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AGRI BUSINESS AND THE SMALL FARMER IN SRI LANKA

A DYNAMIC PARTNERSHIP FOR DEVELOPMENT IN SRI LANKA

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Introduction

Agribusiness found a place in practically every social structure, every stage of human development and every political ideology. And where the industry has prospered, the people involved have begun to prosper. The world wide growth of international and national investment in agribusiness, the impact of this on the supply of food, and the power generated by individual enterprises to bring traditional but deprived rural poor into the process of modernization are some of the major accomplishments of the twentieth century. The strengths and weaknesses of agribusiness should be carefully evaluated and the role of agribusiness as a major force in bringing about agricultural and rural development should properly be grasped. There are three characteristics of agribusiness that makes it a very important tool for development in a traditional rural setting.

(1) Agribusiness as a Primary Change Agent

Wherever and whenever agribusiness is established in a rural area successfully, it becomes a compelling force for change. This force is exerted, on a relatively large numbers of people, simultaneously, at and around the enterprise site, along the food chain for production to consumption and at the centres of governmental power. It is at the project site that change is most manifest.

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At the initial stage, rural people respond quickly to the new situation, to participate means accepting a wide variety of changes in behaviour and attitude doing so quickly and in a competitive framework. Novel tasks are taken on. New skills acquired - on the job and by means of formal training. New ideas and relationships are introduced. Technical supervision may supersede personal choice on the farm. The importance of quality control; the significance of personal responsibility on the job or on the farm to enterprise success; and the recognition of non-traditional lines of authority - these and other abstractions begin to format in the mind. Upward mobility for men and women becomes a real possibility. New, higher levels of income gives rise to better alternatives to subsistence. This is further enhanced by the early impact of corporate public services such as improved housing and schooling, health clinics, and recreational facilities.

Granted, the rapid changes occurred by agribusiness often generate conflict and some disorder. Rural ventures especially when they are pioneering projects in a remote backward area, are prone to breed stresses and strains in family life and in social order if no attempts are

made to prepare people for abrupt shifts in life style. New, high levels of cash flow in rural communities inevitably attract carpetbeggars and scalliwags who prey upon ignorance and awakened expectation of the rural people. Social problems like alcoholism and related social evils spread fast.

Saving may become difficult and as a result indebtedness can become a major problem. Investment incentives affecting taxes, labour pay scales, land acquisitions, management control, repatriation of profit, proprietary rights over technology and a host of other concerns of investors and governments may lead to political, personal or ideological tension. More than anything else, the radical challenge to investors in the private sector lies in the validity of claims that on-farm increases in net income and increase in family income from wages are truly significant, particularly when compared with corporate profit and management salaries. There may be no argument about the value of doubling, trebling, or quadrupling income, but there is a dispute over the freedom gained and the equality achieved when in absolute terms income per family remains very low.

But stress, strain, and adjustment are the inevitable consequences of the process of change. Their existence at an agribusiness site in natural and predictable. The industry has, in fact, set the stage not only for conflict

resolution but also for a further rapid expansion of benefits for rural people and their governments. This is evident in many cases all over the world. For example, Pinar in Turkey, the Hagger Group in the Sudan (making company shares available to farmers); Pinar and Hindustani Lever limited in India reorganize that the income from small-scale dairy operations cannot adequately support a rural family and are helping to diversify farm output to include other cash crops; in Sri Lanka, the Ceylon Tobacco Company by introducing flue cured tobacco for exports with soya and maize as intercrops are helping to increase farm family income, in Thailand, the Charoen Pokphand operation anticipates that entire villages, complete with houses and all the pig raising facilities build by the Company will become owned and operated by the people settled originally in experimental villages — the Commonwealth Development Corporation; Palm Oil operation in Guadal canal in the Solomon Islands, in the South Pacific has introduced roads, culverts, bridges, schools, health centres to the traditional tribal areas and given the customary land-owners a share and representation in the Management Board.

What is of critical importance to intellectual balance in thinking about the potential contribution of agribusiness to rural development is to remember that whatever the shortcomings in the changes the industry brings about in a given period of time, most companies galvanizes the rural people at the site into a new state of mind about change. This is important because this act as a counter to the reluctance on the part of the rural people to break with the past — an attitude which is a major obstacle to the development effort of a country. Agribusiness makes this start. The real challenge is to go forward from this point with sensitivity.

