What is Ailing Farmer Companies of Sri Lanka in their Transformation into Successful Business Entities? : Over view of Policy Issues

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Abstract

The formation of Farmer Companies (FC) is a strategy adapted by government to transform traditional small holder farming into commercialized business ventures. These companies are expected to address major problems faced by farmers in the procurement of inputs, obtaining of technology, value addition to their products, and marketing. They are also expected to demonstrate capacity to adjust to the forces of free trade in the market economy with forward contracts generating resources to invest on farmlands with prudent management practices. Over the past few years roles of FCs appear to be limited only providing farm inputs rather than implementing comprehensive business program. This paper investigates into this area in relation to related policy issues and constraints and suggests several remedial measures to turn them into fully fledged business entities.

[1] The author is grateful to Prof.Xu, Dean, Prof. Pei-Kang Chang and Prof. Peng Daiyang , School of Economics, HUST, Wuhan, 430074 P R China, for their valuable comments on this article

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Introduction

The world economies are moving ahead with new strategies, infusing dynamism into all spheres of production, marketing, distribution, transferring of technologies with the aid of information technologies. The Sri Lankan agriculture is yet to take advantage of this globalization process. It is necessary to make policy, structural and institutional reforms in the agriculture sector to transform it into a commercialized sector. With liberal economic policy reforms introduced in the past two decades and globalization effects, the non-plantation agriculture sector faces many challenges today. These are mainly related to commercialization and diversification of agriculture. Here farmer companies were introduced as a strategy to transform volunteer farmer organizations in to business firms. Therefore, an attempt has made in this article to review the role of Farmer Companies (FC) in the process of transforming small farmers from subsistence farming into commercial farming.

Crisis in the Small Holder Sector

Presently, the agriculture sector plays an important role in the economy of Sri Lanka by contributing 19.4% to the GDP, providing employment for about 32% of the active population in the labor force and also 19% of gross exports in 2001(Central Bank 2002). However the World Bank categorized Sri Lanka as a middle-income developing country, within a per capita income of 899 US $ in year 2000. The total population of the country is 18.7 million as estimated in 2001. Nevertheless, agriculture has become the main source of livelihood for the rural population, which accounts for nearly 70% of the population.

Sri Lankan agriculture sector has two sub-sectors namely plantation sector and domestic food crop sector alternatively referred to as the non-plantation sector. Paddy is the major crop produced by farmers in the domestic sector. In addition, pulses, coarse grains, roots and tubers, chilies, onions, vegetables etc. produced for mainly domestic consumption, but marketing of surplus production by farmers is a common feature. Since gaining independence in 1948 and even before, successive governments of Sri Lanka have made policies and strategies for the development of small-scale agriculture, but the results achieved have not been in proportion to the effort put in. In spite of these development activities and investments, this sector has come to a critical stage with no visible signs of improvements and has lost its momentum over the last 10-15 years (NDC, 1996). This is reflected from the key indicators such as low crop productivity and out-put, low intensity of use of irrigation lands, low farm family income and poor employment generation, low adoption of farm technologies

particularly by small farmers. Moreover the prices of all major inputs, (labor, machinery, fertilizer, chemicals etc.) have increased by several fold resulting in a sharp increase in a production cost of farm inputs (HARTI, 1998).

The farm gate prices of agricultural commodities produced by small farmers have not kept pace with rising cost of production and this has adversely affected the gradual erosion of net profits associated with farm enterprises. The frequent price fluctuations of most domestically produced commodities leads to wide income variations and uncertainties among producers. Therefore modern agriculture management does not properly contribute to the country's economic growth, protection of natural environment and in the improvement of the standard of living among millions of small farmers. Thus the agriculture sector has become the 'leading but lagging' sector of the economy in Sri Lanka. Hence the search for policy alternatives began in earnest.

