

THE ROLE OF FARMER COMPANIES

A Review

The article reviews recent performance of Farmer Companies with special reference in origin, process, need and role of farmer companies. It concludes that establishment of Farmer companies should be initiated by farmers with clear vision and business programme.

Sri Lanka is a developing country with an area of 65,628 sq.km. and a population of 18.7 million as estimated in 2001. The majority (72 percent) of the people live in rural areas and earn a livelihood from agriculture and related activities. The agricultural sector consists of two sub sectors, the non plantation or domestic food crop sector and the plantation sector which mainly consists of paddy, other food grains, maize, soybean, vegetables and perennial crops accounts for 76 percent of the total cultivable lands while the plantation sector consisting of tea, rubber, coconut accounts for 24% of the total agricultural land.

As a result of liberal economic policy reforms introduced in the past two decades and globalization effects, the agriculture sector faces many challenges today in maintaining efficient and profitable farming system, especially in non-plantation sector. These challenges are mainly related with commercialization and diversification of agriculture. Hence farmer companies were introduced as a strategy to transform farming community from volunteer farmer organizations to business firms. Therefore, an attempt has made in the article to review role of farmer companies (FCs) in transforming small farmers from subsistence farming to commercial agriculture. The article consists of four sections. The section one presents background information; the section two highlights origin and process of establishing FCs. The section three examines the need for FCs and the section four shows the role of farmer companies. Finally the section four presents constraints in implementing FCs.

The Origin

Though the establishment of company or private/public business venture is not a new idea to Sri Lankan economy, farmer company (FC) was introduced in 1990s as a business firm to promote small farmers for commercial farming. Thus, farmer companies were established by transforming voluntary farmer organizations into business organizations. These FCs were based on shares of farmers and the initial capital granted by the government. The basic structure of the FCs were based on two pilot projects started by the International Water Management Institute

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(IWMI) in 1994 under Shared Controlled of Natural Resource Project (SCOR) in Hiraluwewa and Nilwala river basin areas.

However, the history of farmer organizations goes back to 1950s. In the post independent era Vel Vidane (irrigation head man) system was practised in irrigated areas to distribute water. This system was changed in 1950s by introducing cultivation committee system which cover irrigation and all other agricultural activities. The cultivation committee system also changed in 1970s introducing Agricultural Productivity Committees (APC) after establishing Agrarian Services Centers. These committees were formed to strengthen government delivery services, but once introduced of bottom-up and participatory development approaches in 1980s, farmer organizations were formed to empower isolated small farmers with a view to develop rural areas through active farmer participation.

At the end 2001, about 12,000 farmer organizations were registered and about 7,000 farmer organizations were functioning countrywide to receive farm inputs, credit and marketing services. According to past performance, many of these organizations were able to enhance production of small farmers and to empower them towards participatory irrigation management and group marketing (Henegedara, 1987, Chandrasiri, 2000)

Even though farmer organizations were implemented successfully in some irrigation schemes under certain conditions, it was unable to face new challenges emerged from open economic policies, and international trade agreements such as World Trade Organization (WTO) and South Asian Preferential Trade Areas (SAPTA). Therefore, thoughts were developed in 1990s to diversify role of farmer organizations towards farmer companies to adjust with liberal and global economic reforms. Instead of farmer organizations, the idea of farmer company was emphasized due to few factors (Batuwitige: 2000).

1. Farmer company will find solutions for market manipulation and exploitative behaviour 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 which was the main political slogan in 1996 election.
4. Farmers will become shareholders of farmer companies and creates dignity of labour by moving towards dynamic production activities.
5. Farmer company will allow better gender relations for women with equal distribution of shares of farmer companies.

Under new agricultural policies introduced in 1996, FCs were consid-

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ered as main institutional strategy of agriculture and irrigation development. Thus FCs were established in major and some minor irrigation schemes by Irrigation Management Division, Department of Agrarian Service, Agricultural Development Authority and Mahaweli Development Board. At present about 85 farmer companies are implemented in the country.

Process of Establishing FCs

Like formation of private business firms, establishment of FCs is not an easy task. According to past experience of SCOR pilot projects, five major stages have to be followed in the process of establishing FCs (Wijayaratna, 2000).

- ❖ venture seeking stage,
- ❖ company formalizing stage,
- ❖ market links building/expanding stage,
- ❖ (strategic) planning for long-term sustainability,
- ❖ 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. Numbers of shareholders depend on the amount of shares issued and Board of Directors select from shareholders. The body of management consists of professionals recruited by the company. The Board of Directors function as the chief executive body of the company.

