



# C4D Partners:

## A Case Study on Responsible Investment into FamilyFarms Inc.

ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture, and Forestry

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# Executive Summary

This case study outlines the journey of C4D Partners in their investment into FamilyFarms Inc.'s organic rice supply chain in Bago City, Negros Island, Philippines.

Rice is considered as a staple food in the Philippines. The [Philippines is the eighth largest rice producer in the world](#). Occupying [4.72 million hectares](#) of land for rice cultivation, the production reached [19.96 million metric tons](#) in 2021. Ironically, the Philippines is also a major importer of rice with [2.23 million metric tons](#) imported. To solve the insufficiency of rice production for local consumption and high buying prices, the Philippine Government has been implementing [Republic Act No. 11203 or the Rice Tariffication Law](#), which effectively liberalized rice importation into the country from other countries but imposes tariffs on imports. With these imports, the market price of rice became cheaper. However, the lower market prices of imported rice have negatively affected the incomes of Filipino smallholder organic rice producers since the market prices of organic rice are relatively higher. Hence, the smallholder farmers involved in this study believe that organic farmers earn relatively less [support from government](#) and consumers.



# Executive Summary

This case study highlights the journey of Capital 4 Development (C4D) Partners B.V., an Impact Fund Manager from the Netherlands with offices in India and Indonesia. This study is about C4D Partners' investment into an organic rice production business, FamilyFarms Inc. (FFI) in Negros Island, Philippines. The business represents the experiences of a small and medium enterprise (SME) in the delivery of a sustainable product. The business model promotes food safety and nutrition as well as climate positive agricultural practices through the production of organic rice, which has contributed to job creation and improved incomes, health, and pride for Negrense<sup>1</sup> farmers.

## Key learnings emerging from C4D's investment include:

- When investing into Agri-SMEs, flexible (debt) instruments have the potential to achieve a strong financial and impact return on investment.
- Investing in agri-SMEs takes a lot of patience, innovation, and preparedness for circumstances beyond the control of the investee.
- Organic labeling is not well-protected in the Philippines, meaning that while there is a regulatory policy, enforcement is weak, thus the prevalence of fake organic labels. This creates a challenge for businesses like FamilyFarms Inc.
- Flexibility and innovation are key factors to sustain an agri-SME in the long run.

**Read the full case study to learn more about how C4D Partners sees financial returns on their investment, and how their investment is aligned to principles of the ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI).**



Image courtesy of FamilyFarms Inc.

<sup>1</sup> Colloquial that refers to the people of Negros Island, Philippines.

