

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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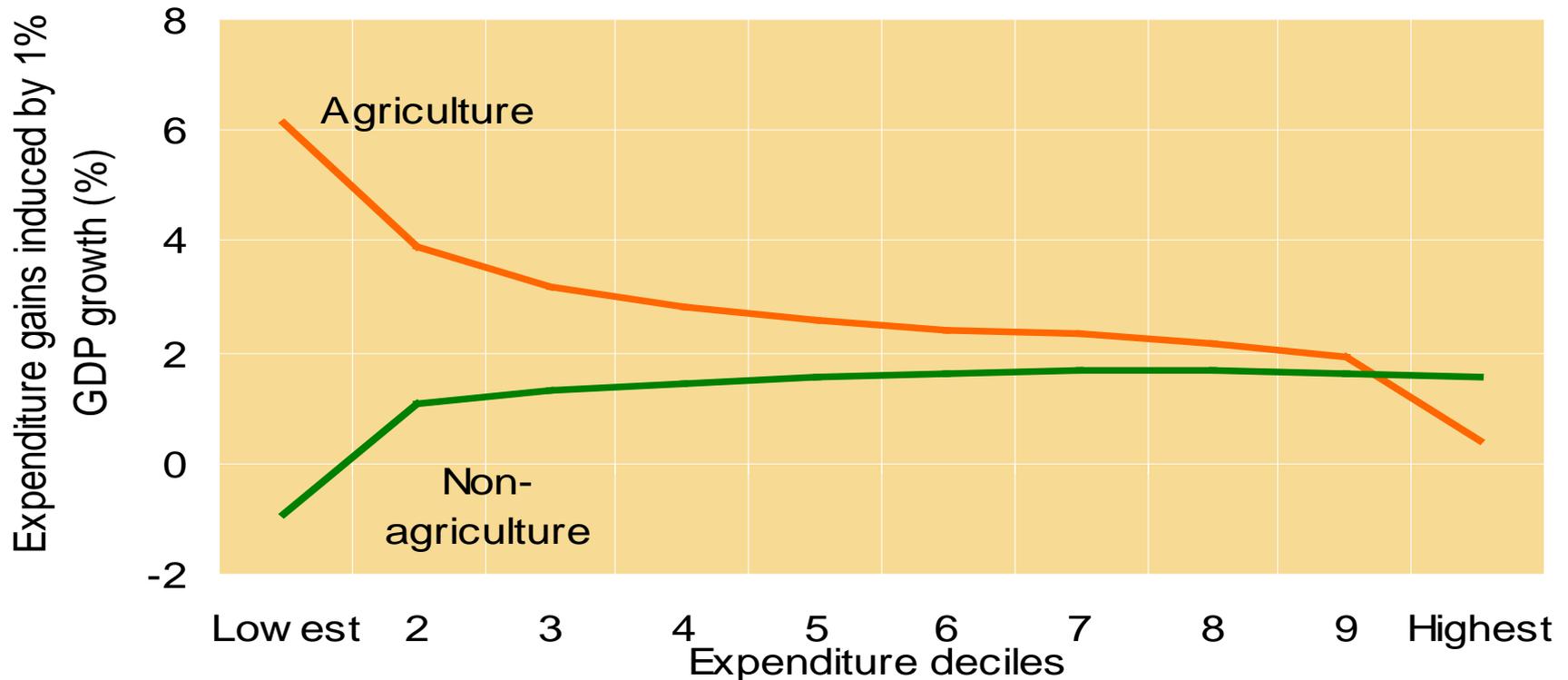
Hanoi -Vietnam

