



Developing business enterprises and linkages with small farmers in Hambantota, Southern Sri Lanka

This case study illustrates how a Sri Lankan Agro-based company is growing its business and adapting its business model to develop a stronger and more reliable supply base through working with multiple stakeholders, including government, NGOs, and farmer groups, as well as with other businesses.

Background

Plenty Foods (Pvt) Ltd. grew out of Plenty Canada, an NGO funded by the Canadian International Development Agency (CIDA) that worked to promote Soya as a cholesterol-free, high-protein food. The NGO was acquired by a private firm in 1996 and in 2006 became a wholly owned subsidiary of Ceylon Biscuits Ltd. Plenty Foods (Pvt) Ltd. trades, processes, and markets a range of fast-moving agricultural products including a popular high-protein breakfast cereal, Samaposha. It operates through a network of 106 company-appointed distributors and retail market outlets within Sri Lanka, selling a large proportion of its products back into local communities.

Around 90% of the people with low incomes in Sri Lanka are small-scale farmers, who contribute 60% of the agricultural production in Sri Lanka. Smallholders cultivate farms of 2 to 2.5 acres of land, allotted by the Government. Plenty Foods claims that it is supporting implementation of the Government to poverty elevation programme by providing market-based livelihood opportunities for small farmers and nutritious, affordable food. These farmers provide the raw materials for a range of high-quality, affordable and nutritious food products, manufactured by Plenty Foods.

The company operates mainly in three provinces: North-Central, Uva, and Southern, the last of which includes the district of Hambantota. Most of these regions are dominated by rain-fed agriculture, with low productivity and limited access to markets. Plenty Foods operates a network of around 9,000 out-growers across Sri Lanka, to whom it provides technical, business, and market access. It has also reached out to farmers in other provinces through its procurement practices and extension services.

Plenty Foods has been working with Oxfam GB and the NGO's partner organisations in Hambantota district for the past three years, developing the capacity of farmers' organisations to access financial services and develop business skills, and increasing market opportunities both for farmers and for the company itself. Realising the importance of land title and access to services in providing stability for farmers (and thus improving their levels of reliability in supplying crops), the company is working closely with a number of different stakeholders in Hambantota in order to develop new business models that will benefit small farmers as well as Plenty Foods.

Key champions

Plenty Foods - The Company has an annual turnover of Sri Lankan Rupee's 2bn (approximately US\$1.8m), with 85 per cent of its revenue coming from domestic sales and the remainder from exports to European and the Middle East market. Mr. Mohan Ratwatte, now Managing Director/CEO of Plenty Foods, was instrumental in achieving this – in his initial role with the NGO and then in setting up the company and its current business model. The company provides product research and development, agricultural extension services; the provision of financial services to smallholders, alongside its manufacturing and marketing.

Multi-stakeholder forum in Hambantota - Crucial to the development of new business for small farmers in Hambantota, this forum was initially set up by Oxfam, but which is now run by Plenty Foods, the Government, farmers, and other civil society members, including institutions such as the Chamber of Commerce and Business development support organisations. Through this group, organisations can share learning, discuss issues, and resolve common problems together.

Plenty Foods has also worked extensively with research institutions to develop new technologies to improve production methods and yields. The company's R&D unit works in collaboration with the Faculty of Agriculture at the University of Peradeniya and with the Department of Agriculture to share technical know-how and to align advisory and training materials provided by the Government and its own extension workers.

How it works

The CIDA-backed project failed to develop a marketable Soya-based product, but Plenty Foods subsequently stepped in to work with Soya farmers and win back their confidence, and to develop the market for smallholder products.

Through a contract system introduced by the Central Bank of Sri Lanka (Forward Sales Contracts), Plenty Foods provides a minimum guaranteed price, committing to pay the market value or the contract price, whichever is higher, at the time of harvest. The company provides technical training and advice to small farmers, together with finance and inputs, via a network of around 35 field officers who work through 165 farmer agents. It has one Agriculture Manager and two Field Managers per district, who are responsible for maintaining and expanding supplier relations.

