



## Module for Training on Livelihoods

Submitted to - MAVIM



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## SESSION PLAN

#	9:30 – 11:00 Hrs		11:15 - 12:45 Hrs	12:45 – 13:30 Hrs		14:30 - 16:00 Hrs		16:15 – 17:45 Hrs
Day 1	Session 1	<b>Tea Break</b>	Session 2	Session 3	<b>Lunch</b>	Session 4	<b>Tea Break</b>	Session 5
	Introduction; Goal setting; Development Fable		Livelihoods - Concept & Framework	Livelihoods Intervention Principles		Processes of Livelihoods Intervention Development		Livelihood concept and principle case study
Day 2	Session 6		Session 7	Session 8		Session 9		Session 10
	Livelihoods concept & principles- Recap		Livelihoods Analysis, Tools - an Overview	Livelihoods Analysis, Tools - Value Chain & Sub-sector Analysis		Feasibility and Viability Assessment		Business Planning
Day 3	Session 11		Session 12	Session 13		Session 14		Session 15
	Business Planning		Institutional Models	Process of Promotion of Livelihood collective		Legal environment for community enterprises		Case studies on livelihood interventions
Day 4	Session 16		Session 17	Session 18		Session 19		Session 20
	Institution development for livelihoods promotion		Enterprise development – Financial Management	Enterprise development – Marketing		Presentation on case studies and discussion		Presentation on case studies and discussion
Day 5	Session 21		Session 22	Session 23		Session 24		Session 25
	Monitoring and Evaluation of Livelihood interventions		Presentation on group exercises and discussion	Presentation on group exercises and discussion		Review of the sessions		Feedback and winding up

## Session

### A Development 'Fable'

The experts arrived at the fishing village. For years, the natives had used primitive techniques in their work. True, they caught fish, but they had to paddle out to sea every day, may be even on feast days. It was a hard life, though well-tried over the years.

The experts gave the fisher-folk improvised nets. The new nets were rather dearer than the old, and the method of fishing was different too. But in a single net they caught a whole week's supply. Fantastic! You could work one day and be free for the rest of the week! The village folk had a great feast, several feasts... in fact so many that they had to fish two days each week to pay for the celebrations.

"This is no good," thought the experts, "they should be fishing six days a week and making money out of it. We haven't come here to witness endless parties. Surely, it's enough with one feast a month. This is an underdeveloped country; they must produce more proteins – fish!"

But the village favoured fiesta. Fishing two-days, and free the rest of the week.

The experts grew annoyed. They hadn't travelled from the distant North to watch natives drum, dance and dream. They had come to fill hungry stomachs, to lessen the threat of the undernourished against the overfed.

Yet the villagers danced late into the night. Why shouldn't they? They were rich now, almost as rich as the Maharaja, though he had never done a day's work in his life...

And then the Project Director had a brilliant idea. (Not for nothing had he taken an evening course back home in economics.) These lazy fisher-folk were not actually lazy: they were simply weak on motivation, motivation to work harder. They had not discovered their needs.

He bribed a villager to buy a motor-bike. Bribery was distasteful, but sometimes necessary. True, there were no roads as such, but the wet sand along the water edge was hard and smooth... The motorcycle roared back and forth. What a toy! And soon every young man wanted one of his own. The village elders warned them: What is there is riding far off and back again on the sand? But the young man replied: we can race. We shall see who is the fastest. And you grey-beards, you can place bets on us!

The Project Director's idea proved a brilliant success. At last the men fished almost every day. The capital city got the fresh fish it needed. Indeed, a large part is now converted into fish-meal and exported to Europe where it makes excellent pig food and helps keep down the price of bacon.

But probably most pleased of all was the Maharaja, for it so happens that he was sole agent for the motorcycle firm in that country. He also owned the main fish market in the city. While his uncle's family built and ran the fish-meal factory. When the experts flew home, he raised the price of motorcycles, so that to buy one a man must work three years, instead of a single season.

And the fishermen fished on. They had discovered a need.

# SESSION

## Livelihoods – Concept & Framework

### **Learning Objective:**

The main objectives of this chapter are –

- Understanding the definition of livelihoods
- Understanding factors, issues and realities, which influence the livelihoods strategy and choices of livelihoods
- Understanding the factors, issues and processes of decision making in livelihoods
- Understanding the multiple livelihoods of poor, major livelihoods of poor and its classification

### **Duration:**

1.5 hours

### **Methods:**

Interactive session and Small Group Exercises on Case study

### **Exercise:**

- Visit to a village or assume a village and write all the possible livelihoods of the families there. Classify them into farm, on farm, off farm and non-farm.
- Using different frameworks, understand the realities of livelihoods. For this, you can either choose your livelihoods or livelihoods of any of your family member or your friend's livelihoods.
- Ask participants to reflect on the factors that have affected the livelihoods choices in their own life

### **Minimum Learning:**

The participants should be able to appreciate the factors, issues and realities, which influence the livelihood strategies and choices of livelihoods of poor.

### **Reading Material:**

Enclosed as Chapter-1: Livelihoods Concepts

# CHAPTER-1

## LIVELIHOODS CONCEPTS

Livelihood is the way in which people satisfy their needs or gain living. A livelihood should be sufficient to avoid poverty, and preferably, increase well-being for a family. A widely accepted definition of livelihood provided by Chambers and Conway is:

*“A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and future, while not undermining the natural resource base”.*

The sustainable livelihoods approach rests on few core concepts listed below:

- People-centred
- Holistic – multi-dimensional, cutting across different sectors
- Dynamic – complex situations, iterative events
- Considering micro and macro factors

# SESSION

## Principles of Livelihoods Interventions

### **Learning Objectives:**

1. The main objective of this chapter is to understand the principles of livelihoods intervention.
2. The secondary objective is to expose the participants to various livelihoods interventions in India and abroad.

### **Duration:**

3.00 hrs

### **Methods:**

Case study and Small/ large group discussions

### **Facilitation tips:**

She/he should read each and every case study and identify the critical principle of livelihoods intervention in that case study. The facilitator can start the session with dividing the participants in to four-six different groups. The groups are expected to study two case studies given in the reading material. The facilitator may give roughly 40 minutes for the groups to discuss the salient points of the case studies, identify the main success factors in those case studies and make a presentation. Finally, the facilitator should integrate all the salient points and the success factors from all the presentations. The facilitator should guide the discussion in the classroom to arrive at principles of livelihoods.

### **Minimum Learning:**

The participants are expected to be aware of main principles, essential for any livelihoods interventions to be successful.

## Reading Material:

Enclosed as Chapter-3: Livelihoods Interventions and Principles

# Unique rural women's efforts in the country – mulukanoor women's dairy

G. V. Krishnagopal

**Muluknoor Women's Dairy, is one of the scintillating example of a community enterprise working for the livelihood enhancement of large number of rural milk producers. The article an interesting story of this successful initiative, the challenges it faced and solutions derived.**

The **Mulukanoor** (a village in Karimnagar District, Andhra Pradesh) Women's Mutually Aided Milk Producers Cooperative Union Limited (Mulukanoor Union) is a promising community enterprise that is enhancing the livelihoods of large numbers of rural milk producers. It started operations in August 2002, providing services to over 15,000 members. In this article we will attempt to identify the various factors that have contributed to the rapid growth of this rural women's initiative. An analysis of their growth path is important to the development sector in its mission to discover effective methods of implementing projects for rural people.

In year 1998 – 99 based on the expressed need for alternative supplementary income, *Cooperative Development Foundation (CDF)* with the technical help of *National Dairy Development Board* conducted a series of surveys. Their aim was to assess the production potential, marketable surplus in villages and market demand in nearby cities. It was found that in 72 villages around Mulukanoor there was at least 14,000 litres per day marketable surplus while demand in Warangal city was about 30,000 litres per day. 60 – 70% of the total demand in Warangal City was being catered to by unorganized milk vendors & was poor in quality. Thus, a dairy union with a capacity of 25 TLPD expandable to 50 TLPD was planned.

With several problems like obtaining legal clearances with Milk and Milk Products Order, Pollution Control Board, delays in the construction of dairy and erection in machinery, the project took about two and a half years to complete. Once the operations began, all prior estimates were out beaten and the Union began registering a surplus- physically & financially, from the first year itself.

