Independent Office of Evaluation

IFAD
Investing in rural people

Number 54, February 2019

insights

©IFAD/NADeP project

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA - COUNTRY STRATEGY AND PROGRAMME EVALUATION

Partnerships between agribusinesses and smallholder farmers

In Sri Lanka, projects and programmes forming partnerships with agribusinesses have become a major feature in the IFAD portfolio. The evolution of this approach has been part of a shift in IFAD and the Government's development focus towards more agricultural commercialization as the country has advanced to middle-income status, rural poverty levels have declined, and urban demand for high-value foods has grown.

Partnerships with agribusinesses in IFAD-supported programmes

The Dry Zone Livelihood Support and Partnership Programme (DZ-LiSPP), implemented between 2007 and 2013, was initially intended to promote forward sales contracts between farmers and agribusiness companies under the marketing and microenterprise promotion component. However, due to the lack of experience of service providers, little progress in this activity was made. The programme instead opted to cofinance (with agribusinesses) equipment and construction of processing and collection centres for agricultural and dairy products. This investment contributed to farmers obtaining higher prices than those offered at nearby markets, reducing transport distances and costs, as well as having better access to advice for production techniques and post-harvest practices. The programme impact evaluation undertaken by the Independent Office of Evaluation of IFAD in 2013 recommended promoting linkages within existing value chains through public-private partnerships, taking advantage of the presence of medium to large agribusiness operators in the rural areas.

On the other hand, the National Agribusiness Development Programme (NADeP) launched in 2010, following an unsuccessful attempt at pursuing the farmer-owned company model, shifted the focus to supporting linkages through contract farming. This shift came under the label "4P" ("private-public-producer partnership") and intended to encourage private companies to jointly invest with the producers in agribusiness development. During its final two

years, NADeP established or strengthened 16 partnership arrangements for various commodities such as milk, gherkin, honey, *kithul*[1] and sugarcane. The main benefits to smallholder farmers in successful partnerships included the availability of reliable markets and access to technologies. Support to promote 4Ps is continuing under a follow-on programme, the Smallholder Agribusiness Partnership Programme. In both programmes, farmers involved in the 4P arrangements are also linked with loans (for investment and working capital) from financial institutions by using the re-financing facility through the Central Bank of Sri Lanka.

Challenges and opportunities

Notwithstanding the successes of some partnerships, reaching IFAD's target groups (the rural poor, vulnerable groups, women and youth) can be challenging. This is because private sector partners, understandably, would normally prefer to work with the most productive and accessible areas, communities and individuals. There is a related question of "additionality" – whether and to what extent public-funded support would leverage private investments and benefits to the target group beyond what would have happened without it. The experience with NADeP was varied (see box). The challenge with "additionality" is to identify and select partnerships which are genuinely additional and likely to be sustained, while not discounting opportunities to strengthen existing partnership arrangements.

Reflection

In NADeP, all the programme support was going to farmers (e.g. materials and equipment provided through grants or financed by bank loans), and the agribusiness partners were not receiving direct financial or technical support. Agribusiness partners would benefit from an increased supply and improved quality of produce. Similar partnership initiatives in other development projects tend to involve more explicit cost/risk-sharing between the project and the agribusiness partners. In fact, DZ-LiSPP had cost-sharing arrangements for vegetable/milk collection centres with the private sector. The absence of technical support and cost/risk-sharing arrangements is likely to limit the participation of smaller and less established businesses in partnership arrangements, where such arrangements could increase or diversify opportunities for smallholder farmers to access markets.

There is nothing wrong with the principle of no direct support to agribusiness partners. However, there may also be scope for considering "smart" incentives, cost/risk-sharing mechanisms or complementary investments in public infrastructure (e.g. access roads) to encourage the agribusiness partners to invest in and/or test additional innovative solutions.

In terms of targeting, in NADeP the choice of commodities, locations and producers was basically left to the companies coming forward with proposals. The only indications for the target group in the call for proposals by NADeP were that 80 per cent of producers were to have land holdings of less than 1 hectare and that the involvement of women and youth was encouraged. The evaluation found that the poverty focus in the programme was generally weak. The challenge is to devise eligibility and assessment criteria for private sector partners that incorporate practical targeting measures but still make partnerships attractive to farmers and agribusinesses alike.

While the profit orientation of agribusiness companies is the norm, an important dimension of the additionality of public-funded support would be to make the partnerships more inclusive. There should be a differentiated strategy to reach less-resourced producers based on an in-depth understanding of the barriers they face in production and marketing. The projects that include capacity-building would have an important role to play in facilitating linkages and trust-building with agribusiness partners to increase the likelihood of market participation by less-resourced farmers.

Selected cases of NADeP-supported 4Ps

For some rural households, the sale of *kithul* has been an important source of income. In Ratnapura district, the programme contributed to better structuring relationships between *kithul* tappers and the company engaged in *kithul* sap processing and marketing, compared to ad hoc selling through middlemen. This means that the *kithul* tappers are now knowledgeable about the market and the price. The linkage between *kithul* tappers and the company supported by the programme also brought about the introduction of improved technologies (e.g. for increased sap yield, primary processing) and facilitated insurance schemes for tappers, as *kithul* tapping can be risky. An added impact has been a better recognition of *kithul* tapping as a profession. This was a clear case of value addition by the programme's support.

On the other hand, additionality was less clear in other initiatives – for example, in the dairy sector. The companies engaged in dairy processing and marketing were already operating milk collection centres where a large number of smallholder dairy farmers bring milk. In one of the 4Ps for dairy, the company screened and selected better-resourced farmers in the catchment area, thus raising a question about the extent of inclusiveness. For sugarcane, most of the farmers supported were those who farm in the company-managed sugarcane-designated areas. Supplying the produce to the company has been in principle the only option for these farmers, and the company was providing them inputs for sugarcane production on loan before NADeP. In this case, the main value of NADeP was lower-interest loans and grant-financed equipment, but not in terms of forming or fostering producer-company relationships.

[1] Kithul treacle is made from sap extracted from the kitul palm. The sap is boiled down to a sweet, thick, dark brown syrup. When the sap is cooked, it also produces a crude sugar called jaggery. Kithul is one of the native sugars of Sri Lanka. (Source: www.fondazioneslowfood.com/en/ark-of-taste-slow-food/kitul-treacle/)

Further information:

Democratic Socialist Republic of Sri Lanka, Country Strategy and Programme Evaluation, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 00142 Rome, Italy | www.ifad.org/evaluation | e-mail: evaluation@ifad.org | www.twitter.com/IFADeval | www.youtube.com/IFADevaluation