

Inclusive development/Business eco-systems

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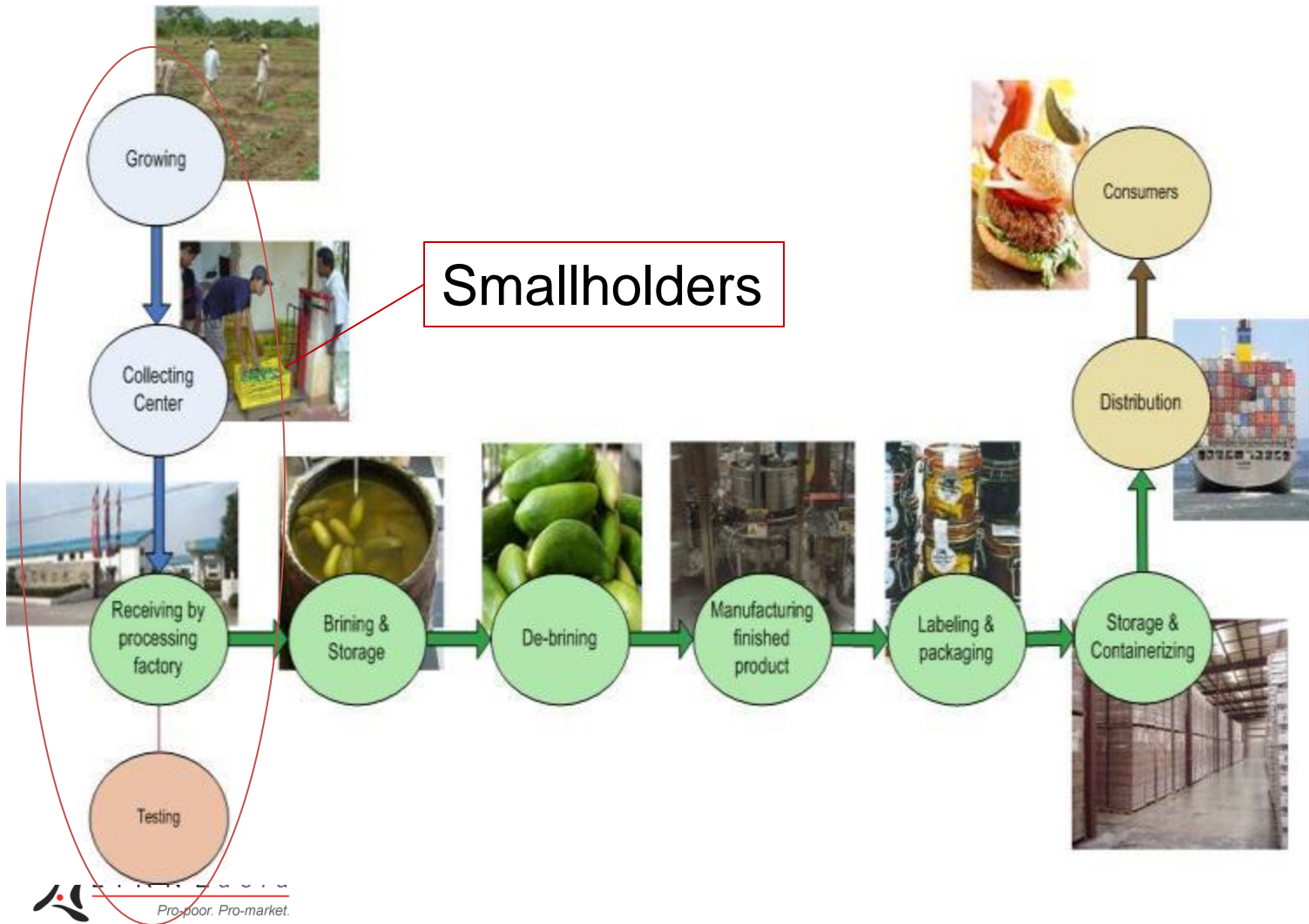
What I plan to do

- Draw from LIRNEasia research on inclusive agriculture/export supply chains in South Asia
- As a former academic, I will also draw from classics such as
 - Albert O. Hirschman's *Exit, voice and loyalty: Responses to decline in firms, organizations and states* (1970)
 - Ronald Coase's *Nature of the firm* (1937)

Not far to go to see eco-systems



Seed to burger



Easy to use Sinhala, menu driven app for farmers



Maintaining eco-systems requires effort

- Not based on contracts, but on relationships
- Key actors are center managers, who are not Hayleys employees
- One reason they liked the phones was because it enabled greater communication between center manager & farmers



Agri export value chains in Sri Lanka: Stuck in a low-level equilibrium

- Exporters/processors unable to obtain **required quantities** at **acceptable levels of quality** at **predictable prices**
- Smallholders unable to deliver **required quantities** at **acceptable levels of quality** at **predictable prices** because of their
 - Weak market orientation which leads to sub-optimal crop mix since they are unaware of what is needed, when
 - Inability to invest in quality and regular supply because of limited agricultural know-how and weak incentives
 - Inability to use crops as collateral for working-capital loans (either pre harvest, i.e., forward contracts or post-harvest, i.e., warehouse financing) to improve productivity and/or smoothen their incomes

