

# “MAKING MARKETS WORK FOR THE POOR”

## COMMUNITY- MANAGED PROCUREMENT CENTERS FOR SMALL AND MARGINAL FARMERS IN ANDHRA PRADESH, INDIA

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### Context

Small and marginal farmers in rural Andhra Pradesh have been subject to intensive exploitation by moneylenders, traders, and middlemen. Lack of access to the market, lack of power to negotiate prices due to extreme poverty levels, and the daily challenge of meeting minimum subsistence needs had made them vulnerable to unfair terms of trade. Procurement was done from distant markets or through village-level traders and aggregators.

The opening of community-managed procurement centers an innovation piloted under the Andhra Pradesh Rural Poverty Reduction Project,<sup>1</sup> successfully demonstrates ways to combat this inefficiency.

The procurement centers are specifically defined as community-managed, decentralized units for storing, assessing, and trading agricultural commodities. Some of the unique features include management by women self-help group members and their institutions.

### Social and Economic Mobilization in the Project

The project has mobilized eight million women into about 630,000 self-help groups,<sup>2</sup> covering 90 percent of the poor. These groups have been federated

### What's innovative?

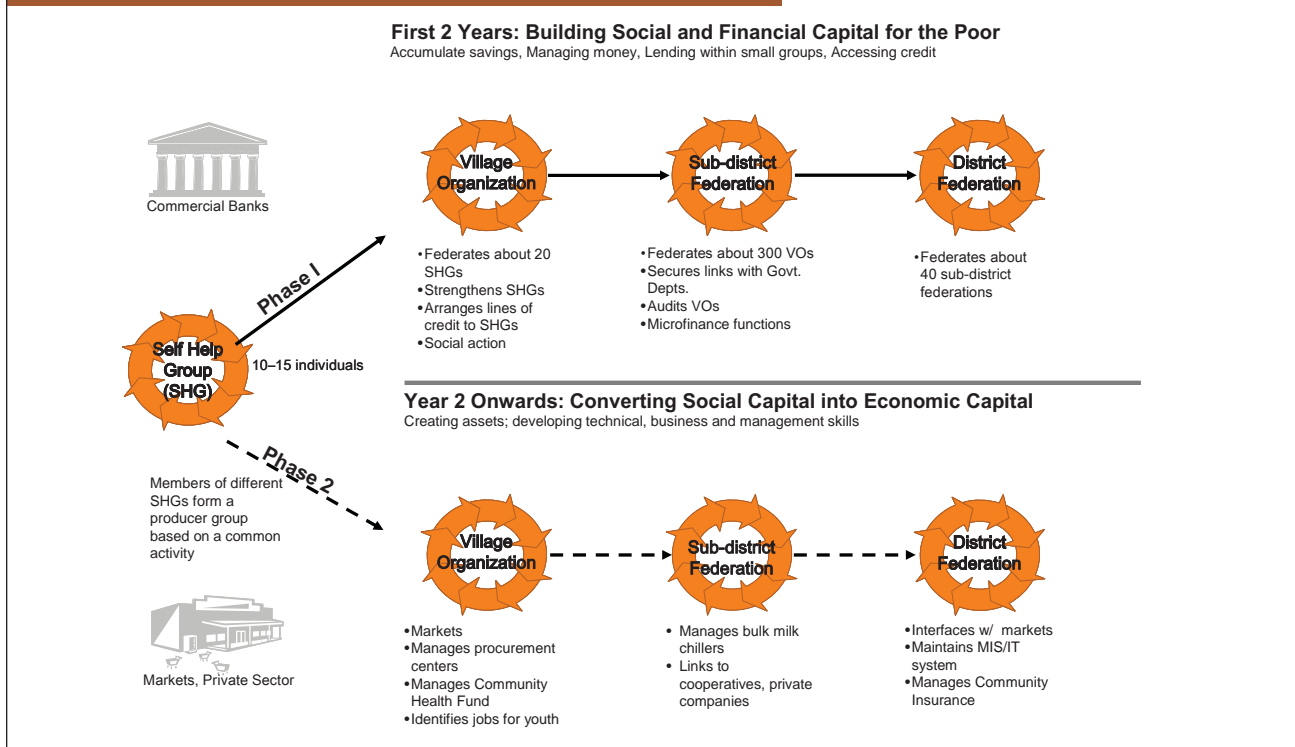
*Community-managed, decentralized units for storing, assessing, and trading agricultural commodities have generated significant economic, gender equality, and other benefits, while integrating the poorest producers with the market.*

into 28,282 village organizations, 910 sub-district organizations, and 26 district organizations. The poor and their organizations have cumulative savings exceeding US\$ 340 million and have leveraged more than US\$ 1.2 billion of credit from commercial banks since 2000. Diversification of livelihoods and asset building has increased incomes sevenfold increase in six years. The social and economic mobilization of community institutions, building strong community institutions and investing in human capital are a necessary pre condition for developing procurement centers as well as making this activity achieve scale and sustainability. Figure 1 below provides the process at a glance, as well some of the other innovations which have been developed on the foundation of these institutions.

