

# **Development of Smallholder-Inclusive Business Models in Agrifood Sector in Indonesia**

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**Workshop on “Developing Smallholder-Inclusive Food Value Chain Models  
for Local and Global Market”**

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**Hanoi -Vietnam**

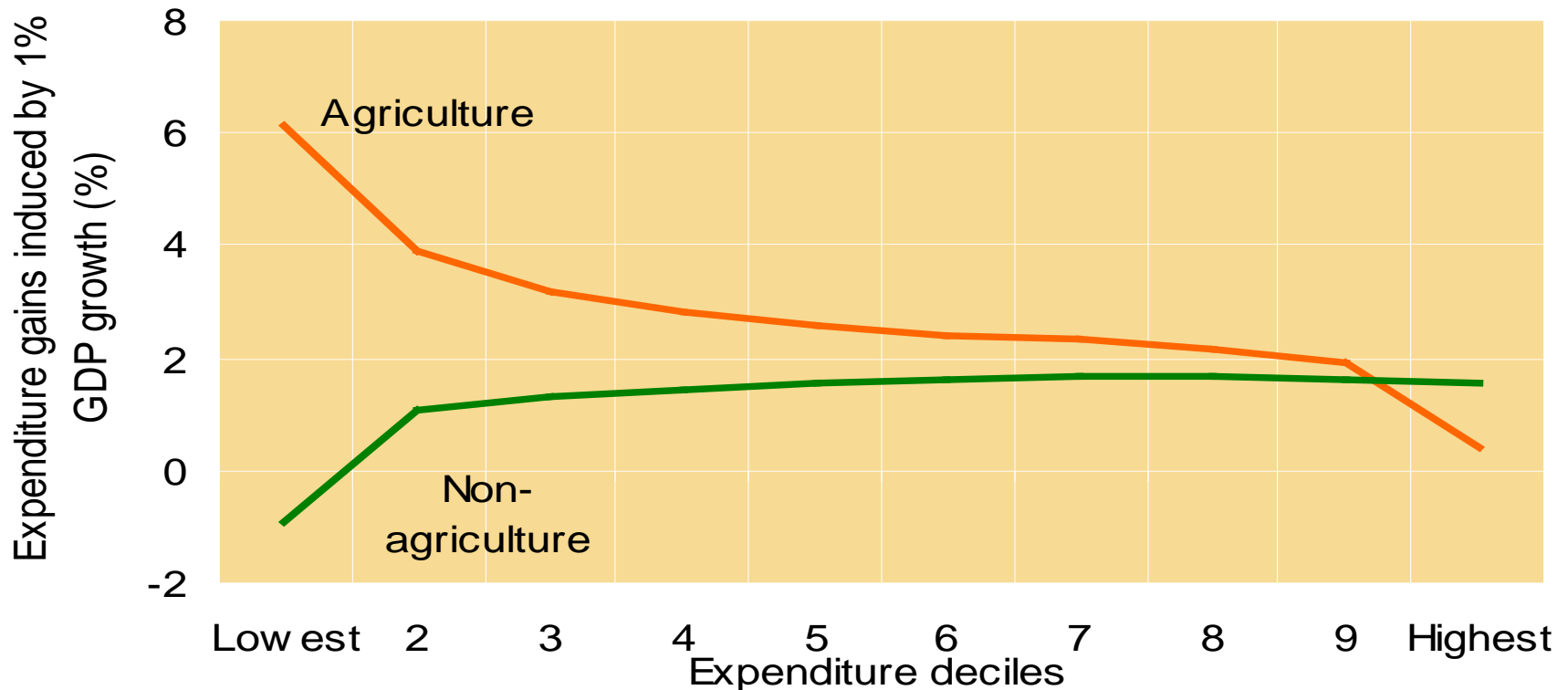
# Presentation Snapshot

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- **Rationales**
- **Understanding of Inclusive Business Model**
- **Various Frameworks and Tools for Analyzing the Inclusive Business Model**

# Rationales

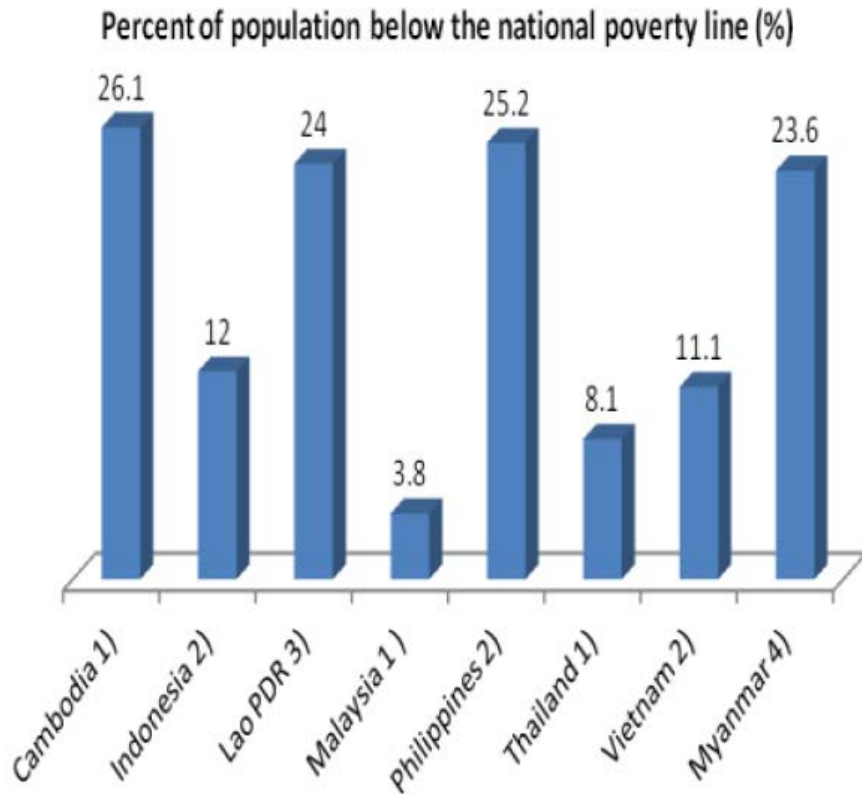
# Figure 1. Agricultural Growth is Especially Effective for Growth and Poverty Reduction