Presentation Snapshot

- **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

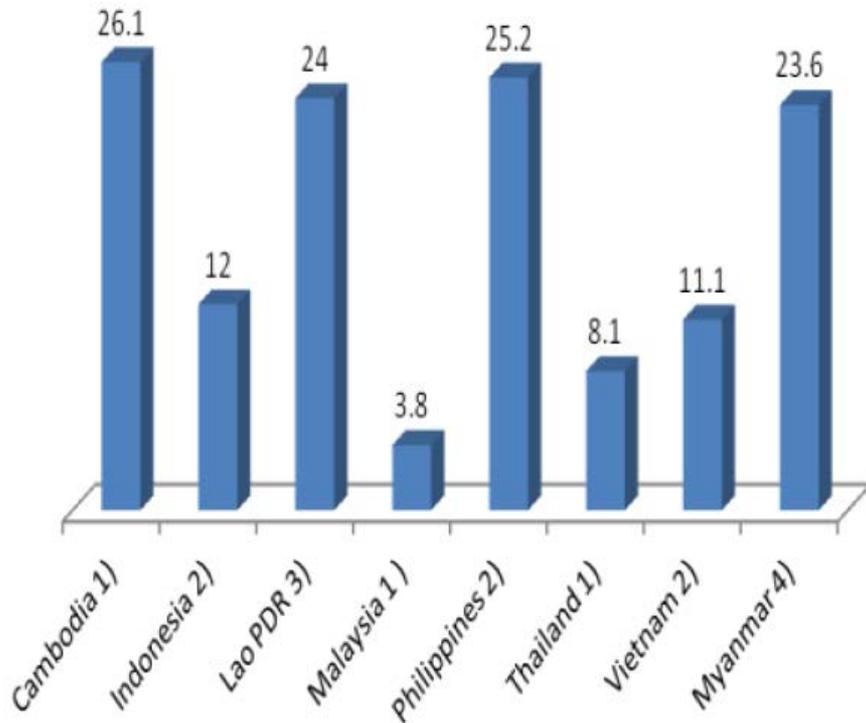


GDP growth from agriculture benefits the income of the poor 2-4 times more than GDP growth from non-agriculture (43 countries)

Source: WDR 2008

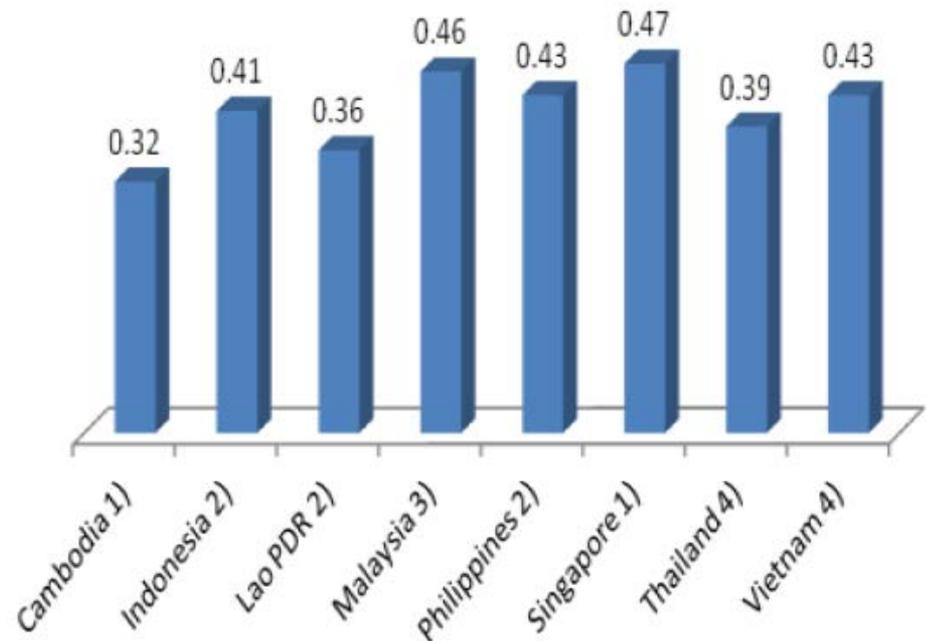
Figure 2. Poverty and Income Inequality → Sustainable growth with equity

Percent of population below the national poverty line (%)



