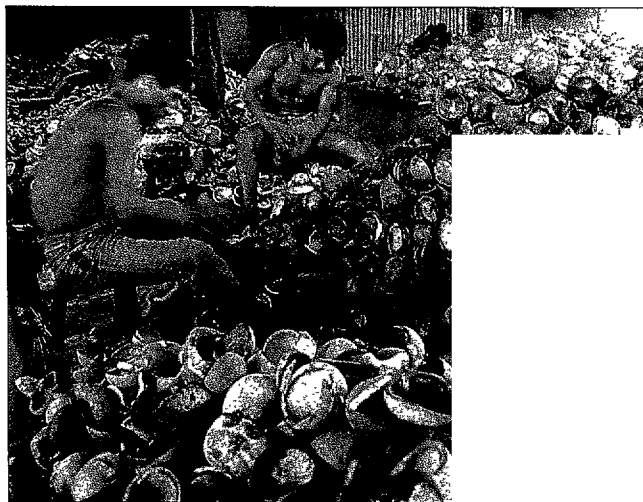
Links with Other Donor Projects

The 1996 Peace Pact between the Moro National Liberation Front (MNLF) and the Philippine Government accelerated the entry of development assistance from foreign donors into Muslim Mindanao. GEM has provided assistance to or is working with the Asian Development Bank, the Canadian International Development Agency (CIDA), the Food and Agriculture Organization (FAO), Japan International Cooperation Agency (JICA), New Zealand Embassy, United Kingdom Department for International Development, United Nations Development Programme, and the World Bank. GEM provides technical assistance and information for these donors, links them with government agencies, and identifies potential partner community groups. 



Coping with the Asian Economic Crisis

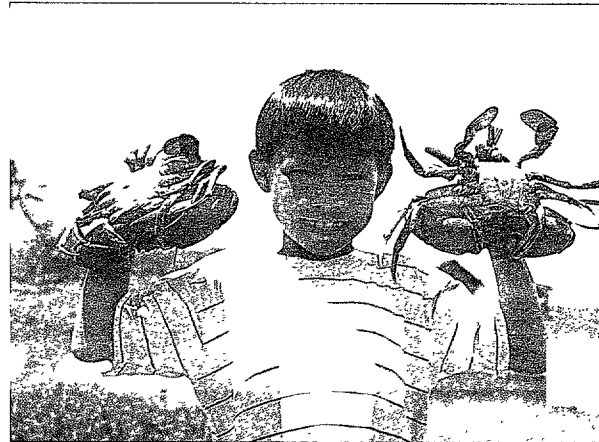
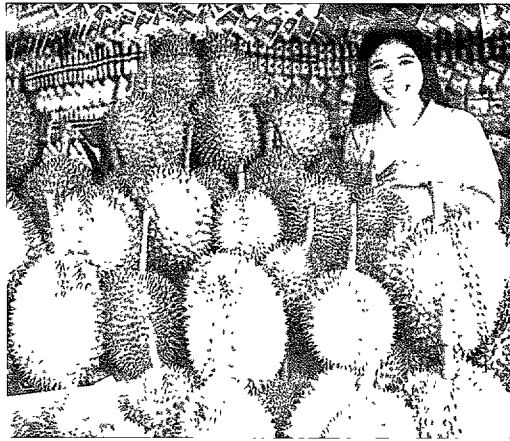
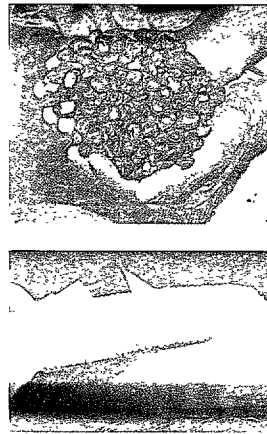
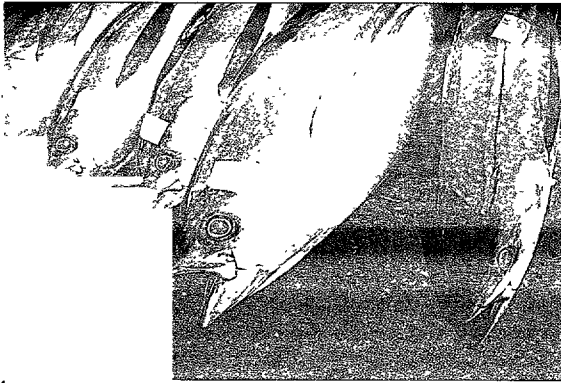
At the beginning of 1998, GEM revised its investment and trade development strategy in recognition of the changed economic situation in much of Asia. The strategy focuses GEM agriculture, trade, and investment development activities on countries less affected by the financial crisis and on large locators with high impact potential for farmers and fisherfolk. Within Mindanao, the strategy is aimed at providing greater access to financing for SMEs and financially troubled firms and linking export-competitive farmers and industries with overseas markets.