Plenty Foods has contractual relationships with 9,000 farmers across Sri Lanka. Most of these relationships are direct contracts, with the company also providing inputs, training, and extension services to farmers.

Plenty Foods has historically provided financing to farmers, either directly or through micro-finance institutions. However, recognising the need for farmers to gain access to formal institutions, the company has used its influence to link farmers directly with banks such as Seylan Bank and People's Bank. The company acts as a form of 'character reference' for farmers who have a contractual relationship with it, or who are members of the producer organisations supplying it. The loans, however, are negotiated with farmers and distributed directly to them. This has enabled farmers to increase the amount they borrow, reduce the interest rates payable, and thereby expand their production into new markets.

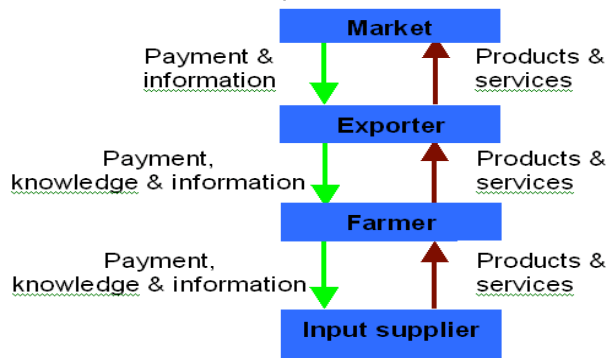
However, in Hambantota a new business model has been piloted with 1,500 farmers, who are working with organisations such as Oxfam to set up producer organisations responsible for

collective access to business services and markets. The group has formed a number of ‘crop-based steering committees’ based around specific crops, to help improve access to export markets. Plenty Foods is a member of the forum and has taken the lead on the green gram steering committee, having signed a memorandum of agreement with producer organisations, and the Department of Agriculture to expand the green gram cultivation in Sri Lanka for a range of markets. By working with different stakeholders, especially banks and the Government, resources and services have been secured for small farmers, increasing their security and therefore the reliability of supply to the company.

In Hambantota, 1,500 farmers have organised their own producer groups and are learning to plan and manage production, organise distribution, and explore new markets collectively. The company’s field officers provide the producer groups with technical support and advice on crop management and good agricultural practices.

Learning forums are organised at the end of each growing season for leaders of producer organisations to capture key lessons learned and to collectively develop cultivation plans for the following season. The roles and responsibilities of the different stakeholders in the season ahead are determined at these planning workshops.

Flow of products, services, payments, information and knowledge along the crop value chain



Post-intervention/innovation situation

The company now sources 4,000 tonnes of Soya, 7,000 tonnes of maize, and 1,000 tonnes of green gram (mung bean) annually, disbursing over Rs.550m to farmers.

In Hambantota, by collaborating with and co-ordinating activities through the multi-stakeholder forum, Plenty Foods has made a positive impact and has contributed towards smallholder agriculture in a number of ways. These include:

- Change in relationship between farmers, companies, government, and other civil society actors - Public–private dialogue on agricultural development has become established practice through the crop-based steering committees. There is evidence of increased confidence and joint undertakings between farmers and organisations that previously had little or no interaction.
- Local ownership - The participatory approach of the multi-stakeholder forum has contributed to a strong sense of local ownership by all members.

- The enabling environment for agricultural development has improved - Land titling and the granting of permits is being carried out proactively by the Government and new opportunities to access export markets are being explored collaboratively.
- Better and more extension and support services - Dialogue and agreements with banks and Government departments have led to the delivery of finance and extension services.
- Changing enterprise culture - More farmers now consider the idea of farming through a comprehensive agri-business/market-oriented approach more positively, thanks to the business planning and management skills training they have received.
- The organisation of farmers into producer groups has enabled them to sell their produce collectively, in quantities and of a quality required by export markets.
- Through participation in the development of national and export markets and in directly dealing with third-party organisations, farmers have begun to access new information that was previously available only from limited sources. This has led to improvements in productivity and product quality.
- Farmer organisations have developed services for their members (e.g. facilitating bank loans and access to inputs, seeds, and large items of equipment such as water pumps), and have increased their power to negotiate prices and secure contracts with new buyers. They have also helped them to access new markets, such as the production of fruit juice and dried vegetables.
- A number of farmers' groups and enterprises led by women have emerged, processing fruit and vegetables and leading to an increase in women's incomes. (This is an indirect impact of Plenty Foods' intervention, as increased income due to the guaranteed market it offers has enabled farmers to engage in sectors higher up the agricultural value chain.)