<sup>1</sup> The Andhra Pradesh District Poverty Initiatives Project (APDPIP) and the Rural Poverty Reduction Project (APRPRP) (total IDA lending: US\$ 260 million) are two statewide, community-driven rural poverty reduction projects implemented since 2000. Key investments include: building institutions of the poor and developing social capital; developing financial services for the poor; promoting and expanding livelihoods through private-sector partnerships; reducing vulnerability; promoting social action; and improving local governance.

<sup>2</sup> A typical self-help group comprises 10–15 women from the poorest of the poor and the poor. The members meet once a week, collect savings, and maintain books of accounts. The groups are then federated into village organizations.

Figure 1: Community Institutional Arrangements and Mobilization



## Problem Analysis

Small and marginal landholders find it difficult to transact with markets. The public and private market players also find the transaction costs of procuring from dispersed farmers prohibitive. As a result, these agencies are unable to provide low-cost and adequate extension support services to these landholders.

Their state policy is to provide Minimum Support Price (MSP) operations at agricultural market yards. However, farmers from far-off villages, especially the poor farmers, did not receive remunerative prices because of the long distance to the market yards, nontransparent transactions at the yards, and increase in transaction costs for smallholders who could not aggregate their produce.

Because small-scale farmers could not access formal sources of credit, they remained indebted to traders for inputs, and even if their land produced well, nearly half of their income was devoted to the interest payments on loans and the revenue lost from accepting low unit prices for their produce from traders. In most cases, farmers ended up making distress sales of their output to the trader.

Formal, large agribusinesses could not interact with smallholders because they were uninformed about

quality specifications and had no local institutional arrangements for technical assistance to meet agribusiness standards.

## Key Elements

To eliminate the unfair practices of local traders and enhance smallholders' bargaining power, village procurement centers, owned and operated by women's self-help group members, were opened in 2003. The village procurement center addresses the lack of credit, quality control, aggregation, and market linkage under a single umbrella. The key innovations that have helped to empower the rural poor both socially and economically are:

1. *Creating an institutional mechanism for aggregation:* Each CMPC on an average aggregates produce from about five hundred small-scale, dispersed producers and supplies it directly to the market yard or buyer. For private as well as public buyers, it is cost-efficient to procure directly from farmers.
2. *Localizing the value chain, bringing the market to the village level, and providing a "one-stop shop":* Suppliers (commercial banks, input suppliers, companies trying to source raw materials) do not have to deal with a multitude of smallholders,



and users (small-scale and marginal farmers) do not have to deal with different organizations for credit, inputs, and selling their produce. A procurement center typically covers villages within a 20-mile radius, so farmers need not travel long distances to sell their produce. The centers have also adopted transparent quality control measures that enable private and cooperative agribusinesses to obtain produce of good quality and reduce the transaction costs for members.

3. **Promoting business expertise within the village and increasing transparency in transactions:** The network of grass-root functionaries in the form of trained quality controllers, bookkeepers, and storage specialists from within the community ensures transparency and efficiency in the operation of procurement centers. Market information on price and quality, displayed in the centers, is available to farmers. Now even farmers in the remote and tribal villages can access market-based information in real time by mobile phone. Quality testing and weighing are conducted by community members in a transparent manner, as opposed to profit-seeking middlemen. Farmers receive cash payment on the spot, which makes the process more efficient and favorable to the poor.
4. **Innovations in supply chain management:** The first innovation is building a cadre of low-cost technical specialists drawn from the local community—that is, members of the women’s

self-help group or their families. Over one hundred thousand grass-root functionaries participate in supply chain management by operating these centers, including bookkeepers, quality controllers, business managers, and botanists. Training this cadre of resource persons has served to demystify technical assistance and make it available at the grass-root level. “technical sustainability”—in other words, a continuous supply of “low-cost” trained staff—is thus assured. Village botanists also engage in research and development for forest products.