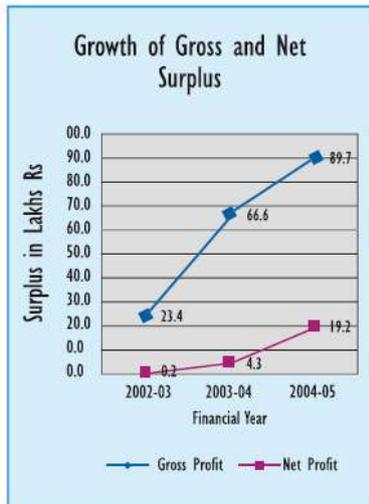


The performance of Mulukanoor Union has grown in strength since the last four years of its operations. Net surplus earned has grown from Rs 17,383 to Rs 1,907,491 in the year 2004-05 as shown in the graph below. In fact the most surprising aspect has been that it has been in surplus from the first year of operation. The sales of milk and procurement of milk have also demonstrated steady increase as represented in the graph in the next page.

The performance of the Union has grown in strength since its inception. The number of milk producers has risen to 14,000 in the year ending FY 04-05. Total technical assistance given to dairy producers has risen by almost 5 times to Rs 4.71 Million. About 60 societies, which were there from the start of the dairy union, have fully repaid their loans taken for initial establishment. Attendance in the monthly board meetings has always been above 70%.

So what has ensured that such a growth path is established? Is it the business model, high member stake, the visible governance, institutional building efforts of CDF,





organizational design, existence of fertile grounds for promotion of cooperatives in the region, inspiring leadership, enabling legal framework or better design than the Anand model of cooperatives? Well a considered thought is all of these has contributed for the growth of this unique effort. The following paragraphs will explain each of this factor.

#### Business Model

The business model that was conceived for the Mulukanoor Union can be termed highly strategic. The following points clearly enunciate the facts –

1. By keeping a limit of 25 Kms on the maximum distance of the village where milk is to be procured from the dairy, it ensured that the *cost per liter of procurement* was as low as Rs 0.30 in the year 2004-05.
2. Concentration on *markets* of mid sized cities and smaller municipalities around Mulukanoor like Warangal, Siddipet, Karimnagar, Macherial and Godavari Khani provides strategic advantage to the union.
3. A *product portfolio* limited to marketing just milk, cream and buttermilk helps union ensure daily money inflows back from the market. Investments in milk products demand a huge working capital as their business cycles are much longer (upto 2 to 3 months).
4. At the end of year 2004-05 on March 31st the union had at least Rs. 29 Million liquid cash available indicating *high financial liquidity*.
5. The human resource cost of Mulukanoor Union is far below the industry standards. This is because staff is employed from within the Union villages.

#### High Member Stake

The Mulukanoor Union has been conceived such that the member stake is high. In the last four years of operations the dairy has been able to increase member stake by introducing patronage linked development deposits at the rate of 5% of every milk bill that the member realizes. The share capital has grown from Rs 2.01 Lakhs to Rs 3.03 Lakhs while the deposits have grown from Rs 11.89 Lakhs to Rs 112.70 Lakhs in the last four years.



#### Visible Governance

The union in order to continue with the existing culture has taken up the following steps –

- It ensures that the annual report of performance is shared with all the member societies and the same is done at the member level.
- It ensures that in the annual report the complete performance report of each society is mentioned for the information of the members.
- The Directors are elected to represent a constituency of 6 to 8 primary societies. The performance of the Directors is measured at two levels – their performance in their own milk society and their performance in their constituency.
- The proximity of the Union to the societies and the visibility of the union is an important factor that creates greater association and access to the members.

#### Institution Building Efforts

The capacity building efforts for the promotion of the Mulukanoor Union was done very systematically for a period of nearly 18 months before the operations of the dairy began. The European Union Funds administered by NDDDB under the Women Dairy Cooperative Leadership Program supported these efforts with a total outlay of Rs 3.5 Millions.

#### Organizational Design

Intense & thought provoking discussions with the members during the drafting



stage were held to develop a strong design reflecting a true cooperative. Some important bylaw provisions that are interesting to note are –

- Linking the capital structure to patronage of members –Compulsory deposits from the members in the form of 5% of milk bill realized every 15 days ensures sizable deposits & ensures investments that wholly belong to the members.
- Standards for minimum performance of members in terms of milk supplied to society should be at least 180 litres of milk for 180 days in a year.
- Local conflict resolution system where a 3-member senior members committee will be elected for resolving all disputes.
- A strong internal audit system where at-least two members from among the management committee members and/or any other member will audit the accounts regularly further ensures transparency and accountability in transactions.
- The Surplus distribution at the primary societies to the members is done on the basis of total transactions with the cooperative.

#### Positive Cooperative Environment

Mulukanoor has been a fertile base for cooperative institutions ever since the formation of Mulukanoor Cooperative Rural Bank (MCRB). CDF has promoted thrift cooperatives and paddy farmer's cooperatives. Besides, other state promoted cooperatives are present like the Karimnagar District Milk Producer's

Cooperative Union Limited, a maize processing unit & a fruits marketing body for farmers.



#### Inspiring Leadership

Shri Vishwanath Reddy is a great visionary and cooperator who was



responsible for the success of MCRB. He has been an inspiring force & a great leader of the cooperative movement in this particular area.

Enabling Legal Environment – Boon to Success of Mulukanoor Union

The Andhra Pradesh Mutually Aided Cooperative Societies Act of 1995 broke new ground in the history of the Indian Cooperative Movement and provided legal & administrative space. This act respected the rights of the members to fully own and control their cooperative enterprise. The business space was provided when the Milk and Milk Products Order (MMPO) which regulates procurement was liberalized.

Other factors contributing to Success of Mulukanoor Union.

There are strong signs of a great successful model being established in Mulukanoor Union. The several other factors which have contributed are –

- Factor conditions like the continuous drought for four years before Union started operations ensured that members showed keen interest in the success of the dairy
- The insistence of almost using only women staff at the union and societies to the extent possible has helped in better coordination and efficient work.
- Democratic governance and conduct of secret ballot for elections ensures that fair chances are given both to electorate and the candidates.
- Investment in technology at the

## Mulukanoor Model & NDDB Operation Flood – Anand Pattern of Cooperatives

The important deviations of this model from the standard model promoted in Operation Flood by NDDB are -

1. **Gradual Growth Path vs. Big is Beautiful** - Dairy Unions were District Unions having a processing capacity of 100 TLPD. The Mulukanoor Union was constructed at almost 1/4th this capacity.
2. **Facing Competition vs. Seeking Monopoly Rights** - during Operation Flood, NDDB and the State Governments would enter into an agreement that the Unions would be given monopoly rights for procurement in the demarcated milk-shed. However, subsequently the liberalization of MMPO (Milk and Milk Products Order) paved the way for promoting multiple dairies in the same milk shed.
3. **Organizing Prime Producers vs. Traditional Households Heads** - It is a known fact that 80% of the work in the management of cattle at the rural household level is done by women. However, most dairies promoted under operation flood were male bastions.
4. **Milk Shed Area vs. Administrative Boundaries** - The milk shed area was not based on the administrative jurisdictions of the district as was usually done.
5. **Members Stake High vs. Low** - There is a high level of member stake here, in fact it had been systematically increased to Rs 8.35 Millions by the year ending 2005, that is 1/4th the total investment.

primary society level where electronic milko-tester and electronic weighing machines ensured fair transactions & greater member confidence in the system.

### Challenges for Future

Some factors however need urgent attention. They are-

- **Improving Member Business & Productivity Enhancement** - The biggest challenge before the union is the ratio of milk procured as against being marketed, which is presently 1:1.87. The demand for milk is far outstrips the procurement. Increasing productivity of cattle & numbers of cattle is important.
- **Plant Expansion** - The present plant, which is designed to handle only 25 TLPD, is handling on an average 27 TLPD. An expansion is needed.
- **Building Governance Effectiveness & Insulating Governance** - The tussle to control the union between the operating staff and governing bodies has just begun.
- **Capital Restructuring** - Retiring Capital - The more the liquid cash available, the greater the danger of improper investment.
- **Improving Support Service Efficiency** - The input services are still running with lot of cross subsidy among the members.
- **Adhering to Code of Conduct** - Enforcement of bylaws should be strict. There are cases where non-performing members are present in

the board of directors of some societies. This results in poor governance and sets a bad precedent.

