POLICY NOTE

AGRIBUSINESS PARTNERSHIP AGREEMENT MODELS

Presented By:

Development Concepts (Private) Limited

No. 6/10, Rajamaha Vihara Lane,Rajamaha Vihara Mawatha
Pita Kotte, Kotte, Sri Lanka

AGRIBUSINESS PARTNERSHIP AGREEMENT MODELS:

ISSUES, CHALLENGES AND SOLUTIONS

1. INTRODUCTION

The Sri Lankan agriculture sector plays a significant role in the rural labor market. However, its contribution to the country's GDP has declined from over 40% to less than 10% over several decades. Despite this long-term decline, the sector experienced a 3.6% growth in 2023, increasing its contribution to GDP to 10.7% (DCS, 2023). Nationally, about 26.5% of the employed population works in agriculture. Around 1.65 million smallholder farmers operate less than 2ha of land and contributes 80% to the total agricultural production. Nonetheless, the sector has faced numerous challenges over the years. Among these challenges, factors such as low productivity and profitability, limited adoption of mechanized farming, inadequate private investment, restricted market access, insufficient credit and financial services, poor infrastructure, poor pest and disease management practices, poor marketing performance by letting farmers to earn low profits and the impacts of climate change have all hindered the sector's performance. With this background, The Agriculture Sector Modernization Project (ASMP) was launched with the aim of enhancing agricultural livelihoods by improving productivity, targeting market-oriented production, especially for export, upgrading value chains and strengthening production and market infrastructure and capacity while assisting the farmers in securing markets and finding buyers. The project was funded with a credit of US$ 125 million from the World Bank through the International Development Association (IDA) and a grant of US$ 28 million from the European Union (EU).

One of the major objectives of the Agricultural Sector Modernization Project (ASMP) is to establish Public Unlisted Companies (PUCs) to organize agriculture into cohesive business units and cultivate high-value crops with provided technologies and technical assistance. These Farmer Companies are distributed strategically across 12 districts [7 districts under World Bank (WB) and 5 districts European Union (EU] to maximize their impact on regional agricultural development. The establishment of these companies has fostered a more organized approach to agriculture in Sri Lanka, enabling smallholder farmers to leverage collective resources and access broader markets more effectively. The ASMP's framework and the operational dynamics of these Farmer Companies serve as a model for enhancing agricultural productivity and market integration in developing regions. The ASMP adopts cluster based approached in farming where around 300 to 600 farmers cultivate one high valued crop using the technologies and technical assistance provided by the project. The investment made by the ASMP for one Cluster which produces at least one PUC is about 361 million rupees. The investment covers costs for Irrigation systems, land preparation implements, some inputs such as insect proof nets, poly mulch, fertilizers, seeds, poly tunnels in some clusters, processing facilities and equipment. The overall objective of an FC, like any other investor-owned firm is to maximize returns/ profits to its owners (shareholders) over time.

The overall objective of these Farmer Companies is to maximize returns and profits for their shareholders over time. Establishment of PUCs helps mitigate the traditional fragmentation in the sector and enhances the collective bargaining power of farmers. They are expected to independently manage product supply, quality, profitability and sustainability, creating their own business environments. They enable smallholder farmers to leverage collective resources and access broader markets effectively. Public Unlisted Companies (PUCs) significantly reduce unit marketing, processing, compliance and transaction costs by pooling produce and capital and centralizing management while these PUCs are expected to improve market access by creating competitive channels and protecting members from exploitative middlemen. They are expected to bring investment to farmlands by mobilizing technology and resources, address socio-economic issues related to common resources like irrigation water and improve farm incomes by coordinating small farmers for commercial agriculture. PUCs are also expected to help transform farmers into shareholders and assist in providing them with farm inputs at reasonable prices, better access to credit, technical assistance and value addition to primary products. They also intend to undertake the operation and maintenance of irrigation facilities, ensuring sustainable agricultural practices. Despite these, PUCs are also facing many challenges especially when selling their produce. As a result, the ASMP help PUCs find buyers and formulate partnership agreements. However, the questions arise to which extent the partnership agreements have succeeded. Agribusiness partnerships models and agreements are formulated to bring together various stakeholders such as farmers, agribusiness firms/ companies, government, NGOs and other supporting institutes and agencies to achieve common goals which may include facilitating access to market, financing, technology transfer and knowledge dissemination with the hope of enhancing productivity and sustainability while improving smallholder farmers' income. Public-Private-Producer Partnerships (PPPPs), Public-Private Partnerships (PPPs), Contract Farming, Out-grower Systems, Cooperatives, Value Chain Partnerships, Inclusive Business Models, Joint Ventures and Franchise Farming can be considered as a few popular partnership agreement models.

As the PUCs are also type of Farmer Company (FC), evaluation of farmer companies would lead to produce clear insights into which aspects have favored those most and favored least. It is a fact that the success of PUCs hinges on their ability to effectively manage their business operations, particularly in marketing their produce. PUCs have several options for selling their produce: through middlemen, directly to customers, via online platforms, or through contracts/partnership agreements with predetermined buyers. Given their limited marketing capabilities, PUCs received assistance from the ASMP in identifying buyers and formulating contract agreements. However, existing literature indicates that agreements signed between farmer companies/organizations and buyers in Sri Lanka have not yielded the expected outcomes due to various reasons. Hence, the current study is expected to identify problems with agribusiness partnership agreement models, determinants of failure and success, regional experiences in such partnerships while ultimately proposing solutions and policy recommendations.

2. METHODOLOGY

This study attempted to review existing literature on agricultural partnership agreement models both within Sri Lanka and in similar agricultural contexts internationally. Specifically, the effectiveness of the models and area of improvements were also be assessed through the review and stakeholder consultations. The insights gained informed a rigorous examination and critique of the existing policy framework, identifying gaps that hinder effective partnerships and finally provide robust policy recommendations and strategic advice to improve the partnership models. The analysis was further strengthened through structured interviews and focus group discussion to deepen the understanding of the expectations, experiences and satisfaction levels regarding current partnership models. Participants in this stakeholder survey included representatives from established PUCs in the ASMP project, DOA officials, provincial level, district level and cluster level ASMP staff, key agribusiness companies engaged with the project.

