



2011 SEED Winner Sri Lanka Rural Enterprise Network (REN)

Sri Lanka: Rural Enterprise Network (REN) (2011)

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Overview

The “Rural Enterprise Network” (REN) is a social marketing organisation that aims to link small-scale farmers in Sri Lanka to input-output markets through improved product quality, access to market information and the establishment of a common brand. By organising producers in a network of organic agro- and food processing enterprises, the farmers benefit from joint marketing services. REN was the recipient of the SEED Award in 2010.

Origins

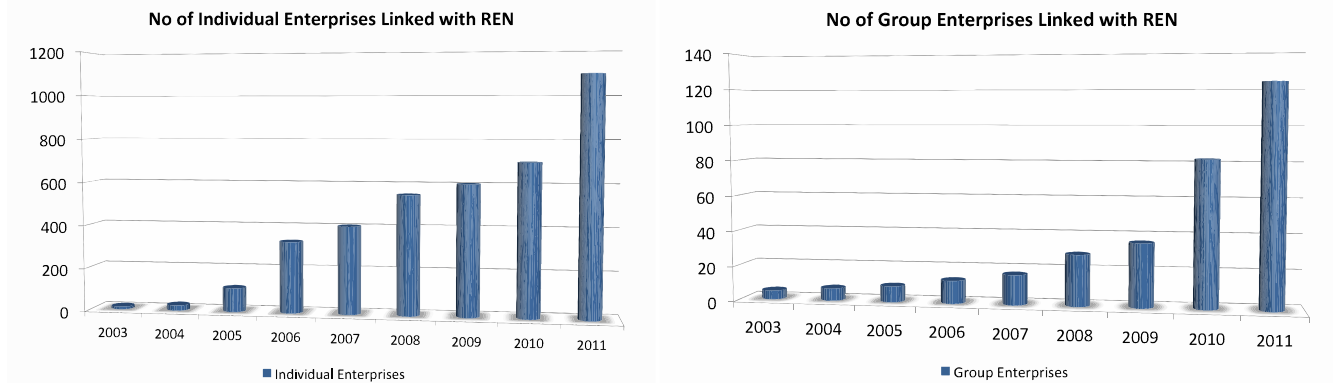
As an initiative of Practical Action which is a sustainable development corporation whose mission is to build the technical skills of poor people in developing countries, REN is aimed at filling the gap in market access and marketing information experienced by rural micro-enterprises. REN has operated within Practical Action South Asia since 2002, and was formally established as a company limited by guarantee in Sri Lanka, 2004. REN’s vision is to make “markets work for the poor” while its mission is to “empower rural small-scale producers by promoting collectivism, providing sustainable marketing services and useful linkages, and advocating for pro-poor, pro-rural policies”. In order to achieve this, REN provides Business Development Services (BDS) to rural small-scale producers with a focus on marketing their products under a common brand.

Growth/current status/future prospects

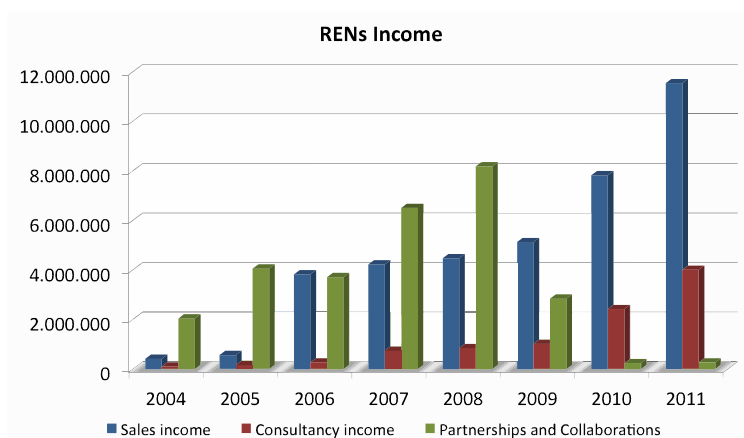
Over the years REN has been able to successfully establish itself as a social marketing entity with substantial potential to grow further and faster, expanding both internal and external markets. From its beginnings of only five member enterprises in 2003, to the last count at the end of the fiscal year in 2011, REN’s network has grown to include:

- over 132 group enterprises and 1150 individual enterprises as members/suppliers;
- 30 exporters and 5 leading supermarket chains as buyers;
- Approximately 80 outlets throughout Sri Lanka as retailers.