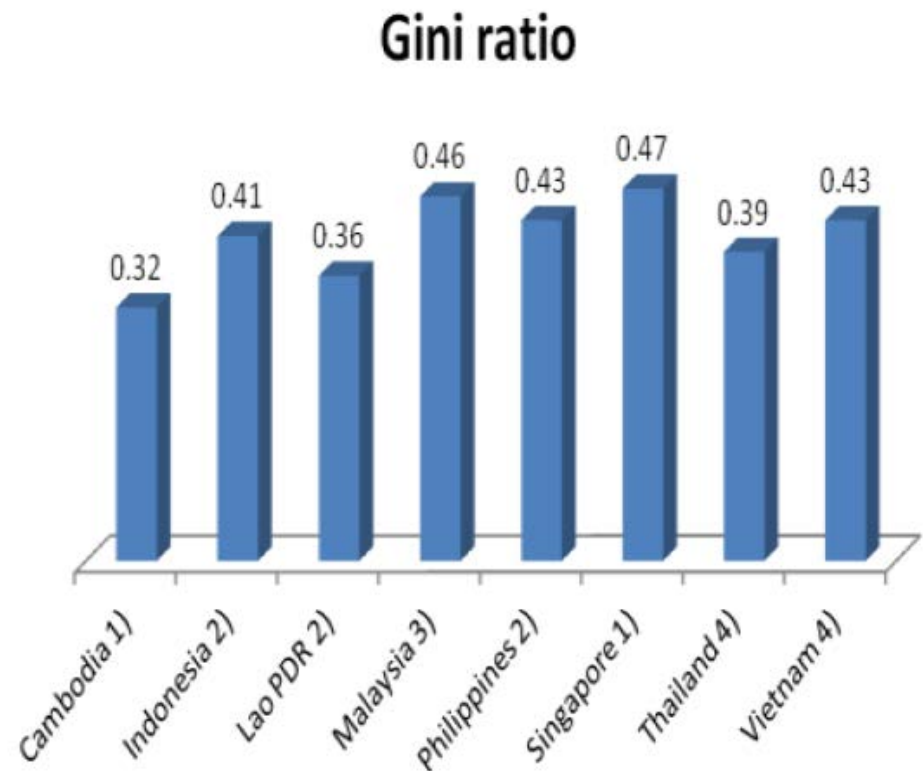
GDP growth from agriculture benefits the income of the poor 2-4 times more than GDP growth from non-agriculture (43 countries)

Source: WDR 2008

## Figure 2. Poverty and Income Inequality → Sustainable growth with equity



Source: ASEAN Secretariat, 2014  
Note: 1) 2009 figure; 2) 2012 figure;  
3) 2008 figure; and 4) 2011 figure



Source: World bank, 2014  
Note: 1) 2011 figure; 2) 2012 figure; 3)  
2009 figure; and 4) 2010 figure

# Inclusive Business Models

- The agrifood marketing system in Asia is undergoing a transformation.
- There has recently been a surge in the use of the term “business model” by development agencies and practitioners.
- It is now timely to evaluate whether the emerging business model are inclusive or exclusive
- Building efficient and inclusive value chains for agricultural commodities is a big challenge
- Innovative and targeted approaches are critical to trigger replicate best fit models

# Questions?

- What are different types of business models?
- What are their advantages and disadvantages of the business model? Are they enhancing income, improving access to technology, inputs, markets and capital, improving adoptions of GAPs and off setting risk and uncertainty?
- What are the constraints for smallholders to access local global markets?
- What are factors inducing farmers to participate in the inclusive business models?
- What are the strategies for strengthening smallholders' access to local and global markets?
- What are the enabling environment (governance, infrastructure and infusion of competition) needed by the smallholder to access local and global market?

# Understanding of Inclusive Business Model



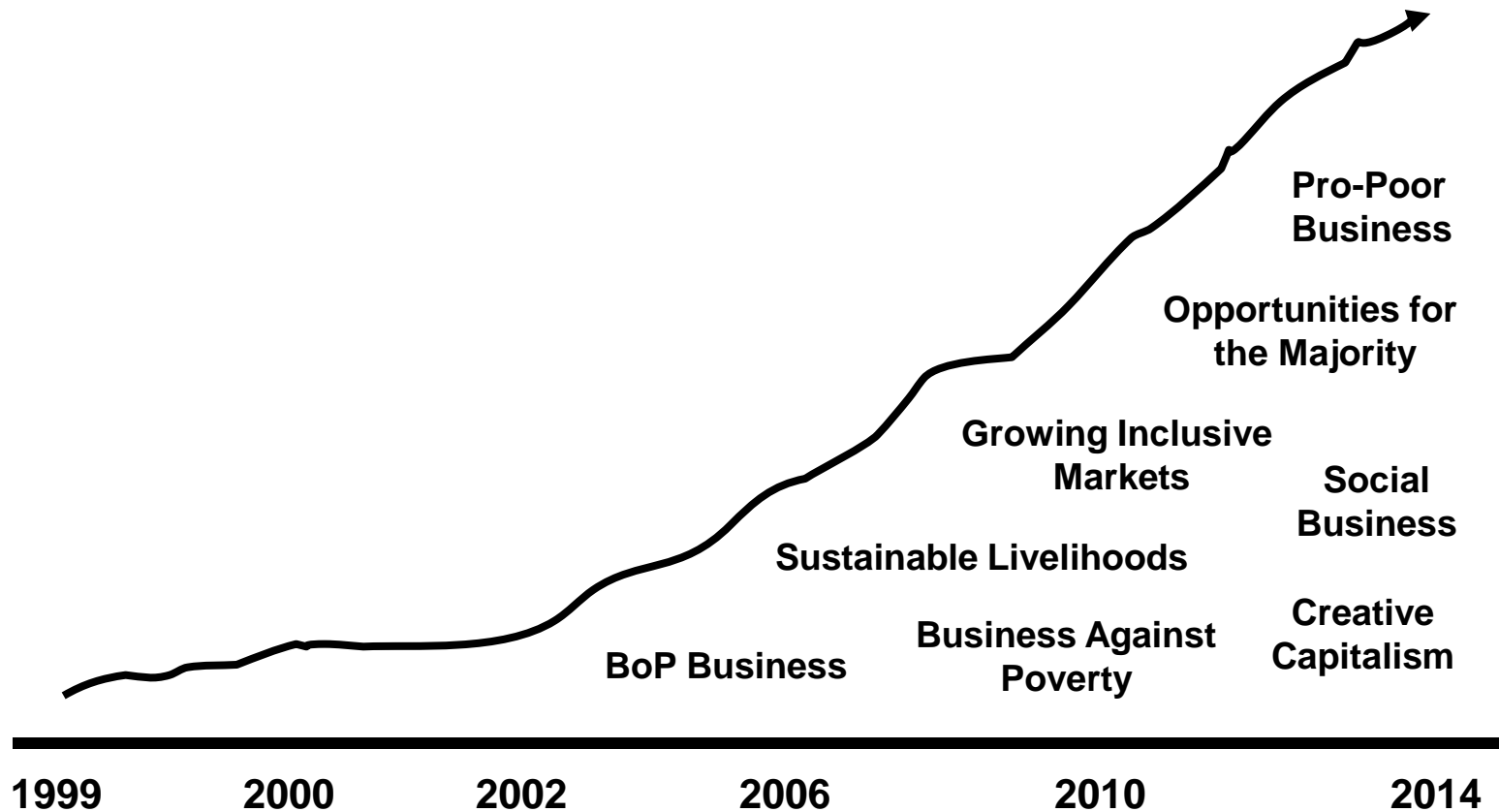
# What are Business Models?