The period since mid-1997 has dealt the “Asian Miracle” a heavy blow. In terms of exports, the Philippines has become less competitive against Thailand and Indonesia, but more competitive against Taiwan, Singapore, and the People’s Republic of China given that Philippine exports will now earn about 60 percent more, in peso terms for every dollar, than in July 1997.

From the perspective of Mindanao, the crisis has produced different effects for the various economic sectors. Export-oriented manufacturers and those that use a high proportion of local inputs should theoretically be benefiting, but in fact, a severe shortage of working capital has kept many of these from fully exploiting their new competitive advantage. Manufacturers who import inputs and sell in the domestic market are obviously suffering.

Agriculture and agribusiness operations that produce products which compete directly with imports also stand to reap the greatest gain. Products that are benefiting from increased export competitiveness are mainly those that are shipped unprocessed, such as coconut, banana, pineapple, tuna, asparagus, seaweed, and others. Imported products such as corn, pork, chicken, fruit, and processed foods have become more



expensive, opening up opportunities for competition from local products. Mindanao products that are benefiting from increased competitiveness with imports also include fruit, palm oil, tomato paste, and fishmeal. The downside will be higher prices for farm inputs, transportation, and some others.

Europe and North America, New Zealand and Australia, the Middle East, Taiwan, and Singapore have all become worthwhile targets for accelerated trade and investment. Although Japan is experiencing serious economic difficulties, some major Japanese corporations still represent promotion targets, since they are geographically diversified enough that the current Japanese economic problems affect them less severely.

OPPORTUNITIES FOR IMPROVING GEM IMPACT

Opportunities for Mindanao Agriculture

The agriculture sector presents the most promising prospects for Mindanao to benefit from the current crisis. Mindanao is in the best position to supply domestic food demand. The slowdown in purchases of housing, automobiles, major appliances, and other durable consumer goods could actually improve the demand for food. Fast food outlets, as long as they can

keep their costs and prices down, should benefit. In many cases, this is already happening. Several food processors and fast food chains are currently reporting sizable increases in net profits.

Competing with imports has become a more viable strategy for Mindanao. Peanuts, processing potatoes, cacao, vegetables, and other short-term crops represent an opportunity to improve cash incomes for many Mindanao smallholders. High-value commodities with good world market demand, such as cacao and mango, can be developed fairly rapidly to enter the export market as well as compete domestically with imports. The current situation is also favorable for expanding production of high-value aquaculture products in Mindanao for export, such as mangrove crabs, eels, and premium quality tilapia. Raw materials for aquaculture feeds are mostly locally sourced, and local labor costs have decreased in dollar terms.

Investment Promotion

While foreign funds have exited from the region's stock markets, there is still some interest in direct investment. Investors are shopping for Southeast Asian assets, although many are waiting until the economic trends become clearer.



Major Japanese firms that are not heavily dependent on Japan's economy still see Mindanao as a promising investment target. Taiwan investors are beginning to overcome their fears concerning Mindanao peace and order. Two other regional contenders for this foreign investment, the People's Republic of China and Vietnam, are becoming less attractive to potential investors.

