

The challenge of sectoral shared resources

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We discovered this concept when interviewing food entrepreneurs in the Amazon. It consists of specific knowledge that leverages a sector. Learn why these resources are so important.

It's not easy running a forest-based business in the Brazilian Amazon. The problems are well known and include the long distances, high levels of informality, inadequate infrastructure, and violent crime. Even so, an increasing number of small and medium-sized companies have achieved some prominence producing fruit purees, edible nuts, vegetable oils, fish, tropical fruits, and other foods.

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During 2020-21, two co-authors - Roberto Smeraldi and Manuele Lima - and I interviewed 45 representatives of 38 companies and organizations engaged in the food sector in the Amazon to understand how they overcome the most common obstacles affecting businesses in the region.

Through this research, we identified two opposing trends. On the positive side, many of these entrepreneurs have an optimistic outlook, with tangible plans to invest and expand. Further, they are surrounded by a growing ecosystem of incubators, accelerators, impact investment funds, and mentoring programs.

On the negative side, these entrepreneurs face enormous difficulties taking off. In our interpretation, their most serious problem is rooted in a scarcity of "sectoral shared resources".

All entrepreneurs need to invest in private goods, including their own headquarters, machinery, and inventory. Of course, they need access to public goods as well, such as roads, electricity, and the internet.

But when interviewing entrepreneurs working with food from the Amazon region, we learned that they also invest in the provision of a different type of good that is neither public nor private. We decided to call them "sectoral shared resources" (ReCS, in its Portuguese acronym). ReCS benefit all firms in a sector, but have limited value to firms in other sectors.

For the most part, ReCS are constituted of technical and specific knowledge, including knowledge about production methods and quality control, the characteristics of each product, and market opportunities.

In some cases, this knowledge is embedded in machines, standard operating procedures and supplies. In others, the knowledge is tacit and resides in the know-how that employees acquire over time. And in other cases, the knowledge is even more diffuse and resides in the heads of customers who know the product and the reputation of a region.

To create ReCS one needs investment and perseverance. For example, Hortência Osaqui, from Fazenda Bacuri, located in Augusto Corrêa, Pará, told us that she traveled to Europe to try to sell bacuri jams and liqueurs. But while attending a trade show, she learned that buyers were interested in extracting oil from the fruit kernel to manufacture cosmetics. This kind of knowledge is a sectoral shared resource because it benefits all the companies that produce (or might produce) bacuri, but does not have much value for companies in other sectors.

ReCS are chronically scarce because private gains are smaller than social gains. Some heroic characters, like Hortência Osaqui, invest some of their own money to create ReCS, but not nearly enough of what would have been ideal.

Faced with this reality, some people suggest that the government could subsidize ReCS or provide them directly. This is not an entirely bad suggestion, but elected leaders prefer to provide services that serve as many voters as possible, such as paved roads and electricity. In some extreme cases, and specially so in smaller municipalities, they prefer to invest in music concerts which are free and open to the public. Unfortunately, generic initiatives do not solve sectorial problems.

In my mind, ReCS are like a strong, consistent wind that helps a flotilla of ships reach their destination faster. A clueless passenger, locked inside his or her cabin, might think that the ships move forward on their own, thanks to the power of their engine or the size of their sails. Some self-centered captain might think that the voyage was a success thanks to his experience and expertise. In other words, it is easy to ignore the existence of the wind or to undervalue its contribution. But trying to travel when it is scarce makes the journey much more draining and time-consuming.

Unlike the wind in the analogy above, ReCS can be created by the firms themselves, but first they must organize themselves effectively. Once their businesses start progressing, the managers have room to invest some more. Gradually they reach such a speed that outside investors start to pay attention, together with new competitors, suppliers, and customers. In this way, the local economy gets richer and more diversified. The real challenge is to get this process started and to ensure that it continues.

Fonte: <https://plenamata.eco/en/2022/06/21/the-challenge-of-sectoral-shared-resources/>