- FAO (2012) defines that the term “business model” as the rationale for how a company creates and structures its relationship to capture value.
- There are at least four categories of inclusive business models: management contracts (eg tenant farming, sharecropping, etc); joint venture, farmer-owned business and contract farming (eg the nucleus estate model, etc).

# Inclusive Business Models

- Inclusive business models have been defined by different scholars in different contexts.
- Business models are considered as more inclusive if they involve close working partnerships with local landholders and operators, and if they share value among the partners.
- An economically profitable, environmentally and socially responsible entrepreneurial initiative (WBCSD 2011)
- Inclusive Business Models include the poor on the demand side as clients and customers, on the supply side as employees, producers and business owners at various points in the value chain (UNDP 2008)

**Figure 3. Development of Inclusive Business Models:  
Many terms – single objective**



Source: van Duijn, 2014

**Table 1. The business case for and against procuring from small-scale producers**

| For   | Against   |
|---|---|
| <ul style="list-style-type: none"><li>▪ Smallholders' comparative advantages (premium quality, access to land, etc.)</li><li>▪ Securing supply in volatile markets, spreading portfolio geographically, reducing risk of undersupply as well as localized pest and disease problems</li><li>▪ New business, clients for other products and services (base of pyramid)</li><li>▪ New technologies available (efficient low-scale processing equipment, information technologies for coordination and lower cost traceability)</li><li>▪ Capacity to ramp up or ramp down production without incurring fixed costs (contract farming)</li><li>▪ Access to donor assistance</li><li>▪ Community goodwill</li><li>▪ Political capital</li></ul> | <p>Costs and risks in organizing supply from dispersed producers:</p> <ul style="list-style-type: none"><li>▪ Quantity</li><li>▪ Quality</li><li>▪ Consistency</li><li>▪ Safety</li><li>▪ Traceability</li><li>▪ Compliance with rising standards</li><li>▪ Packaging</li><li>▪ Loyalty and fulfillment of commitments by farmers</li><li>▪ Negotiation time and costs</li><li>▪ Political opposition to commercialization of peasant agriculture</li></ul> |

## Table 2. Typical organization of smallholder production

| Type                | Driver   | Objective  |
|---------------------|--|--|
| Producer-driven     | Small-scale producers themselves                         | <ul style="list-style-type: none"> <li>• New markets</li> <li>• Higher market price</li> <li>• Stabilize market position</li> <li>• Extra supply volumes</li> <li>• Assure supply</li> </ul> |
|                     | Large farmers  |  |
| Buyer-driven        | Processors<br>Exporters<br>Retailers                     | <ul style="list-style-type: none"> <li>• Supply more discerning customers</li> </ul>   |
| Intermediary-driven | Traders, wholesalers and other traditional market actors | <ul style="list-style-type: none"> <li>• ‘Make markets work for the poor’</li> </ul>   |
|                     | NGOs and other support agencies                          | <ul style="list-style-type: none"> <li>• Regional development</li> </ul>   |
|                     | National and local governments                           |  |

# Why Different Models?

## Farmers and farm heterogeneity:

- Farm size
- Resource endowments and capabilities
- Activity choices
- Attitude toward production and price risk
- Differential access to markets, financial and non-financial services

The less-endowed farmers require a different treatment

Source: BIRTHA, Rajkhowa & Joshi 2015

# Why Different Models

## From agribusiness perspective:

- Dominance of smallholders, disbursed production
- Diseconomies of scale in aggregation of outputs and provision of technology, inputs and services
- Higher transaction costs (contracting, monitoring, enforcement etc.)