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

Gini ratio



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

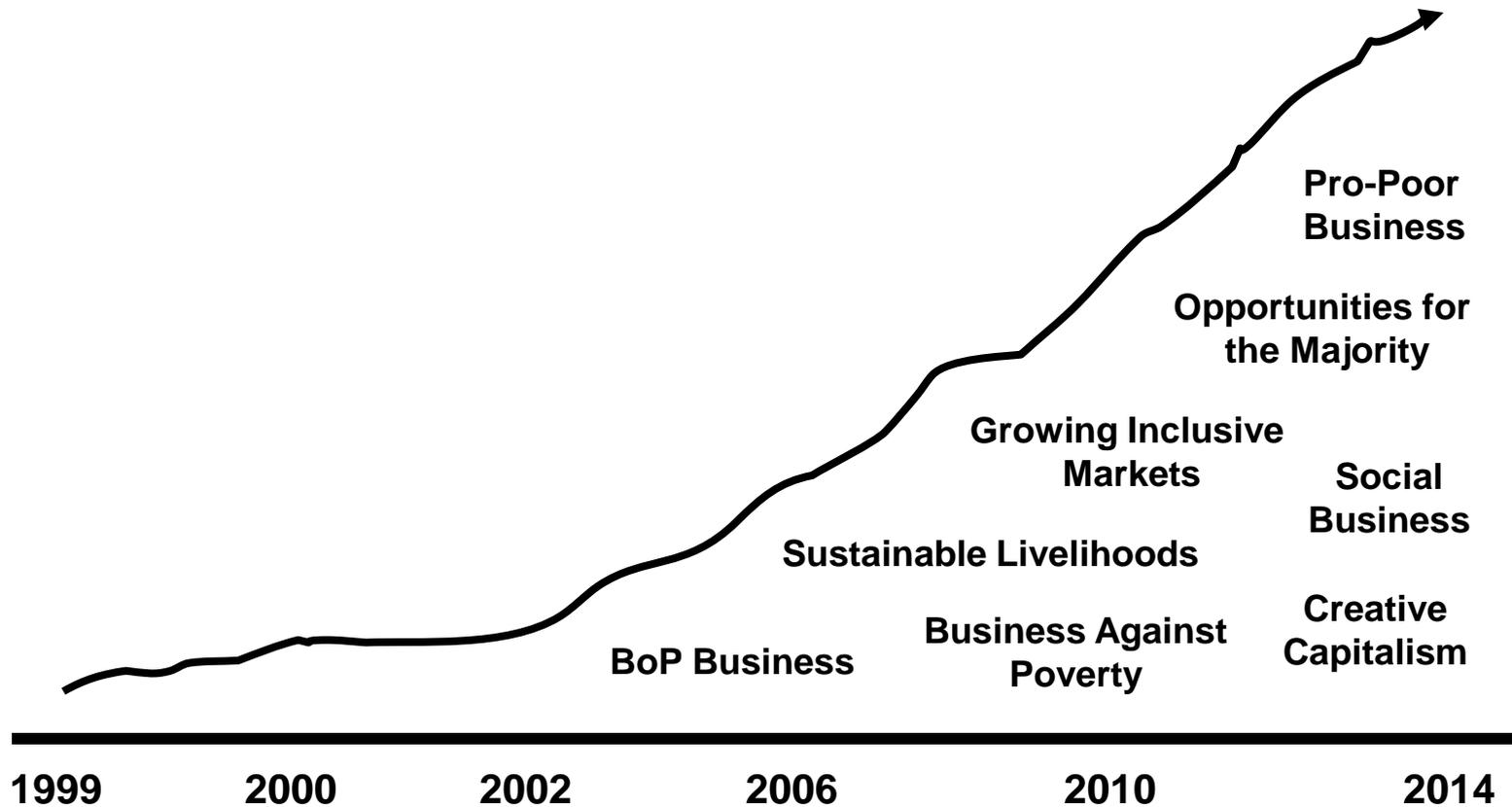
What are Business Models?

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

Table 2. Typical organization of smallholder production