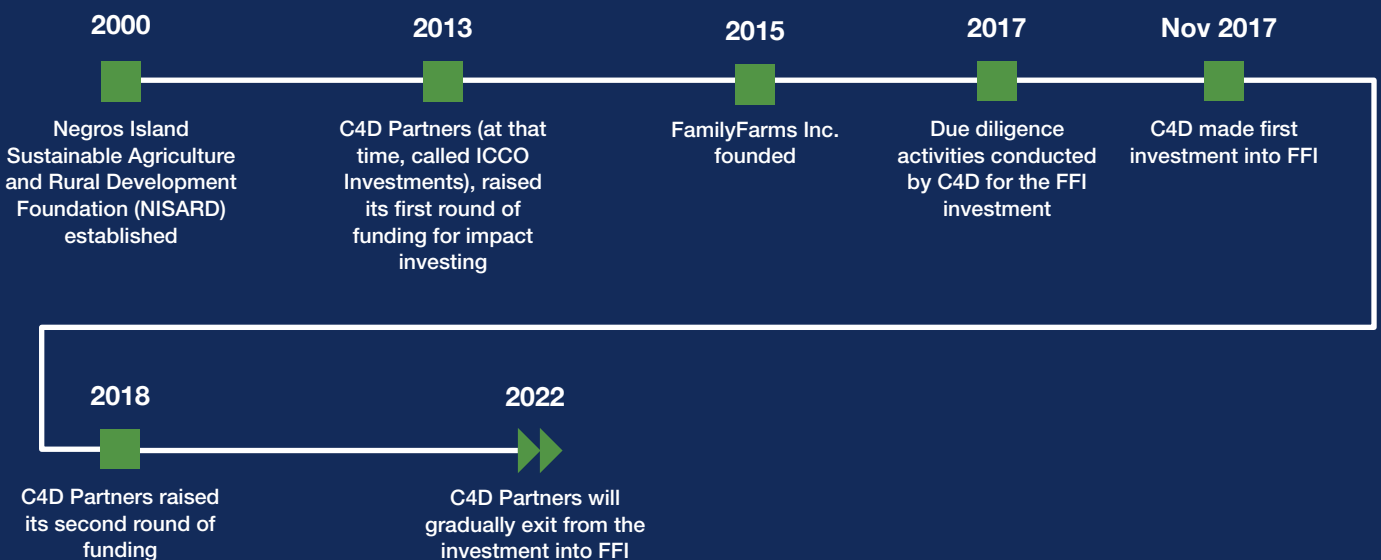
## LOCATION

# Philippines



**Bagos City, Negros Island**

## Timeline





# Investor Profile

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C4D Partners (C4D) was established on 28 November 2013. It is an impact investor that manages the C4D Asia Fund, totalling USD 30 million raised (since December 2018) from four institutional investors including ICCO, FCA Investments (Finland), Dutch Good Growth Fund (Netherlands), and Investing in Women (IW) Fund (Australia). C4D invests with SMEs that source products in their respective supply chains from local communities, bringing the products to market for local consumption or export.

C4D Partners is guided by its Investment Strategy, which facilitates the selection of sectors to invest in, based on uniqueness and impact pursuits for C4D Partners. The Investment Strategy is also the basis of raising the fund from external investors. The Strategy is market-driven and generally based on the investment experience of C4D Partners, not on any compliance framework. As the Fund is sector-agnostic, it has diversified portfolio but follows certain sector limits. **For agriculture-based investments in Asia, C4D invests up to 40% of the funds they manage.** The 40% is then further split into 1) commodity-based agro-processing and 2) food processing (end products). Agriculture and Food-Based SMEs represent 13 out of 22 investments as of 2020, which amount to 34% of the Asia Fund. The Fund has been invested in two regions: India and Southeast Asia.

# Investment Profile

**Table 1. Characteristics of investments under the C4D Asia Fund**

India	Southeast Asia
<ul style="list-style-type: none"> <li>● Equity (primarily)</li> <li>● Renewable energy, food, waste management, education, financial inclusion.</li> <li>● SMEs sourcing from local smallholder farmers providing market access to rural farming communities.</li> </ul>	<ul style="list-style-type: none"> <li>● Mezzanine Debt</li> <li>● Equity</li> <li>● Food and Agriculture-based SMEs</li> <li>● SMEs producing value-added products, not conventional commodity trading</li> <li>● Most of the portfolio companies are doing organic farming or agricultural premium products for a higher market, e.g., organic pigmented rice, organic cinnamon, organic nutmeg, virgin coconut oil, organic coconut sugar.</li> <li>● The investment is a mix of capital expenditures (CapEX) and working capital for expansion of the business facilities, enhancing the value-add to the products or increasing the supply base/ market.</li> </ul>

# Investment Profile



FamilyFarms Inc. (FFI) started in the year 2015 to cultivate various varieties of organic rice in Negros Island, Philippines. FFI works with smallholder farmers as an offtaker of organic rice varieties (including black rice). FFI offers those farmers free training on organic farming as well as organic seeds for purchase.

C4D Partners' investment with FamilyFarms Inc. (FFI) started in November 2017. Family Farms was then an early-stage SME, a fact that could have made this investment unattractive to C4D. Usually, C4D finances companies who have at least two (2) years of commercial track record. However, FFI was able to demonstrate other attractive factors that eventually won the investment of C4D Partners. The investor saw that FFI started using owners' small personal investments to create proof that organic farming can be profitable and environmentally sustainable. The following **considerations about FFI appealed to the investor:**

- Strong advocacy for organic agriculture despite being less commercialized at the time;
- Mix of Filipino and Australian founders who have worked together for 10 years on organic farming, then at the time of the investment;
- Good connection with farmers, local authorities, and market base;
- Existing Negros Island Sustainable Agriculture and Rural Development Foundation, whose 2 members of the Board of Trustees also became the two founding directors of FFI. NISARD provides capacity building support to farmers on organic farming;
- Engagement with the International Federation of Organic Agriculture Movement (IFOAM)<sup>2</sup> in since 2005; and
- Growing market opportunities due to increasing interest from consumers looking at healthier food options locally, as well as in export markets.