The following figures show the growth from 2003 through 2011 of the number of RENs individual enterprises (below, left) and group enterprises (below, right).



Major income sources of the REN enterprise include product sales, consultancy in the form of training and research, and external (donor) funds received through partnerships and collaborations. The red and blue bars in the graph on the right show that REN’s sales and consultancy income have grown steadily from 2004 through to 2011 (besides a decline in 2009 due to the worldwide economic recession). It also shows that external funds (green bars in the graph) played a key role in income generation from 2004 to 2008, bearing witness to REN’s financial dependence on these sources during those years. However, in 2009, external funds diminished sharply, while strong growth was experienced in sales and consultancy. Looking at overall financial performance, the graph indicates that REN was able to achieve financial sustainability by the year 2010. According to REN Manager Nilantha Atapattu, the net profit is currently approximately 9% of the annual turnover.



Presently, REN offers a range of 42 different products, 90% of which are food items such as fish, rice, vegetables, fruits, spices and herbs, with the balance being reed, coir and hand-craft items. In terms of product sales, 80% of REN’s income is generated from exports, while the other 20% comes from high-end health-conscious customers in Sri Lanka who patronise the leading supermarket chains in the country to whom REN supplies organic products.

Nationally, REN products are channelled through Sri Lankan supermarket chains, mini supermarkets and ayurvedic (herbal) drug shops. The enterprise is present in eight out of nine provinces in the country (excluding the north), offering its consultancies or links with suppliers consisting of both individual and group enterprises. Its highest concentration of sales is in the southern and western provinces.

Social/environmental impacts/benefits

REN, as a social marketing entity, has been very successful in managing its triple bottom line by providing social and environmental as well as economic benefits.

- a. **Social:** REN provides social benefits through working with rural enterprises and specifically economically weak peasants. REN pays a better rate to farmers, resulting in income increases. This has made a positive impact on the quality of life of the farmers, their families and specifically their children's education. Presently, of REN's 132 small-scale suppliers from the rural sector, 33 are small producer groups of community development programmes. Further, the majority of RENs beneficiaries' are women. When analysing data, it was found that 977 of 1150 individual enterprise members are women-led, while 495 members (approx. 75%) of the 132 group enterprises are women.

Further, through REN, the community has the opportunity of working together as a team, and this has enhanced cohesiveness among the villagers, promoting a sharing culture in which people tend to help each other. This social mobilization helps reduce the types of conflicts which are invariably a characteristic of socially and economically weak societies.

- b. **Environmental:** Much of the agricultural sector of Sri Lanka has become dependent on agricultural chemicals. Fertilisers, pesticides, and growth regulators are widely used because of the increasing demand for food quantity, rather than quality, from a limited land area. Recently however, interested individuals and organisations like REN have promoted organic farming that uses reduced chemical inputs, promotes soil fertility, reduces environmental degradation, leads to cleaner water and watershed preservation, and helps to maintain a green environment. By 2006, there were 15,215 hectares of land under organic management, with a 0.65% share of the total agricultural land and a presence of around 3,300 organic farms in Sri Lanka. REN's contribution, although small, is likely to have an increased impact in the years to come. According to Atapattu, although no studies have been conducted on the environmental impact of organic farmer activities of REN, he is aware that the members' willingness to continue with organic food production and the annual production increases recorded through sales figures implies that there is a positive impact on the environment.

- c. **Economic:** REN's intervention has helped farmers to increase their income. Growing different varieties of organic food has reduced input costs such as expenditure on chemical fertiliser etc. and at the production end the food products fetch a price considerably higher than previously. Finally, staff members of REN are well looked after with competitive salaries and social benefits.