Obvious solution will not yield inclusive development

- Required quantities at acceptable levels of quality at predictable prices can be supplied best by large, professionally managed agri-businesses
 - But our farmers cannot alienate land; consolidation not possible
 - New land not easy to get despite end of war
 - 18th most densely populated among territories with more than 1 million people → land at premium
- Obvious solution may not be the best solution; it is also not inclusive development

Smallholders: Not a problem but an advantage

- An asset in a world that increasingly places value in authenticity
- Yields a more stable political system that is more resistant to populist attacks on big business

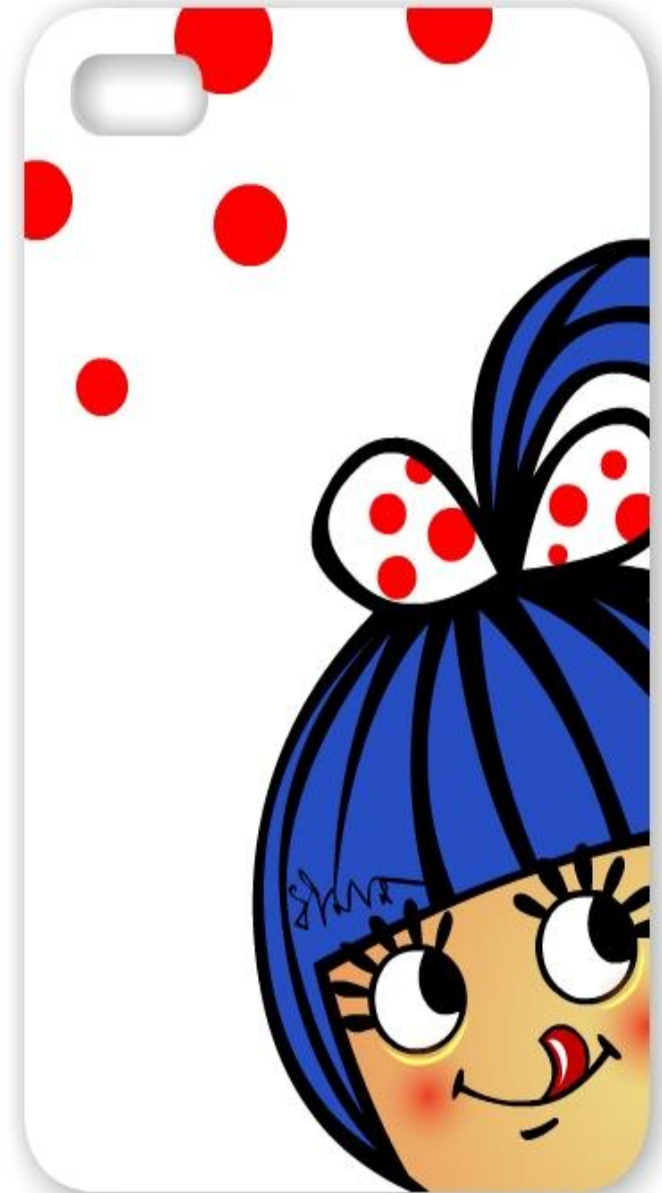


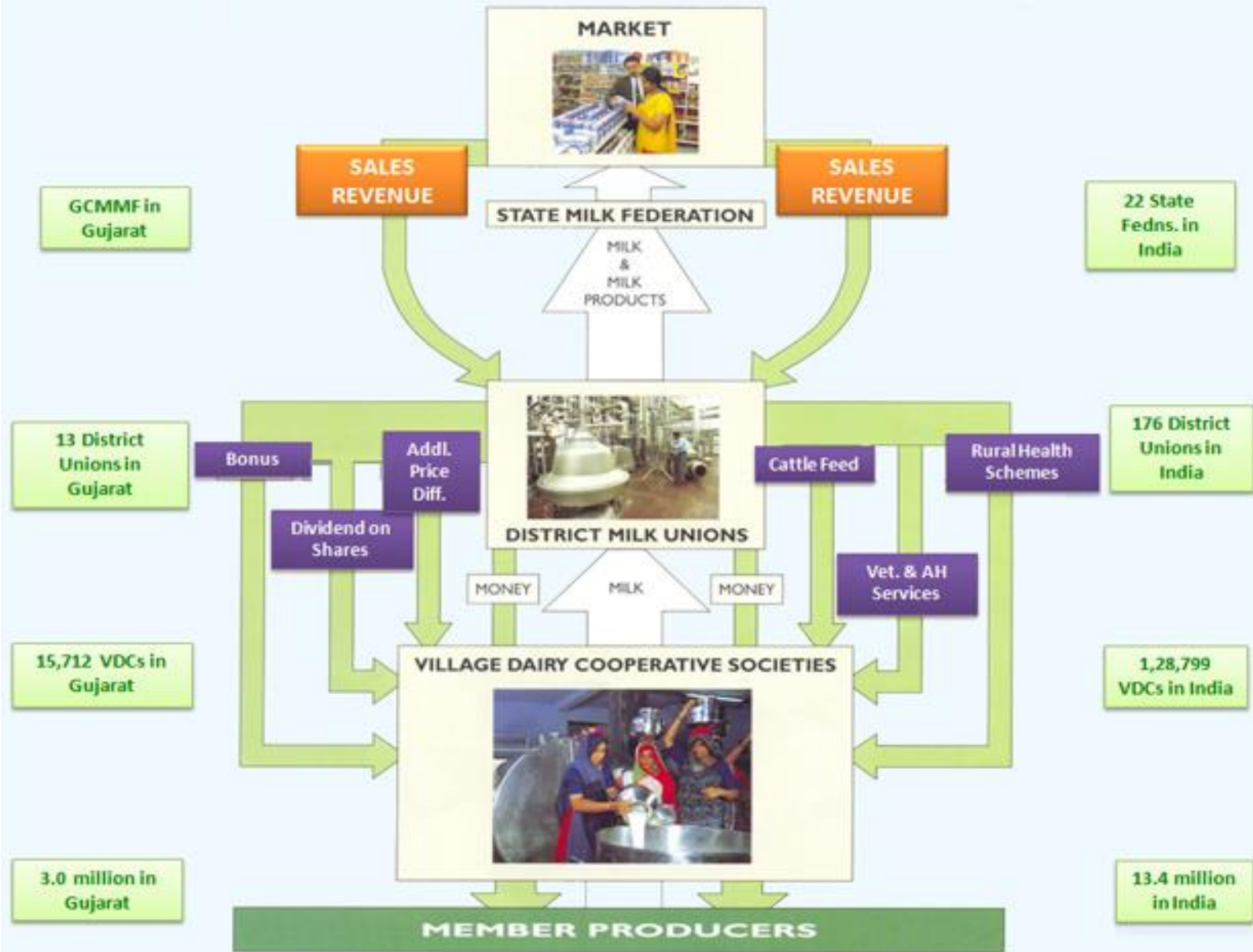
Three approaches for a smallholder-centric world

- Out-grower model
 - Virtual consolidation of fragmented land holdings
 - Control in the hands of a company
- Cooperative Associations
 - Could be similar to out-grower model, but collectively owned
 - Difficult in Sri Lanka, partly because we have destroyed concept of cooperatives
- Let smallholders be autonomous
 - Help them invest in quality and reliable supply at less volatile prices by
 - Improving incentives &
 - Bridging information/knowledge gaps

Cooperative Association

- Amul, USD 2.54 billion company with 25% share of organized milk market in India
 - To the world, an Indian multinational with exports of INR 1,400 million (USD 22.4 million)
 - Smaller than Hayleys but more visible because powerful brand
 - To India, a major milk products supplier
 - To 15 million Indian dairy farmers, their own cooperative





Every case is special, but lessons can be drawn

- Amul is a massive cooperative
 - But it used incentives and ICTs to effectively integrate smallholders into a global value chain
- In both out-grower and cooperative models, those who control distribution (people like you) invest in knowledge services for growers
 - Government extension not the norm worldwide
 - Our extension officers are increasingly becoming enforcement officers

Another example from Sri Lanka:
Neither cooperative nor out-grower



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Transparent