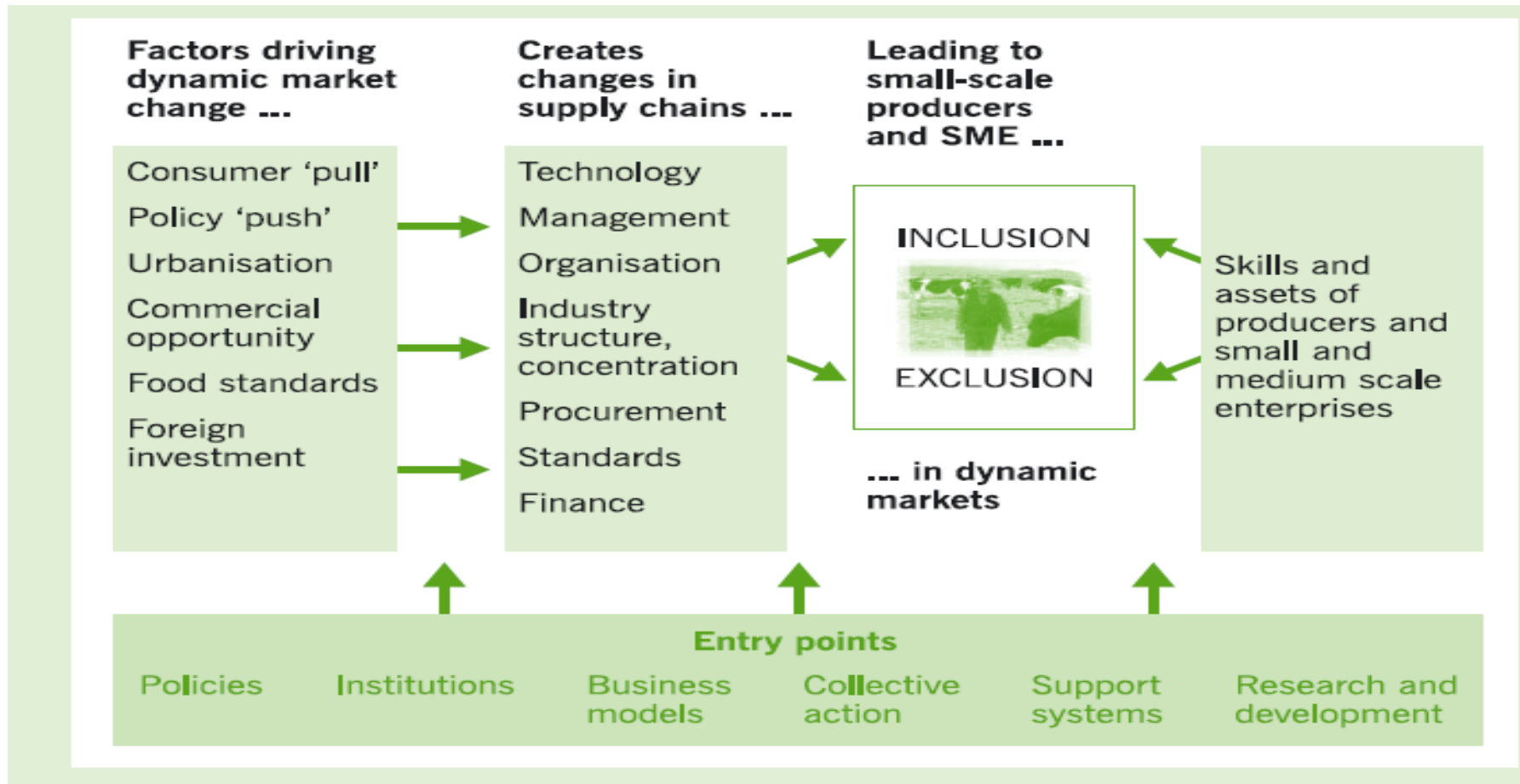
Organization of production is essential to overcome problems or costs associated with diseconomies of small-scale, poor access to services, finances, technology, inputs; inconsistent volume and quality, lack of traceability and risk management