Opportunities in Other Sectors

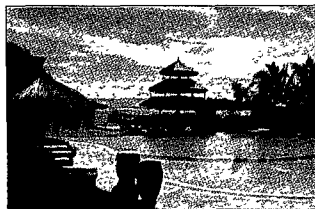


As the high-value agriculture and value-added agro-processing sectors expand, support services to agribusiness, such as transport, packaging, and farm machinery fabrication and assembly, will find it advantageous to locate in Mindanao.

Manufacturing opportunities will be favorable in food and agro-processing businesses that use mainly local materials, such as furniture manufacturing and handicrafts.

Investing in Mindanao industrial estates and local assembly operations to reduce manufacturing costs of export products should be appealing to foreign investors. GEM is helping find locators for one such estate, the First Cagayan de Oro Business Park, which is currently being established in Northern Mindanao.

With local costs dropping because of the weaker peso, tourism becomes a more attractive option for generating foreign exchange and increasing economic activity in Mindanao. Tourism also has a large multiplier effect on the food sector.

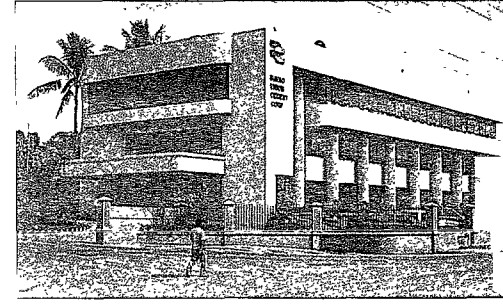
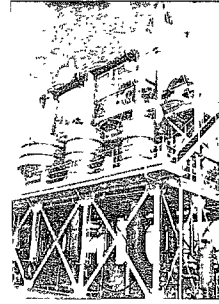
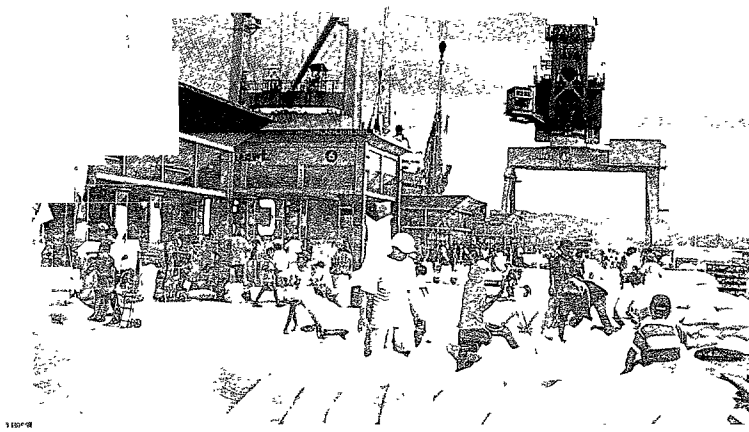


IMPLEMENTING THE STRATEGY

GEM's revised strategy is designed to take advantage of recent Asian economic dislocations by focusing its own agriculture, trade, and investment development efforts on the following activities:

Targeting Countries Unaffected by the Crisis: New Markets for Mindanao Agriculture

- Current contacts with the Japanese Corporate Association for East ASEAN Growth Area (JC-EAGA) to develop greater interest in Mindanao investment opportunities among Keidanren members have resulted in GEM facilitating investment by Nissho-Iwai and Marubeni; inquiries have been followed up from other major Japanese companies.
- The attendance of a Mindanao delegation at a trade exhibit in Tokyo resulted in a Japanese delegation's visit to Mindanao. GEM facilitated negotiations with Japanese companies for purchasing wood products and their eventual entry into a joint venture for establishing a 2,000-ha timber plantation and a specialty wood products manufacturing facility.
- Preliminary agreements for supplying fresh fruit and vegetables from Mindanao to the Osaka wholesale produce market have been made. Initial discussions were also carried out on possible Japanese investment in rubber processing in the Zamboanga area.
- GEM is following up inquiries (generated by GEM through its participation in a Tokyo trade fair) from Taiwanese businesses interested in sourcing fresh fruit and vegetables from Mindanao.
- GEM is developing with the Philippines International Trading Corporation (PITC) an "Offshore Food Basket" concept that will encourage Middle East investment in producing food for the Middle East market in Muslim Mindanao. This concept will be presented at an Islamic Development Bank-sponsored investors' conference which GEM is helping to organize.
- GEM is working with the New Zealand Embassy and the country's trade office in Singapore to identify investment opportunities for New Zealanders.
- Potential Taiwan investment is being targeted through the Taiwan-Philippine Chamber of Commerce and Business Council.