### Conclusion

Thus the business of Mulukanoor Union has been strategically conceived to ensure greater margins get transferred to the members. The Union is able to transfer Rs 0.68 (Yr 2004-05) of every rupee generated through sales to its members. While the business conception was done strategically, the model adopted was a modified version of the Operation Flood blue print by NDDB. The attempt in this case study has been to highlight the various dimensions that have together contributed to the success of this unique women's effort. ■

Mr. G.V. Krishnagopal, Director-Strategic Development,  
ALC India, gvkgopal@gmail.com



# Shri Mahila Griha Udyog Lijjat Papad

## An organisation that symbolises women's strength

V.Madhusudan

***Shri Mahila Griha Udyog, the manufacturers of the famous Lijjat Papad, is a unique organisation owned and managed wholly by women. The organisation with a current membership of 40,000, has over the past 48 years promoted self-reliance & self-confidence in its members. This article enunciates the unimaginable success scripted by its unassuming members with their firm belief in strong ethical business principles while relentlessly pursuing the mission of providing livelihoods to its members.***

### **The story**

It all began on the 15th March, 1959 with the production of four packets of Papads by a group of seven ladies with a meagre investment of eighty rupees. This set the tone for what is now a Rs. 470 Crores organisation with 67 Branches and 35 Divisions all over India. Membership has also expanded from the initial 7 bens (women members) from Mumbai to over 40,000 bens across India. Today, Lijjat papads are exported to countries like UK, USA, Middle East Countries, Thailand, Singapore, Hongkong, Holland, Australia and others. Firmly adhering to its core values for the past forty years, Lijjat has ensured that every process runs smoothly, members earn a comfortable profit, agents get their due share, consumers get the assurance of quality at a good price and society benefits from its donations to various causes.

The institution was commenced with the objective of providing employment to women and enabling them to earn a decent and dignified living. Like any enterprise, Lijjat had its crests and



troughs. The faith and patience of the members were put to test at the initial stages on several occasions.

The enterprise started on a borrowed sum of Rs. 80 from Chaganlal Karamsi Parekh, a member of the Servants of India Society and a social worker. They started manufacturing operations by taking over a loss-making papad making venture. To promote the policy of self-sufficiency, they refused acceptance of grants even during the initial difficult years when they managed on small earnings.

The turning point came in 1966 when Lijjat was registered under the Bombay Public Trust Act and as well as the Societies Registration Act. It also obtained recognition from Khadi & Village Industries Commission (KVIC) as a village industry. KVIC granted it a working capital of Rs. 6 lakhs (0.6 million) and allowed certain tax exemptions. After that there was no looking back and Lijjat papad became a household name.

The success of this all-women institution can be attributed to various factors.

### **Strong business model**

In the early years of inception itself, the women framed a strong business model. Recognizing that their product was a low-skilled, labour intensive product, they had adopted a low-cost, decentralised production and centralised pricing, quality control and marketing strategy. The decentralised production model enabled Lijjat to rapidly respond to market demand, while its low cost model prevented competitors from eating into its market share.

### **Decentralised production**

Recognizing that the activity of papad production is almost a household activity, it was left to the individual member to choose the job she wanted to perform. Every job was given equal importance and the members were free to choose between rolling papads, packing or preparing the dough. Those with clean houses and spaces to dry the papads took up rolling while others tended to kneading the dough, packaging or quality testing. The bens could take dough home and roll them into papads during their free time. This system contributed to the low overheads as the institution could save on the space requirements for production.

Currently each member is expected, as also bound by the pledge, to roll out a minimum of three kilograms of papad daily. A new member, after about 15 days of on-the-job training, starts achieving this target in about five to six hours and goes on to roll out one kilogram per hour after some months.

### Centralised activities

The branch system ensures that every activity happens within its own ambit. A Branch is responsible for all activities ranging from production, packaging, collection and distribution of vanai (rolling charges) and profit for its particular geographical region. Testing for quality and packaging of papads are done at every branch. The supervisors constantly check for the quality and weight of papads. All the branches are autonomous units for the purpose of profitability, and the profit or loss as the case may be of such unit, is borne by the members of that branch by increasing or decreasing their rolling charges accordingly. Everyone gets an equal share of profit, irrespective of who does what work, irrespective of seniority or responsibility. A committee of twenty one members decides how the profits are to be distributed.

Payment is made on a daily basis. Each branch calculates its profit and divides it equally among all its members. Vanai charges (rolling) differ from branch to branch, between Rs 14 and Rs 18 per kilogram depending on the profit of the branch. Members earn around Rs. 2000- Rs.2500 a month for roughly 6 hours of work a day from home. Packed papads (For domestic market papads are sealed in plastic bags (gatta bags) 200gms x 25 pkts which weighs about 5 kg and for exports it is sealed in boxes and each box contains 80 pkts of 200gms, which weighs around 16.5 kgs) from each centre is transported to the depot for that area. Each depot stocks production from the nearby three to four branches - roughly about 400 boxes.

### Quality consciousness

Uncompromising quality consciousness has been of paramount importance to Lijjat. Raw material procurement which

#### Underlying Principles of SMGULP

- Voluntary Membership
- No-grant based business model
- Business with ethics
- Values of a family
- Not forgetting the core mission

is the key to quality maintenance, is centralised and handled by the central office in Mumbai. It is then distributed across the 62 branches to ensure the consistent quality of Lijjat Papad. While



the grinding of flour at branches helps reduce costs, the central office directs the branches on mixing of various ingredients for papad making. During production, every ben rolls the papad to the same specification and every lot of papad has to pass the stringent quality standards as specified by the head office. Any deviations in quality, for example, difference in salt contents, etc, would mean immediate disposal of the entire lot even if it means huge losses.

Pricing of the products is also done at the head office. The pricing is the same across India and it factors in the cost of raw materials, transport, taxes, distributors commission, profit percentage and so on. Marketing is a centralised function in Lijjat. The branch offices are responsible for setting targets for monthly production and marketing. Each Lijjat centre has clearly delineated marketing territory to avoid competition amongst centres. Commission agents are attached to almost all Lijjat Centres and they account for a major part of the Lijjat sales. The advertisement expenses are around 15% of the selling expenses.

### Mission orientation

Valuing people and understanding their problems has created for Lijjat a sound and sustainable business model. In living up to its mission of generating self-employment, a source of livelihoods and dignity to women, Lijjat has consciously shunned mechanisation at the production level, and members produce papads manually.

### Member centrality

The Lijjat story is one of teamwork and profit-sharing. Employees, numbering about 5,000 including the chairperson herself, are in no way superior to members, and are therefore expected to

behave accordingly. All decisions, major or minor, are based on consensus among members. Members share the same values and democratic frame. Including members from every community, every religion, every language strengthens the organisation. There is no place for feelings of pity, sympathy or charity among members. The primary value that holds the institution firmly is a sense of self-dignity and respect. The organisation acts as a universal sisterhood that understands the pressures women face every day from the family and society. Leaving the organization is voluntary. No member sister can be asked to leave unless or until she goes against the organizational principles. There is no fixed retirement age at Lijjat.

The growth of the Lijjat is often examined in the larger canvas of women's empowerment. The organization has undertaken various efforts to promote literacy and computer education for member-sisters and their families. A literacy campaign for sister members began through literacy classes at Girgaum on June 18, 1999. Later, the managing committee decided to start such classes in all its branches. From 1980 onwards, Lijjat commenced granting the Chhaganbapa Smruti Scholarships to the daughters of the member-sisters. The member-sisters used their organization as a medium to promote their and their families' welfare. In the Valod centre they set up an educational and hobby centre for the rural women. Orientation courses in typing, cooking, sewing, knitting and toy making as well as other courses like child welfare, first aid and hygiene were taught. The first ever pucca (tared) road in Valod to be built and inaugurated in 1979 was with the help of the Lijjat,



Valod branch. At behest of Mother Teresa, the member-sisters also took part in some activities of Asha Dhan, an institution to care for destitute women.

