

This document is prepared to harmonize efforts of NRLM in engaging states and its partners in systematic pro-poor value chain development

Pro-poor Value Chain Development



MART Knowledge Centre



Business Mind Social Heart

National Rural Livelihood Mission plans to reach out to the rural poor by forming and nurturing institutions of the poor that are continuously strengthened and empowered to eventually drive all the initiatives that enable them to come out of poverty and enjoy a decent quality of life.

NRLM wants to impact the lives of the poor who are excluded from mainstream economy. Value chain development (VCD) has been one of the prime approaches to achieve the objectives. NRLM will encourage value chain approach for promoting productive and business linkages with poor producers. It will take both demand based and market based approaches to livelihoods development.

However, making value chain development work for poor and vulnerable is a critical challenge. There is a need to build an approach that looks into the eco-system of the poor and addresses challenges facing the poor. The document captures field experience¹ to recommend a concrete roadmap for development of pro poor value chains.

A pro-poor value chain development aims at fostering inclusive growth by capacitating marginalized community to manage business and marketing functions, by creating marketing infrastructure at local level and by empowering them to build relationship with stakeholders across the value chain.

Key Challenges

The poor with their eco-system debar them to occupy an equitable position in the value chain. Villagers who depend on agriculture and/or forest face various challenges which put them in a highly disadvantageous position. These challenges can be categorized under the following three aspects

Capability

- Low scale of production never allows poor to fetch market price
- Distress sales due to pressure of immediate cash needs
- Lack skills to respond to market led standards
- Lack knowledge on secondary processing and value addition

Market

- Lack of market awareness and interaction limited to village level traders
- Lack of coping mechanism for price fluctuation

Infrastructure

- Lack of infrastructure for primary processing like drying, cleaning, packaging, weighing scale etc.
- Poor storage and transport facilities
- Lack of appropriate technology for value addition

An integrated poor centric approach is required to address the key challenges and to make value chain interventions work for the poor. The following section brings out learning, on major aspects.

¹ MART has been supporting a number of bilateral projects in poorest areas of Jharkhand, Orissa, MP and Rajasthan and has developed a number of value chains ensuring higher returns to collectives of poor who are mainly marginal farmers or non timber forest produce collectors. This experience has helped us in understanding the challenges and in creating a systematic approach to develop pro poor value chains. Currently MART is engaged as Income Generating Activity Support Agency (IGASA) to provide field technical support in 9 forest divisions of Orissa covering more than 3000 SHGs in 60 clusters.

What works for Poor?

1. Start with collective marketing and graduate to collective enterprise

Given the current capacity of community, value chain development should encompass a phase wise approach. The first step in this direction should be to help the groups to start collective marketing. A range of activities e.g. how to procure or collect from members, how to sort, grade and clean, how to package and how to transport produce to higher markets makes the poor understand basic business functions and readies it for starting higher order enterprise. In addition it helps them to learn the art of accessing marketing information and negotiation with potential traders. In this process groups acquire skills for collective management.



Graduation to cluster development brings a number of villages under the ambit of collective marketing and undertaking a range of activities. This also ensures people to move together to pool capital, share risks and benefits.

Moving through a higher order of complexities would ready poor to graduate to start collective enterprises. This phase would require greater understanding of the secondary processing and value addition and would allow seamless vertical movement for a range of produce e.g. raw tamarind to seedless tamarind to tamarind cake production.

2. Graduation from village level collectives to cluster level organization

Creation of appropriate institution at the village and cluster level is critical to the success of any value chain development intervention. The starting point should always be to initiate formation of collectives at the village level. Collectives in the initial stage should be involved in conducting collective marketing activities. Thereafter, these collectives should form an organization at a cluster level. However, developing systems and process for delivering business functions at cluster level are most challenging and adequate support needs to be provided in forming an appropriate cluster organization.

It is important to note that the collective should not be promoted as Producer Company from the beginning. The cluster level organization can start as a cooperative and should graduate to Producer Company once it finds itself stable in terms of fund management, leadership development and creation of appropriate systems.

3. Intervention should aim at supporting better return from multiple products

Most of the smallholders and forest fringe dwellers have very limited individual surplus of produce. Hence their income can be augmented by engaging in multiple commodities and produce. Therefore it is important from a value chain development perspective to have a solution which recognizes and works on a number of key produce/products.

4. Setting up of basic marketing infrastructure in villages and clusters

Need based creation of basic marketing infrastructure like weighing machine, drying platform, and storage space etc. at the village or cluster level facilitates engagement of poor in primary processing. This invariably increases community's capacity to meet basic requirements of the market and sustains the effort. Large volume storage structure should be established at cluster level to fulfill critical business need which can be managed by a cluster organization. Special projects should be conceived to create such infrastructure helping community to respond to market needs.