3. FINDINGS

Agribusiness partnerships models and agreements are formulated to bring together various stakeholders such as farmers, agribusiness firms/ companies, government, NGOs and other supporting institutes and agencies to achieve common goals which may include facilitating access to market, financing, technology transfer and knowledge dissemination with the hope of enhancing productivity and sustainability while improving smallholder farmers' income. Public-Private-Producer Partnerships (PPPPs), Public-Private Partnerships (PPPs), Contract Farming, Out-grower Systems, Cooperatives, Value Chain Partnerships, Inclusive Business Models, Joint Ventures and Franchise Farming can be considered as a few popular partnership agreement models. Among these, most popular partnerships models that were adopted in Sri Lanka or elsewhere were evaluated using existing literature.

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a) Farmer Companies (FCs)

The main problems that the individual farmers faced are lack of capabilities in marketing their produce, lack of organizational models, technical and attitudinal constrains and low bargaining power (Esham and Kabayashi, 2013; Dunham, 1992). As a result, commercialization process of their produce has been low (Esham et al., 2006). As a solution to these problems, Sri Lankan government proposed to combine small groups into collective groups as FCs.

Although the FCs look promising, they fail to deliver what was expected due to various reasons. According to Rosairo et al. (2012), those failures are due to lack of trading platform to trade shares, weak electoral procedures when appointing directors, poor managerial skills and poor investor confidence due to lack of transparency and accountability of the management
However, Esham and Kabayashi (2013) discuss the factors of failure of FCs in Sri Lanka in detail under four broad topics. They are issues with governance, management, shareholder participation and business operations and services.

Issues Related to Governance	Issues Related to Management
• Issues in electing members of Board of Directors (BOD) (Rosairo, 2010) • Undue influence exerted by externally appointed members of BOD on decision making process • Influence from political leaders (Senanayake, 2004) • Inability to recognize and address the needs of the farmers (Esham, 2006; Senanayake, 2004) • Absence of platform for shareholders to express their ideas on formulating strategies and policies (Esham and Usami, 2007; Rosairo, 2010)	• Lack of skills in developing and implementing new strategies as well as lack of appropriate management skills (Rosairo, 2010) • Available business plans are outdated or no new business plans have been prepared • Inability to identify new business opportunities and adopt to changing market needs • Lack of proper feasibility studies when implementing new projects. • Most the members of BOD are farmers with little or no managerial skills. • Government and other facilitating agencies have not improved the managerial capacity of the FCs
Issues Related to Shareholder Participation	**Issues Related to Business Operations and Services**
• Absence of grass root level presence at the FCs and as result FCs have been unable to attract sufficient number of farmers as shareholders (Wijerathna and Varma, 2006) • Very low active participation of famers in activities conducted by FCs (Senanayake, 2004) • Low participation of farmers in AGMs and business activities • The farmers obtain shares only to be eligible to get benefits from the FC (Esham and Usami, 2007) • Lack of knowledge of shareholders on activities undertaken by the FCs (Esham and Usami, 2007)	• Less diversification in business activities • Because of the limited shareholder base, FCs have created low shareholder capital leading to limited operational capacity and difficulties in starting new activities. • Debt equity ratios has significantly exceeded the realistic levels. • As result of statutory restrictions, non-farmers are unable to purchase shares. (Esham and Usami, 2007) • Economies of scale is not achievable due to low shareholder capital. • Poor extension services to shareholders because of lack or low collaboration with other stakeholders such as business partners, government and non- government agencies. • Poor managerial and financial capacity have led to poor value addition

b) Public Private Partnerships (PPP)

Public Private Partnerships in agriculture is considered to be playing a major role in increasing productivity, driving growth and modernizing agriculture sector (FAO, 2016) while it caters to managing inputs, resources, markets, risks, technology and benefits (Ponnusamy, 2013). PPP also assists in knowledge management, capacity building for women and youth, development of advanced technologies and innovations, processing, market promotion, gender mainstreaming, leveraging finance, sharing risk, food security and inclusion (FAO, 2016; Ponnusamy, 2013). The National Agribusiness Development Program (NADeP) which is a Public–Private–Producer (PPP) framework operational under the government is an example of Sri Lankan experience with agribusiness PPP model. The main objectives of NADeP are to increase farmers' income through participation in developing marketing chain, assist in providing microfinance to the target group and train the rural youth to gain skills to have better employment opportunities (Prasada, 2020). However, PPPs also face limitations and challenges/ issues.

Limitations and Challenges/ Issues	Literature Sources
• Focus on high-end technologies, high-profit margin areas and crops, perceived mistrust • When the public sector assists private sector by subsiding the private business interests, it may create first mover advantage for the private company. • Lack of transparency in selecting private partners and allocating lands and providing concessions • Capacity of public partners to work with private sector may be limited • Inadequacy of available rules and regulation • Side selling by non-adherence to agreements among partners • Inadequate risk sharing mechanism to deal with incidences of force majeure • Failure to comply with the quality standard • Recruitment of skilled and qualified workforce. • Labor shortage during peak harvesting periods • Limited funding and escalated costs • Difficulty in sustaining activities that require investments beyond partnership periods. • Low rates of participation in newly developed facilities • Low rate of adoption of provided technology • Delays in construction and overspending • Less co-investment by farmers • Disappointing profits • Lack of traceability and emergence of quality control issues • Limited availability of agribusiness and entrepreneurial service	Ponnusamy (2013) FAO (2016) Prasada (2020)

c) Public Private Producer Partnerships (PPPP)

One of the major issue in partnerships agreements is non-inclusiveness of smallholder farmers or they have limited or zero voice in partnership agreements. They are mostly led by more abled farmers with high capital possession and large extent of lands. On the other hand, private sector agribusiness companies tend more towards those farmers. It has also been evident that negotiation skills of the smallholders when forming partnership agreement are lacking farmers (Chamagni, et al., 2016). One the solutions to such is to create Public Private Producer Partnership (PPPP or 4Ps) where it assures the inclusiveness of smallholder farmers and ensures fairness, accountability and transparency (Chamagni et al., 2016). According to Chamagni et al. (2016) 4P model identify the issues with price setting mechanisms, issues with enforcement of contracts, regulatory issues, issues with respect to modalities in payments and issues related to ownership and coordination. Though the 4P models, it is expected that the income of the smallholder farmers increase leading ultimately to rural development (Thorpe and Maestre, 2015).

Chamagni et al. (2016) define 4p model in the following manner.

"*4Ps models involve cooperation between a government, business agents and small scale producers who agree to work together to reach a common goal or carry out a specific task while jointly assuming risks and responsibilities and sharing benefits, resources and competencies*."