#### Sound expansion strategy

Lijjat expanded operations in other parts of the country through a strategy of replicating the standard operating structure and procedures of the Mumbai model. The decentralised production model enabled Lijjat to rapidly respond to market demand, while its low cost model kept competitors from corroding its market share. The mode of replication is also extremely systematic wherein few experienced members physically relocate to the new site. The team then works through a checklist that includes finding adequate premises, selecting and training core staff, training new members and establishing the physical and financial systems. This can last for a period of several months. If one or more of the team members deputed from the head office need to return to Mumbai before the systems are fully functional, new volunteers replace them to complete the job. This parenting period generally lasts 6 months or such time that the new unit is able to run its own-affairs efficiently. When the new branch stabilizes, it nurtures additional branches in a similar manner. Members are deputed to spread out and are given the responsibility of ensuring proper functioning of the unit. Thus, the in-

house method of expansion through replication ensures both training and parenting support to new units. This is the key to the high level of standardisation that Lijjat has been able to achieve.

With growth, Lijjat has diversified its product portfolio and promoted many new products. Besides its world famous papads it currently has flour division, masala division, printing division, advertising division, khakhra division, chapati division, polypropylene division, bakery division and detergent division. The various products manufactured range from papads, khakhras, appalams, masalas, vadis, gehu atta, bakery products, chapatis, SASA detergent powder, SASA detergent cake (Tikia), SASA Nilam detergent powder and SASA liquid detergent. They have also meticulously planned their human resources development by selecting and training the more competent members to manage affairs in its modern Polypropylene, Sasa detergent & cake and printing divisions.

#### Social contribution

On several occasions, the Lijjat bens have undertaken social service activities such as distribution of nutritious food for



poor children, donation of money for conducting community marriages, institution of prize-money for spread of primary education, blood donation drives, organization of health camps, plantation drives and even donations to Government bodies. Lijjat undertook the rehabilitation of Chincholi (Jogan), an earthquake affected village in the Maharashtra's Latur district. The institution provided the finance and

supervised construction of fifty-eight houses in the village. Member-sisters donated money from their daily vanai (wage). After the 2001 Gujarat earthquake, all the branches of Lijjat donated Rs 4.8 million, including Rs 1 million from the central office. Lijjat built forty houses for the rehabilitation of the people of Bhujpur (Bhachau) in Kutch District.

#### Future challenges

Lijjat has to be constantly think and plan for the future ahead. There are a few important challenges they might have to grapple with:

- 1 While mission orientation ensures that production happens manually, Lijjat must also be cautious of the extent of mechanisation thereby decreasing cost of production for other companies. They may have to look for part mechanisation and part manual production
2. The current pricing must also factor in a part of the rising costs of the raw materials like the pulses, masalas and transportation costs.
3. Customer Education about the uniqueness in their products to counter the imitations which are flooding the markets

#### Replicable potentiality

The model is replicable into other sectors, which require labour intensive but simple production processes with minimum use of technology. The caution is how to adapt the model to create and maintain the quality standards as well as ensure concomitant sales of the produce. The 'development of market power' is a key factor which Lijjat has been able to enjoy through its brand equity. Any replicable model should aim in building the same for success in the medium term of

about ten years. ■

#### Courtesy:

Arun A Srivastav  
 arunasrivastav@rediffmail.com  
 Jyoti Naik  
 Shri Mahila Griha Udyog Lijjat Papad

V. Madhusudhan, ALC India  
 madhuvaddem@gmail.com

## CHAPTER 2

### Critical principles of livelihood promotion

1. *Livelihood is a basic right*
2. *Skills first*
3. *Consumption credit*
4. *Collective: Individual*
5. *Market first*
6. *Micro : Macro*
7. *Role of promoting agencies*
8. *Support Services*
9. *Economic aspects: Social Aspects:*

#### **Micro finance to Livelihoods Finance**

Discussion Question: *Does the microfinance really sufficient enough to make significant effect in guaranteeing secure livelihoods for poor?*

Typically the micro finance institutions extend loan against the savings of the member. This restricts the total amount accessible by the poor for making investments in the various livelihoods needs. The livelihoods needs of the poor are varied as discussed in the earlier sessions. The needs are related to –

1. Access to and to enrich the resources like land, water, trees, livestock, energy which are basic factors of production
2. For human resources development through better nutrition, education and vocational training, services (safe drinking water, sanitation facilities, health facilities) and through development of institutional structures of support
3. Infrastructure – roads, energy and power, market places, storage places, basic transportation, communication and other support services

4. Access to institutions especially the state, civil society, free markets and banks

All of these require investment in large proportions. Some of these investments are public goods whose users are not defined but need to be maintained. There are other investments, which can be made only when collective action is initiated, otherwise the entry costs and operations at small scale are unviable. And some others require public investment in services. While these investments are at the aggregated level even when one considers the investments at the household level it sometimes seems that is beyond the scope of micro finance. The following case<sup>1</sup> would prove the point.

“ Let me take you to a village called Chinthapaka in the Pinakota panchayat of Ananthagiri mandal of the Vishakhapatnam district of Andhra Pradesh, truly the tribal heartlands of India. The village is 16 kms from a tarred road. The district was densely forested, though now the forest cover is denuded near inhabited areas. The rainfall is plentiful. The soil cover is still good. The inhabitants are mainly tribals – Nookadora sub clan, who till generation ago lived off the forests and patches of valley land irrigated by rivulets.

Vanthala Ramanna, a resident of this village has 3 acres of cultivable land and a separate patch of 2 acres on the hill slope. He has about twenty livestock, including a scrub buffalo, two cows, a pair of bullocks and dozen goats. He is married and has three children, and his old mother lives with him as his father is no more and his brothers have separated. Ramanna is unable to make a living from his land and goes to Hyderabad, for about six months every year. His wife joins him for part of the time, but comes back after every two weeks to look after the children, and his old mother lives with him as his father is no more and his brothers have separated. With all this, we estimate

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<sup>1</sup> Case is adopted from Mr Vijay Mahajan's article.

Ramanna's annual income to be Rs 15,000, putting him squarely below the poverty line.

On first sight, he looks like a potential candidate for micro-credit. But I maintain micro-credit will not benefit him much, if at all. Let us take the typical micro-credit loan, through the SHG route, which his wife could get by being a member of an SHG. For this, she will have to join an SHG, which someone, perhaps an NGO or a government agency would have to form. No such agency is in sight. But even if an SHG was formed, and then its members met and save regularly, it would take a bank at least 18 to 20 months before the SHG would qualify for a loan. By that time Ramanna's wife would have saved say Rs 20 per month, or Rs 360 in 18 months, to eventually get a SHG loan of perhaps Rs 1000 to 1500. What would Ramanna and his wife do with this loan?

- They cannot level or bund their 3 acres of farm land, since it requires at least Rs 3,000 per acre or Rs 9,000
- They cannot dig a well, which they need, since that requires Rs 20,000
- They cannot buy a diesel pump set and pipeline to raise water from a nearby stream, since that needs another Rs 15,000
- They cannot buy a buffalo, for that needs Rs 9,000 even for a graded Murrah
- They cannot plant trees on their 2 acres of sloppy land, since that needs Rs 5,000
- They cannot get a road to their village or electric line to their field, since the proportionate cost of each of these is Rs 15,000
- They cannot educate their daughter beyond the local school as it will need Rs 12,000 for her to pass the teachers training course."

All of the potential investment options as sighted in the case study have sound financial returns. The structure of financial support required also varies.

As in the discussions already that we have had it is clear that livelihoods promotion can simply not be achieved with simple credit provision through micro finance. The alternative that is emerging as livelihoods finance is only but simplification of the entire problem scenario.

If livelihoods interventions have to achieve secure livelihoods for poor, integration of various components have to take place. Forward and backward linkages, institutional support mechanisms, technological changes for productivity enhancement, market intervening mechanisms, social capital in terms of paraprofessionals, infrastructure both productive and social, financial investments (grant, debt and equity funds), risk reduction and mitigating mechanisms and enabling policy changes are some of the important components of livelihoods enhancement.