Mapping REN's stakeholders; REN's business model

REN is formally registered company limited by guarantee. The enterprise is managed by paid professionals who handle procurement and marketing, and provide expertise in the product sales and BDS. A 15% commission is levied for selling the produce to make the enterprise commercially viable. REN is governed by an elected, seven member Board of Directors representing partners, members, and the private sector. The Board is responsible for the formulation of policies, strategies and plans for the company.

Currently REN has 8 partners, 2 institutional clients, 132 group members (consisting of 660 producers) and 1150 individual members. REN's members are its suppliers as well as the chief beneficiaries of the model. An example of a group member is the Kothmale honey-making project, which operates independently with groups producing and supplying organic products to REN. Individual enterprises are basically farmers supplying their products to REN.

Institutions that provide funding and/or technical support to REN are considered partners. REN has had several support partners throughout the past decade; however the majority of their association was limited to a short term project period. Some examples include: the Christian Children's Fund of Canada (CCFC); World University Service of Canada (WUSC); the International Center for Underutilized Crops (ICUC); the Alliance for Appropriate Technology Exchange (AfATE); SEEDS Gte. Limited; and the government-sponsored Gemidiriya Programme.

The **key partners** that exist today are limited and are described below.

- **Practical Action** can be considered the long term collaborator and the Cathy Rich Memorial Food Processing Training Center located in Embilipitiya in the southern Sri Lanka as its training arm. Practical Action gave birth to REN and provided initial administrative and management support while training and coaching the REN staff, providing networking support and linking technically-trained small farmer beneficiaries and micro entrepreneurs.
- **The Farmer Federation of Traditional Seeds and Agro-Resources (FFTSAR)** is a Sri Lanka-wide network consisting of approximately 17,000 community-based producers. REN provides market access for 40% of their produce. Every producer of FFTSAR becomes a REN member. REN enters into an annual agreement with buyers as regards the products, prices and quantities they will transact during the year, thereby assuring the market for FFTSAR products. The FFTSAR promotes REN amongst its member farmers and liaises with REN to obtain technical and business development support. REN buys traditionally farmed, organic produce at double the market rate of non-organic varieties from FFTSAR members.
- **The government-sponsored Vidatha programme** is a technology transfer programme of the Ministry of Technology and Research that plays a vital role in transferring technology to the villages. Vidatha Resource Centers (VRCs), established in all districts, are equipped with computers, and about seven widely-used model items such as a dehydrator, a bakery oven, a coconut oil extractor, an incubator, wood stove, a set of electronic testing equipment, and a coconut de-husker, for demonstration purposes. In some districts the VIDATHA technical officers help REN members in solving technical problems.

Finally, an important feature of REN's model is that it attempts to work with large supermarket chains in Sri Lanka such as Keels, Laugfs, Arpico, and the Cargill's Food City chain. Apart from these, REN works with mini supermarkets located in major cities and hotel chains such as Aitken Spence, one of the largest in Sri Lanka, and Ayurvedic (traditional medicine) drug shops.

Success factors

- Practical Action's Support:** Initial technical and managerial support given by Practical Action, and the Cathy Rich Centre, coupled with the commitment of the Board of Directors that included a representative from Practical Action, were key factors for REN's growth. Practical Action shared its long years of experience in working with livelihood projects and rural farmers by providing appropriate technologies and training to REN. According to Attapattu, when REN staff members are faced with any issue related to technology, organisational development and beneficiary management, they look to Practical Action and the Board of Directors for advice and guidance.
- Strategic planning:** The systematisation of REN's operations by introducing a strategic plan in 2007 with technical support from the World University Services of Canada (WUSC) and funding from the Canadian International Development Agency (CIDA) helped REN to break into untapped markets. The shift from serving only group enterprises to individual enterprises was the key strategy that boosted income and expansion of the supplier base. In 2007 REN served only 26 group enterprises and it grew sharply thereafter up to 132 today.
- Leadership style of REN's Manager:** Managerial and leadership competence of REN's Manager and the team orientation of the staff has clearly made things work for the enterprise. According to REN staff members, the caring attitude, participatory management and problem solving ability coupled with information sharing and effective communication displayed by REN's Manager Nilantha Attapattu has created a very cohesive and productive team that is committed to achieving the enterprise's goals.
- Market promotion:** REN's market promotion has allowed the enterprise to spread its message to both beneficiaries and clients. This was done by upgrading its website and developing marketing materials such as promotional brochures and leaflets describing REN's concept and benefits. Such material is distributed to visitors at exhibitions and