Benefits	**Literature Sources**
• Inclusion of smallholder farmers • Ensure transparency, fairness and accountability • Public sector invests in infrastructure, research and extension • Public sector helps in reducing risk and transaction cost and building in trust between parties • Asset transfer by government sector when necessary • Coordination and management of value chain by the private sector • Sometimes the private sector is expected to invest on processing and warehouse facilities and transportation • Private sector may co-invest in commonly owned assets • Private sector may provide market information, technology and specialized technical assistance.	Chamagni et al. (2016) IFAD (2015a) IFAD (2015b)

As always is the case, sometimes the benefits of any agreement or partnership model is shadowed as a result of its negative aspects, issues etc. however, knowledge of such things may help in finding the solutions.

Limitations and Challenges/ Issues	**Literature Sources**
• Difficulty in bringing all parties to one table is a difficult task as all parties may not have the same objectives and goals. • Domination of private sector in making decisions when formulating an agreement sometimes without giving an opportunity for farmers to share marginalizing them in decision making process • Private sector investment in partnership agreement depends on short-term returns that it gets. As a result, funding may be difficult.	FAO (2016) Chamagni et al. (2016) Thorpe and Maestre (2015) Moreddu, C. (2016) IFAD (2015a) IFAD (2015b) Spielman *et al. (*2010) World Bank (2007) Poulton *et al. (*2010)

• Disproportionate risk in the case of fluctuations in the market and climate risks in most cases borne by the smallholder farmers • If the new technologies are introduced, smallholder farmers may lack the technological skills and knowhow • Weak or absence of regulatory framework may lead to ineffective partnership agreements • Establishing an effective monitoring and evaluation mechanism is difficult. • Sustainability issue in agreements as commitment may be lacking fora long term. • Farmers' engagement in side selling to alternative markets pose a risk to the private sector company • Sometimes government funds may be a waste as a result of failure to achieve expected results by smallholder farmers • Farmers may receive low prices due to monopolistic nature of the company and it could even be lower than the cost of production • Lack of market chain institutional arrangement • As shown by Thorpe and Maestre (2015) by quoting from Spielman et al. (2010), problems arise in markets due to market failures, such as missing markets for credit or inputs; institutional barriers, such as poor contract enforcement norms; and systemic weaknesses in market exchange, including the inability of agents to learn about each other, identify areas of complementarity and build and sustain trust • High transaction costs leading to coordination failure • Scale diseconomies • Missing or underdeveloped markets • Undeveloped infrastructure	

d) Contract Farming (CF)

Contract farming is an agreement between a grower and a processor/ buyer regarding the production of an agricultural commodity and/ or selling of the produce at specified quality at an agreed price (Bellemare and Bloem, 2018). When looking into to contract farming arrangements in Sri Lanka, CF agreements have been formulated to help smallholder farmers build strong market linkages with agribusiness firms to sell their products.

Benefits	Literature Sources
• Reduced transaction cost • Improvements in efficiency and productivity • Increased income • Increased profitability	Grosh (1994) Bellemare (2012) Narayanan (2014) Briones (2015)

• Increased household asset holdings • Household food security • Subjective wellbeing • Minimum risk to buyer as supply of produce is assured in comparison to open market purchase while land constraints faced by business firm also is solved • In the case of seller, he experiences an assured supply of and access to better inputs, credit facilities, enabling environment to learn new skills, risk due to price fluctuations is reduced and the producer is assured with a guaranteed market if the all these factors are correctly specified in the contract agreement. • Guaranteed product uniformity and high quality with a reliable supply delivered on time • Access to cheap family labour • Minimized constraints that can arise from land ownership issues • Knowledge and technology transfer • Increased yield and crop diversification • Contract agreements as collateral to arrange credit with a commercial bank in finding inputs	Michelson (2013) Bellemare and Novak (2017) Dedehouanou et al. (2013) Melese (2012) Tuyen et al. (2022) Eaton and Shepherd (2001)

As the ASMP attempts to improve the livelihood of the farming families through providing new technologies and technical knowhow, the project itself intends to assist farmers through the established PUCs by finding buyers for their produce through a contract agreement. Assistance in seeking buyer is provided as the success of PUCs hinges on their ability to effectively manage their business operations, particularly in marketing their produce. PUCs have several options for selling their produce: through middlemen, directly to customers, via online platforms, or through contracts/partnership agreements with predetermined buyers. However, existing literature indicates that agreements signed between farmer companies/organizations and buyers have not yielded the expected outcomes due to various reasons. For example, despite the positive effects of contracts, low participation and frequent breaching of contracts remains a challenge (Bellemare and Bloem, 2018). According to Champika and Abeywickrama (2014), absence of a crop insurance scheme and unavailability of an authorized institution to regulate the contract farming process have hindered the diffusion of contract farming system throughout the country. Despite the potential benefits of agribusiness partnership models, their implementation faces several challenges. These include the necessity for a clear understanding of the business case for various stakeholders, the requirement for evidence demonstrating benefits for both farmers and companies and the need for models tailored to specific contexts (Rappoldt et al., 2017).

Limitations and Challenges/ Issues	Literature Sources
• Low participation and frequent breaching of contracts • Sometimes farmers are forced work longer hours and use child labor • Although contract farming assures an increased income and wellbeing, it may lead to inequality issues • Farmers with high land extent and high water availability are more likely to participate in contract farming • Exclusion of smallholder farmers as buyers may tend to have contract with farmers whom the companies think that they will maximize profits • Side selling by farmers • The major challenge arising out of the legal agreement is whether the farmers is knowledgeable enough to understand the legal jargons. • Sometimes the farmers are not given contract at all or contract only gives rights to buyers and obligation to farmers. Ultimately, it may lead to risky situation while creating mistrust among the farmers. • Inability to sell whole harvest as a result of the contract • Absence of a crop insurance scheme and unavailability of an authorized institution to regulate the contract farming process • Either the company or the farmers cannot protect themselves from market fluctuations or volatility • Contract farming make smallholder farmers heavy dependents and become non-competitive without the assistance from the service providers. • Sometimes farmers become so weak partners that it leads to over exploitation • Excessive dependence of credits provided by the companies creating prolonged debt problems • If the farming with new technology needs high capital investment, smallholder farmers face the difficulty of entering into contracts due to high transaction costs and economies of scale. • Bargaining power of farmers is not increased through contract farming. • Poor yield and low quality due to inadequate farmer resources, poor management, poor timing etc. • Success of CF mostly depends on what alternative markets are available to the smallholders and the nature of their dependency on the producer	Bellemare and Bloem (2018) Porter and Phillips-Howard (1997) Little and Watts (1994) Michelson (2013) Champika and Abeywickrama (2014) Singh (2000a) Brithal (2008) Begum and Alam (2005) Nurjati and Wiryawan (2023) Baumann (2000) Singh (2000b)