Attracting Large Locators with High Impact Potential for Farmers

- GEM is providing technical information to All Asia Terminals to help it plan a major new port near Cagayan de Oro, including a bulk grain terminal and refrigerated and dry container handling facilities.
- GEM is working with the Lapanday Group, who recently constructed a cold storage facility near Davao, to help source fruit, vegetables, and fish to carry on Lapanday vessels plying between Davao and several Chinese and Japanese ports. GEM and Lapanday are also working together to develop an Asian redistribution hub in Mindanao for refrigerated food products.

Providing Greater Access to Financing for SMEs and Agri-based Enterprises

GEM has agreed to assist the Philippine Stock Exchange in identifying firms to list on a new exchange for SMEs. GEM is also organizing orientation meetings around Mindanao for the Exchange.

Several companies operating in Mindanao have requested GEM assistance in seeking strategic investors. GEM has prepared project profiles and is helping the companies package their investment proposals. The profiles are being distributed to potential investors and GEM will assist in facilitating the investments through technical inputs and advice for the proponents concerning corporate restructuring. The following companies are being assisted:


- A state-of-the-art tomato processing company that was established three years ago with US\$23 million by local investors joined by the Commonwealth Corporation and the ADB.
- A major Philippine manufacturer of chocolate products, which recently opened a new plant at Davao. The company has an opportunity to expand and take a much larger market share because of reduced chocolate imports brought about by the peso devaluation, but lacks the necessary cash.

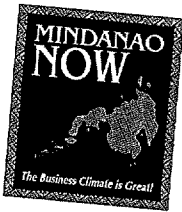
- A medium-scale mango puree processor that is financially pressed by rising interest rates and lack of operating capital. GEM interceded with the company's creditor bank to help the firm gain time to restructure, is helping negotiate four new supplier contracts and recently identified an investor who is considering buying out the company and expanding its operations.
- A successful family-owned food-processing firm with operations in Davao and Manila has asked GEM to find a strategic investor. It was on a growth path that would have doubled present sales by the year 2000, but was derailed by the current economic "crisis."
- A company that purchased land and equipment for a large-scale wood manufacturing operation in Caraga but was unable to start operations. GEM is helping find a buyer for the assets.

Linking Farmers and Industries Benefiting from the Peso Devaluation to Overseas Markets

GEM is helping link firms, primarily in agriculture, with foreign markets. Examples include the following:

- GENSAFCO, for mango exports to China;
- Marsman and Company, for asparagus and banana exports to Central Europe through the Port of Koper in Slovenia as an alternative to the Port of Rotterdam;
- Taiwanese and Japanese traders and food processors, for fruit, vegetable, and aquaculture products from Mindanao;
- Davao Union Cement Corporation, for cement exports to Palau and other Pacific Island states; and
- Bacnotan Steel, for the export of colored roofing sheets to Palau.

GEM is implementing agriculture development programs in the form of Targeted Crop Expansion Programs (TCEPs) to address the development needs of key agricultural commodities (*See TCEP, page 8*). GEM is currently refocusing its efforts to help develop those industries that will generate the greatest impact for Mindanao farmers under the current adverse economic conditions. 



Spreading the Good News About Mindanao

The GEM Communication Program supports overall efforts to promote economic transformation and stimulate broad-based growth in Mindanao. The program employs an integrated series of information tools and strategies to promote both confidence-building at the local level and interest in Mindanao's investment opportunities, policy issues, and infrastructure development at the national and international levels.