The Need

The need for establishment of farmer companies in Sri Lanka was emphasized considering few factors.

i. According to new agricultural policy introduced since 1996, the government of Sri Lanka emphasis the commercialization of agriculture with a view to shifting from inefficient subsistence farming to viable commercial farming system. Thus strategies were followed to set up farmer companies and programmes were implemented for commercial-

ization and diversification of agricultural crops.

ii. Due to supply oriented production system, farmers face many difficulties in marketing their products and consequently they receive low income from farming. Except for some vegetables and fruits, cultivation of paddy and subsidiary crops became unprofitable business (HARTI Commodity Review, 2000). Therefore, establishment of farmer companies were considered as an essential requirement to uplift the production process.

iii. As a result of liberal economic policies the government intervention in providing subsidies and price incentives were decreased during the past 20 years. It has been affected badly for small farmers in receiving fertilizer and chemical in time. Therefore, establishment of farmer companies were encouraged to ascertain supply of production inputs in time at reasonable prices.

iv. The majority (65 percent) of farmers in Sri Lanka belongs to small farmer category that average land holding size is two or less than two acres. Due to subsistence farming, many of these farmers qualified for poverty subsidies (Samurdhi). Bargaining power of these farmers is very low and depend on private money lenders. Therefore, concept of farmer companies was promoted to enhance bargaining power of small farmers.

v. According to WTO and SAPTA, small farmers of Sri Lanka have to compete not only with local farmers but also with foreign farmers. Therefore, farmers should encourage using efficient production technologies so as to compete with foreign farmers. Such an effort could be performed only through farmer companies with clear vision for market oriented production programme.

vi. Crop diversification is an essential and important activity in commercializing agriculture. It could be efficiently done through farmer companies rather than an individual effort.

Role of Farmer Companies

Although the role and functions of farmer companies were not clearly documented, all farmer companies have deliberately attempted to achieve one

coherent objective of organizing small farmers for commercial agriculture and facilitating them by providing inputs, technology and services so as to compete with local and international markets. However, it is noted that role of farmer companies are depend mainly on the needs and priority of farmers in particular areas where companies established.

According to past experience of pilot projects and performance of on-going farmer companies, the role of farmer companies could summarise under following activities:

1. *Produce to market*: Encourage farmer to produce demand driven high value products. Thus some FCs engaged in supplying demand driven high quality rice varieties, chillies and potatoes.
2. *Input Supply*: Many FCs involve in selling fertilizer and agro chemicals on low interest rates. Thus, shareholders or member farmers get discounted price lower than the market price.
3. *Partnerships with the organized private sector*: Farmer companies maintain regular contacts with organized private sector to find out market opportunities. Thus many companies made contacts with companies involved in vegetable exporting and tourist hotels in advance.
4. *Credit Supply*: Many FCs provide credit facilities to members on low interest rates and credit in kind.
5. *Mobilizing Investment*: Raised company capital from equal shares of member farmers and 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 received loans from Commercial Banks, all loans should be settled in time.
7. *Providing Technology*: Many farmer companies involve in providing new technologies to improve production efficiency of farmers. It includes: provision of market information to share holders, Train share holders and

Contd. on Page 57

members for new techniques of production, conduct demonstrations on new high yielding varieties and introduced 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 programs to promote small and medium farmers/producers for Agri Business. However, many 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 to enhance income of small producers. It seems that many FCs

were implemented without clear vision and business plan. It also shows that many FCs were formed without proper assessment of market opportunities and potential products. Causes and effects affected for this situation could be summarized as follows:

1. *Political influences*: Even though FCs were formed by government organizations, it is dominated by the politicians. Some FCs were formed by politicians.

2. *Low participation of member farmers*: It is seen that many share members are not actively involved in decision making, planning and programme implementations

3. *Lack of entrepreneur skills*: Management of many FCs were consisted of political appointments and they were 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 were not actively involved in business activities.

5. *No systematic approach*: Many FCs were not followed the process of establishing FCs discussed in section 2.1 and consequently it was faced greater difficulties in implementing business plan

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

Conclusion

According to performance of FCs in the past five years, many FCs were 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. This was happened mainly due to the fact that many FCs were formed by officers and politicians for their interest rather than needs and priorities of farming communities. Therefore, finally, I like to conclude that we cannot create business ventures unless it come from shareholders or final beneficiaries of the business. Therefore the existing system of establishment of FCs by the government organizations should be changed. FCs should emerged from farmers and the role of government should limited to direct FCs in proper channels.