• Issues related to poor co-ordination of activities, poor technical assistance, delayed payments, outright cheating in dealings and manipulation of norms by the firm	

e) Farmer Cooperatives

Agricultural cooperatives are considered to be a strategy to improve smallholder linkages to evolving food systems (Tefera and Bijman, 2019). In transforming subsistence farmers into commercial farmers, cooperatives also play a major role (Verhofstadt and Maertens 2014). The cooperatives are also designed to strengthen farmers with new inputs, technologies, extension services while supporting processing (Bro et al., 2019). They further assist stallholder farmers by improving market access through strengthening bargaining power, facilitating access to modern tools and inputs, providing market intelligence and reducing market risks (Markelova et al., 2009; Sheferaw et al., 2011)

Benefits	Literature Sources
• Better market access • Increased bargaining power • Access to modern inputs • Reduction of risk associated with marketing • Increased income for smallholder farmers • Well performed agriculture system • High quality agricultural produce • Assist in credit, mutual insurance, processing • Can experience economies of scale • Can improve networking • Managerial support can be expected • Reduce transaction costs in coordinated food chains • Women empowerment	Tefera and Bijman (2019) Verhofstadt and Maertens (2014) Bro et al. (2019) Markelova et al. (2009) Ma & Abdulai (2017) Sheferaw et al. (2011) Latynskiy and Berger (2016) Chagwiza et al. (2016) Fischer and Qaim (2012) Bizikova et al. (2020) Dohmwirth & Liu (2020)

Although the cooperatives yield benefits to the smallholder farmers, they have not always help the farmers due to various reasons.

Limitations and Challenges/ Issues	Literature Sources
• Difficulties in complying with quality and quantity requirements of the buyer due to high cost associated with it • Internal governance problems • Inclusiveness may be low • Side selling by farmers • Sometimes smallholder farmers are excluded as market oriented cooperatives tend to build more	Poulton et al. (2010) Hannan (2014) Bernard and Spielman (2009) Verhofstadt and Maertens (2014) Hao et al. (2018) O'Brien et al. (2013) Bijman and Wijers (2019) Mahindapala (2020) Esham and Kobayashi (2013)

linkages with larger firms due to potential high profits. • Wellbeing of the smallholder farmers has not been considered when seeking higher profits • Lack of governance in the groups and poor management, as even the leaders of the cooperative often misunderstand the purpose of the farmer company • As a result, poor participation of members in important events such as activities, meetings etc. • Limited economic performances sometimes • Uneven distribution of benefits for small and large producers	Perera (2014) Munasinghe et al. (2017) Notta and Vlachvei (2007) Hirsch *et al*. (2020) Grashuis and Yu (2018)

f) Out-grower Systems

Out-grower farming arrangements could be seen as a win-win strategy for both farmers and agribusiness firms. These arrangements help overcome farming and marketing limitations while leveraging farmer loyalty despite competitive price offers (Kiriveldeniya and Rosairo, 2019)

Benefits	Literature Sources
• Increased income for the smallholder farmers • Improved market access • Access to inputs and new technologies • Reduced marketing costs and stable prices	Karunagoda et al. (2010) Kirsten and Sartorius, (2002) Eaton and Shepherd (2001)

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Limitations and Challenges/ Issues	Literature Sources
• High default rate • Biased terms • Delayed payments • Cheating • Lack of compensation for crop failure • High turnover in participation due to either party's lack of commitment to honoring agreements. • A weak legal system that fails to ensure contract enforcement, coupled with the potential for opportunistic behavior by growers, creates a high-risk environment for the out-grower firm.	Singh (2002) Barrett et al. (2012) Kiriveldeniya and Rosairo (2019)

In summary each and every agreement model has its own benefits, issues, challenges etc. However, which model is best suited for a specific farming context is what has to be understood properly.

g) Examples of Lessons Learned from Partnership Models within the and outside Sri Lanka

<table>
<tr><th>Country</th><th>Lessons learned</th><th>Literature Sources</th></tr>
<tr><td>Zimbabwe</td><td>40% of the farmers do not understand the contract specifications in cotton, tobacco and horticulture sector.</td><td rowspan="3">Melese, 2012</td></tr>
<tr><td>Kenya</td><td>Contracts failed due to lack of entrepreneurial culture and farmers’ failure to consider farming as a business</td></tr>
<tr><td>Mexico and India</td><td>Agribusiness prefers to contract with large-scale farmers because of high traction cost when dealing with smallholders.</td></tr>
<tr><td>Sri Lanka</td><td><u>Ridi Bandi Ela Farmer Company</u>
Due to lack of a proper business plan and selection of non-viable enterprises, Ridi Bandi Ela Farmer Company (PPP model) failed. Out of 25 enterprise’s, 15 were failed due to improper planning, poor identification of project and targets. Farmers view company as a service provider and purchase shares only to get the service not to make an investment. High rate of loan default by farmers and misuse of credit facilities by the officials and lack or specific criteria for selecting creditworthy customers. Lack of transparency in company activities and corruption and malpractices by the company managers have let to reduction in shares. Non-recruitment of suitable persons to manage the company is also a factor of failure.
Absence of continued support for year round cropping, crop scheduling, value-added production, creating market links, procedures for decision making.

<u>Chandrika Wewa Farmer Company</u>
Assisted smallholder farmers in enhancing their market bargaining power and securing guaranteed prices for their produce through strategic agreements.
Enabled members to access agricultural credit in the form of fertilizers, chemicals and seeds with minimal transaction costs and low interest rates.
Adopted bulk purchase of inputs.