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

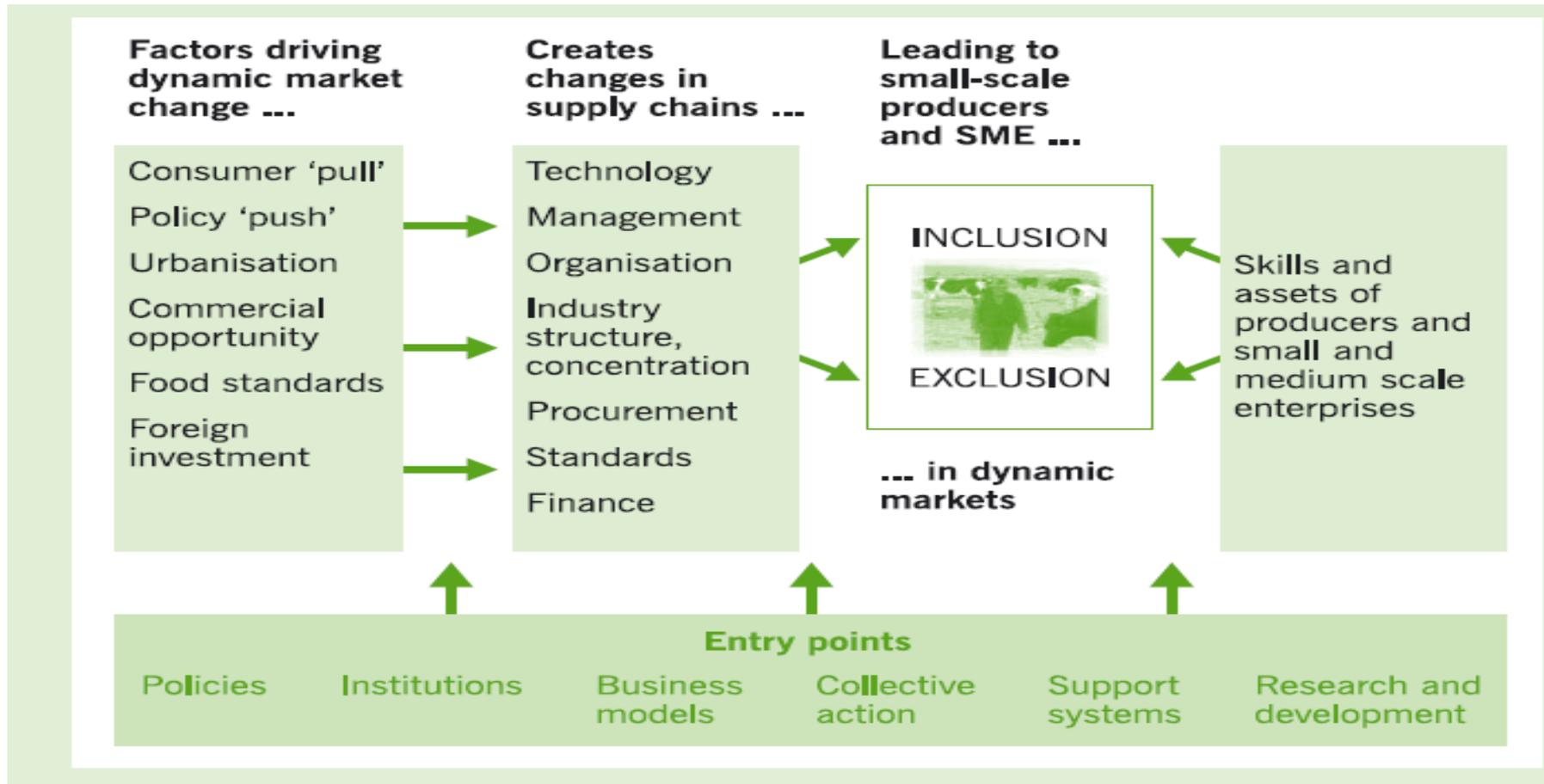
- Dominance of smallholders, disbursed production
- Diseconomies of scale in aggregation of outputs and provision of technology, inputs and services
- Higher transaction costs (contracting, monitoring, enforcement etc.)