<sup>2</sup> Based in Bonn, Germany and with a country network - IFOAM Asia and Korea. IFOAM Asia has 270 members from different countries in Asia.



# Investment Profile

C4D Partners was particularly attracted to the business model where FFI partnered with other groups to help farmers complete the **transformational process from conventional to organic rice farming**.

The investment was in the amount of PhP10 million or approx. 200,000 USD convertible loan to equity, which supported FFI's capital expenditures, mainly used for operations in acquiring a state-of-the-art production facility (i.e. rice mill and sorting facility) with the most modern specifications to ensure meticulous quality and future expansion of production.

For FFI, the objective is to make organic food affordable so that every Filipino will be able to eat organic food at a fair price. With all the above factors and these intentions, FFI met C4D's objectives. With this opportunity created by C4D Partners' investment, FFI managed to turn around the business and is now a stable market player on its way to sustainability.



## Commodity/Crop

Pigmented Organic Rice (various varieties)



## Other financiers involved (banks, Development Financial Institutions - DFI, etc.)

Peace and Equity Foundation (PEF)



## Total amount of the investment

PhP 10 million as equity from C4D  
Other donors: PhP 14,000,000 (approx. USD 267, 300)



## Percentage invested by each investor type (agribusiness, government, financiers, etc)

- 40% from C4D along with other foreign investors
- 60% from Peace and Equity Foundation and other local funders

# Investment Objectives

The investment seeks to increase the volume of organic rice yield and its monetary value (in USD) on a yearly basis.

Impact objectives:

- Enhanced production facility (rice mill) to produce good quality whole grain pigmented organic rice
- Increase in the incomes of smallholder farmers (whose landholdings are mostly less than 2 hectares) given the premium price of organic rice in the market
- Increase in the number of organic farmers supported to shift from conventional rice farming using synthetic chemicals to regenerative organic production
- Creation of local employment opportunities

“

We are a social enterprise and it is our vision to help our small family farmers in Negros Island (Philippines) grow organic rice and other crops, help protect our environment, empower women, men and youth to grow nutrient-dense food for their families and consumers. In this way we keep Filipinos healthy.

”

- **Edgardo Uychiat, President, FFI**

# Investment Process

## Due Diligence

The pre-investment process took nine (9) months as the investors needed to establish a relationship with FFI. C4D Partners' representatives conducted several field visits to see the team, facilities, and farms. C4D Partners also talked to the farmers to understand the management style of FFI, which included observing activities of FFI-initiated Negros Island Sustainable Agriculture and Rural Development Foundation and the conduct of organic farming methods. There were conversations with the FFI team and the farmers, and the investor checked the environment in which the farms were operating. The investor team also reviewed the business plans, conversed with the management team, suppliers, buyers, and key staff to have a detailed understanding of the quality of FFI's business operations.

## Closing the Negotiations

After all due diligence checks, the investment team forwarded the investment prospect to their in-house Pre-Investment Committee to discuss the business opportunities and deliberate on the key risks and opportunities. The project was then mediated by an independent Investment Committee which makes the final approvals on investment projects.

## Structuring

C4D equity investments are tailored based on the assessment of the investee's financial strengths and business plan.

In the case of FFI, the investor had to exceed its investment beyond the foreign ownership limit imposed by the Philippine laws. This is due to the fact that FFI was already partly owned by Australian partners of the business. Hence, C4D and the Australian partners had to fit themselves within the 40% foreign ownership restriction imposed by law. But this is to the great disadvantage of FFI, because they had to raise the remaining 60% of the capital. After exhaustive efforts to find funding from local financial institutions, they landed at a resolution to obtain more funding from the investor - but this amount exceeded the 40% limit and was made in the form of convertible loans. The structure also allowed for some flexibility based on the movement of cash flows, e.g., varying amount of repayments and interest every season based on the FFI's cash flow.