<u>Maize out grower system</u>
While out-grower farming appears to be a beneficial strategy for firms, maize out-grower farming has proven to be less effective in ensuring a reliable supply of maize for these firms. Farmers prioritize the higher market prices available over the prices offered by their out-grower firms.</td><td>Aheer et al. (2011)
Wijerathna and Varma (2006)
Kiriveldeniya and Rosairo (2019)
Hussain and Perera (2004)</td></tr>
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	Contract Farming of Sugarcane in the Walawe Left Bank Irrigation System Farmers have entered into long-term, legally binding lease agreements with the company. Inputs are provided by the company through differed cost recovery arrangements and information, transportation and marketing are facilitated by the company Entire output is purchased by the company Mutual exchange of ideas in deciding management practices As a result, increased income, crop productivity and employment. Food security is also assured while poverty reduces.	
India	Contract farming has been identified as a solution for minimizing price risk related to smallholder tomato famers in Haryana State. Other issues is irregular payments	Dileep et al. (2002) Kumar et al. (2004)
Pakistan	Food and Agriculture Organization of the United Nations (FAO)-Food Security Pilot The objective is to increase crop productivity through providing access to improved seed varieties, quality fertilizers and weedicides, credit for buying inputs, farm equipment and machinery technology such as laser land leveling and other water saving techniques, agricultural extension services. As result crop productivity increased, transaction cost reduced, new technology provided. However, the main issue is the sustainability of farmer groups/ organizations/ institutions.	Hussain and Perera (2004)
Uganda	Oil Palm PPP in Kalangala (4P model) This was introduced to achieve import substitution, reduce rural poverty by raising smallholder incomes, improve population health through increased uptake of vegetable oil and diversify exports. There arose some land issues as result of this. Further, intercropping is not possible and although the food security is expected to assured, it is not so the long run.	IFAD (2015a)
Indonesia	Public-Private-Producer Partnerships in Agricultural Value Chains The objective is to raise cocoa productivity among smallholder farmers to fill the gap created by limited extension capacity. One of the major challenges is delays in implementing the project	IFAD (2015b)

4. STAKEHOLDER ANALYSIS

The success of PUC depends on to which extent they engage in farming business. Initially ASMP assisted in identifying business collaborates and let them continue business sustainably. Therefore, they incline to search for the most suitable partners. However, the stakeholder survey suggests that the building up of partnership agreement is still not satisfactory. Some agreements are temporary and once the project is over, the agreement becomes invalid. It is also observed that although there are some agreements with buyers, the possibility of breaching the agreement and side selling is highly probable due to the high price volatility in the market. It was also noted that some agreements have been signed for one year and it has to be renewed every year. This may lead to high susceptibility to failure when looking at the previous experiences in Sri Lanka.

Although adopting a market-oriented business model is necessary to realize the business's goals, many established PUCs are still lacking a proper business plan. PUCs mostly depend on middlemen in selling their products. Except for a very few PUCs the supply assessment is not done so that they sometimes experiences lower prices due to high supply. Commitment to go for a supply assessment to cater to the market demand and secure a higher price is a major responsibility of the officials PUC. PUCs are expected to create a strong market linkages with buyers. However, it was found that they have not yet achieved to the extent that the project expected. Mostly they sell their product based on verbal agreements. When the farmers can sell their product easily at the economic centers or local market, changing attitude towards exportation of products has been a difficult task although one of the major objectives of the project is to go for export oriented crop production. The lack of understanding of the value chain approach limits the ability of PUCs to evaluate their competitiveness. Additionally, the absence of leadership and negotiation skills, particularly in formulating and managing forward contracts with agribusiness partners, hampers their progress. The producers also face challenges due to their limited capacity to invest, scale up and manage contract agreements. Furthermore, their poor knowledge in value addition and further processing negatively impacts the business operations of the PUCs. The cluster management should be trained to identify buyers and buying behavior as they are lacking such knowledge and train them to solve their emerging problems through the networks they create and quality improvement planning.

It is expect that the PUC members should be shareholders in the company and the members are encouraged to purchase more than one share. However, the results suggest that inconsiderable number of farmers have purchased more than one share. They have purchased shares only to get the membership in PUC and enjoy the project benefits. The knowledge on shares, management, reinvestment and benefits of shares are not known by the shareholders as well as BOD members. The raised share capital is not sufficient and share capital has been deposited in a saving account of a bank in many PUCs. Board members of PUC in some clusters engage in business activities and they buy products from the farmers and sell them keeping a marginal profit. It seems that PUC officials act as middlemen. In some of the pilot cluster, no shareholding mechanism, no share capital formation and no business plan is observed.

Decision making at PUCs levels are done by BOD members at their regular meeting and AGMs. It was noted that some BOD members and mangers have also not grasped the knowledge on PUC operations, objectives, activities, responsibilities etc. For some of PUC members, it is just a farmer organization as if it was earlier.

Income and product diversification are done by a few PUCs. Some PUCs have tried to enter into some other business such as fertilizer sale, commercial nurseries, outsourcing of PUC assets etc.

While the cluster concept and forming a PUC can enhance collective bargaining power, many farmers are still hesitant to collaborate due to limited awareness. To maximize the benefits of ASMP investments, clusters need to engage in collective product planning and supply assessment. Additionally, all clusters should be equipped with knowledge and hands-on experience in areas such as financing, financial practices, value chain management, business planning, product supply organization, marketing, pricing, value addition, product differentiation and branding.

Developing a strategy for the sustainability of clusters and advancing with the available technologies is essential.

To ensure the continuous supply of products that meet market demands, it is crucial to focus on value addition, product diversification and differentiation to maintain sustainability. Branding the product effectively and leveraging online sales through existing platforms or creating dedicated online platforms and apps can enhance market reach.

The cluster management should be trained to identify buyers and buying behavior, data based management, Online flat forms, import export procedures, quality improvement and quality improvement planning, supply scheduling, test marketing, standard operational procedures, product quality and packaging, quantity and schedule, place and transport, pricing payment and arrangements, person in-charge, negotiation skills to increase bargaining power etc. Marketing or selling issues due to absence of fixed agreements with buyers need to be addressed.

Income diversification through various methods such as machinery hiring and outsourcing, selling nursery products, fertilizer and compost, seeds, providing extension services for non-beneficiary farmers for a nominal fee, roadside marketing and participating in farmers' markets are some of the strategies that could also be to mitigate risks. Reinvestment by the Business Company, market expansion and export orientation are also proposed strategies for the long term sustainability of the PUCs.

When conducting the survey, we also checked for major issues, challenges, weaknesses and problems which were found in the literature in the partnership models.