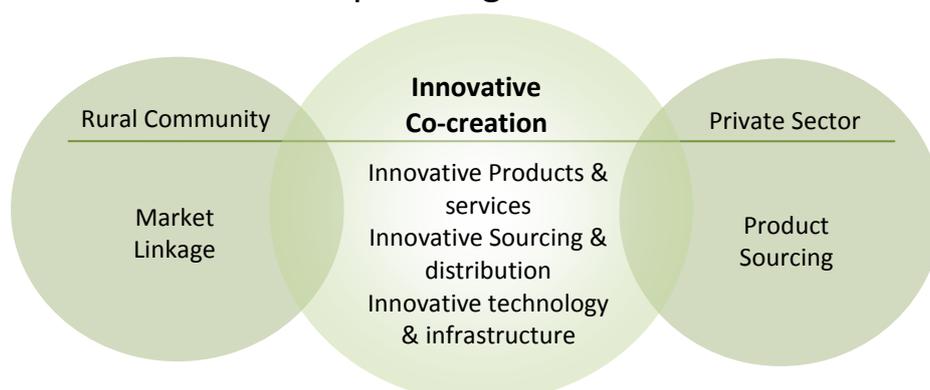
5. Empower through marketing exposure and training

Any value chain development process that eyes at impacting poorest must orient community on basic knowledge and skills on marketing. So far, efforts in educating and inducting marketing skills to the poor are negligible. Concerted efforts to increase collectives' knowledge about buyers, their specific needs, importance of timely delivery of right produce, market information etc. should be attempted through innovative IEC materials and regular exposures and interactions with various market players like buyers, millers, cold storage, processing plants, machine and equipment manufacturers and supplier etc. Cluster organizations should be especially oriented on marketing.

6. Partnership with private sector

Market access by poor farmers has been the most critical challenge. However, it has been experienced that if poor learn primary value addition activities like cleaning, sorting and packaging then they find themselves in better position to link with markets. Moreover, efforts to explore beyond transactional association with private sector including established entrepreneurs need to be explored. Collectives can leverage the technical and management expertise of private players. Partnership with private sector can further be strengthened if innovations in areas like developing new products, creating efficient sourcing systems, introduction of ICT based solutions are introduced. In fact this offers a new paradigm of innovative co-creation.

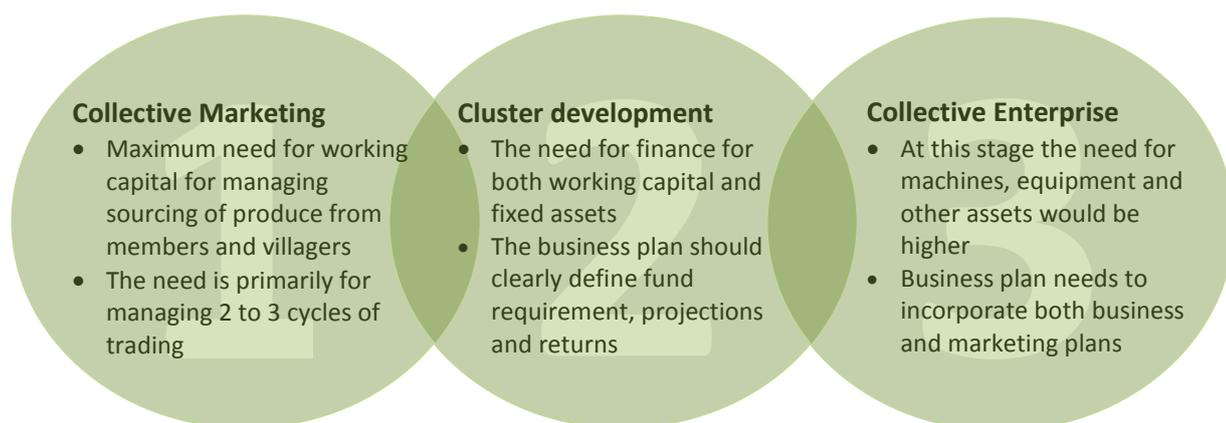
Partnership through Innovative Co-creation



7. Finance to augment value chain development

The financial support framework needs to address specific requirements of the poor as they progress from collective marketing to collective enterprise. Financial planning should ensure that at the beginning of the process groups have access to more working capital, making way for more fixed capital as they progress. This would impact financial sustainability better. The need to educate formal financial systems on the needs of the poor is crucial in ensuring robust value chain development.