# Investment Process

## Implementation

FFI procured a color sorting machine (a Japanese technology) to ensure the best quality of production of black rice. They sell seeds to some of the farmers (other farmers already breed seeds for themselves) with free capacity enhancement services on organic farming and emerging technologies. The capacity building services provided to farmers also include teaching farmers how to run a business and access the market. As a support to the investments, C4D Partners provides a Portfolio Support Program (PSP) to FFI which helped to create management systems, i.e., accounting, administration-support systems, coaching programs, and website development.

## Monitoring and Evaluation

Besides the regular financial reporting, two additional reports are required by C4D Partners from FFI: 1) Impact Report (quarterly) and 2) Yield Volume and Value (annually). C4D Partners assesses performance based on an Impact Framework which is standardized across their agricultural investments. This serves as a guide in collecting self-reported data. C4D Partners also assesses FFI's compliance with sustainability standards and gender equality targets. These outputs are used for C4D Partners' reporting to its external investors. The verification is measured through external financial audit reports, quarterly calls with FFI, and virtual Board Meetings, which provides a platform for C4D Partners to understand the field-level activities and validate the reports.

## Challenges

There have been some challenges since the beginning of the investment through implementation, such as:

- Difficulty in raising capital to balance the 40% foreign ownership limit under Philippine law. Because of the 40% foreign ownership limit, part of the investment was made as a convertible loan, in anticipation of more equity to be raised from local sources.
- Challenging market competition due to weak government regulation of organic labels;
- Issues facilitating farmers' behavior change from traditional farming to organic farming;
- Long certification processes which take 3 years to convert a conventional farm to an organic farm and satisfy all the organic standard protocols.



# Investment Results

Despite some challenges, FFI has reached almost 80% of investment targets to date. COVID-19 created opportunities for healthy food companies globally. Also for FFI, the sales had a 30% increase in 2020 and 2021 (at the height of the COVID-19 pandemic), compared to the last 4 years.

Upon recognition of its excellent business relationship, FFI's buyers/market partners provided FFI access to a loan without interest in the amount of PhP 10 million (USD 190,000). This loan, along with the success factors identified below, helped FFI survive the pandemic and even surpass their sales target. Success factors include:

- Through the use of organic inputs, some some farmers are reaching rice yields as high as 4 tons, and FFI has set a target of reaching 6 ton-yields;
- Continuous capacity enhancement training to farmers specifically on seed selection and formulation of organic fertilizers;
- Excellent relationship with market partners;
- Biodiversity conservation of the surrounding landscape to create a productive soil base for rice farming, and; and
- Multi-stakeholder synergy (e.g. support from the Provincial Government, from other organic farming organizations, etc.).

“

You need to be patient. Always keep in mind that it is still agriculture - there are days of bad harvests and bad cycles that you need to be prepared for, patient and resilient. There has to be constant support and acceptance because you don't create these things overnight. I am really happy to see where they are now... that yes, they have been able to do it.

”

**- Marcel Neutel, Co-founder/Partner, C4D Partners**

# Investment Results

FFI produces organic rice varieties which generates higher revenue than conventional rice - which the company attributes to the support of the C4D Partners' investment.

Objective	Results (as of 2021)
<p><b>Enhanced production facility (rice mill) to produce good quality whole-grain colored rice</b></p>	<p>FFI is sourcing pigmented organic rice varieties from farmers, which is now available in the market. Since C4D Partners' investment came in, FFI's has recored yields as follows:            2018 - 735 mt;            2019 - 1,019 mt;            2020 - 1,275 mt;            2021 - 1,384 mt.</p> <p>Note: This is the cumulative yield of all pigmented organic rice colors produced. FFI established a mill which can accommodate more than its current operations.</p>
<p><b>Increase in organic rice yield per farmer and monetary value (USD) on a yearly basis to increase the incomes of farmers</b></p>	<p>30% increase in sales for three consecutive years since 2019 until 2021 at PhP 44 million (USD 840,000)</p> <p>Yield has reached 4-6 tons/farmer on average. In figures, purchases paid to farmers since 2017 at the time of the investment increased from 60% up to 160% until 2021 (from around PhP 9 million in 2017 to PhP 24 million in 2021 purchases paid to farmers).</p>
<p><b>Increase in the number of organic farmers being supported (via capacity building and supplier agreements)</b></p> <p><i>Note: C4D did not set a specific number, but the Peace and Equity Foundation (second financier) set a target of 150 farmers.</i></p>	<p>&gt;306 farmers engaged as suppliers            = 85% increase compared to 2019</p> <p>Baseline:            FFI started the company with only 35 organic farmer-suppliers</p>
<p><b>Creation of local employment</b></p>	<p>FFI employs ~34 employees from local communities in their business</p>