Challenges/ Issues/ Weaknesses	**Presence/ Absence of the Issue**
Breaching of contract	Presence
Side selling by non-adherence to agreements among partners	Presence
Lack of trading platform to trade shares	Presence
Weak electoral procedures when appointing directors	Presence
Poor investor confidence due to lack of lack of transparency and accountability of the management	Still no issue
Unavailability of proper business plan	Presence
Failure to find new business opportunities	Presence. Only a few have tried
Lack of proper feasibility studies when implementing new projects	Presence

Most the BOD members are farmers with little or no managerial skills	Presence
Absence of grass root level presence	Presence
Farmers acquire shares only to be eligible to get benefits from the FC	Presence
Economies of scale is not achievable due to low shareholder capital as a limited shareholder base	Presence
1st mover advantage for the private company	Not found
Lack of transparency in selecting private partners	Not found
Private sector can dominate in making decisions	There is some influence
Issue with whether all the parties committed for a long term partnership	No such agreements
Inadequacy of available rules and regulation	Not an issue
The major challenge arising out of the legal agreement is whether the farmers is knowledgeable enough to understand the legal jargons	Presence
Sometimes the farmers are not given contract at all or contract only gives rights to buyers and obligation to farmers.	Presence
Inability to sell whole harvest as a result of the contract	Presence
Poor managerial skills	Presence
Political influence	Not found yet
Limited availability of entrepreneurial services	Presence
Lack of forum to views of shareholders	Mostly at AGMs
Unavailability of an authorized institution to regulate the contract farming process	Presence
Less co-investment by farmers	Presence
Confusing legal jargons.	Presence
Biased terms	Presence
A weak legal system that fails to ensure contract enforcement	Not an issue
Lack of business plans	Presence
Low market diversification	Presence
Low product diversification and value addition	Presence
Low awareness of farmers on PUCs	Presence

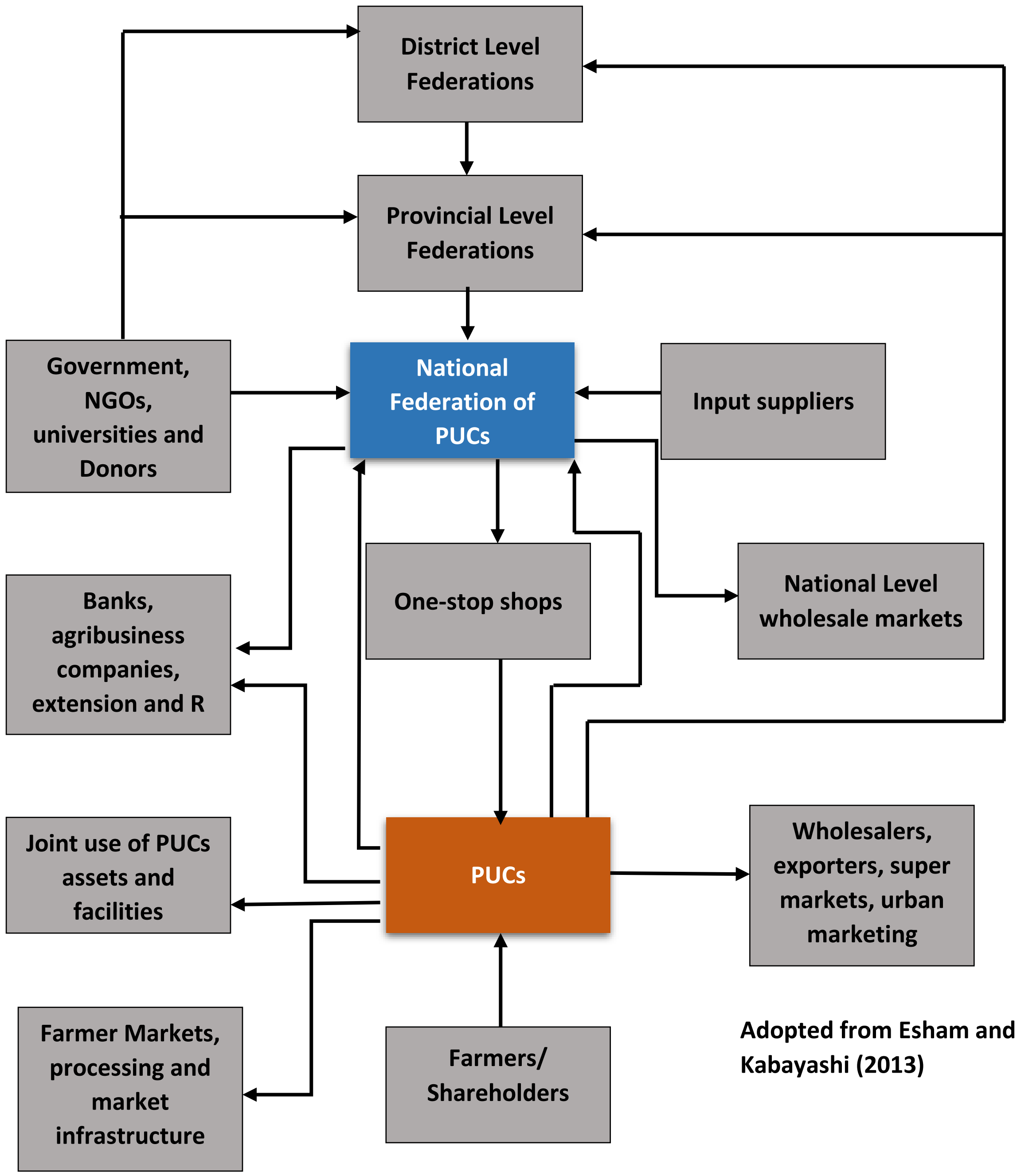
5. THE PROPOSED AGRIBUSINESS PARTNERSHIP MODEL/ SYSTEM

Every model adopted has its own advantages and disadvantages. Mostly adopted models are 3P models and 4P models. However, when inclusiveness of smallholder farmer is concerned, 4P model is the best as the smallholder farmers' needs and perspectives are concerned. It enhances the overall efficiency and profitability focusing on developing value chains while it further enhances joint research innovation and technology transfer.

Due to the various challenges faced by farmer companies in Sri Lanka, the ASMP introduced the concept of Public Unlisted Companies (PUCs), each specializing in producing a high-value export-oriented crop. With higher expected production and increased demand for inputs and other resources, it becomes necessary to implement collective strategic actions in marketing, purchasing, capital usage and utilization of machinery and facilities. This approach aims to help smallholder farmers achieve economies of scale, access advanced technology, pool their capital for value-added activities and gain greater bargaining power.

Establishing a new organizational structure is crucial for sustaining PUCs and creating a conducive business environment. Collective organizations like PUCs and the formation of a national apex body to oversee their operations would help smallholder farmers reduce transaction costs in the market. Esham and Kabayashi (2013) proposed a federated structure for this model, which strengthens PUCs in terms of structure, governance, collective action and integrated service provision.