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

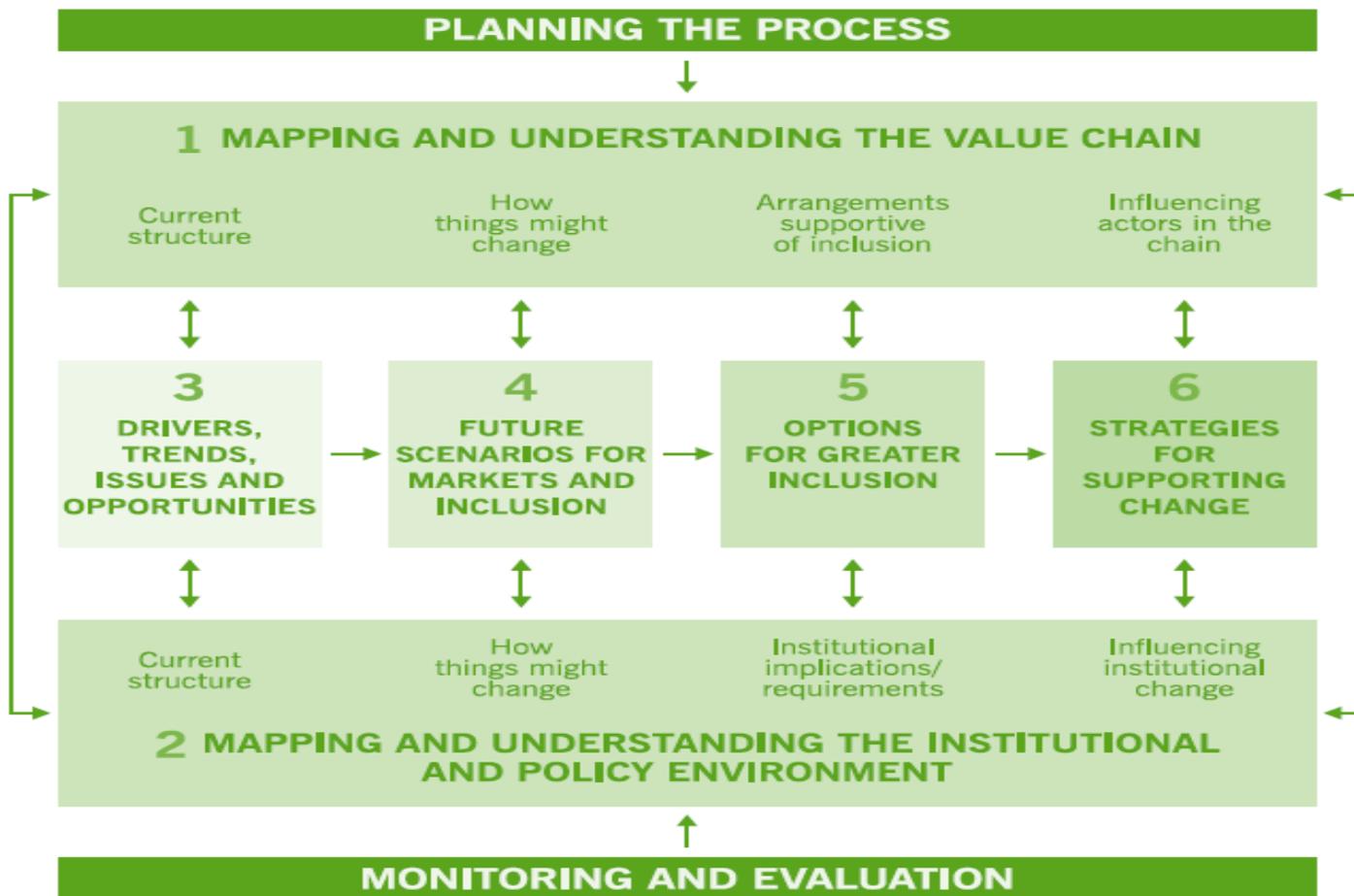
Various Frameworks and Tools for Analysing the Inclusive Value Chains