The second innovation is the use of “low-cost” technology to improve efficiency and transparency. Community resource persons<sup>3</sup> use mobile phones to ascertain determine the latest market price before entering into contracts to purchase farmers’ produce. Similarly, women quality controller use digital technology to measure moisture and fat content and weigh produce.

5. **Public and private agencies use procurement centers to outsource or franchise services:** In the franchising partnership model, procurement centers are used as forward procurement and marketing agents for community organizations. The project provides community members with working capital, which is used for small-scale infrastructure. It also trains the community resource persons in value addition, quality control, bookkeeping, and business skills. The value proposition for partners lies in the following features:

<sup>3</sup> Community resource persons: or community professionals are project participants from within the community who have undergone training in either one or multiple facets of project implementation such as institution building, community procurement and marketing, health services etc, becoming a key resource for the community and the project. Creating a cadre of such grass root professionals has been instrumental in scaling up project activities at a low cost and will contribute to sustainability in the future. There are currently over 100,000 such resource persons.

- ❖ Companies achieve scale across the state in multiple commodities. Outreach in remote areas is facilitated.
- ❖ It is a cost-effective channel, because the cost of value addition, quality control, and operation is extremely low.
- ❖ Transparency and quality assurance are provided by the women, who (being the final users) are efficient controllers. The institutions provide a strong support structure for operations.
- ❖ A responsible and traceable channel is available for products for emerging global markets, such as non-pesticide, organic, and fair trade products.

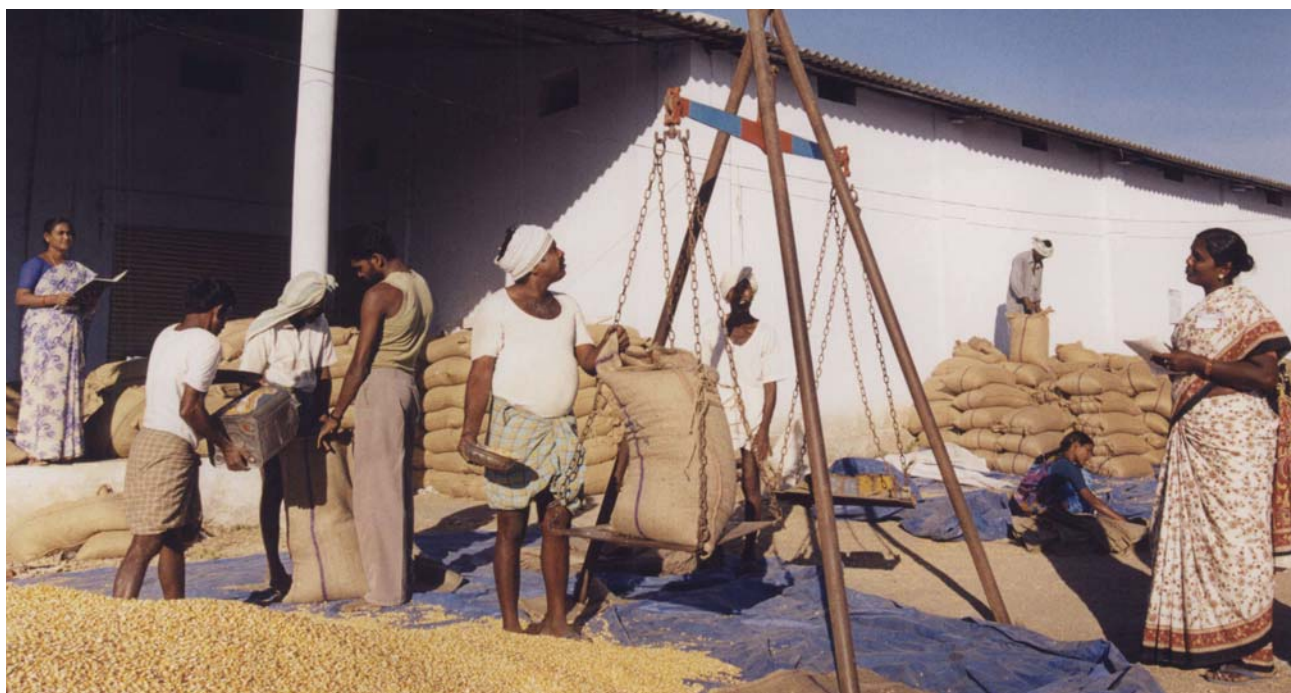
## Benefits and Impacts

Since, 2003 the procurement centers have handled more than 100 commodities with a cumulative turnover in excess of US\$ 120 million and 450,000 tons. In FY08, center turnover is projected to exceed US\$ 80 million; by 2010, the procurement centers are projected to achieve an annual turnover in excess of US\$ 200 million. Apart from procuring crops, the marketing concept has been extended to milk procurement. The project has formed more than 1,200 milk procurement centers at the village level and 60 bulk milk chilling units at the sub district level. The current turnover from dairying surpasses US\$ 34 million, benefiting more than 100,000 milk producers. More than 2 million self-help group members transact with the procurement centers every year, and this number is estimated to reach 5 million