Another outcome realized is the creation of local economic impact. Through the efforts of FFI's continuous engagement with farming communities, the Local Government Unit provided them a common service facility (mechanical drier) valued at PhP 16 million (~USD 300,000), which benefits all farmers in their locality.

# Alignment to ASEAN RAI

The ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI) is a regionally-adopted, voluntary framework to guide investment decision making for both private and public sector actors. The ASEAN Member States have agreed to use these Guidelines to create or update legally-binding policies, which means agribusinesses and investors who demonstrate alignment to the ASEAN RAI are better prepared for these future policy changes.

The 10 principles of the ASEAN RAI (Figure 1) describe the impacts those agricultural investments may have at the community, local or national level.

When an organization like C4D Partners makes a pre-investment commitment to follow responsible environmental, social and governance practices, they are more likely to be aligned to the ASEAN RAI. This investment retroactively applied the ASEAN RAI to C4D's investment practices and outcomes, which are aligned to (some aspects of) **9 out of 10 Guidelines** with demonstrated strength on 6 Principles. If ASEAN RAI had existed before the C4D's investment, it could have helped them add to more features of the investment to attract more investors.

**Figure 1. Principles of the ASEAN RAI**



# Alignment of C4D's Investment to ASEAN RAI



## Guideline 1

### Food security and nutrition (local and national)

FFI employs organic farming practices which produce nutrient-filled rice products with a stringent regimen of natural fertilizers. The practice translates to health benefits for smallholder farmers, while providing healthier food options for consumers. FFI uses their Palay Purchase Orders (documenting the amount of farmers' yields purchased by the company) to indicate how many bags of rice that the farmers retain for their consumption and for seed inputs/reserves.



## Guideline 2

### Sustainable, inclusive economic development and poverty eradication, including: improved producer livelihoods, fair contracts, employment and wages, worker health and safety

FFI provides higher incomes to more than 300 smallholder farmers following a value chain relationship wherein farmers are empowered to negotiate the price of their products.

FFI engages with clusters of farmers, operating on principles of equality and empowerment. FFI farmers are clustered according to their geographical locations. Organic certification is done under FFI's Internal Quality Control System (IQCS) standards, wherein all farmers are enlisted as members performing as one organic rice production unit. To ensure organic integrity, FFI inspects and documents the farm production processes from land preparation to harvest. This cluster approach helps ensure that certification expenses will not be exorbitant, especially for the women farmers. If done individually, a certification would cost Php 80,000 (~USD 1500) per farmer.

FFI operates a Common Service Facility (CSF) that is helpful for smallholder farmers who cannot afford to buy tractors, sprayers, or weeders. With CSF operated by an agri-cooperative, smallholder farmers have opportunities to borrow farm implements from the facility, which can effectively increase their purchasing power to help them grow their farms and increase income.



## Guideline 3

### Equality, engagement and empowerment of women, indigenous communities, youth, marginalized communities

FFI's mill operations manager, inspection officer, inventory manager and a portion of the staff are women (about 21% of the entire staff). In their value chain, FFI engages with women (30% of all farmers) in the organic certification processes, which are completed via farmer "clusters".



## Guideline 4

### Respect for tenure of land, fisheries and forests

FFI does not encroach upon the lands of its supplier farmers. The farmers are engaged on equal terms and they have full autonomy over the activities they choose to do on their land.

FFI leases the land for their milling facility in the low land of central Negros, from an association of farmers (non-Indigenous Peoples) which owns the land.



## Guideline 5

### Conservation of natural resources, especially forests

FFI began the business using heirloom rice seeds. These are grown by mountain inhabitants and some are from indigenous communities. FFI produces black rice which is also used for medicinal purposes by these communities. They also use hybrid seeds as long as the seeds were not sprayed with pesticides as is the usual practice.