The program operates throughout Mindanao, with strategic satellite operations in Manila, to accomplish the following objectives:

- position Mindanao nationally and internationally as an attractive investment destination;
- support advocacy activities for policy changes within the Mindanao agenda;
- assist in attracting investments in infrastructure;
- help motivate Mindanao farming and fishing groups and NGOs to participate more effectively in the region's development.

Working hand-in-hand with technical experts to support the GEM sectoral groups and cluster areas, the communication team draws on a wide range of tools to tell the world the good news about Mindanao with the primary objective of accelerating trade and investment.

ACCOMPLISHMENTS

Placing News and Features

Much of the communication program involves generating positive news and placing these in national and Mindanao newspapers. This strategy is helping correct the unfair negative image of Mindanao that has evolved from historical conflicts in isolated hot spots. The GEM media and publicity arm quickly developed a reputation in media circles as a source of interesting and accurate news and features and accompanying quality photographs and graphics.

Free-lancers, partner agency staff, and GEM staff writers have written hundreds of news and feature articles. Since the start of the communication program, GEM publicity efforts succeeded with an average of nearly three articles or photo releases placed per day in the 11 Philippine national papers. Monthly successful placements continue to average between 70 and 80 articles. This is a considerable accomplishment in an environment where editorial publicity is highly competitive.



ELAP

In support of the Emergency Livelihood Assistance Program (ELAP), a series of highly visual "how to" training materials for farmer beneficiaries was developed. Illustrations and step-by-step guidelines were created for producing hybrid corn, seed treatment, rubber, seaweed, peanuts, and for pesticide and fertilizer handling. Training materials included brochures, posters, acetates for overhead projection, and flip charts.

Bangsamoro Women's Foundation

GEM developed an excellent working relationship with the Bangsamoro Women's Foundation for Peace and Development, a crucial partner-NGO in ELAP. GEM designed the foundation's logo and stationery, arranged speaking engagements at potential fund-raising venues, and promoted the foundation through news and feature article placements to support awareness of their capability-building needs or fund-raising activities.

Targeting Media

Working with area and sectoral specialists, the communication team successfully assisted in placing or arranging for articles on Mindanao to be published in international trade publications. Examples include *Asiafruit*, a regional produce publication headquartered in London, which published a GEM-written story on bananas; and *Seafood Leader*, an internationally respected seafood publication in Seattle, which sent its editor to General Santos City to write an eight-page section on the tuna industry. Editors of both publications considered the stories to be cover material and both resulted in direct sourcing inquiries to Mindanao producers. Similar opportunities are being identified for exposure in appropriate trade publications.

Special Media Relations

Other publicity tools being used to interest and educate national and international media include:

- press conferences;
- familiarization tours (bringing media representatives to visit particularly interesting projects);
- media briefings to groups such as the Foreign Correspondents' Association, beat reporters for targeted government departments, or visiting international journalists;
- workshops for business journalists;
- television programs and interviews;
- itinerary planning for national and international journalists.



Farm Audiences

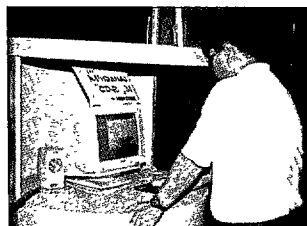
Working with AM radio and television stations in Mindanao, GEM has organized special programs that appeal to the largely farming audience. These have included programs on rice farming integrated with *bagras* (a variety of Eucalyptus), mulberry-growing for spun silk production, how farmers and entrepreneurs can take advantage of challenging economic conditions, and the Emergency Livelihood Assistance Program.

Mindanao Investment Video

A broadcast quality investment video was produced using a series of visual messages and voice clips from multiple interviewees, departing from the traditional narrative voiceover. The video will be used on Philippine trade and investment missions, at trade shows, in Philippine embassies abroad and in airports. Shorter versions will be aired on Philippine national television.

GEM CD-ROM

Much of GEM's work to date is being consolidated on a CD-ROM, including the investment video, a summary of economic data on Mindanao, this midterm report, and investment information.