(ii) Agri-Business Transcends Differences

Agribusiness creates and activates

the process of change and helps create an environment conducive to further development. The experience of the rural people with agribusiness is remarkably similar world wide. A good example of the competitive companies in agribusiness is illustrated best by the sugar industry. It is the sugar technology that homogenises the sugar industry. This also applies to production of tree crops like tea, coffee, cocoa, spices, fibre, grains, vegetables, fruits, tobacco, forest products to resins, and animal products. There have been similar responses to agriculture business that interacts less directly and continuously with rural people like manufacturers and marketers of animal feed, animal health products, seed, fertilizer, agro-chemicals and agricultural machinery.

The ability of agri business investors to transcend differences has three important implications.

- a. Agribusiness dots the earth everywhere. A programme of agricultural and rural development tied to agribusiness starts by being truly global;
- b. Since agribusiness brings about similar changes among rural people, the design of a global policy and modes of implementation is to a considerable extent simplified;
- c. The opportunity to promote agricultural and rural development world wide, through agribusiness is seemingly independent of the product line and other peculiarities of each commercial enterprise. Therefore, agribusiness as a catalyst of rural development, would have to be treated as a homogenous entity rather than as a large, complex group of discrete, competitive, and very diverse enterprise. Integrating the functions of long range rural development within each agri business company need not be threatening to corporate privacy. What is to be capitalized on is the attitude towards change already generated and the assets

flowing outward from the enterprise into the community at large; money, active intelligence, new and varied skills, self respect, and other benefits of equal importance.

3. Agribusiness Takes the Risks

There are four other ways agribusiness helps to accelerate rural development.

(a) The Agribusiness Company takes the first and large financial risk

- (i) sheer magnitude of investment.
- (ii) agribusiness is often risk capital where public development funds would not venture.

Mumias Sugar Cane in Kenya
Hindustan Levers Cane in India.
Commonwealth Development Corporation in Solomon Islands.
Commonwealth Development Corporation in Agro Inversiones cane in the Dominican Republic.

- (iii) agribusiness when it enters into remote areas with few social amenities, is able to attract talented professionals to the job as resident workers get incentives beyond the capability of most public agencies.

- (iv) Companies can and do provide income incentives to farmers and workers which encourage participation in the enterprise. These initial costs can be high and may have to be carried for some years; calculating these costs and their economic justification is a normal part of corporate feasibility projections. These realities often confound the design of publicly financed projects.

- (v) agribusiness investors, dealing as they do with renewable law material resources and following strategies based on an expanding market, actual and potential, starts with a policy that focuses on the long term. This allows for flexibility in amortizing start up costs.

In sum, once an agribusiness is in full operation, it has financed the

toughest, most sensitive, costliest, and riskiest stages of the process of rural development.

(b) The agribusiness company provides an on-site, disciplined management organization

This trends to correct the basic weakness in many public development programs. Accountability for performance and the use of money is facilitated. The burden of excessive costs linked of the intervention of bureaucratic personnel located in urban centres far from a project site is sharply reduced. The daily presence of professional staff among their constituency is ensured. Since agribusiness is a long term venture rural development programmes are planned with continuity in mind.

(c) The agribusiness company can mediate conflictive issues

Where the agribusiness is located in a remote area, where there are no other authoritative, competent intermediaries to mediate between local people and their government or between divergent groups within the community, the agribusiness can act as a mediator. Agribusiness is a primary force for change at an enterprise site, and change is inherently a never ending process of conflict generation and conflict resolution. The changes set in motion are not, and cannot be confirmed to the site. The periphery, where agri industry is located especially as it is a traditional area, is also influenced.

Harmonizing these conflicting interests require both sophisticated understanding and a position of authority as a respected participant in negotiations. Rural people rarely have the knowledge or the power to present their view. Politicians exploit this gap. Agribusiness management has the knowledge the power to understand their views and help them out without looking at the politicians. This appreciation is especially relevant as the distance of an enterprise from the centres of public administration grows, and the interdepen-

dence of rural people and management becomes closer and more intimate.

The issues of rural sector can range from gaining access credit and imported inputs required for high yielding farming practice. They also can interact regarding prices paid for raw material contracted for farmers. They can also help to improve the local infrastructure eg. roads, culverts, electricity, water supply, and to establish farmer organisations to work out solutions to a wide variety of technical and social problems with declining dependency on either the company or government as done by the Ceylon Tobacco Company at Walapane electorate regarding soil erosion and alley cropping.