3 Stages to meet financial needs in VC Development



Based on these learning MART suggests a 3 phased pro-poor value development framework. The framework keeps poor at the centre of the interventions and responds to the key challenges faced by them. Critical activities under the 3 phases have been put together to allow a seamless progression in value chain development, wherein business functions, institutionalization process, introduction of processing related activities and infrastructure creation has been logically placed to create positive impact on the smallholders and forest fringe dwellers. The following section provides a clear cut framework for designing value chain development interventions.

MART's Pro-poor Value Chain Development Framework

Prerequisites	Phase I - Collective Marketing 9 months	Phase II - Cluster Promotion Up to 18 months	Phase III – Collective Enterprise Up to 30 months
Intervention Frame	Core Activity <ul style="list-style-type: none"> Group to start collective trading by creating systems in place for procurement from members and villagers and selling to buyers 	<ul style="list-style-type: none"> Collective marketing at a cluster level through informal engagement with other SHG/CBOs at cluster levels 	<ul style="list-style-type: none"> Graduating to secondary processing by producing value added products
	Institutional <ul style="list-style-type: none"> SHG/CIG develop proper record keeping for finance - Profit sharing Leadership developed 	<ul style="list-style-type: none"> Formation of cluster level organization Registration of the cluster CBO Formation of Executive Committee and building Leadership 	<ul style="list-style-type: none"> Leadership team for specific processing and other activities Systems and processes in place
	Financing <ul style="list-style-type: none"> Business plan for collective marketing Define activities and financial needs Access finance from formal sources 	<ul style="list-style-type: none"> Business plan for cluster level activities for trading and value addition Access loan for cluster level set up Instal machines and equipment 	<ul style="list-style-type: none"> Revision of business plan for new products Proper record keeping Profit and loss accounts maintained
	Skill Building <ul style="list-style-type: none"> Concept sharing on collective marketing Training on procurement, record keeping, storing Training on negotiation with traders 	<ul style="list-style-type: none"> Exposure visit to terminal markets and large scale buyers Training on record keeping at cluster level and building leadership 	<ul style="list-style-type: none"> Exposure visit to terminal markets and large scale buyers Training on record keeping at cluster level and building leadership
	Infrastructure <ul style="list-style-type: none"> Identify storage facility from the village Create drying platform, cleaning, weighing and packing systems at village level 	<ul style="list-style-type: none"> Create cluster level storage facility Establish market information board 	<ul style="list-style-type: none"> Machines and equipment for processing Modern storage , sealing and packaging Market intelligence system
	Marketing <ul style="list-style-type: none"> Identify buyers from bigger markets for linkages Establish market information system Negotiate on price with buyers 	<ul style="list-style-type: none"> Organise sales event at cluster level Input and output marketing Build data base of traders with contact number 	<ul style="list-style-type: none"> Build data base of traders Linkage with buyers for Value added products Organise sales event at cluster level
	Keep in Mind	<ul style="list-style-type: none"> Value Chain knowledge to be used for orientation Loan to meet working capital needs Create generic infrastructure for major produce Project funding only for infrastructure At least complete CM of 2 products to move to next level 	<ul style="list-style-type: none"> Value chain understanding to be used for identifying viable clusters Finance to meet creation of fixed asset Encourage low end value addition in the beginning Cover at least 1 product cycle at cluster level to move to next level

About **MART**

Established in 1993, MART is a pioneer in the rural domain and over the years has also developed as the Leading Consultancy and Knowledge based organization on Emerging Markets. MART's vision is to become the most respected, employee owned organization in the emerging markets creating innovative and effective solutions to help the poor improve their quality of life.

MART has been at the forefront of market led livelihoods in India for more than 15 years. Partnerships with private sector starting with co-creating Project Shakti with Unilever and later having partnered Novartis, HPCL, GE Healthcare, Shell and many more MNCs have helped us generating unique expertise in the domain.

MART enjoys a unique position as an end to end solutions facilitator for both the development and corporate sectors. We offer a range of services from research, strategy formulation, strategic implementation, scale up and training.

MART has been offering its services in South Asia region - India, Bangladesh, Nepal, Malaysia, Afghanistan and Indonesia. To create and disseminate knowledge MART works in partnership with a number of international academia and knowledge agencies in US, Japan, UK and Netherlands.

MART has an impressive clients list which includes leading development agencies like World Bank, UNDP, IFAD, DIFD and several fortune 500 companies such as GE, Intel, PepsiCo, Tata and many more.



Supporting Documents on Value Chain Development

MART has developed specific tools and methodologies on following aspects

- 1. Selection and prioritization framework of SAP and NTFP for VCD*
- 2. Specification and technical details of major marketing infrastructures*
- 3. Capacity building modules on Pro-poor VCD and marketing*
- 4. Business plan template for collective marketing*
- 5. Business plan for Value addition and processing*
- 6. Flipbook (IEC material) on collective marketing (including 15 min Audio Visual*

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