



An Integrated Approach to Sustainable Inclusion of Smallholders (SHs) in agribusiness value chains – A case of Public Private Producer Partnership (4P) prototype introduced by National Agribusiness Development Programme (NADeP) - IFAD Sri Lanka

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Sri Lanka widely known as the “Pearl of Indian Ocean” is a rain fed country with rich agriculture traditions. Agriculture has been considered the most important pursuit of the rural people in Sri Lanka as a means for ensuring food security and as a source of employment. It has also been an important driver of poverty reduction, accounting for about one third of the decline in poverty over the past decade. Country’s agriculture is primarily smallholder dominated. About 1.65 million smallholder farmers operate on average less than 2 hectares and contribute 80 percent of the total annual food production. Main farming system is subsistence and production oriented. The majority of smallholder farmers in Sri Lanka continue to sell their excess produce to local markets and to spot buyers due to either the limited accessibility of well-structured markets or their inability to access available structured markets. The biggest problems faced by smallholders are access to market. Efforts to link smallholder farmers in the past recorded mixed results. Common business model is contract farming outgrower schemes and are broadly based on predetermined value chains, purchase commitments and supply inputs against cost recovery upon delivery of harvest. However no concrete results were recorded mainly due to weak linkages among value chain partners and violation of promises on buyers and sellers. On the basis of the experience and lessons learned on partnerships, it is increasingly recognized that generating a sustainable rural transformation requires a broader and more holistic approach beyond isolated interventions. NADeP with the assistance of IFAD started working on holistic approach to explore how can the rural poor benefit more fully from integration into markets and trade? The 4Ps implemented under NADeP evolved gradually and the 4P model which is graduated finally has its own unique characters and have showcased how public and private sector resources can be better leveraged from non-traditional sources and channelled to rural areas. This paper highlights how NADeP intervened in maximizing competitiveness of smallholders through the development of a unique 4Ps prototype in Sri Lanka linking smallholders to value chains and to generate impact at scale.

- ❑ 17 value chain public private producer partnerships (P4s) have been established supporting directly 15000 HHs (indirect 3000 HHs) with an IFAD investment of 15 Million USD – Refer two write-ups submitted by NADeP at this same newsletter about on two value chains successfully implemented by NADeP – Bee Honey Processing Project, Ceylon Biscuit Limited as a partner; Dairy Development Project, CIC Dairies Pvt. Ltd as a partner.
- ❑ After gradual transformation and testing of several P4 modalities, Co-financing arrangements were established; nearly 1/3 investment contribution from each partner making win-win environment for all partners. The contribution respectively from;

NADeP in the form of in-kind grant to develop on farm facilities of small holders for quality and productivity enhancement of their produce and for develop adaptive measures for climate risks. Further public sector led GAP and GMP practices have been introduced.



Private Sector investment for outright sourcing, develop collection network, expand processing facility, provide extension services to transform modern agronomic practices to small holders, credit guarantee for distribution of equipment under grant scheme etc.

Beneficiary contribution through a credit facility. Access to credit from formal financial system was almost non-existent. This is being executed through an introduction of newly designed 2 agriculture loan products for working capital and capital asset investments, at competitive interest rate of 6.5% to the end borrower and small holder capacity have been developed through offering training on general business and financial management and marketing skills.

- Average total per beneficiary investment cost of the 4P intervention ranges from USD 700 to USD 1300.
- Sampling indicates 4Ps are on average, yielding incremental income of minimum USD 650 - 750 per annum/per beneficiary (depend on the commodity) with an IRR of 25-30% and payback period ranging from 2 to 3 years.
- Introducing new P4 model methodologies to PFIs (participatory financial institutions) allows to promote the formal financial system and at present 90% of NADeP Smallholders have become active members in the formal banking sector in Sri Lanka.
- Successful producer buyer linkages were established. Less than 10% of side selling were recorded developing trust between partners.
- Bulking of input and equipment through leader farmer participation during negotiations have saved large sum of public and beneficiary funds minimizing project investment costs.
- No crop insurance schemes were available for majority of commodities that NADeP is working with and as a risk mitigation measure insurance partners were encouraged to design commodity specific insurance schemes.

Under this pioneered scheme 1st time in Sri Lanka public funds has been utilized to establish 4Ps with agri-business companies in Sri Lanka. And also all funding and credit have been channelled through beneficiary accounts respectively by NADeP and PFIs and advances against the final product of farmers also delivered through beneficiary accounts by the company making small holders bankable. The 4Ps model provides producers with several instruments to participate and compete in value chains and to mitigate key constraints that the agri-producers face in Sri Lanka; linkages to market, knowledge and expertise, scale, financing and organization.

This 4Ps concept and the model is now spreading outside Sri Lanka in Afghanistan and in Pakistan after successful study missions conducted in Sri Lanka under south-south corporation. Continues dialogues are undergoing facilitating them to adopt the similar approach and integrate successfully this 4Ps model tally with their country context.



Investing in rural people

Fruits & Mixed Vegetables

Cargills



Areas :
Kilinochchi

Number of Beneficiaries :
230

Seaweed Cultivation

Hayleys Aqua Agri



Areas :
Jaffana, Killinochchi, Mannar

Number of Beneficiaries :
1000

Maize Cultivation

Nelna



Areas :
Anuradhapura

Number of Beneficiaries :
2000

Seed Onion

Hayleys



Areas :
Mathale, Dambulla, Girithalae

Number of Beneficiaries :
400

Dairy Development

CIC



Areas :
Medirigiriya, Dambulla,
Kanthalle

Number of Beneficiaries :
1118