The Negros Island Sustainable Agriculture and Rural Development Foundation had to hunt for organic rice, then grow in the mountain areas, like the black rice. Now, these rice varieties are already out in the markets in the country with the contribution of the efforts of FFI, supplying ~ one thousand tons of these organic rice varieties.



## Alignment of C4D's Investment to ASEAN RAI



### Guideline 6

**Sustainable and appropriate use of technologies**

FFI plans to use [SRI Technology](#) which reduces the seed requirement for a certain size/plot of land and results in better yield.



### Guideline 7

**Resilience to climate change, natural disasters and other shocks**

FFI's organic farming practices contribute to reinforcing the resilience of communities to economic shocks due to climate change. According to FFI, organic crops can still yield better than conventionally grown ones amidst extreme wet and dry seasons.<sup>3</sup> Organic farming naturally benefits from the natural richness of the landscape which makes it more sustainable compared to conventional farming. Through the organic farming cycle, the flora and fauna of a landscape is developed. FFI also uses composted animal manure as a natural fertilizer, which sequesters carbon emissions from the atmosphere.

In securing supply of organic fertilizer, the farmers produce their own fertilizers using locally available materials or materials they source from nearby communities, like chicken manure.



### Guideline 8

**Respect for the rule of law and incorporation of inclusive and transparent Governance structures, processes and grievance mechanisms**

FFI follows an organic certification process. The certification process is done annually and takes up to 6 months. FFI appreciates the business value of organic certification because it enables them to export directly to markets, due to the assurance from the third party organic certification.

FFI Internal Quality Control System manual includes a grievance process. FFI employees' conduct is guided by a "code of discipline" that is annually presented to all personnel.



### Guideline 9

**Assess and address environmental and social impacts and monitor performance**

In addition to the above examples of how FFI measures environmental and social impacts (including as required by organic certification bodies), FFI has internal quality control systems (IQCS) to monitor impacts and performance in their supply chain. The IQCS requires farmers to mark the planting calendar and the input cycles as well as the size of the area being planted and the color of the rice. The Foundation also deploys farm extension officers who facilitate these activities.



### Guideline 10

**Strengthened regional approaches to responsible investments**

Since it was founded, FFI has been engaging with its counterparts in the Organic Farming Movement in the region as a member of [IFOAM Asia](#) along with the League of Organic Producers of cities, municipalities, and provinces based in Mindanao.

<sup>3</sup> In developing countries, organic agricultural systems achieve equal or even higher yields, as compared to the current conventional practices, which translate into a potentially important option for food security and sustainable livelihoods for the rural poor in times of climate change (FAO, 2010).

# Public Policy Recommendations

According to both C4D and FFI, the following government actions would support them in reaching their goals:

- **Strengthen organic agriculture programming** - governments should institutionalize and boost support for organic farming and provide support facilities responsive to needs of farmers;
- **Support mechanization** - support is needed for mechanization in planting and weeding, especially to support aging farmers;
- **Encourage the cluster approach for organic accreditation** to make the process more inclusive and easily accessible to farmers;
- **Balance foreign ownership restrictions** - companies like FFI struggle to raise enough capital from local sources, under the current foreign ownership restriction in the Philippines. With a more balanced approach to foreign and local ownership policies, Filipino-run small and medium businesses could more easily raise capital needed to innovate and compete with wholly foreign-owned companies. challenge of raising enough capital from local sources will be resolved. This way, small businesses would no longer be pressed to seek funding from foreign investment.



# Ensuring long-term sustainability

While C4D Partners is gradually exiting from their investment to FFI, C4D's support has helped to boost FFI's business profile and reputation, allowing the company to more easily pursue local investment opportunities. FFI sustains stable relationships with like-minded market players to ensure long term market demand for their organic rice. They are also continuously providing capacity building and organic certification support to their farmers, including exploring technologies to improve yield.

A woman in a light blue shirt is looking down at a rice field. The background is a lush green rice field with a dark blue diagonal line across it.

“

Let's keep it up. Let's tell the consumers to support the local farmers. We want everybody to consider the farmers as the main players in this enterprise. That, I think, is the main reason why we are still here, operating as a business.

- Edgardo Uychiat, President, FFI

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**ASEAN RAI Guidelines**

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