similar events. Further, REN participates annually in exhibitions organised by the Chamber of Commerce, the Convention Bureau and government, with stalls to promote the REN brand and services to visitors. In 2010-2011 alone, REN was able to promote approximately 173 enterprises through its participation in local exhibitions.

- e. **Increased brand image through international awards and recognition:** REN's image has gained by receiving international and local awards which in turn has been a key influence in REN's growth, as it has paved the way for key market players to trust REN as a business partner. According to Attapattu, the SEED Award created an enhanced image of REN between the partners and collaborators, and with market players. Because of SEED's recognition, REN was able to secure IUCN's collaboration in carrying out a technology transfer and marketing linkage programme for the fisher community in the north-west coastal area in partnership with Sri Lanka Nature Forum (SLNF).
- f. **Increase in health conscious market segments:** People are more health conscious than ever before and therefore they seek safe and healthy food. Organic food is safer and healthier and as a result the demand for organic food is fast growing, especially in developing countries. Following the global trends, and health-conscious Sri Lankans are also adopting healthier food products. These trends have helped to increase the demand for REN's products both nationally and globally.

Challenges and how they have been met

- a. **Lack of working capital and funds for market expansion:** The majority of individual and group enterprises' members (i.e. REN's suppliers) do not have financial reserves to look after working capital requirements. Therefore, REN must pay its suppliers immediately in order for them to be able to buy raw materials/inputs to continue their production. Further, the group enterprises have to pay their own suppliers and employees. On the other hand, when REN sells the members' products to local and foreign distributors, the enterprise is not paid immediately but the credit period is extended sometimes to 3 months and hence REN has to delay payments to its suppliers. The vicious cycle of the need for immediate payments and long credit settlement periods is a key issue for REN.

A related issue is the lack of funds for market expansion. One of REN's key strategies was to expand its operations into northern and eastern Sri Lanka where a vast market potential exists since the war ended in May 2009. In the post-war period, the people of these regions, mainly Tamils who are traditionally small-scale farmers and micro entrepreneurs, need support to revive their lives. Apart from agriculture, fishing is their main livelihood. However, without funding, it will be difficult for REN to finance the promotion and expansion to these regions and consequently it is likely to lose this opportunity.

In order to meet its main financial challenges, REN has re-examined its operating costs. Although the business levies an approximate 30% margin on products, it was observed that the overhead cost of REN is extremely high. Staff salaries and benefits, administrative costs, marketing costs and rent are significant cost items that have made the net profit extremely thin, and as a result REN has not been able to meet its key financial challenges. However, with the substantial sales income increase the enterprise has experienced since 2010, it seems that the market is expanding and thus REN's financial health will improve. The enterprise hopes to be able to build a large enough financial reserve to be able to obtain loans to finance further activities.

Non-availability of national certification for organic products: REN is promoting organic products in the health-conscious middle income and high end markets. Most of the developed countries have set up the minimum requirements for organic regulation and therefore products are checked at customs with relevant documentary proof to support the claim that the product is organic. However, Sri Lanka has not regulated organic product manufacture and has not developed organic standards. A few international bodies are actively involved in organic inspection and certification in Sri Lanka but certified organic products are mainly exported under destination countries' national regulations by a limited number of exporters in Sri Lanka. Thus, obtaining organic certification is a high cost item which is at present cannot be borne by REN. Since REN has no certification from a recognised international standards institution, its product labels cannot include the word 'organic'. Instead the words "chemical free" are used which does not give the

appropriate impression to the market and is a disadvantage for market expansion. According to Atapattu, many importers have declined REN's offers as it is unable to submit organic food certification. This market segment is concerned about certification; if it can be obtained, REN will be able to increase its quantity of exports. In order to help alleviate this barrier, all of REN's organic production methods are monitored by Inspection and Certification Bodies (ICBs) that are accredited by EN 45004/45011 or ISO 65.