## Case

### Indramma – The Gitti Worker: Part A

Indramma sat on her haunches, hammer in one hand, breaking big stones into “gitti”<sup>1</sup>. Indramma had been doing this for the previous 30 years, and now over 70, she was wondering how many years she still had left. Thirty years had gone by without much change in her life in her village Amarabad, by the side of the road from Amarabad to Achampeta, in the interior part of Andhra Pradesh. She had lost her husband, and being childless, had to take care of herself since then. Fortunately, the contractor who had leased a stone quarry near her village, gave her this work – to make gitti out of big stones.

She came every morning from her home, to the work place, about a kilometre away, walking. The work place was just a long row of thatch-covered sheds, without walls. The quarry could be seen about half a kilometre away on the other side of the road. Men used to work there, hewing big boulders out of the side of the hill. As these boulders fell, they were broken up into big stones, and loaded into tractor trolleys. The trolleys then made their way to the row of work huts where Indramma and 50 others worked from morning to evening, breaking big stones into gitti.

Trucks came once or twice a week and the truck labourers loaded the piles of gitti into the truck for transporting to distant places. Indramma had heard about these places, but had never been to Hyderabad, Vizag, Vijayawada, all big cities. But she had been to Tirupathi, twice, once by bus and once in a gitti truck, to visit the temple. It was every crowded there but still she was happy she went.

Some two years back, some babus had come to their work huts. They sat around, talking, asking all types of questions. They looked like city people. Indramma kept working while answering their questions. First she was afraid they may be after something. But then she thought, "What do I have lose any way?" So when the babus asked her and others what they did for a living, she told them how the gitti business worked. There was the quarry contractor, but she did not even know his name. His man who dealt with them was one Reddy Garu, who paid them on the basis of how much gitti they could make. For one "chowka"<sup>2</sup> of gitti, which they could make in about three day, they got Rs.75. " That was it, fair and simple. No gitti, no payment, less gitti, less payment" she told the babus from the city.

Sometimes, if they worked two-three hours more each day, they could make a chowka in two days, bit it used to hurt their hands and arms, and then it meant slowing down the next few days. So they all just made a chowka in three days. The good thing was, Reddy Garu allowed them to take an advance if they needed, for a festival or if there was someone sick. Once Indramma could not come for a whole month due to fever, and Reddy Garu sent Rs. 300 to her home. She repaid him over several months by producing more gitti chowkas.

Though the work was hard, it was simple. Big stones were delivered to her work hut and gitti taken away from there. She was paid on spot, twice a week. She worked and rested as she liked and there were fifty others to talk to. There was always someone falling ill, or marrying off a son or daughter or buying a goat.

The city babus asked Indramma is she had ever taken a loan she told them no, never. What she meant was no loan from a bank. Of course, she borrowed once in a while from her neighbours and even lent to them, but this was Rs. 50 or 100 at a time and paid back without interest in a few weeks.

This was just to help each other out and she did not think of it as a loan. She told the city babus, that some years ago, a bank manager had come to her home, along with the village Sarpanch, and asked if she would like to take a bank loan for buying a cow. But she told them she could not keep a cow, as she did not have any land. "Where will I get fodder from? And then the whole day I have to make gitti so who will take the cow for grazing to the nearby forest" she had asked. They said she could send the cow with the village boy who took several cows but then the question was where will she sell the milk every day? There was a man who came on a motorcycle to the main village with a milk can, but he was not going to come another kilometre to her hut to pick up one litre of milk. No, she said she did not want a cow or a loan for it and that was that.

The city babus looked disappointed by her story. One of them asked: "So, what will you do, just continue to make gitti?" Indramma said, "Yes, Garu, that is what I have been doing for 30 years since my husband died. I am not going to start any new business now". "But, this work is very hard and you are quite old now", one of the kind babus said. Indramma responded, "Yes, but I am accustomed to it and any way I don't need much".

Shyly, Indramma asked the city babu, what brings them here. The older babu told her that they were from Vijayawada, where they were form a company, which gives loans to poor people. "That is very good of you", Indramma said, "but why do you come all the way, there must be lot of people needing against land or jewellery." The babus said, no, Indramma thought this was strange. What if anybody did not repay?

Then the babus explained that they would have to form into a group of five borrowers and guarantee each other's loan. Indramma decided this was not for her. Why should she take a loan in the first place and then on top of it,

guarantee the repayment of four others? She had lost enough time talking to these babus, she thought, and she went back to breaking stones into gitti.

But from the corner of her eye, she could see the babus talking to several others, and she saw Sai Ram, that fellow who had been to Vijayawada and Hyderabad several times and even worked there as a truck loader, talking to the babus for a long time.

Sai Ram told the babus from the company that he would like to take a loan for buying a buffalo and he will find four others to do the same. They will sell the milk to the motorcycle man who comes to their neighbourhood anyway. Sai Ram also introduced them to Guna Rajak, who was also willing to form a group of five for a loan, but they wanted to trade in sabai grass, which grows in the wild area. The babus said they will come back after a week.

Next week, one of the babus came back, on a motorcycle. This time he explained the rules of the company once more and said they have to give 10% of the loan amount first. Indramma knew there will be some catch. But Sai Ram was not daunted and he said he would bring Rs. 600 from his home savings to get a loan of Rs. 6000. Sai Ram could do it as he had two sons and the three of them used to carry home Rs. 500 every week. He and four others took loans to buy cows.

After that the company babu on the motorcycle would come once a month to collect the loan instalments. He was always welcomed by Sai Ram who was ready with the money. He has to pay Rs. 500 per month. Indramma was told by Sai Ram's wife that their cow was yielding two litres a day and they managed to earn Rs. 16 per day just sitting at home, or so she said, for she did not come for gitti work and was able to take care of the cow in the morning and evening and sent it out for grazing with the village cowherd during the day.

Indramma could not see what benefit they got, paying to the company a little more than they were earning from the cow but Sai Ram's wife told her, "After one year the cow will be ours fully and then we will have Rs. 500 per month more income". But after eight months, the cow went dry. Sai Ram continued to pay the company from his gitti income. Of course, they also had two acres of land, which they had leased out, from which they had paddy for feeding themselves for four months.

Then one morning, they saw a big machine being hauled by a truck towards the quarry and realized after a while that it was a mechanical stone crusher, which could produce four truckloads of gitti per day.

Sai Ram had repaid only part of his Rs. 6000/- loan and his wife told Indramma that they were very worried. When the company babu came the following month, Sai Ram told him "What will we do know? All of us will lose our jobs making gitti. We don't know anything else except to break stone and do manual work. We won't be able to take any more loans from you because we are paying partly out of our wages."

The babu said, "This is a real problem. I will talk to my boss and come back next week. But in the meantime, ensure that you pay back your instalment in time somehow." Indramma thought to herself, "I am glad I did not take any loan from these fellows."

# Indramma – The Gitti Worker

## Part B

The company babu came back after a few days with the big babu. He talked to them and they told him that all of them would be out of work soon, except may be a few younger men who will get jobs at the stone crusher. He asked: “Why don’t you think of using your stone work skill to make other types of things than gitti. I was in Rajasthan and I saw lot of stone items there – “Jails” and “gamlas” and door frames.”

Sai Ram showed interest and the babu said he could arrange a visit to the Rajasthan project. So Sai Ram and Guan Rajak decided to make a visit. The trip was going to cost Rs. 1000/- but the company said it would bear all the cost. They reached the stone cluster of Sikandra, between Agra and Jaipur, after a two-day train journey to Agra and three hours by bus. When they reached Sikandra, they were dumb struck. There were at least a hundred units producing stone items, each equipped with centre cutting machines and lathes and drills, all under a work shed and all having a direct power connection. It was so far ahead of their thatch work huts. “Even in two generations, we cannot be like this. Let us go back and become truck loaders,” Sai Ram told Guna Rajak.

The company babu who had gone with them assured them that they will be provided training and all help. Sai Ram said, “But this stone is very different from the stone we worked with. Our stone cannot be cut or shaped. We only know how to break stones. Even if we learn polishing stones, who is going to arrange to bring this stone to our village and then where will we sell it?” The company babu had only vague answers for these questions.

They came back to their village after a few days. Sai Ram's sons had managed to get jobs in the stone crusher, where the daily wage was Rs. 35/-, so at least they could run the house. But Sai Ram was at a loss as to what to do for a living. Moreover, he did still not pay the last four instalments of his loan and was worried that the company babu will come to his house for recovery. After a month, the babu came to Sai Ram's house and asked for the loan instalment. Sai Ram explained to him the situation and the babu said again, "Somehow you have to repay us." Sai Ram could see that the babu was losing patience.