Figure 4. Framework of Inclusive Supply Chains



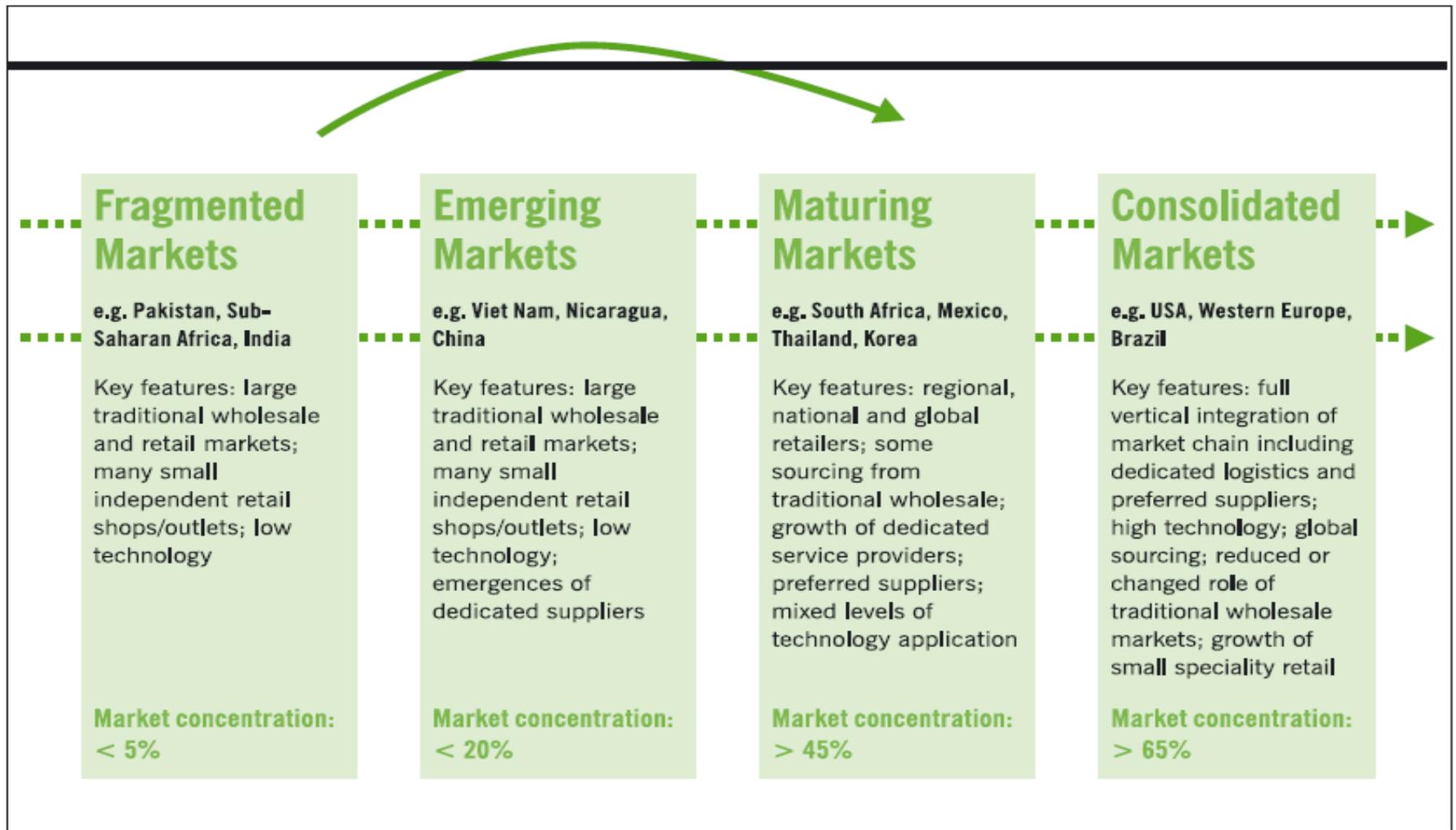
Source: Vermeulen et al., 2008

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

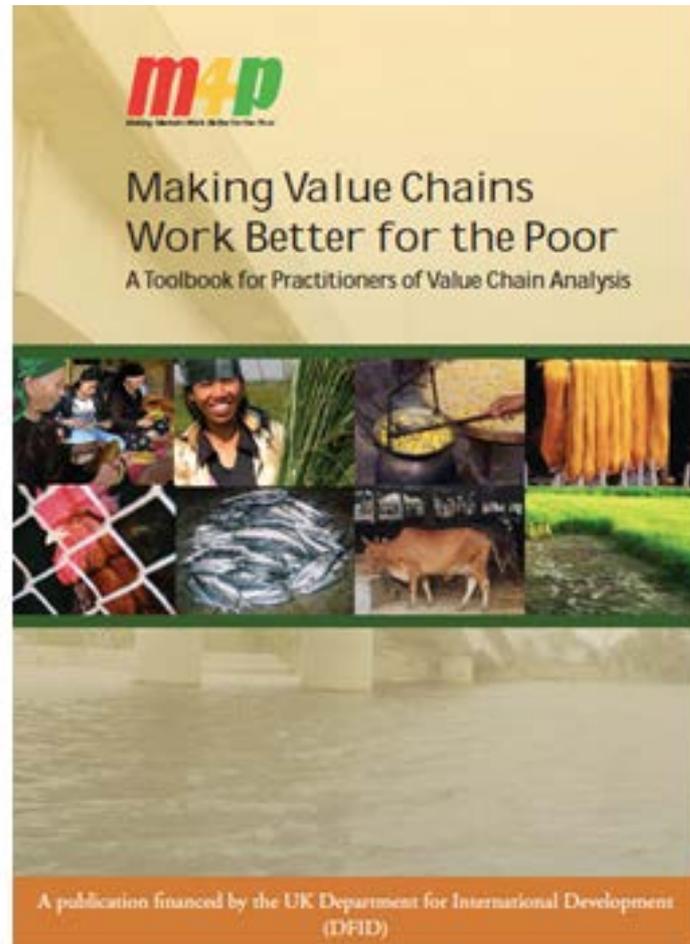