(d) The company provides a cash flow

This provides a base for a programme of economic diversification, often a planned goal of rural development programmes that is never reached because of the lack of a first major investor and a catalyst of cash. From the moment preoperational construction begins, large cash flow emanate from the enterprise, always with major impact. If there has been no preparation for the use of this money, it may corrupt, disrupt and otherwise be largely wasted. But the money and permanence of its source creates a dynamic, immediate opportunity to diversify the area economy in significant ways. More people can share in the benefits of development, more income to diffuse, more variations in job requirements and necessary skills, decreased dependency on the company, increased self-sufficiency and freedom from public support etc.

CASE STUDIES

Milk Processing Operation of the Hindustan Lever Limited in India

In the late 1960's Hindustani Lever established a milk products factory in the district of Etah, in the state of Uttar Pradesh. By 1973, it was ready to withdraw because the enterprise

simply could not generate sufficient supplies of raw milk. Employees at the factory, supported by the Governor of the State, persuaded Hindustan Lever Ltd. to reconsider the decision. Between 1973-1975, Hindustani Levers streamlined the plant and changed its manner of working with local farmers. Supply of milk reached satisfactory levels; the enterprise succeeded; net farm dairy herds increased significantly. Encouraged by this success, and because of a deeper sense of appreciation of both the needs and capabilities of the farmers in the area, in 1976 Hindustani Levers initiated the integrated Rural Development Programme, which has since become a model of private sector intervention in long term comprehensive economic and social development.

The IRDP covered six villages in 1976. By 1983 it covered 50 villages involving nearly 100,000 people and 50,000 hectares. Net farm income per hectare doubled in this period of 7 years, and a total additional income of US\$ 10 million (Rs. 430 million) flowed into the Etah District. During this 7 years, there were four sub-sectoral programmes.

Agriculture

To improve all crop practices, to introduce new cash crops, such as oil seeds, which create a new sand material base for a new investment by Hindustani Levers for oil extraction and animal feed formulation, and to reclaim alkaline/saline land to add to the productive capacity of the area.

Animal Husbandry

To raise the quality of dairy herds by cross breeding and providing veterinary and nutritional services.

Community Development

To provide health delivery services and portable water, renewable energy technology, improved roads and schools, and the creation of cottage industries.

Special Projects

The organization of dairy cooperatives and registered village societies.

Future Plans

- Establishment of a research and development centre.
- Establishing a supply depot to ensure prompt delivery of inputs relevant for improved and diversified crop practices.
- Preparing the farmers for a rapid increase in the production of oil seed crops.

Lessons to Learn from Etah Cape

This case illustrates, the concept of "satellite farming" with a single-channel marketing system supplying an onsite core processing facility. The case also demonstrates the strength of a multi-national agribusiness firm to take risks, persist despite the fears of failure and learn from experience to correct errors in judgement about the range and diversity of socio-economic factors governing the success of agribusiness among technically backward, traditional people. The Etah story reveals an extraordinary decision by HLL to invest in the social and economic development of the people of the area far beyond the limits to which agribusiness normally goes and far beyond the limits that most investors in the field of rural development would believe allowable by governments. The importance of Hindustani Levers case, therefore, rests not only on the accomplishments in the Etah District of India, but also on its challenge to all those who tend to restrict too rigidly the leadership role agribusiness might play in accelerating agricultural and rural development everywhere.

The Mumias Sugar Company in Kenya

The Mumias Sugar Company is a joint venture of the Government of Kenya, the Commonwealth Development Corporation, Brooker Agriculture International and the East African Development Bank. In

addition to its investments, Brookers manages the enterprise under contract. Mumias Sugar Company is a model of what is called a "Nucleus Estate" a system that integrates a core processing plant, a corporate plantation that assures a supply of high quality raw material and cane outgrower or "satellite farming procurement program" into which large numbers of small scale farmers are drawn.

The achievement of the company, which began production in 1974, has been remarkable. In one decade, a poverty stricken subsistence area with no background of sugar cane production have been converted into a cash economy. The company now produce roughly half the sugar consumed in Kenya. 23,000 outgrowers are under contract, supplying 88% of the cane requirement. The enterprise employ 5000 people full time and upwards of 9000 part time. In a decade, as the main commercial force in the area, the company has dramatically altered the economic and social characteristics of an area.