The babu then went to see Indramma at her home. It was a simple one-room hut, with a small cooking area on one side, and a neat mud floor courtyard. The babu asked, "So, what will you do now that you didn't have gitti work?" She said, "See, here I grow some vegetables and I have one drumstick tree, a jack fruit tree and also a papaya tree. And I have two goats and I keep three countries chicken." He asked what the rope bundles were. Indramma replied: "At the end of the rainy season, I collect a few stacks of sabai grass and dry it to made rope, which I sell in the weekly haat." The babu asked: "So if you had all this, why were you doing the hard work of breaking stones at your age?" After some thinking, Indramma said: "I used to go to the gitti work every day, because that is where I could spend all my days talking to my neighbours and other women. So, now I will start a teashop keep chatting with the boys who work on the trucks. May be one day will go to Tirupathi with them in a truck."

# SESSION

## Process and Livelihoods Intervention Plan Development

### **Learning Objective:**

- To help the participants familiarize with the livelihoods intervention process and understand the sequence of steps involved in planning and implementation.

**Duration:** 1.5 hours

### **Methods:**

Interactive Presentations and Small Group Exercises

### **Facilitation Tips:**

The facilitator should be able to present the case studies of few livelihoods intervention process they have observed and learnt about. The preparation of case studies will help them in better understanding of the entire session.

The facilitator can start the session with basic questions like asking the participants to narrate the experience of how to develop any livelihoods interventions from their experiences. The facilitator can then give some tips on the planning process through the discussions from the participants. After having the initial discussions the participants can be divided in to four different groups. The groups are expected to undertake exercise to develop the livelihoods intervention process for any chosen livelihood. The facilitator may give roughly 30 minutes for the groups to discuss and make a presentation.

Finally to consolidate the learnings, the facilitator may make a presentation of the process and ask the participants to go through the reading material.

**Exercise:**

Group exercise on developing the livelihoods intervention process for any chosen livelihoods.

**Expected Minimum Learning:**

The participants should be able to appreciate the various steps in the intervention process and also understand certain key steps, which will have determining role in the success of the project.

**Reading Material**

Chapter-3: Processes and Livelihoods Intervention Development

## CHAPTER-3

### PROCESSES AND LIVELIHOODS INTERVENTION DEVELOPMENT

The livelihood intervention process is contextual and may follow different routes based on the need, readiness of the community and the capacity of the intervening organization. Though the steps mentioned below are in detail, the process followed may be more elaborate or shorter. But they will broadly follow the steps of – 1) Knowing the community and its needs, 2) Discussions and Analysis with the community on the potential activities/livelihoods to be explored, 3) Analysis of the options, 4) Piloting the opportunities and 5) Scaling-up. The livelihoods intervention process can be depicted through the following cycle:

<b>Implementation</b>	<b>Management Systems including M &amp; E</b>	<b>Process Initiation</b>	<b>Building Rapport</b>
<b>Capacity Building</b>			Identification of entry point activities
<b>Form Institutions of Poor</b>			Planning entry point activities
<b>Mobilization and Development of Resources</b>			Implementation of entry point activities
<b>Appraisal of Business Plan for Intervention</b>			Conduct Participatory Diagnostic Studies
<b>Preparation of Business Plan for Livelihoods Intervention</b>			Evaluation of opportunities for feasibility and viability

# Session

## Livelihoods Analysis and Tools

### **Learning Objective:**

1. Understanding of tools that are useful for livelihoods analysis at household and village level
2. Understanding of importance of analysis of micro level scenario, macro level scenario and market opportunities
3. Understanding of tools for analysing micro level scenario, macro level scenario and market opportunities

**Duration:** 4 hrs 30 min.

### **Methods:**

Interactive class room sessions and Field work

### **Facilitation tip:**

The facilitator should read all the tools given in the reading material and understand the use of each tool, information to be collected by each tool and how to collect the information by that tool. The facilitator should explain each tool and information to be collected in the classroom. The facilitator should also use examples to explain each tool. H/she should show the participants the charts depicting tools prepared for various programs in the past. This will help them to understand the pictorial presentation of the information.

Having explaining them about each tool, divide them into the groups and take them to a village for hands on experience in using these tools. Here, they should be asked to use various tools to collect the information from villagers. The facilitator should help them in ensuring the participation of villagers and collecting the information from them. Taking the participants to different villages, will help in identifying the

differences, contexts and the issues in these villages and will contribute to better understanding.

After coming back from the village, the facilitator should ask them to make presentations of information collected by using various tools. During the presentations the facilitator should help the participants to identify the gaps in the tools. Having presented all the tools, the facilitator should help them in the analysis of livelihoods based on these tools and identify the opportunities, gaps, leakages and problems in the existing livelihoods and opportunities for new livelihoods.

### **Exercise**

1. Visit or assume a village and analyze the livelihoods of that village using the Village-Household assessment tool. Make the presentation of the analysis.
2. Identify a livelihood, analyze its value chain and make a presentation.
3. Select a sub sector and conduct a sub sector analysis.
4. Visit a local market/ shandy/ wholesale market/ supermarket and conduct the market survey for a product / commodity.

### **Reading Material**

Enclosed as Chapter-4: Livelihoods Analysis and Tools

## Tips for the Facilitator

- Market place and the village in which the participants are going to field test the tools should be a new one or unfamiliar to the participants
- Do not provide any pre-pared checklist. Instead ask the participants themselves to prepare suitable checklist in their groups
- Divide the participants into a small group to avoid free-riding. Maximum three members is ideal
- The groups should be given some time to plan the visit and allocate responsibilities, topics, etc
- The participants should introduce themselves and stress that they have come to learn from the business and not to “teach them”
- Ensure that each group has at least one person who can speak the local language
- Ask the participants that at any point of time only one person has to ask questions and the rest should take notes
- The group should allow the business to continue and should not make the owners lose business during discussions. Hence, ask the participants to stand aside when the owner is attending any customer
- In the market following aspects should not be missed
  - Interviewing women run businesses
  - Should cover services, manufacturing and small vendors – that is all types of business should be covered
  - Should cover group enterprise, individual micro enterprise, big, small and seasonal businesses
  - Ask the participants to observe things around and gather information by looking at stock, quality, treatment with customers
  - Ask for financial details such as
    - Daily sales figures
    - Expenses, investment, profits

# CHAPTER 4

## LIVELIHOODS ANALYSIS AND TOOLS

The Tools only act as a medium and can be modified according to the context. Also while looking at the livelihoods of the poor following points have to be kept in mind.

- Investigating the livelihoods of the poor also requires looking into the livelihoods of the rich. The livelihood trajectories of one social class have a significant impact on the livelihoods of other classes too.
- Combination of different methods and tools have to be used
- The livelihood analysis have to be undertaken at three levels:
  1. Micro level – Village-household assessment
  2. Macro level - Sub-sectoral studies
  3. Market opportunities – Market study

Level	Micro level	Macro level	Market opportunities
<b>Tool</b>	Village-household assessment	Sub-sectoral studies	Market survey
<b>Focus</b>	Household and village	Region/ livelihoods/ resource	Demand in the market
<b>Possible level of intervention</b>	Family	Village/ cluster of villages	Village/ cluster of villages
<b>Scale of Benefit</b>	Marginal	Significant through integration of various stages in value chain	Significant due to high demand
<b>Sustainability</b>	Less	High	Less

<b>Risk</b>	Less	Moderate	High
<b>Support required</b>	Less	High	High
<b>Reach to poorest household</b>	High	Moderate	Very less

The priority should be given for existing livelihoods in planning for livelihood intervention as –

- Poor have skills, experience and confidence in existing livelihoods
- Infrastructure facilities (minimal) and market are already there to support existing livelihoods
- Existing livelihoods (of family/village) are less risky.

The effort should be to augment returns from these livelihoods by plugging the leakages, rather than searching for new opportunities. This is done through Village-household assessment at micro level and Sub-sectoral study at macro level. If there is no scope of improving returns from the existing livelihoods or there is no demand for the products/services in the market, then the option would be to add new livelihoods, add new lines of goods and services, new produce collection, new crops/varieties or provide new sources of income (skills, assets and opportunities), etc. Market study is undertaken to scan new market opportunities and demands.