Source: BIRTHA, Rajkhowa & Joshi 2015

# Various Frameworks and Tools for Analysing the Inclusive Value Chains

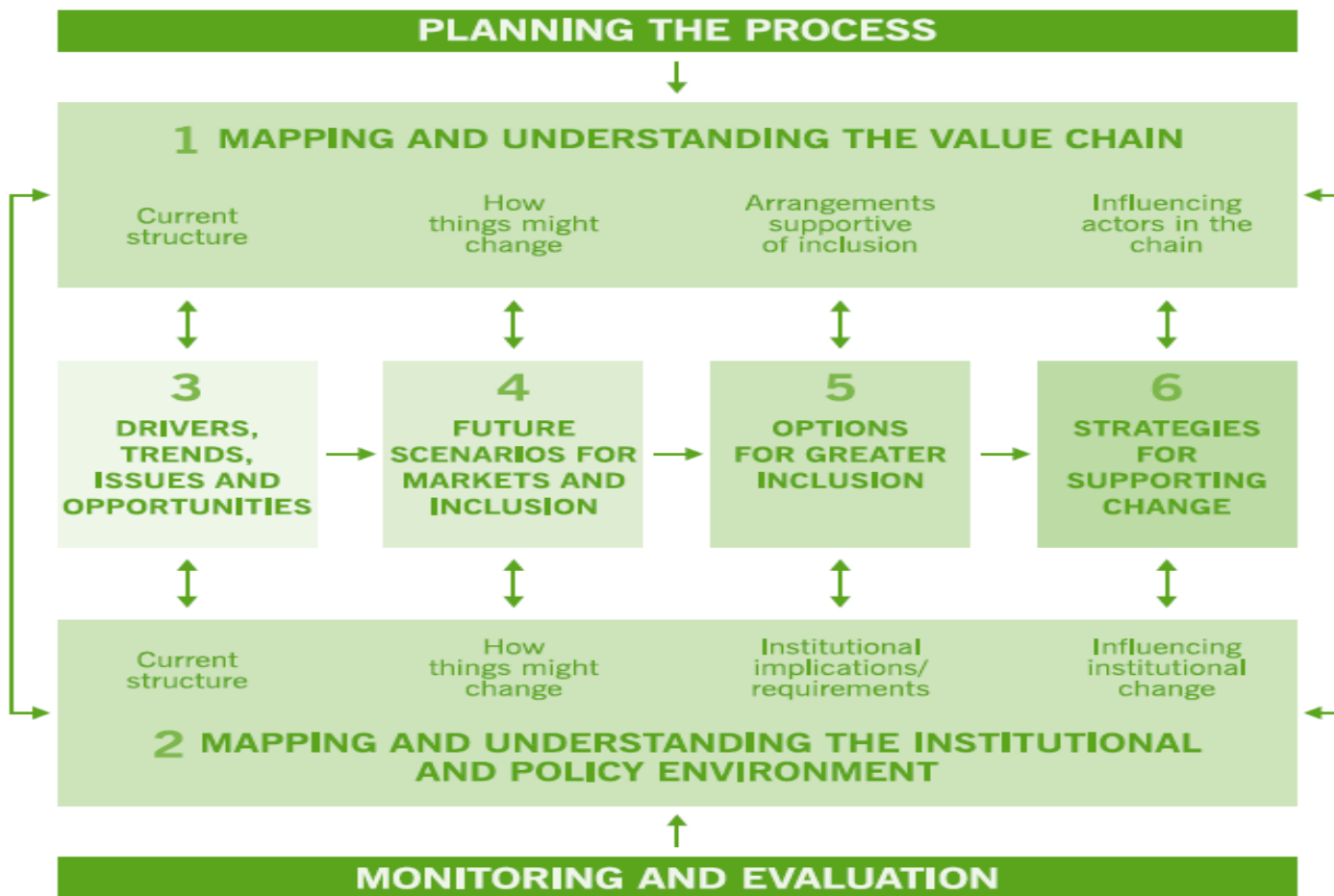


# Figure 4. Framework of Inclusive Supply Chains



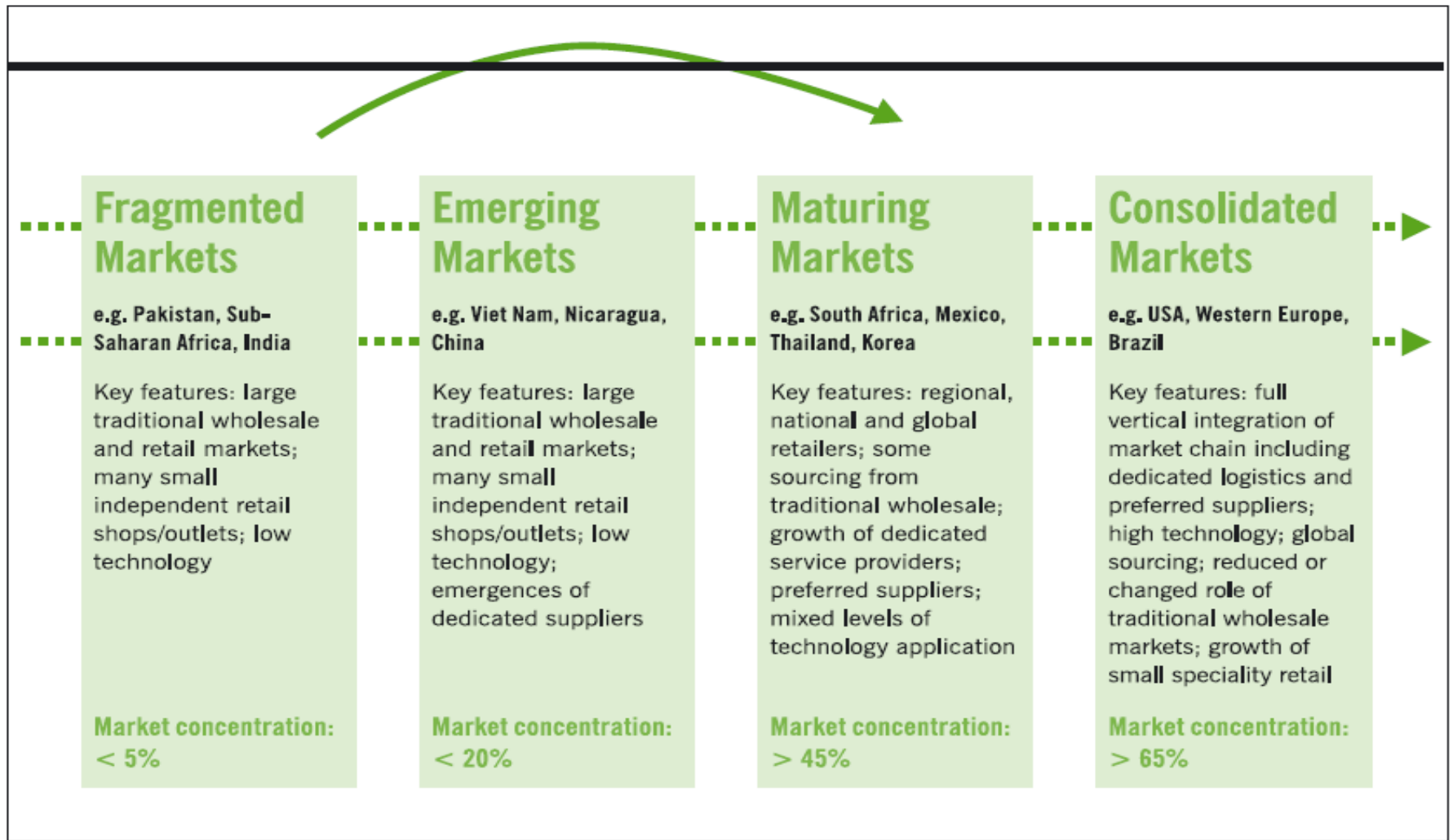
Source: Vermeulen et al., 2008

**Figure 5. Mapping and understanding value chains, institutional and policy environment**



Source: Vermeulen et al., 2008

Figure 6. Different stages of market concentration



Source: Vermeulen et al., 2008

Figure 7. The impact of different institution along a value chain



Source: Vermeulen et al., 2008

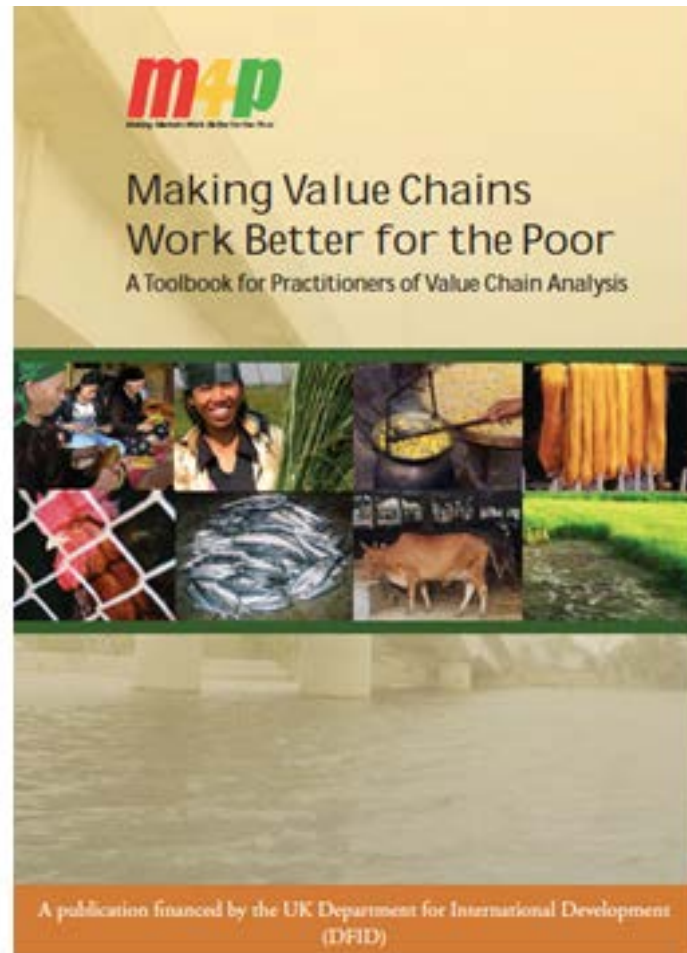
## Table 3. The Value Chain Concept Timeline