Table 4. Tools for Analyzing Various Dimension of the Value Chain

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

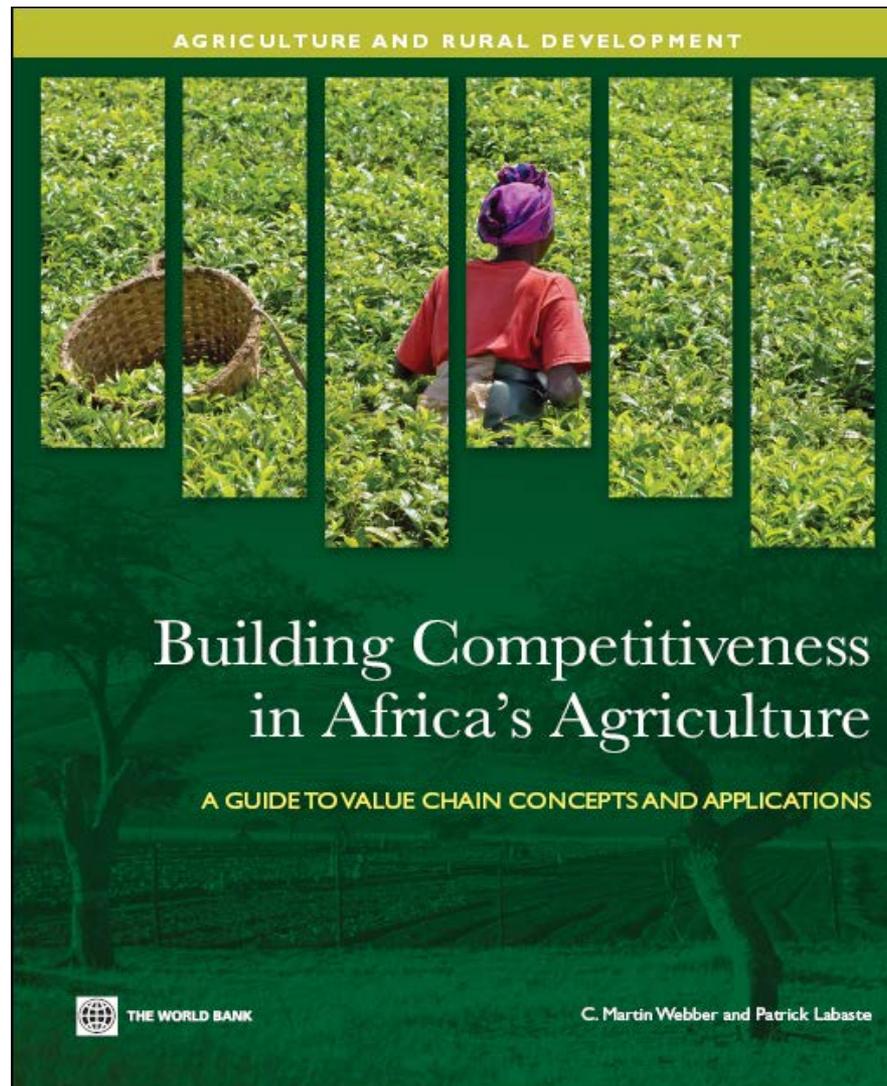
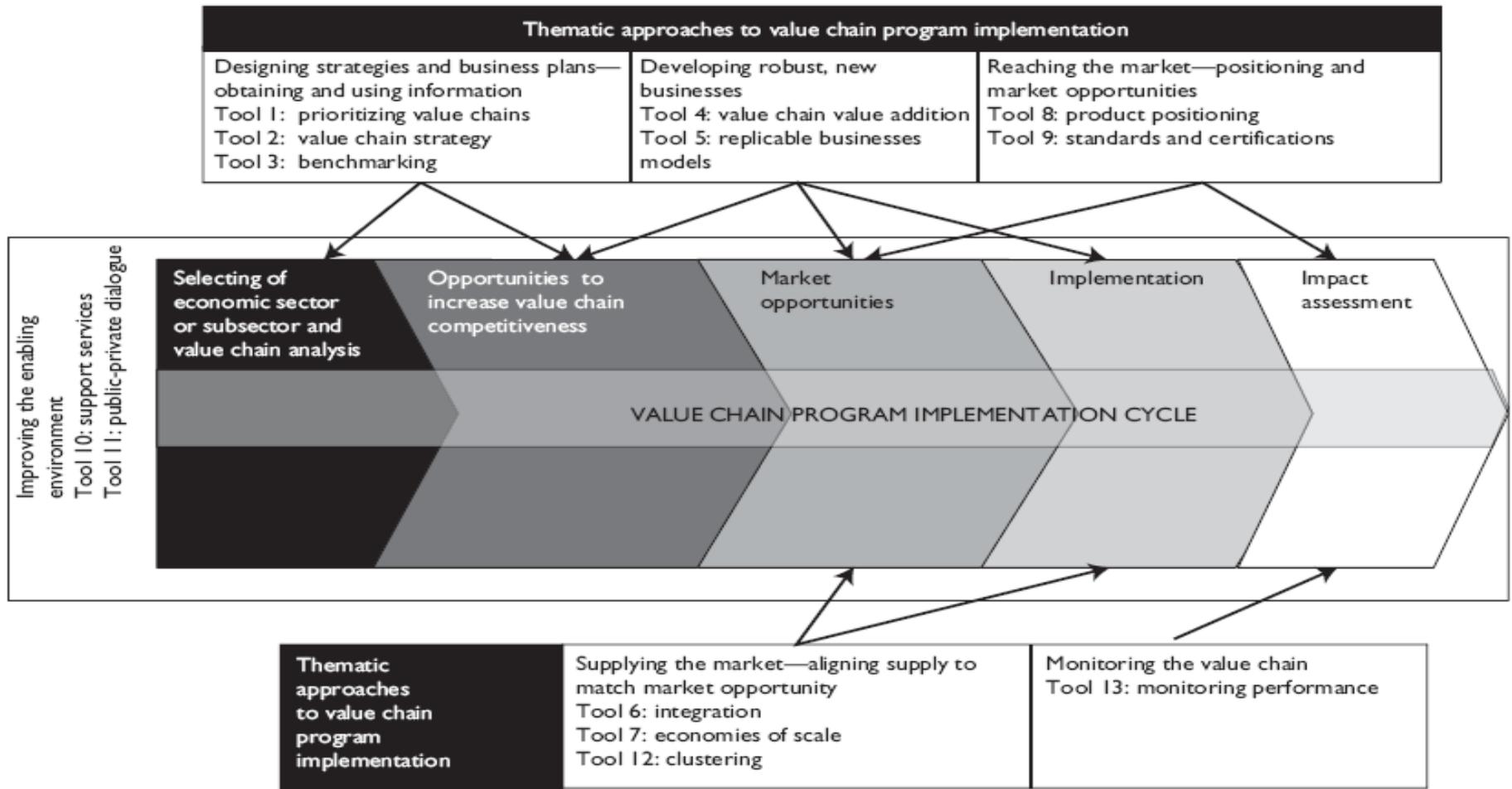
