

# Agribusiness Development: What is to be done?

## Agribusiness System

The Agribusiness System comprises of three sub sectors as supply of inputs, commercial farm production, and processing and distribution. Supply of inputs refers to the availability of anything that is required for an economic activity related to agribusiness such as land, labour, machines, technology, water, electricity and other. Commercial farm production means farming activities carried out mainly for commercial purpose. Processing and distribution include manufacturing agriculture-based products and their distribution in the local or international markets.

## Value Chain of Agribusiness

These sub sectors link different stakeholders in the *value chain of agribusiness* contributing to the agricultural as well as rural non-farm sector growth. Along the value chain starting from the initial stage of production and ending at the point of consumption, value is added when the product passes through many stages such as using the inputs, farming, harvesting, sorting, storing, manufacturing, packaging, transporting and distributing. The constraints to agribusiness development need to be identified in relation to each of the sub-sectors associated with the whole value chain.

## Competitiveness of Agribusiness

There are 4 factors that determine the competitiveness of a given industry: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. The constraints that impede the competitiveness of an industry can exist in association with any of these factors. Further, the government plays an important role affecting all these factors either relaxing or tightening constraints.

## Agribusiness in Sri Lanka

According to Department of Census and Statistics (2008), there are 4725 agribusiness units in Sri Lanka, while these are concentrated more in the Western province than in agricultural areas of the country. The Western province accounts for 32 percent of agribusiness units and 38 percent of employment in the sector. The Western province, contributing 74 percent of the total value addition in the sector, appears to be more productive in agribusiness compared to that of other provinces of the country. As at present, 'small firms' dominate the agribusiness sector because about 72 percent of agribusiness units have employment less than 20 workers.

The share of agriculture-based exports which is 23 percent of total exports in 2008 has increased in the past few years. Tea exports contribute to nearly half of agriculture-based exports. The share of tea exports continued to be almost the same for the period after 1995, indicating that there has been no significant improvement in other agriculture-based exports in reducing the importance of tea exports. This shows the sluggish performance in agriculture-based exports that failed to surpass traditional tea industry.

## Traditional Agribusiness Policies

Sri Lanka has inherited a wide range of traditional agricultural policies and programmes adopted by the successive governments over the past few decades. These policies and programmes aimed at guaranteed prices, fertilizer and factory modernizing subsidies, concessionary credit, forward sale arrangements, government's paddy purchasing program, access to free irrigation, government's



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research and development, government's extension services, supportive trade policies for both export promotion and import substitution and many other incentives. The government has also been involved in implementing programmes for achieving food security, promoting selected cash crops and value added products, promoting rural infrastructure, and improving marketing facilities.

## Emphasis in Mahinda Chinthana

The policy manifesto of the present government, *Mahinda Chinthana*, has also placed emphasis on the need to promote agricultural development with government intervention to promote rural agriculture and private sector involvement in research and development as well as in extension services. It also envisaged the active participation of the community based organizations (CBOs) with the government agencies to transform subsistence agriculture into a productive commercial system with linkages to agro-based industries. Further the government recognizes the need for the development of a market-oriented pricing mechanism and incentive environment for the agricultural sector. At the same time, the government acknowledged the need for protection to import competing crops and the targeted input subsidies.

*"An agriculture sector contributing to regionally equitable economic growth, rural lively hood improvement and food security through efficient production of commodities for consumption, for agro-based industries and for exporting competitively to the world market"*

Mahinda Chinthana

## ICT for Agribusiness

The *e-Sri Lanka* initiative, implemented by the Information and Communication Technology Agency of Sri Lanka (ICTA), is the most recent information and communication technology (ICT)

approach to the agribusiness development in the country. ICTA mission is "...taking the dividends of ICT to every village, to every citizen, to every business & re-engineer the way government thinks & works..." The *e-Sri Lanka* initiative has been planning to give access to farmers to timely information on pest and disease saving the crops, new farming techniques, and on new crop varieties that resist the negative shocks and yield higher output. Access to 'real time market prices' through ICT would enable the producers to gain higher income and to improve forward linkages providing wider market opportunities. Farmers will be allowed to access to such services in local languages using computers as well as mobile phones through web portal, voice calls, SMS and other communication means under the ICT programs such as *Wiki-Goviya* and *Nava-Goviya*.

## Issues and Policies

The agribusiness sector has faced with many constraints and challenges that have not been addressed as far as the determinants of the competitive growth of the industry are concerned.

## Complicated Factor Conditions

Factor conditions deal with the availability of productive factors and related issues affecting industry performance. In the case of agribusiness, vague land ownership patterns, complicated tenure systems, outdated land policies, labour-related issues and small-scale cropping constitute major constraints to agribusiness development. In addition, limited range of varieties, poor quality seeds and material, lack of research and development, and market inefficiencies contribute to poor industry performance.