Villages have been created to provide housing for the majority of workers and the company provides housing for the supporting services, facilities like electricity, domestic water supply, roads, markets, medical services, schools, churches etc. Technical training facilities are extensive.

Mahaweli Livestock Enterprises Ltd.

This programme has been lauded in System H of the Mahaweli with the active participation of settler farmers who are the equity shareholders of the company. The local development banks and foreign collaborators assisted in the venture. The shareholders are the Mahaweli Authority of Sri Lanka, the National Development Bank, FMO (Netherlands) and settler shareholders. The company started in 1988, and issues parent stocks to outgrowers - shareholder settlers in System H who offer final

product to the company for procuring. In 1990 there were 40 outgrowers and in 1992, 250 outgrowers. The company does the extension, processing, marketing and input supplies. A settler can do 6 rounds a year and can earn a nett profit of Rs. 3000 per round or Rs. 21,000 per year in addition to income from paddy and other field crops. Now the outgrower settlers have formed into 3 cooperatives who have shares in the MLE through its membership. Roughly a settler offers 750 kilos of live chicken at a time and Rs. 100/- (15 cts. per kilo) is deducted for share issues. It present these outgrowers settlers hold shares worth Rs. 300,000. This is expected to reach Rs. 3 million in a few months.

A similar agribusiness in System C is the Bintenna Milk Cooperative Union which owned by 22 milk cooperative societies and the Mahaweli Authority who also own a Mini Dairy. There are 600 farmers involved, each earning around Rs. 6000 per year from milk supply.

Similar livestock programme for poultry, turkey and piggery is being operated by John Keells Ltd., who operates the big-investor-small producer projects.

Forbes and Walker Agricultural Services - Gherkins Project

At present like the sunfrost in System B, the Forbes Agricultural Enterprises (Pvt) Ltd. engages in growing and fermentation of small gherkins in the Mahaweli area 'C'. The company hopes to establish a packing facility in the area. The entire agribusiness revolves round an outgrower system. There are 1200 outgrowers participating in the growing of gherkins. The company has established collecting centres. A gherkin crop takes 45 days to mature. A grower can produce three crops in one year. The gross average income per gherkin crop per acre was Rs. 20,525 for May-October 1991. The respective net income was Rs. 11,261. The average cost to produce a gherkin

crop was Rs. 9,277. The highest income per acre for gherkins was Rs. 47,912 and the highest cost for gherkins per acre was Rs. 14,428. The average yield was 1,649 kg. of gherkins. The highest yield was 9,750 kg.

The cultivation, packaging and exports of **ambul banana** done by **Aitken Spence Co. Ltd.** in Uda Walawe have brought a tremendous boost to banana cultivation in the Uda Walawe area.

Agribusiness in the Philippines

A Filipino economist, *Ernest Feder*, in his book *Perverse Development* published by the *Foundation for Nationalist Studies* says TNC Agribusiness is the capitalism's new approach to agriculture. This reflects a basic change in investment priorities away from food crops to high value commercial crops. The 1960's saw a great deal of interest in land reform programmes and this was replaced by the Green Revolution. The aim of the Green Revolution was the opposite of the land reform strategy: to fortify the landed elites economically, socially and politically (based on the assumption that large scale food producers are more efficient than small holders), the transfer of new (modern) technologies and the involvement of transnational agribusiness corporations engaged in the manufacture and distribution of agricultural inputs. But the Green Revolution turned out to be a slow and costly programme. It was replaced by the Hook, Line and Stinker Strategy, involving massive transfers of both capital and technology in all sectors. The transfers were activated at all levels of agricultural and agriculture - related activities - from production to distribution and including activities related to both outputs and inputs. This meant the association of small holders, individually or in groups, and their modest resources with large scale farm operators, processors, product buyers, or at times the government through some

sort of contractual arrangement, euphemistically called partnerships. A typical arrangement is the product contract. The small holders using their labour and their owned or rented land turn over their output to agribusiness in exchange for costly inputs with some kind of loan agreement. These arrangements involve high valued export oriented crops. *Forbel, Heinrichs and Kreye* in their *The New International Division of Labour* (Cambridge 1979) describe the main characteristics as follows:

- (a) the tapping of a practically inexhaustible cheap labour force;
- (b) the development of cheap transportation and communication technologies; and
- (c) the high geographic mobility of capital and technology.

