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Critical review

Creating shared value through partnerships in agricultural production in Sri Lanka

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ABSTRACT

This critical review examines the political economy of strategic partnerships between development agencies and the private sector as a process of shared value creation in agricultural production. In doing so, it critically reflects on the partnerships that introduce contract farming and examines the case of Sri Lanka. It concludes that such arrangements do not address the underlying causes of poverty that affect communities in the developing countries, although it may increase the income of the participating farmers. Partnerships formed to create shared value alternatively function as institutional frameworks for legitimising flexible accumulation and accumulation by dispossession that reproduce the root causes of poverty in the spaces of agricultural production.

1. Introduction

The concept of creating shared value (CSV) in response to the legitimacy crisis of capitalism has gained prominence in the business literature (Crane et al., 2014; De los Reyes et al., 2017; Hsiao and Chuang, 2016; Wójcik and Kozminski, 2016). CSV is defined as policies and practices that enable businesses to enhance competitiveness, whilst simultaneously addressing social problems (Porter and Kramer, 2011). It is argued that current Corporate Social Responsibility (CSR) approaches adopted by the private sector lack the ability to generate both economic and social value in production at the same time. Alternatively, CSV approach has been proposed to overcome this limitation (Porter and Kramer, 2006, 2011).

Increasingly CSV approaches are making their way into the agendas of both transnational corporations and international development agencies (Mawdsley, 2015; Molina-Gallart, 2014; Pesqueira and Glasbergen, 2013; Raynolds et al., 2007; Wójcik and Kozminski, 2016). Development agencies, such as the DFID and USAID, posit that CSV approaches can be instrumental in reducing poverty in the developing world and therefore it is important to form strategic partnerships with the private sector to achieve this objective (DFID, 2014; FSG, 2014; USAID, 2015). In light of these developments, this review examines the political economy of introducing contract farming as one such CSV approach to agricultural production. It argues although contract farming may improve farmer's income and access to new markets the arrangement also legitimizes grounds for flexible accumulation and accumulation by dispossession that reproduce underlying causes of poverty in spaces of agricultural production. Through, contract farming companies introduce market led governance, that mimic participatory decision making, to reduce transaction costs and risks associated with agricultural production by transferring both to the producers.

The paper is organised in the following way: The first section critically reflects on poverty reduction through agricultural development and contract farming as a process of shared value creation. The second section discusses the strategic partnerships formed between development agencies and the private sector drawing on the post war Sri Lankan experience. The final section derives conclusions.

2. Agricultural development, contract farming and poverty reduction

The pervasive effects of the roll-back phase of neoliberalisation on the poor has made poverty reduction central to the development agenda that has ensued (Mawdsley, 2015; World Bank, 1990). In this agenda, poverty reduction has been largely associated with economic growth and participation in the global markets (Mawdsley, 2015; Selwyn, 2017; World Bank, 2016). These observations have encouraged development agencies to work with the private sector who observe the private sector as the 'engine of growth' (DFID, 2011; Ingram et al., 2016; Mancini and Morales, 2015; Mawdsley, 2015; Molina-Gallart, 2014; Nelson, 2011). Furthermore, a wide consensus has been built among these organisations that commercialisation of agriculture in particular through measures, such as contract farming, can stimulate inclusive growth and poverty reduction (Amanor, 2009; Feldman and Biggs, 2012; Minot and Ronchi, 2014; World Bank, 2007, 2009).

Growing importance placed on commercial agriculture as a poverty

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reduction strategy also coincides with the increasing need for the sector's rapid expansion to overcome production and consumption crisis in the advanced capitalist states (Deininger et al., 2011; Gereffi et al., 2005; GIZ, 2012). As such, productivity increases in the sector are expected to first address the issue of food security and second, to bring down prices in the global market (Deininger et al., 2011; GIZ, 2012). Thus, the idea of poverty reduction through commercial agriculture is also largely consequential of the crisis of neoliberal production and consumption (Feldman and Biggs, 2012).

Contract farming initiatives that connect smallholder farmers to the global value chains have become a popular strategy for both addressing the crisis in the advanced capitalist states whilst ensuring inclusive growth in developing agricultural economies (Barrett et al., 2012; Minot and Ronchi, 2014; Miyata et al., 2009; World Bank, 2007). The proponents of the method primarily argue that it improves smallholder farmer income, access to credit, inputs, technology and new markets, all of which improve their livelihood security (Bellemare, 2012; Bolwig et al., 2009; Da Silva and Rankin, 2014; Minot and Ronchi, 2014; Miyata et al., 2009; Rüsch et al., 2014). However, during the roll-out phase of neoliberalisation, contract farming surpasses as a micro-economic regulatory arrangement that reconfigures spaces of agricultural production for flexible accumulation than an arrangement for poverty reduction (Akram-Lodhi, 2009; McMichael, 2013; Singh, 2002). As such, firstly it works on mandatory change needed to eliminate the existing market imperfections that prevent the integration of smallholders to the global value chains and reduce agro businesses' ability to meet the global market demand for different agro products (Cai et al., 2014; Swinnen and Maertens, 2007). Secondly, it enables agro businesses to overcome the limitations observed in state regulated agricultural production, such as weak access to extension services, research and development, credit and new markets (Swinnen and Maertens, 2007; World Bank, 2009). As a result, the shifts can bring double digit improvements to productivity in terms of both quantity and quality of production which in turn bring down the market prices and enhance profitability for the participating companies (Swinnen and Maertens, 2007).