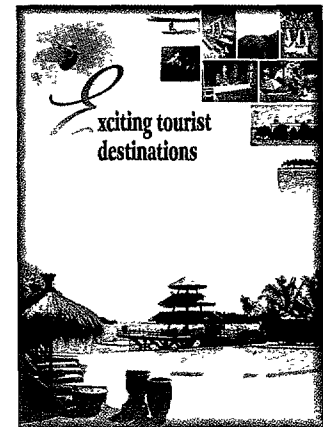
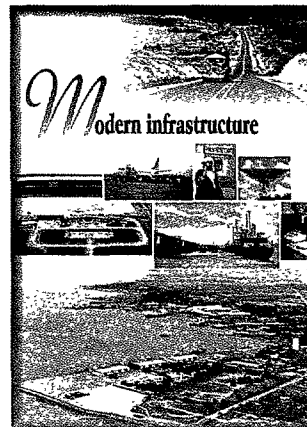
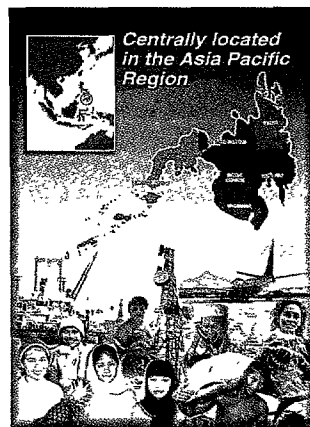
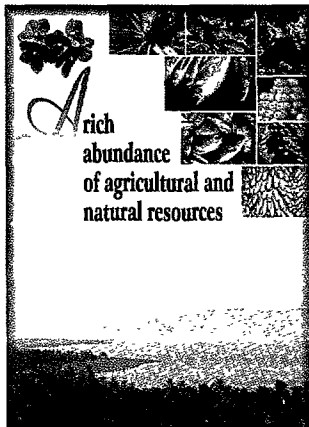
A Mindanao firm is developing the product, which is scheduled to be completed by the end of August 1998.

Highly interactive and designed with a map of Mindanao as the central theme, the CD-ROM is an extremely portable information product. It is expected to be an important addition to GEM's suite of traditional materials used to help attract significant investment. Slide presentations, artwork, and photos will also be included. Linked via hypertext to the GEM website, the CD-ROM will provide investors easy access to new data.



Communication Program Summary of Accomplishments (January 1996 - March 1998)

Placements in Print and Broadcast Media	
National newspapers	1,914
Mindanao newspapers	388* (Davao only)
Radio	24
Television	7
Special Media/Investor Relations	
Press conferences	15
Familiarization tours	8
Itinerary planning	9
Information and media kits	2,400
Workshops	3
Multimedia presentations	75
Newsletters	3 issues
Multimedia	40
Training materials	14
Poster Displays	13
Brochures	16
Report Covers	12
Documentation Photographs	5,500
Logos	4
Special Materials Development	
Investment video	1
Briefing presentations (on video, slides and acetates)	7
CD ROM (in progress)	1



www.mindanao.org

Mindanao on the World Wide Web

www.mindanao.org

Investors and others interested in Mindanao can visit GEM on the World Wide Web at an easy-to-remember domain name. The site is updated frequently with news and photo releases and other information. It is linked to other interesting web sites on Mindanao development, investment, and tourism.


The site is being redesigned to be more accessible to potential investors and will eventually house data such as project profiles and detailed project-specific investment information.

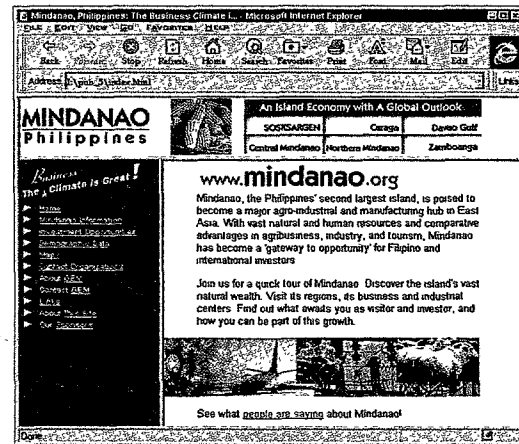
Inquiries through the web site are responded to immediately and forwarded to the sector specialist concerned for detailed answers.