Business costs and returns

According to the company, Plenty Foods' business model has seen it achieve a growth rate of 30 per cent per annum over the past four years. In addition, investments it has made in terms of time and money have helped it to build and secure farmer, Government, and social relations.

For farmers, a cost/benefit analysis of green gram production shows that it costs approximately Rs. 41,700 to plant and harvest one acre of the crop. Total income from this crop amounts to Rs. 85,500 per acre, giving a profit of Rs. 43,800 per acre.

Working with farmers helps to secure the company's supply chain. The costs of procuring Soya beans or green gram locally are lower than for imported alternatives from India. Furthermore, import prices for commodities are volatile. By working closely with local farmers, the company can predict and plan volumes, quality, and prices more accurately.

For Plenty Foods, this business model also fits its wider vision based on social principles. Working in rural communities, says the company, signifies an investment into the market, which it has developed with the principle of providing good nutrition to people in Sri Lanka. Expansion into the export market not only provides the company with business opportunities, but also supports rural economic development through trade, it adds. This is in line with the Government of Sri Lanka's strategy for economic development.

In the Hambantota model, farmers have gained significantly from their relations with Plenty Foods through secured land rights, improved production technology, and increased market access. As they enter new markets, their investment, and therefore their risks, will also rise, in particular if they take out higher loans to expand production. The consequences of these risks are as yet unknown, but the forum for discussing such issues already exists and is functioning, opening avenues for developing new and innovative solutions with different stakeholders.

Social returns

As well as direct benefits to farmers, the company has observed social benefits in the areas where it works, including increased business opportunities in transportation and repair services, restaurants, and trading. In addition to providing economic benefits, Plenty Foods realise the need to develop smallholder capacity to manage and maintain their enterprises, in the areas where it is active. The parent Company, Ceylon Biscuits Ltd. have funded and supported the delivery of long-term health, educational, and business services.

How replicable is the innovation?

The success of the model piloted with 1,500 farmers in Hambantota has encouraged the company to replicate this model in other districts, including Eastern province, where it has recently begun developing its extension team. Plenty Foods aims to scale up its sourcing base to over 25,000 farmers and to access new export markets by working in collaboration with multi-stakeholder forums such as the one that has been established in Hambantota. A central part of working with such forums includes sharing learning with other companies and institutions, and this could lead to replication across the country of the benefits that farmers in Hambantota have experienced.

Lessons for businesses

In Oxfam and Plenty Foods' estimation, the following are the lessons to be drawn from the business model applied to Soya bean and green gram farming in Hambantota:

- Working with multi-stakeholder forums and initiatives provides opportunities for learning, new business development, and securing supply.
- Strengthening producer-based enterprises leads to improved supply from these companies due to their own security of resources (including land and finance), and their ability to plan and manage orders.
- Companies can 'enable' provision of many services, such as extension or financial services, by leveraging them through their influence with Government or other players. This not only reduces the risk borne by the company such as the reliability of supply, but also increases the governance and capacity of farmers' groups, to operate as viable enterprises.
- Working with multiple actors, including different Government departments, business organisations, and international NGOs, can increase market potential for the company and for farmers in the supply chain.
- By working with different stakeholders, especially banks and the Government, resources and services have been secured for small farmers, increasing their security.
- It is important to building in social programmes alongside business development initiatives to develop long-term capacity, strength, and well being in communities where the business model is being built.

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