Some of the fundamental weaknesses are deep-rooted as they were not addressed adequately in the historical policy formulation for agribusiness development. It is necessary to review the existing land ownership pattern, tenure systems, land policies, and labour issues. A land

utilization plan needs to be developed by identifying and demarcating areas for agricultural production, housing and conservation. It is vital to develop supply chain collaborating mechanisms and link small-scale farmers with larger agribusinesses for marketing and processing. The private sector involvement in research and development, even with public-private partnerships, needs to be recognized and enacted with intellectual property rights. With public-private partnership, more investment on research and development is essential in obtaining good quality seeds and planting materials.

## Slow Response to Demand Conditions

The industry needs to be adjusted in response to the changes in demand conditions caused by changes in global consumer preferences and impact of the developed market conditions. There are supply-side rigidities in order to respond quickly to market changes, while the slow process of information is a constraint on the part of producers. It is necessary to note that successful marketing strategies can also create global consumer preferences.

Producers should respond to the market trends through innovation more strategically and proactively. But this is hindered by the small-scale of production as well as inadequate and timely information flows. While the land rights and land utilization policies would help to overcome the small-scale agriculture problem in the long-run, strengthened link between small-scale farmers and large-scale agribusiness firms is essential. The improvement in internet access and the speed through increased band width would help to overcome the lack of information problem. Parallel with this, computer literacy also should be upgraded in order to gain the maximum benefit ICT for agribusinesses.

## Poor Supporting Conditions

Related and supporting industries provide a wide range of services required for business performance. These include

infrastructure, utilities, transport, information, financial services, extension services and business development services. The poor conditions of these factors pose high transaction costs to agribusiness. The presence of uncoordinated, lengthy and fragmented supply chains cause high quantity and quality losses in the agribusinesses in Sri Lanka.

The infrastructure development connecting Colombo with rural and regional economies is needed to remove most of the bottlenecks affecting the supply chains of agribusiness, to reduce transaction costs of agribusiness and to divert more investment to agribusiness activities beyond the Western province. It is important to use alternative forms of cost-effective energy generation and improve the efficiency of power distribution and administration. The extension services, currently carried out by the government need to be liberalized, while the private sector should be given the opportunity to engage in extension and business development services on its own or with public-private partnership.

## ***Government's Role: Facilitating or Impeding?***

The government's influence and policy environment affect the industry through inefficiencies in public administration and bureaucratic procedures making the industry uncompetitive. There are too many government institutions operating at both national and local levels undertaking responsibilities related to agriculture sector. Although the governments have adopted a wide range of supportive measures in the traditional form of government intervention, their efficiency and effectiveness are limited in assisting the development of agribusiness is concerned.

The excessive protection and subsidies perpetuate subsistence agriculture and high unit cost of production constraining their transformation into a competitive agribusiness sector. Small-scale and scattered production units lead to many logistic issues in marketing and prevent

development of agribusiness. While the private sector plays little role in research and development as well as in extension services, the government initiatives with inadequate resource allocation do not have much capacity to deliver the information efficiently and effectively as suitable to agribusiness development. Most of the trained human resources and logistics remain with the government which has little connection to the agribusiness sector. The industry link with the government research and development institutes including the Universities is weak. In fact the private-public partnerships are almost not existent in Sri Lanka in a formal manner, while the limited relationships purely work on personal contacts.

There are efficiency gains for the agribusiness sector that can be derived by simplified and rationalized bureaucratic and administrative procedures along with a substantial contraction in the number of public sector institutions. The net benefit of the current system subsidies and other incentives to agriculture development needs to be assessed as they may continue to sustain the inefficiency rather than to upgrade agribusiness. The development of public-private partnership will provide an opportunity for the government to divert its human resources and logistics for agribusiness development. An approach as such could also be extended to get the private sector involved in research and development activities together with the related public sector institutions.

## **Intellectual Property and Genetic Issues**

Though the country can boast of having very rich bio diversity, we have not been able to fully make use of it. The country's intellectual property law does not adequately protect the innovations in agriculture.

There is a need to upgrade the existing regulatory framework and to adopt new laws in line with developed agricultural

practices in the world and to protect the intellectual property rights in the agribusiness sector.

## **Conclusions**

This study shows that agribusiness sector in Sri Lanka has a number of constraints related to factor conditions, related and supporting industries, strategy, structure and rivalry. In addition, the institutional set up and the policy environment are not favorable for the agribusinesses to expand effectively and efficiently. Even though demand conditions in the global market favor agribusiness expansion in Sri Lanka, the internal factors has created constraints to the industry. The study highlights a series of policy measures to be adopted in line with the four factors affecting agribusiness development. As most of the constraints of agribusiness development are related to the fundamental weaknesses of the traditional agriculture system and the inadequate dynamism in policy formulation, a successful agribusiness development requires a paradigm change. This is a challenge for any government that is confined itself to safeguard the subsistence agriculture through incentives, subsidies and protection which apparently impede the agribusiness development.



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