Information Materials

GEM has produced an impressive array of information materials including: brochures, on-screen multimedia presentations, videos, support materials for seminars, newsletters, slides sets and acetates for internal and external clients, instructional materials, panel displays, posters and investment maps. All materials share the common theme "Mindanao NOW" and many similar elements. Most of the materials are designed generically for maximum use, although some are produced for individual special events.

Links with other agencies

The GEM communication team works closely with counterparts in MEDCO, OPMIn, the Philippine Information Agency, DOT, DTI, and most recently with the SPCPD. Internationally, the team has ties with the Malaysian BIMP-EAGA office. 



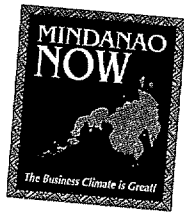
Potential investors can now keep abreast of the latest developments in Mindanao from wherever they are in the world.

GEM recently launched a World Wide Web site to provide information on investment incentives, useful contacts in Mindanao, and on priority investment opportunities in agribusiness, industry, and tourism.

Organized geographically, the site features information on Mindanao's major investment cluster areas: Davao Gulf, Greater Northern Corridor, Central Mindanao, Western Mindanao, Soksargen, and Caraga.

Mindanao is presented as a "gateway to opportunity," with site maps, photos, news briefs, and links to related sites such as that of the Department of Trade and Industry. The site is updated frequently with news, photos, and information. Visitors can arrange to receive updates by email.

Interested investors can also learn about business registration procedures and obtain contact information for Philippine agencies. ♦



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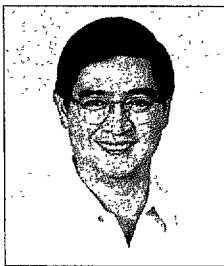
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Messages



Paul G. Dominguez
 Presidential Assistant for Mindanao,
 1992-1998
 Co-Designer of the GEM Program

The Growth with Equity in Mindanao Program effectively augmented the efforts of the Philippine government to accelerate development in Mindanao. It accomplished the task by assisting the Office of the President in carrying out the development strategies as outlined in the Mindanao 2000 plan.

Specifically, the GEM Program has provided valuable assistance in modifying key national government policies affecting Mindanao, promoting investments, especially in economically depressed regions, as well as reducing constraints to infrastructure development.

Finally, the GEM Program has consistently supported the development of various Mindanao-wide private sector organizations to enable them to effectively contribute to the continuing efforts to bring about sustainable growth with equity in Mindanao.



Atty. Jesus G. Dureza
 Presidential Assistant for Mindanao, 1998

GEM's accomplishments portray a dedication to fast-forward Mindanao's overall growth. Bravely taking the challenge of furnishing the tools of progress to the areas and sectors never before reached by any organization, GEM made our efforts in establishing the right environment for progress more meaningful. We hope that the government's partnership with GEM remains strong.



Thomas C. Hubbard
 US Ambassador to the Philippines

I am pleased to have this opportunity to pass along my greetings to the GEM staff at this, the mid-point of the GEM Program. We in the embassy have supported the GEM Program with interest, appreciation, and pride since its inception in 1995.

We have appreciated the very hard and dedicated work of all those associated with the GEM Program and we noted the many positive changes in the economic situation of Mindanao to which the program has contributed.

I congratulate USAID, the GEM Program, and the GEM staff on their accomplishments. I look forward to continued work with GEM over the next thirty months. Best regards



Patricia K. Buckles
 USAID Country Director, Philippines

Within the short time that I have been in the Philippines, I have seen a number of activities where GEM served as a catalyst in bringing about improvements in the lot of people from Mindanao. It gives me pride to see the progress that this USAID partnership with government and the private sector is making. GEM's accomplishments inspire us at USAID to strengthen our commitment to the rapid economic development of the island.