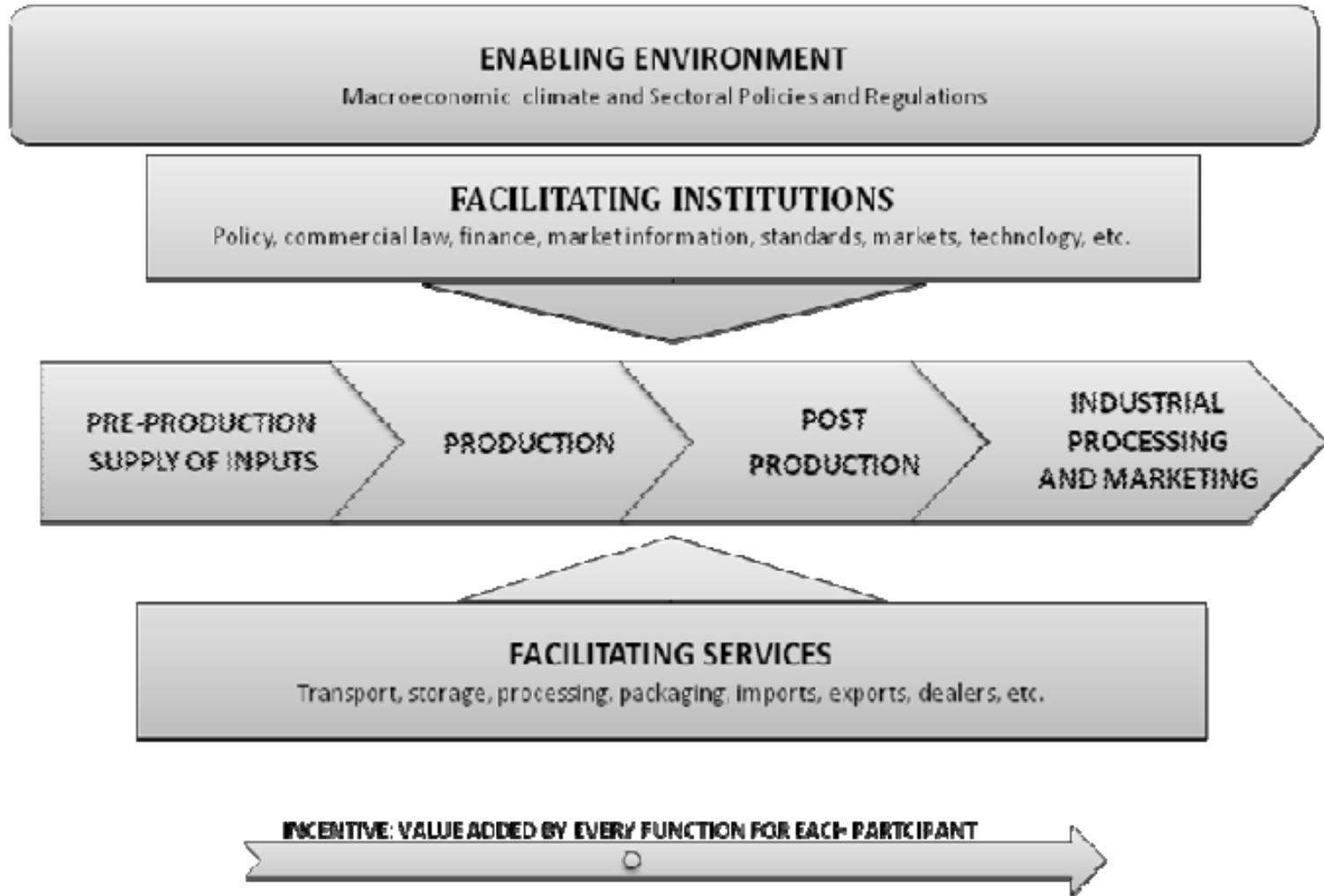


Figure 10. Tools for Analyzing Various Dimension of the Value Chain



^a 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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