### Box 2: How to set up a community-managed procurement center

A community-managed procurement center is a physical warehouse or depot at the village level, which is owned and operated by the members of the formal village organization. A typical procurement center contains weighing machines and other instruments, packing materials (gunny bags, a stitching machine, and markers, for example), tarpaulins, and moisture meters. The key design elements are:

1. Conducting a value chain analysis and market survey of various commodities to identify gaps and the potential for scaling up opportunities and to identify potential procurement centers at the village level.
2. Building human resource capacity at the local level. Potential community resource persons are identified and trained in book-keeping, quality control mechanisms, and business development. Every procurement center is assisted by an organizational structure in the form of various committees, such as a purchase and sales committee, quality control committee, and village social audit committee, each of which has a clearly defined role in each committee. A committee has between 3 and 5 members, depending upon the volume of trading. Mandatory training is provided for committee members on various aspects of commodity trading and handling.
3. Developing a marketing activity calendar. Given the seasonal nature of various commodities, it is essential to prepare an activity calendar for every procurement center to plan resource needs (both human and financial, such as working capital).
4. Estimating working capital requirements in line with the marketing activity calendar prepared by the village organization. In deciding how much working capital is required, consider the seasonality of the different commodities, the estimated quantity that will be procured, and the approximate storage time needed.
5. Finalizing quality and grading parameters, including a protocol for the random inspection of stocks for various commodities prior to start of the procurement. Parameters used to assess the quality of produce are usually related to size, color, moisture, refraction, and free fatty acids.



by 2010. Quality control and upstream value addition opportunities are now available on the ground.

## Economic Benefits and Impacts

### Increase in Income

The close proximity of procurement centers to farmers raised farmers' incomes by helping them to obtain better prices and reduce their marketing costs. The income gain on some commodities such as neem and lac has exceeded 200 percent. A recent impact evaluation of the partnership with APMARKFED for maize procurement showed that the additional gain of decentralized marketing is highest for marginal farmers, who gained an increase of US\$ 58 in one agricultural season. Through the partnership with APMARKFED to collect maize, the cumulative additional income generated for farmers across the state in 2005–06 was US\$ 22 million.

### Increase in the General Market Price

An evaluation conducted on the impact of maize procurement conducted by APMARKFED in 2005–06 stated that the activity increased the market price by 10 percent. For milk marketing during the same period, local market prices increased by 15 percent.<sup>5</sup> The procurement center's price has become a sort of benchmark for the village, and local traders

are compelled to offer the same rates, if not more, when they purchase in that village. The market intermediation effect has influenced other trading practices, such as proper weighing and testing for moisture, which has been favorable for small-scale producers.

### Employment Generation at the Local Level

The procurement centers, milk collection centers, and chilling units create employment for the rural poor. Dairying generated more than 5,000 new jobs at the village and sub-district level. The partnership with APMARKFED created 6,000 new jobs, even during a lean economic period. An impact study on maize procurement concluded that each procurement center generated an additional wage income of US\$ 400 over a three-month period for its employees.

### Cash Payment

Unlike traders and middlemen, who make partial payments in cash and offer the balance in the form of inputs and other supplies, the procurement center pays producers in cash at the time of purchase. This payment method gives farmers, particularly small-scale and marginal farmers, the freedom to source inputs more cheaply, and in the process it eliminates the "regressive" tied sales that were rampant in the villages. Putting cash in the hands of small-scale and marginal

<sup>5</sup> Subrahmanyam, Nagireddy, and Nalini (2006).



farmers eliminates the need to resort to informal credit to finance consumption needs.

## Gender relations

### Increase in Participation, Leadership, and Technical Skills of Women in the Rural Market

Women are managing village enterprises, an activity that requires them to take on duties that were previously in the male domain. Women are becoming active players in the rural market—negotiating with traders and representatives of the private and public sector. They also handle such roles as quality controllers and logistics managers, and they engage in research and development for new products. They supervise hamalis,<sup>6</sup> organize transport, and work with district administration officials, thus proving their capacity as leaders and technical service providers.