| Period        | Concepts / Paradigms   | Major Disciplines |                     |   | Level of Analysis              |
|---------------|--|-------------------|---------------------|---|--------------------------------|
|               |  | Economics         | Business Management | Engineering / Management Science & Operations Research. |                                |
| '50s          | Input/Output Analysis*   | X                 |                     | X   | Macro                          |
|               | Agribusiness (Harvard)   | X                 | X                   |   | Meso                           |
|               | Industrial Dynamics & Systems Science (MIT)  | X                 | X                   | X   | Macro/Meso/Micro               |
| '60s and '70s | Industrial Organization (S-C-P)  | X                 |                     |   | Meso (horizontal)              |
|               | Subsector Analysis (Commodity Systems Approach)  | X                 |                     |   | Meso (vertical)                |
|               | French 'Filière'   | X                 | X                   |   | Meso                           |
| '80s          | Porter's 'value chain'   |                   | X                   |   | Initially Micro; later Macro   |
|               | Supply Chain Management  |                   | X                   | X   | Intra and Inter Organizational |
| '90s          | Agrifood chains; agro-industrial chains; productive chains; etc                        | X                 | X                   | X   | Mostly Meso                    |
|               | Global Commodity Chains  | X                 |                     |   | Macro                          |
|               | Transaction cost theory* applied to vertical coordination analysis in agrifood systems | X                 |                     |   | Meso                           |
|               | Policy Analysis Matrix (PAM)   | X                 |                     |   | Macro                          |
| 2000s         | Value chains (revisited)   | X                 | X                   | X   | Micro and Meso                 |

\* The fundamental concepts of transaction cost theory appeared earlier in literature

Source: Silva and Souza Filho, 2007

## Figure 8. Tools for Analyzing Various Dimension of the Value Chain

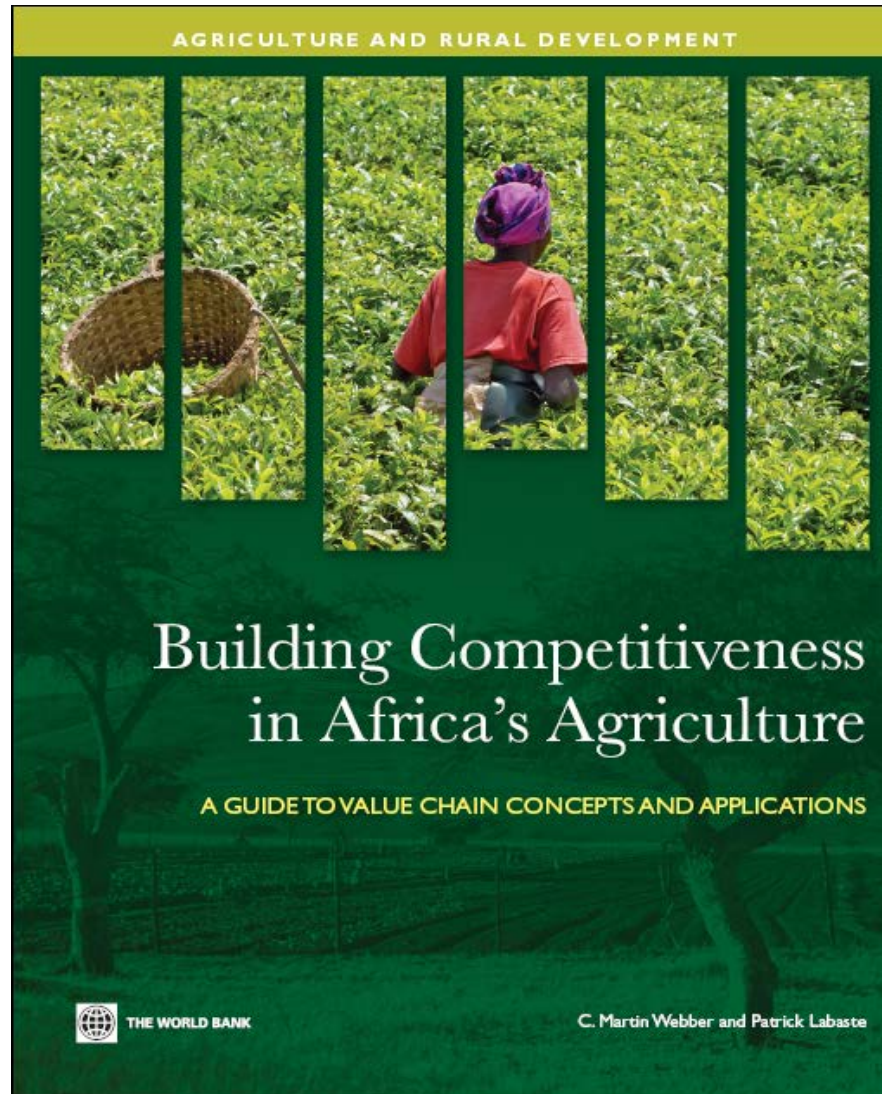


## Table 4. Tools for Analyzing Various Dimension of the Value Chain

| Dimensions                           | General Tools                                 |                                    | Qualitative Tools                                       |   |  | Quantitative Tools                 |                                      |  |
|--------------------------------------|---|------------------------------------|---|---|--|------------------------------------|--------------------------------------|--|
|                                      | Tool 1  | Tool 2                             | Tool 3  | Tool 4                                  | Tool 5   | Tool 6                             | Tool 7                               | Tool 8                                   |
|                                      | <i>Prioritising Value Chains for Analysis</i> | <i>Mapping of the Value Chains</i> | <i>Governance: Coordination, Regulation and Control</i> | <i>Linkages, Relationship and Trust</i> | <i>Analysing Options for Demand Driven Upgrading: Knowledge, Skills, Technology and Support Services</i> | <i>Analysing Costs and Margins</i> | <i>Analysing Income Distribution</i> | <i>Analysing Employment Distribution</i> |
| Participation of the poor            | ✓   | ✓                                  | ✓   | ✓ ✓                                     | ✓  |                                    | ✓ ✓ ✓                                | ✓ ✓ ✓                                    |
| Employment and working environment   | ✓   | ✓                                  | ✓   |   | ✓ ✓  | ✓                                  | ✓                                    | ✓ ✓ ✓                                    |
| Wages and income                     | ✓   | ✓                                  | ✓   |   |  | ✓ ✓                                | ✓ ✓ ✓                                | ✓  |
| Access to assets                     | ✓   | ✓                                  |   | ✓                                       | ✓ ✓ ✓  | ✓                                  |                                      |  |
| Access to information and technology | ✓   | ✓                                  | ✓ ✓ ✓   | ✓ ✓                                     | ✓ ✓ ✓  | ✓                                  |                                      |  |
| Access to infrastructure             | ✓   | ✓                                  | ✓ ✓   |   | ✓  |                                    |                                      | ✓  |
| Access to services                   | ✓   | ✓                                  | ✓ ✓   | ✓ ✓                                     |  |                                    |                                      |  |
| Security and vulnerability           | ✓   | ✓                                  | ✓ ✓   |   | ✓  | ✓                                  | ✓ ✓                                  | ✓ ✓ ✓                                    |
| Empowerment                          | ✓   | ✓                                  | ✓ ✓   | ✓ ✓ ✓                                   |  |                                    |                                      |  |