In the Philippines, the United Brand, Castle and Cooke, Del Monte Standard fruit acting in Mindanao are few examples of agribusiness. The Filipino banana industry located mainly in Davao del Norte in Mindanao is an example of a dynamic agribusiness. They engaged Labour exploitation with low wages, unsatisfactory working conditions, poverty were reported as characteristics of these agribusiness in the studies by the Development Academy of the Philippines. Similar conditions exist in the Philippines pineapple industry as described by *Rene Ofreneo* in his *Capitalism in Philippine Agriculture*.

Strawberry Imperialism in Agribusiness in Mexico

A well documented study on Agribusiness in a third world country is by *Ernest Feder* in his well published book *Strawberry Imperialism* (Editorial Campesina, Mexico). A similar study is *Enrique Astorga's* book on the cotton plantation in the state of Sorona in Mexico (1981) where Anderson Clayton and Co. operates. In the case of the Mexican strawberry industry for example:

"Thousands of workers come to the strawberry valleys in search of work who stay there temporarily. Some remain in town and sleep in streets or public places, others return to their villages at night. A large proportion of the migrants stay in the towns and "settle" in the kilometer - long slums or in even worse conditions outside the cities. About 75% of the population of Zamora (town) for example live in slums. Thus the migration transfers poverty from the outlying areas to the strawberry region. As one local observer said: "The strawberry is the magnet of poverty."

The conditions under which workers are hired, work or are dismissed are nothing short of humiliating and utterly degrading. No worker in his right mind would even ask what the employer's wage is If a worker were to ask a question, he would be told "there is no work for you" The workers climb up not knowing where they will be taken, what they will be paid or whether they will be able to work in the same place next day..... "We don't ask any questions, so we don't go hungry. They treat us like Indians....."

Contract Farming and Agri Business: Some Conclusions

Contract farming is the wave of the future in the Third World agriculture, according to the agribusiness press. Advocates promote it as a "dynamic partnership" between TNC's, large companies and small farmers which benefit both without sacrificing the rights of either (Simon Williams and Ruth Karen 1984) and as a vehicle for the transfer of technology, the modernisation of peasant smallholders, and the creation of a stable and politically conservative class of family farmers (David Morrissy, 1974). To the government they offer the prospect of the privatisation of agricultural extension services, the renewed flow of foreign capital to the Third World, and a solution to the Balance of Payments

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problems. These writers point to rising incomes and the use of modern technologies by peasant farmers under contract to agribusiness corporations as evidence of the clear benefits of contract farming to all concerned.

Critics on the other hand, claim that contract farming as a form of vertical coordination will lead to the disruption of subsistence production and the inevitable immiseration of the rural poor (Ernest Feder: *Strawberry Imperialism*, 1977). They see contract farming as the latest instrument for the subordination of a still resilient class of small holders, creating a class of virtual "development peons" (Cheryl Payer 1981).

Much has been written on agribusiness in Latin America including contract farming, describing how agribusiness corporations maintain control of their peasant producers (Raul Hopkins Larrea 1981; Manuel Hajo Lazo 1981; Arthur Goldsmith 1985, Stephen Gudeman 1978, Harvard Business School 1962/1964). Drawing heavily on the dependency theory they focus on the terms of trade between company and farmer; the company usually is the sole purchaser for the farmer's produce and maintains a monopoly on essential inputs and credit. These critics raise the issues of domination and subordination, which advocates of agribusiness ignore, but do not consider what these might mean in daily practice.

The agribusiness enterprises and contract farming in Sri Lanka is a novel innovation by the private sector. It has many advantages and solves many problems but generate its own contradictions. It is necessary to study closely agribusiness and contract farming over a period to pass judgement, but it is too early to do so, since operations and contracts needs to be watched over a reasonable time span. However, it is worth watching these operations for a while. Asian countries that there was very little land left that could be developed into rice paddies at reasonable cost. (p. 68). This is true of Sri Lanka as pointed out by the Presidential Land Commission, 1989. Whether agribusiness is the answer to the growing crisis in agriculture is yet to be seen.