Robert F. Barnes
 Chief, Office of Economic Development
 Chief, Mindanao and Special Projects Division
 Co-Designer of the GEM Program

Congratulations to the GEM Team on reaching the mid-point of the Program. As you all know, USAID and OPMIn had major ambitions for GEM when we conceived the Program back in 1994. I really believed the time was right for a major push to spur economic growth and progress in Mindanao, and I really believed that the GEM Program was the right vehicle to use in making that push. I am very pleased that, thus far, it seems we were correct in our analysis

Mindanao has made extraordinary economic progress in the past few years and GEM, and its dedicated staff, has clearly played an important role in that progress. I very much look forward to what will be accomplished during the second half of the life of the Program.



Dr. Charles E. Feibel
 Chief of Party, GEM

It is not often that one has the opportunity to work with a great and dedicated staff on such an interesting and rewarding program. The many significant accomplishments of GEM can be attributed to this staff, to USAID, GOP, and LGU staff, and to the tens of thousands of Mindanaoans who helped us and gave us the opportunity to work with them.



Guide to Acronyms and Abbreviations

ADB	Asian Development Bank	IRRs	Implementing Rules and Regulations
AFTA	Asean Free Trade Association	JICA	Japan International Cooperation Agency
ARMM	Autonomous Region in Muslim Mindanao	JC-EAGA	Japanese Corporate Association for East Asean Growth Area
BMWFPD	Bangsamoro Women's Foundation for Peace and Development	JV	Joint Venture
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia Philippines East Asean Growth Area	LBP	Land Bank of the Philippines
BOT	Build-Operate-Transfer	LGC	Long Gestating Crop
CAB	Civil Aeronautics Board	LGU	Local Government Unit
CARES	Community Assistance and Rural Empowerment through Social Services	MAFC	Municipal Agricultural and Fishery Council
CARL	Comprehensive Agrarian Reform Law	MBC	Mindanao Business Council
CARP	Comprehensive Agrarian Reform Program	MEDCo	Mindanao Economic Development Council
CDO	Cagayan de Oro City	MNLF	Moro National Liberation Front
CEMIARC	Central Mindanao Integrated Agricultural Center	MAV	Minimum Access Volume
CIDA	Canadian International Development Agency	MPC	Multi-Purpose Cooperative
DA	Department of Agriculture	MWTF	Mindanao Water Transport Task Force
DACOMIN	Davao Cotabato Mango Industry Development Council	NGO	Non-Government Organization
DAR	Department of Agrarian Reform	NFA	National Food Authority
DBP	Development Bank of the Philippines	NEDA	National Economic and Development Authority
DENR	Department of Environment and Natural Resources	ODA	Official Development Assistance
DPWH	Department of Public Works and Highways	OPMin	Office of the President-Mindanao
DOT	Department of Tourism	PITC	Philippine International Trading Corporation
DTI	Department of Trade and Industry	PCO	Public Calling Office
FAO	Food and Agriculture Organization	PPA	Philippine Ports Authority
FCRAP	Federation of Cattle Raisers Associations of the Philippines	RAFC	Regional Agricultural and Fishery Council
FLGLA	Forestland Grazing Lease Agreements	SMARRDEC	Southern Mindanao Resources Research Development Council
FMPC	Federation of Multi-Purpose Cooperatives	SPS	Sanitary and Phytosanitary Standards
FSWA	Federation of Surallah Women's Associations	SZAED	Special Zone of Peace and Development Accelerated Enterprise Development
GATT	General Agreement on Tariff and Trade	SZOPAD	Special Zone of Peace and Development
GENSAFCO	General Santos-Sarangani Fruit Cooperative	TCEP	Targeted Crop Expansion Program
GSC	General Santos City	TREES	Technology for Reforestation and Enterprises for Ecological Sustainability
GOP	Government of the Philippines	TSARRD	Technical Support to Agrarian Reform and Rural Development
IBRD	International Bank for Reconstruction and Development	UNDP	United Nations Development Programme
IMAG	Infrastructure Monitoring and Advisory Group	VISCA	Visayas State College of Agriculture