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Flexible



- Other locations buy “fresh rubber” sheets and also scrap rubber

More information does not necessarily build trust

- Sample is on display so those selling higher-quality sheets can check for themselves
- Latex farmers received detailed bills & deposits in bank accounts, but said they had trouble understanding the information



No brands? Fragmented brands?



Building loyalty in the eco system

- From our field work, we do not see much loyalty on the ground; smallholders seem to be behaving like text-book economic agents, always ready to switch for a better price
 - But farmer-first handler relations are an exception
 - ➔ companies should focus on first handlers
 - According to Albert Hirschman's classic study *Exit, voice and loyalty*, loyalty comes when voice is encouraged

The challenge & the opportunity

- In 1937 Ronald Coase asked why firms exist
 - The answer was transaction costs; a firm “makes” because “buying” is too expensive by reason of transaction costs
- Many scholars have tried to unpack transaction costs
 - Technology plays an important role, e.g.,
 - Amul using meters to ensure quality of purchased milk
 - Entire basis of business process outsourcing
- Firms that redefine their boundaries using new technologies and new thinking will have an edge
 - Our objective of inclusive development will also be achieved

Lessons from BPO

- Did not exist until 1980s; now firms are disintegrating work processes all the time
 - Why? What changed?
- We like it when we get the work, but do we consider reexamining our own work processes?
 - Why not shift back offices away from congested, expensive Colombo?

In conclusion

- ICTs, information, communication and knowledge are not in a separate silo; they cut through everything; affect all activities
- ICTs are changing transaction costs → boundaries between firm and outside
- If you are first to move to the new equilibrium, you will have advantage over competitors
- Actively building relationships and trust in the business ecosystem will help you navigate political waters too
- All this will contribute to our objective of promoting inclusive development