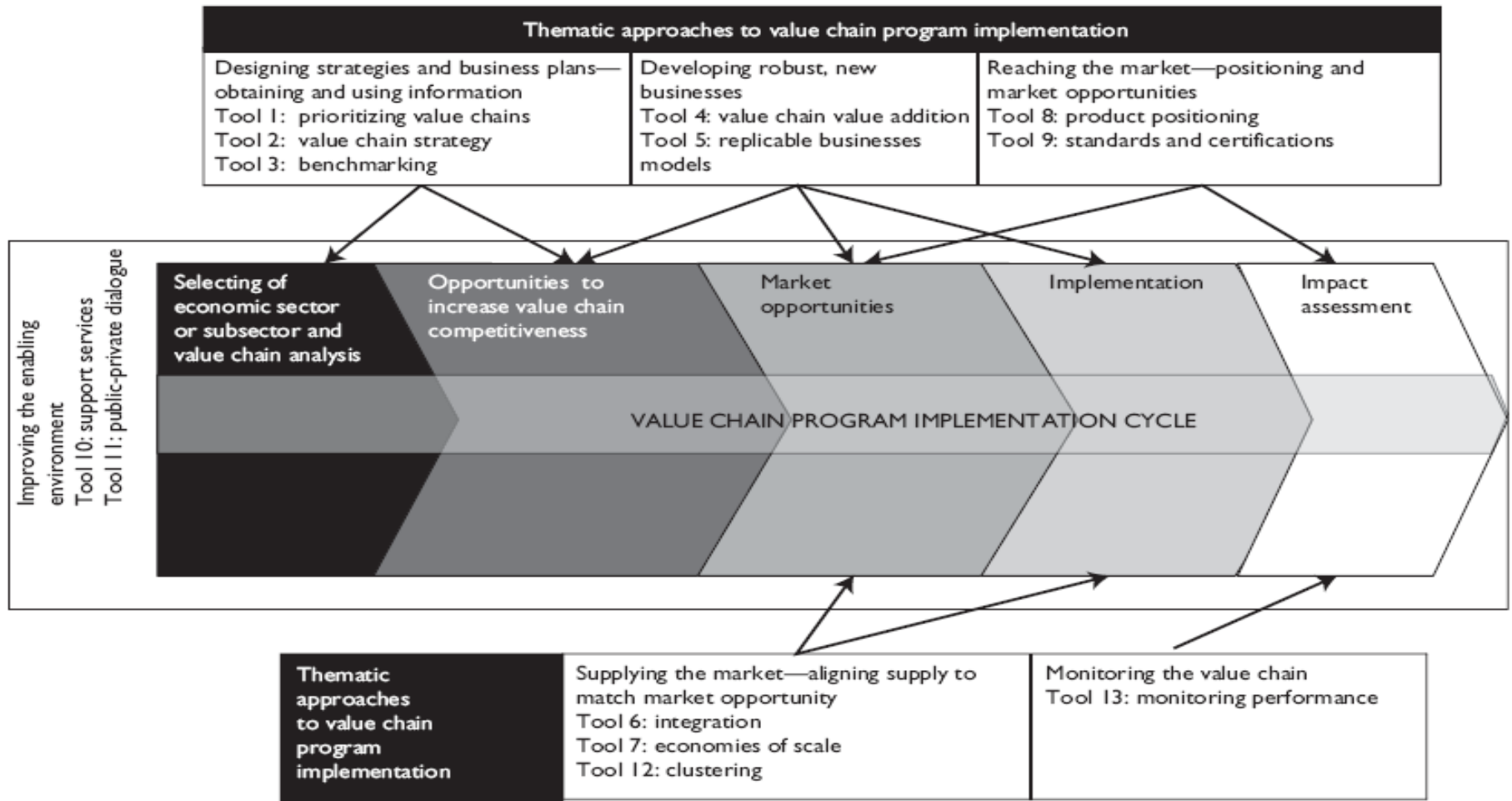


## Figure 9. Tools for Analyzing Various Dimension of the Value Chain



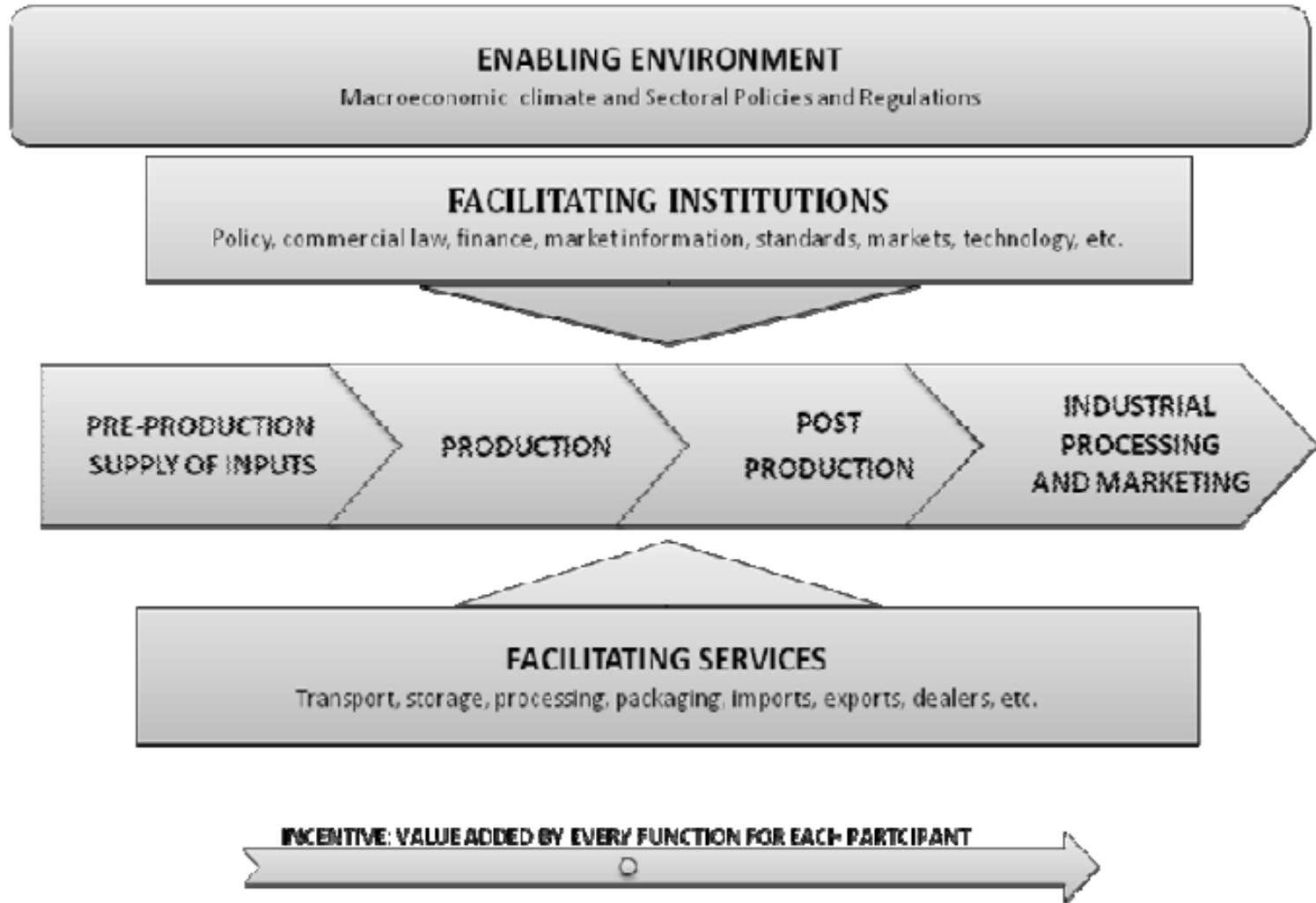


# Figure 10. Tools for Analyzing Various Dimension of the Value Chain



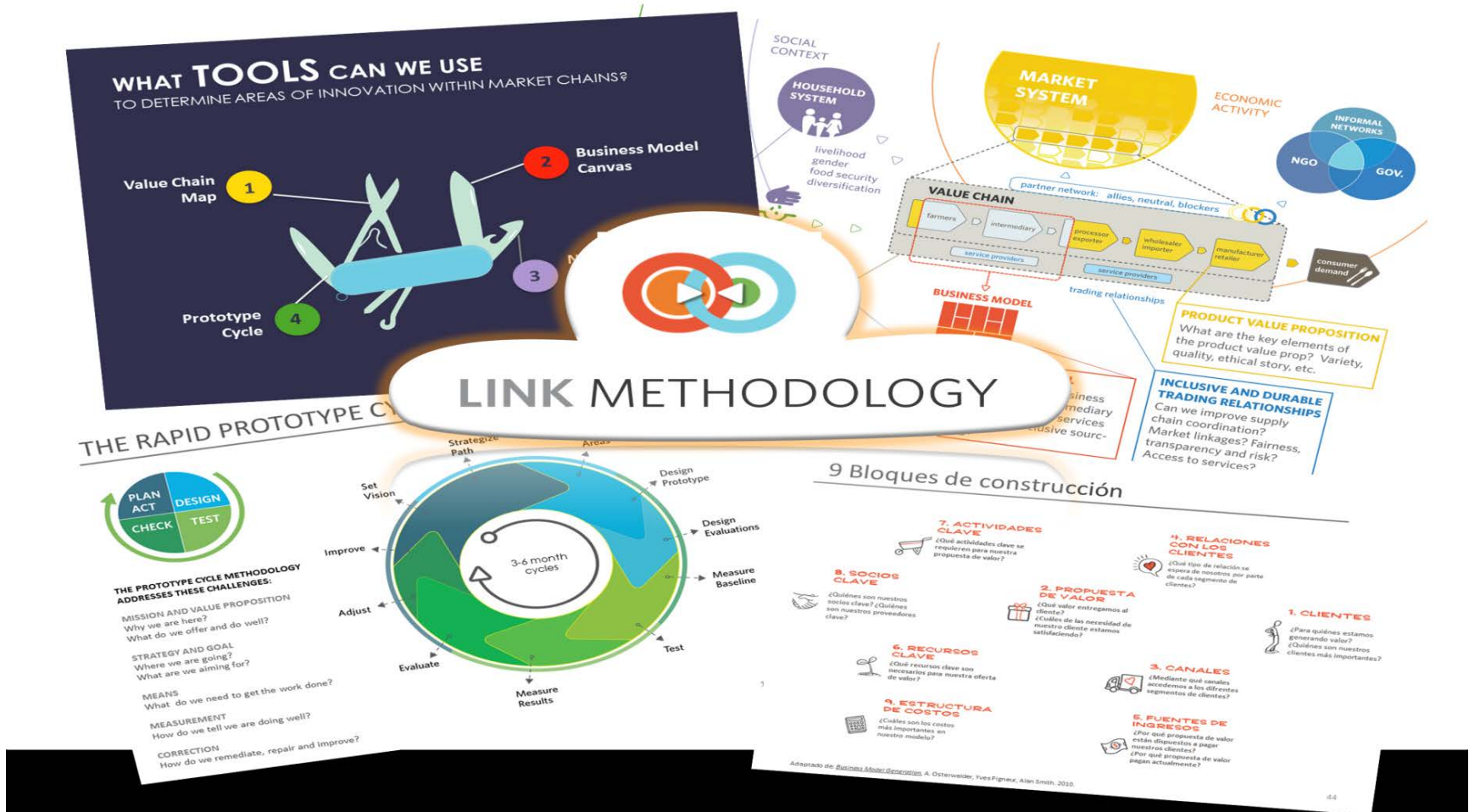
<sup>a</sup> The value chain implementation cycle is adapted in part from Action for Enterprise's Value Chain Approach and J.E. Austin's Associates, Inc.'s productivity and value enhancement model (see figure 4.3).

# Figure 11. Holistic Approach to Value Chain Analysis



Source: UNIDO, 2008

# Figure 12. LINKing Smallholders Methodology: Business Canvas Model



Source: CIAT, 2015

**THANK YOU**

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