### Increase in Respect from the Larger Community

The procurement centers benefit not only members of self-help groups but members of the village as a whole. Owing to the benefits of their services, the women have garnered support from village elders and leaders, who in many places collaborate to provide infrastructure and logistics support to the centers.

### Intra-household Support

The maize procurement study indicates that because women work in the centers for over 10 hours, often until late at night, their families provide support. Their domestic workload is being shared by other women in the family and husbands. This finding demonstrates women's increased mobility and enhanced decision-making space within the household.

### Making community institutions sustainable

Collective marketing by procurement centers has strengthened village organizations in many ways. First, by generating income and adding to the institutional corpus of funds, the procurement centers serve as a business model for village organizations. In the paddy procurement season of May–June 2007, 300 centers received a commission of over US\$ 850,000 for six weeks of work from the Civil Supplies Corporation. Second, members' participation in the activities of self-help groups and village organizations has risen because of the benefits yielded by the centers. Finally, the successful operation of procurement centers as franchises for public and private partners has changed the perception of the centers' viability and potential.

<sup>6</sup> Hamali workers are laborers who are involved in transporting agricultural produce

They are now considered profitable partners rather than mere recipients of grants. Mr. Sinha, Managing Director of the Andhra Pradesh Civil Supplies Corporation, observed that “At first we used to procure from agri-market yards directly. We did not have the capacity to spread into the villages. However, this program has given us a platform by which we can bridge the gap between the government and the small/poor farmers.”

## Lessons Learned and Issues for Wider Replicability

- ❖ There is tremendous social capital in various community organizations managed by women, such as the self-help groups and other user groups. Systematic initiatives to build human capital through training in business development, quality control, and market research can enable local institutions to generate significant economic capital and other benefits, while enabling small-scale producers to integrate with the market. This kind of economic empowerment requires significant investments in market-based and management skills for women.

- ❖ Investments in community institutions, human capital, and credit should be integrated to produce maximum impact on economic returns.
- ❖ Physical infrastructure like procurement centers can be run more efficiently by women's organizations because they are able to cultivate financial discipline and transparency, which is more difficult with traditional men's organizations.

### Future directions and scaling up:

- ❖ *Integrate the procurement centers operating across the state within a common trading platform, either at the district or state level.* Integration will involve building an information technology (IT) structure to link the procurement centers, which will provide multiple benefits. Linked centers will service an “internal market”; in other words, they will be able to meet the demand and supply gaps of village organization and self-help group members across districts, will link them to the market directly, and will offer all of their products and commodities in an aggregate manner.

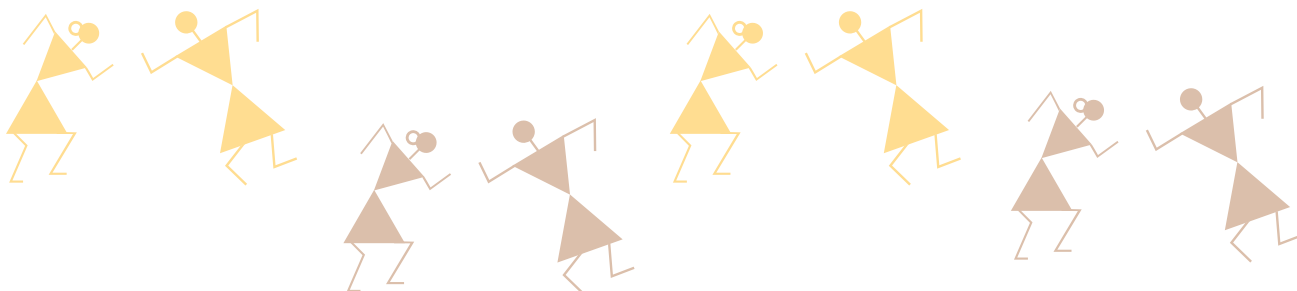


- ❖ **Link with commodity exchanges and IT-enabled procurement center:** These centers can be linked with IT-enabled models like “e-choupal” and commodity exchanges, enabling the community-based procurement centers to engage in real-time transactions.
- ❖ **Integrate farmer field schools with the procurement centers:** The integration of farmer field schools and procurement centers will help to organize agricultural extension services and lead to improved production and productivity. It will

help to scale up innovations such as nonpesticide technology and organically grown bioproducts, which have resulted in increased incomes for farmers in select districts.

## References

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