The main activities of the national-level apex body include providing agricultural extension services, better living guidance, management guidance, auditing, representation in developing agricultural policy and maintaining public relationships. Beyond these primary functions, farmers can benefit from economies of scale through resource pooling. The federated system also helps to eliminate managerial deficiencies, create a strong capital and resource base and support robust networking with banks, suppliers, supermarkets, processors, wholesalers, retailers and government agencies. Another key task of the national federation is managing subsidy schemes. The General Assembly or Annual General Meeting (AGM) serves as the main decision-making platform where all Board of Directors (BOD) members are appointed. The federation can also establish business-specific steering committees, commodity-based groups, youth organizations and women's organizations to assist farmers and the national federation.



Adopted from Esham and Kabayashi (2013)

To build trust among farmers and others in the system, members should be given more opportunities to participate in governance, thereby increasing their confidence in the PUC and the members of BOD.

In the proposed federated system, joint marketing, joint purchasing, joint use of capital (as seen in PUCs) and joint utilization of machinery and facilities are actively promoted and implemented. These collective actions ensure farmers secure the best prices for their products, access inputs at lower costs and enjoy easy access to credit, machinery and other farm necessities. Additionally, it is required that farm plans be prepared in advance of the cultivation season to place bulk orders with contract suppliers, further streamlining operations and enhancing efficiency.

One of the key advantages of a proposed federated system is the adoption of a joint marketing approach, known as consignment marketing. Members of the PUC can deliver their products to district, provincial, or national level federations, which handle the marketing of these products. It's recommended that the federation implements a single fixed price policy for all farmers producing the same crop. This strategy is crucial for ensuring guaranteed prices for farmers and protecting them from price fluctuations. Additionally, by applying the principle of joint use of facilities, farmers can access modern technology, further enhancing their productivity and competitiveness.

A federated system is expected to offer farmers essential resources such as expertise, extension services, credit, insurance, advanced production techniques, seeds, fertilizers and farm equipment. By working collectively, farmers can significantly reduce transaction costs, especially when they have agreements with business ventures, allowing them to benefit from economies of scale. Additionally, in supporting PUCs, a federated system can play a crucial role in balancing market-orientation with inclusiveness, while also promoting open membership and fair governance representation.

6. CONCLUSION

All the agribusiness partnership models have their own advantages and disadvantages. Main issue with models is to which extent the smallholder farmer get the benefits. The mostly affecting party in an agreement is the smallholder farmers. Therefore, inclusion of smallholder farmer in every aspect of the model/ agreement is crucial in achieving economic growth of the farming community. Farm business development should attract young energetic individuals with entrepreneurial skills and business oriented mindset. Otherwise, agreements or any other business activity will fail. Understanding of the legal jargon especially by the farmer is very important in making a sustainable agreement. Breaching of contract or side selling occurs with the market volatility as a result of the price volatility. Therefore, creating some flexibility within the agreement as much as possible would assist in removing the barriers due to price volatility. Mistrust developed when implementing a successful agreement with an agribusiness company is seen through the literature and on the ground due to various reasons. Those barriers will have to be tackled for a successful business partnership. Establishment of a federated system will help farmers to greater extent. Inclusiveness of smallholder farmers is the most important aspect in seceding the agreement. Fostering trust, strengthening institutional capacity and ensuring equitable benefits are critical for the long-term success of such models. Contract farming, farmer cooperatives and out-grower systems represent valuable approaches to linking smallholder farmers with agribusiness firms, fostering agricultural productivity, improving market access and increasing household income. However, their success depends on the specific context, the design of the agreements and the effective management of inherent challenges. Therefore, the suitability of a model depends on factors such as the nature of the crop, local market dynamics and the socio-economic conditions of the farming community. Policymakers and practitioners must adopt a context-specific approach, emphasizing inclusivity, transparency and risk mitigation.

PUCs should adopt competitive bidding or similar systematic approaches to secure long-term, mutually beneficial agreements with buyers. All agreements must be legally valid, with clauses for price and quality negotiations to accommodate market fluctuations. Mechanisms to reduce side selling and other breaches of agreements must be included as well as simplified dispute resolution (mediation) mechanisms should be incorporated. Agreements should be drafted in a manner that is comprehensible to farmers, with key terms explained clearly to promote inclusivity and long-term adherence. The selection and implementation of models must be tailored to the specific context of each PUC, taking into account factors such as the type of crop, local market dynamics and the socio-economic conditions of the farming community. This adaptability ensures that strategies are aligned with the unique challenges and opportunities present in each context, increasing the likelihood of long-term success. PUCs have not effectively raised share capital, which limits their capacity for growth. A strong mechanism must be adopted to select PUC members and encourage the purchase of shares beyond the minimum requirements. PUCs should mitigate risks and enhance sustainability by diversifying income streams and product offerings. This will reduce dependency on a single crop or market. Board members often lack the entrepreneurial mindset and skills necessary for effective PUC management. It is crucial to ensure that board members possess or develop these competencies through targeted training programs. Additionally, engaging young individuals with entrepreneurial skills and a business-oriented mindset is vital to drive innovation and sustainability within the farming sector. Youth involvement can invigorate farm business development and contribute to long-term success. Attracting this demographic should be a priority, with initiatives designed to highlight farming as a viable and rewarding career path. Services provided through PUCs should also be extended to non-shareholders to create wider market linkages and benefits. Most PUCs currently rely on intermediary parties, which diminishes their opportunity exploit actual market prices for their crops. PUCs must strengthen operations to directly market their products, particularly for high-value crops and explore export opportunities.

7. POLICY RECOMMENDATIONS

Agribusiness partnership agreements often aim to improve market access, productivity and profitability but frequently fall short of these goals. Effective policy recommendations for these partnerships must ensure they are sustainable, inclusive and beneficial for all stakeholders involved. Policies may focus on managing risks to protect the most vulnerable, promoting collective action to reduce transaction costs, fostering inclusion, enhancing financial access for smallholder farmers and establishing robust institutional and regulatory frameworks. Partners should be identified through competitive bidding, partner due diligence processes, or working with already established partners. (Thorpe and Maestre, 2015)

Design of partnership agreement models should include risk-sharing and mechanisms that address unequal power relations that exist in vertically coordinated value chains.