3. Political economy of contract farming through strategic partnerships

Despite profitability, commercialisation of agriculture and contract farming both suffer from the reluctance of agribusinesses to invest capital due to the associated risks and uncertainties (Bernstein, 2009; Da Silva, 2005). Strategic partnerships between agro businesses, the state and non-state actors help to eliminate these uncertainties (Barrett et al., 2012). Over the years such partnerships have become popular among transnational companies who also invest heavily in them. For example, in July 2017, the Livelihood Fund launched a project to reduce poverty among vanilla producers in Madagascar by enhancing their productivity. It is expected to disburse approximately US$ 1.1 million to a Fanamby; a local NGO which has extensive experience in working with vanilla farmers in the country. In turn, Fanamby will work with a newly established Farmer Cooperative to manage production and supply on behalf of the exporters, which includes Danone, Mars and Firmenich, who are also the key patrons of the Livelihoods Fund (Livelihoods Fund, 2017).

Similarly, in Sri Lanka, private–public partnerships that promote contract farming in post-war areas of the country have become a popular phenomenon. At the end of the civil war the state has resumed the task of neoliberalising new production spaces of the economy (Bastian, 2013; Kadirgamar, 2013; Ruwanpura, 2016). This particularly entails neoliberalisation of the North East, which was previously inaccessible to the outside markets (Bastian, 2013; Goger and Ruwanpura, 2014). To this end, the state has invested on infrastructure development and partnered with the private sector to incentivise new investments (Goger and Ruwanpura, 2014; Sarvananthan, 2016). Development agencies, like USAID, have also started to promote private sector expansion to the region. As such, since 2008, it has disbursed over US$10 million as grants to the private sector to increase its operations (USAID, 2011).

Between 2008 and 2012 Hayleys Agro, a blue-chip agribusiness operating in Sri Lanka, partnered with the USAID and CARE International to promote contract farming in the post-war areas (CARE Sri Lanka, 2012b; Hayleys, 2008). Subsequently, the partnerships have enabled Hayleys to integrate over 3600 farmers in the North East to its outgrower network (Hayleys, 2011). The partnership and the initiative also enabled Hayleys to win several international accolades for sustainable and ethical business practices (Business Times, 2012; Hayleys, 2011; USAID, 2011). The company posits that contract farming enable "growth with each other for each other", meaning that they have been mutually beneficial to all parties involved (Hayleys, 2011). However, the projects implemented used financial and land asset ownership as prerequisites for selecting the farmers (CARE Sri Lanka, 2012b; USAID, 2011). Hence, given the asset poverty in the region, this prevents the poorest farmers from taking part in these projects. This undermine the idea that these projects propel inclusive growth.

Companies struggle to secure trust among farmers to take part in contract farming since farmers suspect them for their opportunistic behaviour (Stamm et al., 2006). This problem of trust is overcome by forming partnerships with the development agencies (CARE Sri Lanka, 2012b). In the process, a flexible pool of labour is created to address the existing labour shortages in commercial agriculture whilst enabling conditions for product diversification to meet the global demand (Hayleys, 2011; Hayleys Plc, 2014). For example, CARE partnership with Hayleys enabled the latter to secure both skilled family labour and land which could deliver both quantity, quality, and farmers' commitment to production without having to manage or own them (CARE Sri Lanka, 2012b). CARE has been able to screen and select the best skills, and ensure farmer's commitment to the ensuing projects (CARE Sri Lanka, 2012a, 2012b).

Yet, contract farming form exploitative captive relationships that locks in farmers to asymmetrical power relationships (McMichael, 2013). Thereafter, these relationships are maintained through a continuous processes of dispossession (McMichael, 2005). Debt, intellectual property rights on technology, restricted market access, credit based input access all come in to action in continuing accumulation by dispossession (McMichael, 2013; Vicol, 2017). Similarly, in case of Hayleys partnerships with the USAID and CARE, participating farmers were introduced to both financial and input credit (CARE Sri Lanka, 2012a; USAID, 2011). It was also observed that Hayleys was able to introduce farmers to new inputs and technology as well as new cash crops all of which creates dependency among the participating farmers (CARE Sri Lanka, 2012a). As a result, farmers who already suffer from dispossession of means of production due to the war are locked into new forms of dispossession through a debt trap (Gunasekara et al., 2016). However, the partnerships between the development agencies and the companies enhance the credibility and the legitimacy of the process of accumulation that has been created within this arrangement although it transfers the critical risks associated with agricultural production to the producers.

4. Conclusions

This paper critically reviewed the process of creating shared value through strategic partnerships in agricultural production that promotes contract farming. The extant literature suggests that CSV is relatively a novel concept, which has been incorporated into the mainstream development agenda to enable private sector expansion into different spaces of production as a poverty reduction strategy. However, large part of CSV literature only looks at it as a strategic approach to corporate sustainability and therefore frequently lacks discussions on the political economy of CSV at the implementation level. In order to fill this gap, this article identified popularisation of contract farming