Tool “Village-household assessment” is used to analyse the existing livelihoods of families and village at micro level.

The “Village-household assessment” tool includes –

- a) Secondary data analysis
- b) Timeline of village
- c) Social map
- d) Wealth Ranking
- e) Mapping vulnerable
- f) Institutional map - Venn diagram

- g) Resource map
- h) Seasonality calendar
- i) Common Property Resource analysis
- j) Traded-in and out
- k) Farming system
- l) Technology map
- m) Local opportunities
- n) Analysis of existing and possible alternative livelihoods and Prioritisation of livelihoods

At the household level

- o) Income and Expenditure patterns

## Background of Livelihoods Planning

**Rural livelihoods** – livelihoods of the rural poor - are built around their private resources, their access to and control over natural resources, common property resources and public facilities, their skills and their perception of the opportunities available keeping in mind their perceived ability to take risks. Some of the important rural livelihoods are agriculture (including agricultural labour), livestock, other wage labour, NTFP, Fisheries, petty trade, handicrafts, artisans, other traditional occupations and new occupations emerging. The processes, production and producer-to-consumer value chain analysis, demand first principle, the need to tap increasing portions of the consumer rupee on these existing produce/products and the need to shift from agriculture and related products to services for significant numbers of the poor, the effect of liberalization etc., have to be understood. The need for coming together, the need for alternative livelihoods, and the need for micro-enterprises for the poor is also to be explored.

**Gender:** It addresses – within her/himself (self-awareness), basics (difference between sex and gender, the patriarchy, stereotypes, gender discrimination etc.,)

and where does the development professional start her/his work to address the gender inequities, particularly in the context of the livelihoods of the poor and the poorest of the poor.

**Development Interventions:** Development of the poor is a function of the cumulative effect of the three key players of the Development Triangle(s) – State, Society, Market or State, Civil Society Institutions, Market. Each player has many roles to play. There are ways in which people have to respond, if these players do not play their role. These players have to collaborate, critique and advocate. Each can feed the other. This has to be understood.

The history of the voluntary action, the institutions of the poor themselves, the new paradigm of corporate social responsibility, and the concept of the safety net for the poor have to be discussed. The rights and entitlements of the poor and the ways to ensure access to these have to be understood. Shift from the Charity to Professionalism is to be discussed.

The role of development organizations in building more and more civil society institutions including CBOs, public service contracting, critique and advocacy of public policies, coordinating, networking, mobilizing the people, linkages etc., have to be understood for the institutions of the poor may have to assume some of these roles. Further, Collective action and institutions have to be fully explored. Movements, Learning Organisations etc., have to be explored.

**Development Professionalism:** This subject focuses on who can make a good development professionals, what kind of attitudes make her/him click, the kind of career exists, the ethics for the development professionals, the ordinate principle of new development organizations (accountability, transparency and participation of the people) etc. If one has to describe the set of ethics and critical attributes of a development professional, it is Love. What does it mean, what it entails, how it can be practiced, etc., has to be discussed. Further, the development starts from within. This aspect of internal change is to be explored. Development Professional has the need to be a moral leader. S/he has to understand how it is different from various

kinds of leaderships, and how to practice moral leadership and how to develop moral leaders.

Learning processes are something the development professional should get hooked on to. Learning is about focus on wisdom and knowledge. Learning the relevant skills, tools required and knowledge is critical as one feels the pain of not able to give because s/he does not know/have. Further, the process of learning (initiate-be effective-be efficient-expand), sharing and reflecting (learning process mechanisms), feedback and monitoring etc., are to be discussed. People have resources, skills and knowledge and the professional has (or has access to) some resources, skills and knowledge and these two have to be married together. This has to be understood, with the clear caveat that People First and Tools Next.

# Livelihoods Enhancement Action Plan (LEAP) Processes for Evolution of People's Projects

## Specific Objectives of LEAP

- ⇒ To expose the Livelihoods professionals to the vastness of the development issues, programs, strategies and organizations addressing these issues
- ⇒ To provide understanding to the basic concepts related to poor, poverty, development, environment and livelihoods
- ⇒ To improve their understanding of villages from various dimensions
- ⇒ To impart the basic skills of research, tools and techniques to be used in their fieldwork and thereafter for understanding various aspects of poverty and livelihoods of the poor and possible intervention areas
- ⇒ To initiate the process of sensitisation towards aspects like gender, caste, class, tribals and environment
- ⇒ To impart the knowledge and the paradigm shift in the approach recently being followed
- ⇒ To appreciate the purpose of the Livelihoods interventions, understand the livelihoods outcomes and become committed to the same
- ⇒ To inspire (with the help of senior people in development, documentaries, films etc.) and provide mentoring support
- ⇒ To practice the tools of LEAP Processes, in order to present the livelihood analysis to the communities in terms of value chain analysis of major livelihoods, gaps, leakages and constraints, value chain 'stretches' up to consumer, local markets, credit linkages/leakages/tied-up mechanisms, middlemen (and their positive and negative roles), available local opportunities etc., and the communities converting this analysis into comprehensive and integrated subprojects to enhance the livelihoods of the poor
- ⇒ To appreciate principles (Productivity, equity and sustainability) of peoples projects, and the timeline, appraisal and environment assessment, eco-friendly subprojects etc. and the role of Livelihoods Professional in preparation of peoples projects
- ⇒ To improve their decision-making skills through inputs in basic management and financial accounting and exercises and impart basic business principles
- ⇒ To appreciate the importance of cooperation and collectivisation, its need for the poor and the processes, structures, mechanisms etc.

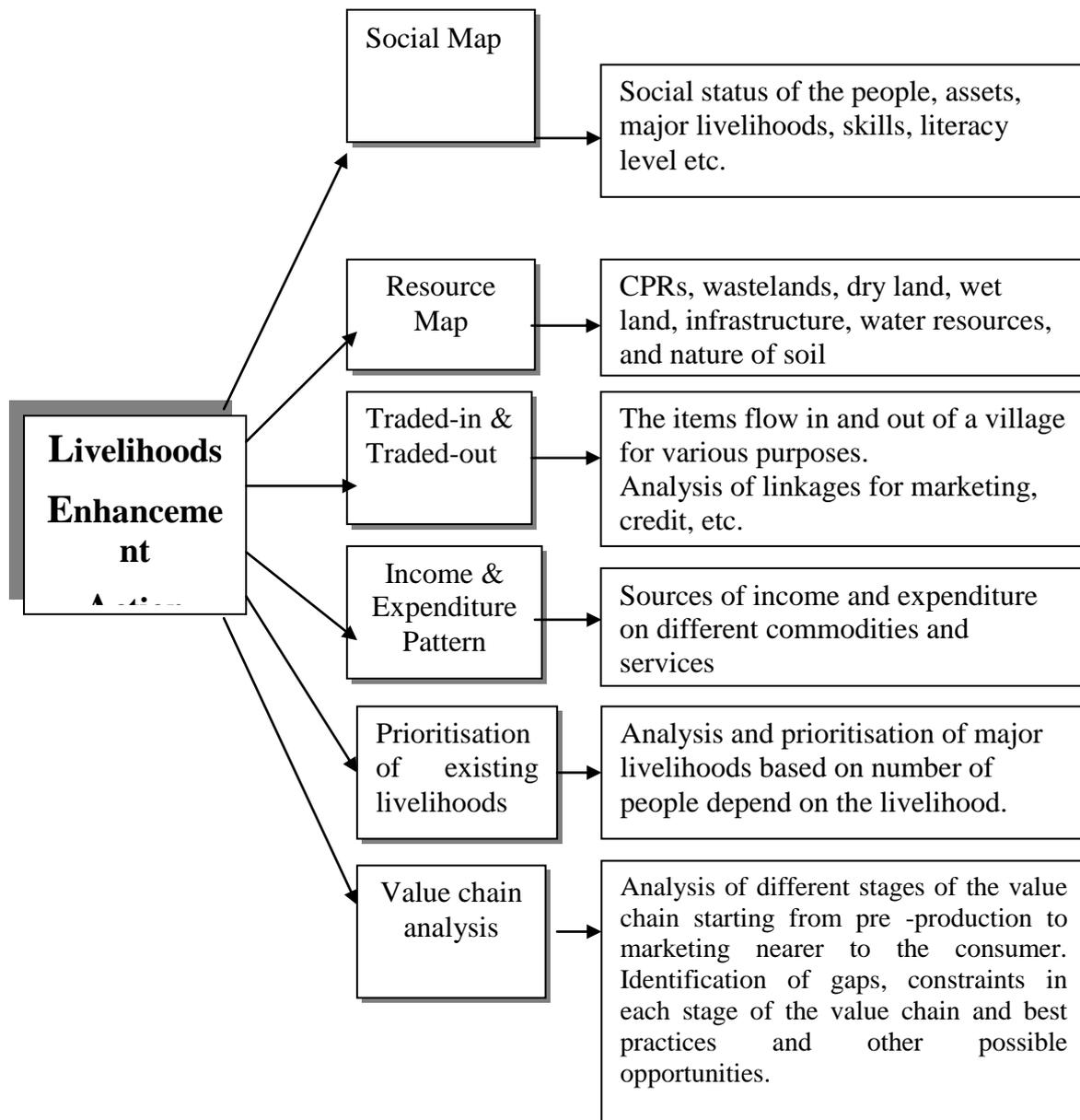
- ⇒ To involve in group appraisal process of the real sub-project proposals so as to see the gaps, untapped opportunities etc., in their proposals and improve their ability to develop comprehensive sub-projects
- ⇒ To discuss both intensively and extensively on value chains of the significant livelihoods of the poor and the related sub-sectors (and their analysis) at micro and macro levels for figuring out possibilities for the poor to tap possible opportunities
- ⇒ To understand the issues in wage labour and migrant labour, specifically
- ⇒ To see markets and various market operators
- ⇒ To study various large-scale interventions and draw lessons for our livelihood interventions
- ⇒ To discuss various case-studies for understanding and replication lessons
- ⇒ To understand the importance and need for collaborations/partnerships for the community with various players (formal and informal)
- ⇒ To begin to appreciate the role of IT in enhancing livelihoods of the poor
- ⇒ To understand the leadership aspect in the livelihood interventions and cooperatives
- ⇒ To sharpen the role clarity at different levels
- ⇒ To appreciate the need to identify, document and disseminate the best practices and to see the feasibility of these practices in respective areas
- ⇒ To understand and apply the concepts of Feasibility, Viability, Cost-effectiveness etc.
- ⇒ To appreciate the need and role of the paraprofessionals and inducting them