The Needs for Farmer Companies]

In the agricultural policy recommendations formulated by the National Development Council has stated that within the open economic transformation process, to attract Foreign Direct Investment (FDI) and new technologies, there should be a "one organization structure" to facilitate the whole process of investments in the agricultural sector by building partnerships, join ventures with the foreign investors, adopting existing incentive packages designed by the Board of Investments (BOI). This institutional framework should facilitate to get the ISO standards for the future export agricultural products (eg. green or organic products) and encourage to build contract farming initiatives to avert the risk of both exporters' and farmers' in the process. Further, this institution can be used to formulate policies to gain benefits under the 'green box' policies of GATT/Uruguay Round negotiations. The formulation of multi sectoral complimentary agricultural policies should encourage land saving technologies such as green houses and poly tunnels. It is also a measure for minimizing agricultural externalities and encourages competition through a regulatory framework. The policy package also recommended establishing a National Farmer Company as an alternative marketing source with a limited liability structure enabling farmers' involvement in purchasing and marketing of all agricultural commodities on a competitive basis. (NDC, 1996).

The Ministry of Agriculture and Lands has accepted the formation and strengthening of Farmer Companies in all districts under its "New Agricultural Policy" recognizing the viability of these companies in the transformation of traditional, small farm agriculture into commercialized profitable economic ventures (Ministry of Agriculture and Lands, 2000, Jayaratne, 2000). Farmer Companies expected to form strong economic organizations of the farming community to enter into partnerships with the business community as two strong groups of the private sector involved in commercial agriculture. These companies are also expected to address the major problems faced by farmers in the procurement of inputs, obtaining technology, value addition to their products and marketing. They are also expected to demonstrate capacity to adjust to the forces of free trade in a market economy by selecting appropriate crops to produce for markets on forward contracts, generating resources to invest on fragmented, water-short farmlands by prudent management practices profitably.

The basic structure of the FCs were based on two pilot projects started by the International Water Management Institute (IWMI) in 1994 under Shared Control of Natural Resource Project (SCOR) in Huruluwewa and Nilwala River basin areas.

The idea of Farmer Company was emphasized due to several factors.

1. Farmer Company will find solutions for market manipulation and exploitative behavior of private traders.

2. It will bring investment to farm lands by mobilizing technology and productive resources.
3. To give human face to open economy this was the main political slogan in 1996 election.
4. Farmers will become shareholders of farmer companies and creates dignity of labor by moving towards dynamic production activities.
5. Farmer Company will allow better gender relations for women with equal distribution of shares of farmer companies (Batuwitage, 2000).

Under new agricultural policies introduced in 1996, FCs were considered as the main institutional strategy of agriculture and irrigation development. Thus, FCs were established in major and some minor irrigation schemes by the Irrigation Management Division (IMD), Department of Agrarian Service, Agricultural Development Authority and Mahaweli Development Board. At present about 85 farmer companies are functioning throughout the country.

Process of establishing FCs

"The Farmer Company in Sri Lanka is defined as a commercialized public/ private business firm run by farmers which is organized, managed and funded corporately by farmer share holders themselves to provide and promote specialized technical and economic services and act as a legal business entity to do various business activities/services related to those areas for making profits." (Senanayake 2002).

The concept of "Farmer Company" or "Peoples' Company" is a quite new concept for the smallholder farming sector of the country. The SCOR Project (Shared Control of Natural Resources Project) implemented by the IWMI in collaboration with the Government of Sri Lanka, under the sponsorship of the United State Agency for International Development (USAID). The aim was to initiate for the first time a program to test the Farmer Company formation and operation as an organizational mode to ensure the active participation of the small farmers in the market economy with the experiences gained from the models developed and tested in the two pilot watersheds of Huruluwewa and Nilwala by the SCOR.

Like formation of private business firms, establishment of FCs is not an easy task. According to past experience of SCOR pilot project, five major stages have to be followed in the process of establishing FCs (Wijeratna, 2000).
1. Venture seeking stage,
2. Company formalizing stage,
3. Market link building /expanding stage,
4. (strategic) Planning for long-term sustainability,
5. Sustainable business operations (high degree of autonomy and self-reliance)

The structure of the FC consisted of three partners such as shareholders, board of directors, and body of management. Number of shareholders depend on the amount of shares issued and the board of directors select from shareholders. The body of management consists of professionals recruited by the company. The board of directors functions as the chief executive body of the company.