Technology and process improvement: According to Isuru Liyanage, Manager Quality Assurance, at present REN does not have major problems with technology, but as demand grows and customer requirements evolve, he feels that the enterprise does not have the adequate technical infrastructure and know-how required to conduct research and product development, and doubts whether REN is currently ready to face future challenges of maintaining product quality backed by new technologies and improved processes. REN has addressed this challenge in part through accessing the technical infrastructure and the support of the Cathy Rich Centre, and of a few universities, as well as using Vidatha technical services mainly to improve the quality and processes of its client enterprises.

- b. Human resources:** Although the REN team is highly motivated, cohesive and displays a strong people orientation, in terms of functional competencies staff members need improvements in the areas of work organisation and planning, marketing research, networking, IT skills, computer and English language skills. To meet this challenge, REN has provided technical training for its staff, again through the World University Service of Canada and Practical Action.

Current needs/types of support the enterprise requires now

REN needs support in three areas to continue and grow as a sustainable social marketing institution:

- 1. Establishing a sound economic base:** According to REN's Manager Nilantha Attapattu, REN's entry into the northern market is hindered by lack of funds. It needs to develop a network of beneficiaries, create awareness, develop promotional materials, provide publicity to mobilise individual and group enterprises, and develop linkages and network with stakeholders.
- 2. Organic certification:** Not having an organic certification for REN limits its marketability and expansion. However, neither REN nor its beneficiary farmers can bear the costs involved in obtaining organic certificates, which require a registration fee, annual fee and soil testing fee. Further, the charges vary according to land area and some certificates are valid only in specific countries. According to Atapattu, this is a challenge the REN cannot meet at the moment. However, REN can explore the possibility of seeking funds from international donors, or working with other players in the Sri Lankan market to initiate a certification process with Sri Lanka Standard Institute (SLSI).
- 3. Enhancing internal human resources capacities and installing systems:** The areas REN must improve are REN's information system and database, internet-based communications, market research, surveys, new product development, market promotion, networking with local and international support services, donors, etc. At present REN faces challenges in marketing its services and in the area of management and technical knowledge. Thus, enhancing the capacity of its human resources is needed to meet the growing demand from the market.

Lessons Learned from the REN case study

This case study has found REN to be a very effective social marketing model, successfully meeting the needs of the rural farmers while contributing to maintaining a TBL under several challenges. It seems that the entity is growing steadily, especially after the war ended in 2009. The SEED Award has been able to boost REN's image and through that to attract new customers while enhancing the capacities of REN's human resources and marketability. REN's continued success depends upon the degree to which it can develop a business plan suited to

the evolving business environment, and identify strategies and actions to expand its network as a social marketing entity. If it can do so, REN will be a role model not only for Sri Lanka but also for rural producers in developing countries throughout Africa and Asia.

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Interviews

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- Chopadithya Edirisinghe, RENs board member, CEO of SAARC Association for Household Businesses (SAAHB Project) implemented under Practical Action, Practical Action, No.5, Lionel Edirisinghe Mawatha, Colombo 5, Sri Lanka, Tel. + 94 11 2829412
- G. Jayemenike, Manageress of Kothmale Mahaweli Kithul Processing Unit and her staff, at Kothmale
- WM Benet President of Morakola Fisheries Co-operative Society, Dodanduwa and his team, at Galle Road, Dodanduwa
- Premasiri Gamage, Dehydration Project, Ranna and his staff, at Tangalle Road Tangalle
- Mr. P.Gurusinghe, President, Farmer Federation for Conservation of Traditional Seeds and Agro-Resources (FFTSAR), at No.10, Pragmatic Mawatha, Godagama, Tel. +94 71 7836803