For partnerships to be successful, all partners, including farmers, need to have ownership with clear roles and responsibilities that reflect their priorities and interests

Agreements are needed to create incentives for partners to perform their intended roles and to feel confident that the other partners will perform their roles. Design of the agreement should firstly identify risks and how risks are distributed. Mechanisms are then needed to manage, mitigate or share risk, avoiding an excessive unmitigated risk burden on one party. Performance monitoring, with indicators that reflect joint objectives of the agreement and spaces for communication, negotiation and conflict resolution could be adopted to averse risk emerging from interactions between these parts.

To keep the partnership agreement going without any difficulties, it is very important to maintain clear communication between parties with regard to progress, challenges and changes while continuous reporting of relevant data and reports build trust and ensure mutual understanding. Transparency in what the PUC and the business partner do is very crucial in a successful agreement. Without the understanding of objectives and goals of both parties, it is difficult to maintain the agreement terms. Therefore, every partner should make sure that everybody understand the goals and objectives to avoid any misunderstanding between them. It is also requirement that the partnership agreement should be formulated in such a way that both parties are prepared to address and solve problems collaboratively as they arise. If every party stays flexible and is willing to adapt to changes in the market especially and adapt any new technology, it would positively affect the sustainability of the agreement. Performance monitoring is key to success in any successful partnership model and there must be a proper feedback mechanism to allow both parties to provide inputs and make improvements. Conflict resolution mechanism is very important to maintain the healthy relationship with the partner. Hence, it is better if the parties can have a neutral third party to resolve any conflict arise during the partnership. If the partnership is to be further successful, encouraging innovations and adoption of new technologies is helpful while training and capacity building is essential in enhancing skills and knowledge. One of the major that arise in partnership agreement is whether the parties maintain the transparent and accurate financial records. It is one of the most significant factors for both parties in building the trust and accountability. On the other hand, both parties should manage finances carefully and ensure both parties are clear about financial responsibilities and contributions. It is very important that all agreements be clearly documented in legally binding contracts and compliance with all relevant laws and regulations is a must. The success of business venture depends on clear marketing and promotion strategy. Therefore, joint market and promotion strategy could be favorable for both parties. In identification of new opportunities, both parties can engage in joint marketing research so that they can improve their positioning.

In drafting the agreement, it is essential that it has to clearly identify the roles, responsibilities and expectations of each party. Inclusion of dispute resolution mechanism, time frame and performance indicators and matrices can also strengthen the agreement. We need to make sure that all the terms are clearly specified, transparent and agreed upon by all the parties when signing the agreement. Holding regular meeting between parties will assist to discuss the progress, address concerns and share feedback. One of the major drawbacks that exist among the PUC members is the lack of communication skills in dealing with farmers, business firms, buyers etc. Therefore, improving the communication skills could help them significantly in maintaining the link with the buyer. Continuous healthy dialogue between parties through effective communications channels will further strengthen the linkage and the agreement. Maintaining the mutual trust by considering every party’s need further supports to keep the agreement active.

Joint planning is necessary to align with the strategic objectives of the agreement. Joint problem solving mechanism is needed to address challenges arisen time to time. Exploring new ideas and emphasizing innovation are essential in continuing successfully. Equitable sharing of benefits and having incentive schemes encourages the long term commitment. Creating KPIs and continuous monitoring and evaluation are key aspects for a successful agreement and smooth functioning of activities. Business mentoring can also be used in sustaining the business and agreement. Before any agreement is made and signed, the PUCs must consider what companies and buyers can offer to farmers. Signing a contract or agreement for a guaranteed price only may not be beneficial and favorable for PUCs and their membership and also for the business firm as the market price always fluctuates. One of the major requirement in PUCs and membership is that they should make sure that entrepreneurially inclined farmers participate in contracts. PUCs should carefully take precautionary actions to keep better off farmers with the contract. There is tendency that the agribusiness companies exclude smallholder farmers mainly due to increased transaction cost. Price setting mechanism should be transparent and should be favorable for both parties. The main issue is that the agribusiness company expects a lower price whereas the farmer expects a higher price. On the other hand large buyers may delay the purchase to manipulate prices or tighten the quality standards or tell the farmers that the cost production is high. Therefore, their prices are higher. This is has to be solved through a proper agreement. Agribusiness companies may influence the price by setting delivery schedules particular when prices are volatile. However, if the farmers can access different markets and different buyers, the issue that arises from price volatility can be minimized. Product/ crop diversification also may be an option to reduce risk associated with price volatility. Using financial instruments such as Futures Contracts (a standardized legal contract to buy or sell something at a predetermined price for delivery at a specified time in the future, between parties not yet known to each other) and through agricultural insurance schemes, the risk from price volatility can be minimize.

As price and quality of product are the major components of an agreement, it is required that both parties should agree on a fair price. If a training is given to PUC members and all other farmers on pricing and understanding market dynamics such as supply and demand dynamics, price trends, competitive pricing and benchmarking (compare the prices with similar products in the market) they themselves will make sure to set a fair price. It has also been noted that sometimes farmers do not have a better understanding of costing and cost of production and on mechanisms to reduce cost of production. Therefore, training on costing, profit margins and calculating and reducing cost of production would help mitigate pricing issues. Transparent negation is also a must in reaching mutually agreeable price. In a contract, pricing formula, payment terms and any price adjustment in the contract should clearly be outlined. It is also recommended that the agreement should include clauses that address price fluctuations, such as price floors or ceilings, to protect both parties. Use of financial instruments like futures contracts to hedge against price volatility can also be considered. It is also required to schedule regular reviews of the pricing agreement to ensure it remains fair, relevant and incorporate feedback from market performance and stakeholder input to adjust pricing as needed. One of the major challenges faced when implementing agreements is how fast the payments are made by the buyer. If the payments are delayed, it will affect the sustainability of the agreement.

It is very important that all the parties should understand roles and responsibilities of each party specified in the agreement.

Members of PUCs must be trained prepare a proper business plans as it was observed in the stakeholder survey that most the PUCs are lacking business plan. It was also observed that PUCs try engaging in non-viable business activities and enterprises. This may have a detrimental effect on the PUCs. Therefore, they should be made aware on how to find a viable business opportunity.

Institutional mechanisms to coordinate public private partnership is lacking in Sri Lanka. It is therefore, suggested to establish an institutional mechanism to coordinate activities in an efficient manner to reduce the transaction cost. Establishment of one-stop solutions is recommended to establish in this regard. It is also encouraged to have integration among input suppliers, production and marketing. Government intervention in agricultural marketing must be avoided to have an efficient output market.

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