Role of Farmer Companies

Although the role and functions of farmer companies cannot be easily documented, all farmer companies have deliberately attempted to achieve one coherent objective of organizing small farmers for commercial agriculture and facilitate them by providing inputs, technology and services so as to compete in local and international markets. However it is noted that role of farmer companies depends mainly on the needs and priorities of farmers in particular areas where companies are established.

According to experience of pilot projects and performance of ongoing farmer companies, the role of farmer companies could be summarized under the following activities;

1. Produce to market: Encourage farmer to produce demand driven high value products. Thus, some FCs engaged in demand driven high quality rice varieties, chillies and potatoes.
2. Input supply: Many FCs involve in selling good quality fertilizer and agro-chemicals at low interest rates. Thus, shareholders or member farmers get discounted price lower than the market price.
3. Partnerships with the organized private sector: FCs maintains regular contacts with organized private sector to find out market opportunities. Thus many companies made contacts with companies involved in various kind of export processing and selling in advance.
4. Credit supply: Many FCs provide credit facilities to members at low interest rates and credit in kind.
5. Mobilizing investment: Raised company capital from equity shares to member farmers and from funds provided by the government and stakeholders. Minimum value of each company share is Rs.10/= and it varies up to Rs.15/=. Each member should purchase at least 10-100 shares.
6. Maintain Credit worthiness: Since many FCs receive loans from commercial banks, most of the loans should be settled on time.
7. Providing Technology: Many FCs involve in providing new technologies to improve production efficiency of farmers. It includes provision of market information to share holders; training share holders and members on new techniques of production; conduct demonstrations on new high yielding varieties; and introduce low cost cultivation methods and farming practices.
8. Product diversification: Since product diversification is one of the most important factor in commercial agriculture, many FCs involve in diversifying production by introducing value added products and high value crops.
9. Business management: All FCs should initiate program to promote small and medium farmers / producers for Agri-business. However, some FCs were unable to initiate or forward business contacts due to lack of experts for marketing and business development.

Constraints

According to past performance, role of many FCs were limited to provide production inputs rather than implementing a comprehensive business program with a clear vision. Many FCs have been formed without proper assessment of market opportunities and potential products. Causes for this situation could be summarized as follows:

1. Political influences: Even though FCs were formed by government organizations, they are dominated by the politicians. Some FCs were formed by the politicians.
2. Low participation of member farmers: It is seen that many share holders are not

actively involved in decision making, planning and program implementation.

3. Lack of entrepreneur skills: Management of many FCs consist of political appointees and they are not trained to bear the risk of business in order to compete with private sector.

4. Lack of coordination among stakeholders: Even though, establishment of FCs is a grouping of traders, officers and farmers, these parties are not actively involved in business activities.

5. No systematic approach: Many FCs have not followed the process of establishing FCs discussed and consequently they are faced with immense difficulties in implementing business plans.

6. The needs and priorities: Though the establishment of FCs should based on needs and priorities of farmers, many FCs are based on priorities of officers and implementing agencies.

Conclusions and Recommendations

According to performance of FCs in the past 7 years , many FCs have not reached the overall objective of organizing small farmers for commercial agriculture as anticipated by policy makers. Still many FCs act as farmer organizations with limited funds of shareholders. But with such a short period like 7 years, we cannot firmly say that farmer companies have been successful or not. This has happened mainly due to the fact that officers and politicians act in their interest rather than on the needs and priorities of the farming communities. Therefore, we cannot create business ventures unless it comes from stakeholders of the business. The existing system of establishing of FCs by the government organizations should be changed. FCs should emerge from farmers and the role of government should limited to a facilitating role.

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