In addition, LEAP has been set around a certain key central messages:

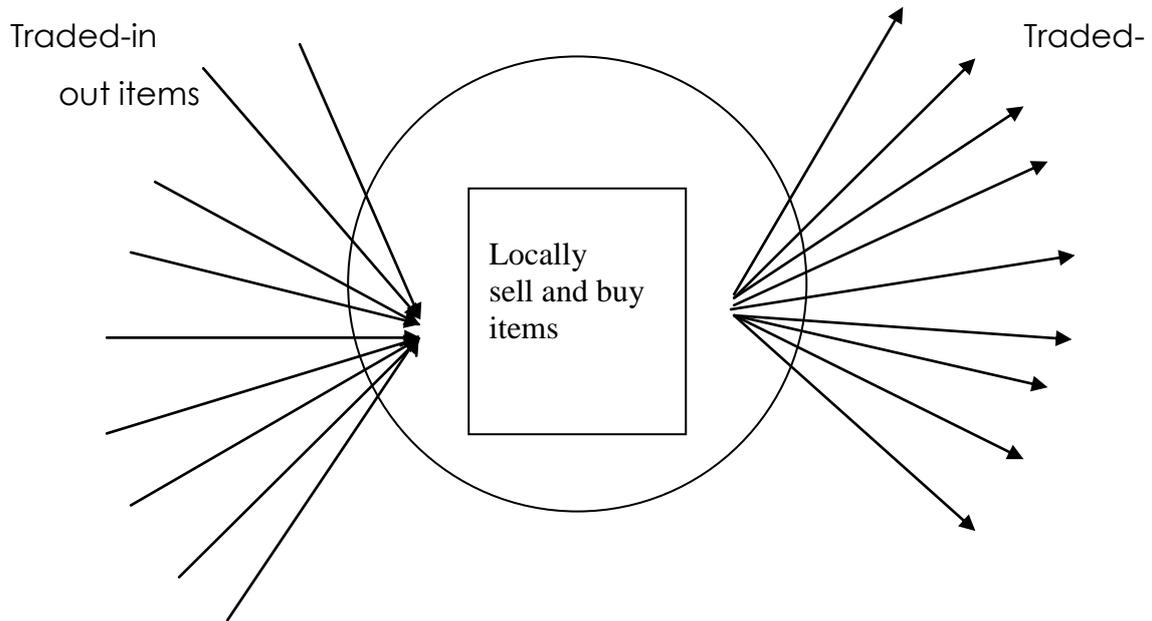
- a. Multidimensionality of the development issues and livelihoods
- b. Multiple approaches to development and livelihood interventions
- c. "People First and Tools Next"
- d. "Existing First" and "New Next"
- e. Marriage between the people's knowledge, skills & resources and outside knowledge, skills & resources
- f. Development begins from within
- g. Learning process – act –reflect –plan –act

- h. Development work means accountability, professionalism, valuing all inputs and resources
- i. Poor deserve serious, rigorous and hard work from the professionals

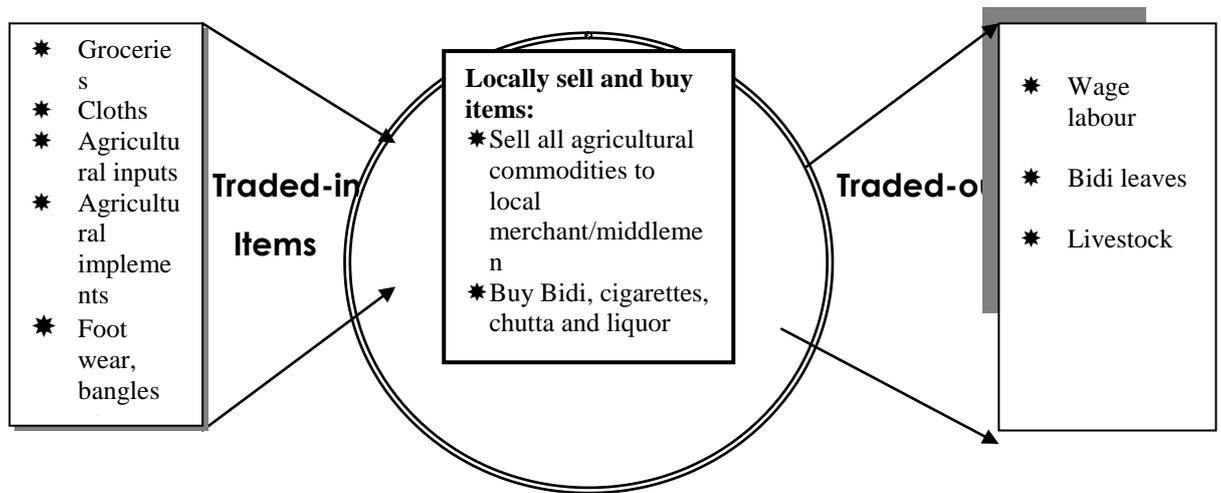
### Important Segments of the LEAP Processes



**Figure: Traded-in and Traded-out items in a village**



**Figure: Traded-in and traded-out items in Kalmulonipally village, Amrabad mandal, Mahabubnagar dist.**



**LIVELIHOODS ASSESSMENT CHECKLIST**

**I. Time Line**

*Focus on last 10 years*

- Changes in livelihoods—declining of some livelihoods, arrival of new/ diversified livelihoods
- Major development programmes that took place in the village – both Govt. and non-govt; Lessons from them – whether resulted in intended results or not – reasons for it, impacts of it etc
- Change in
  - opportunities
  - Technology
  - Resources etc
- Major risks that they faced and how did they cope with them

## II. Analysis of existing livelihoods

Name of the livelihood	No. of Families Depended (for whom this is major livelihood)				No. of days of employment	Season /Month	Income (Rs. Per family per year)
	SC	ST	OBC	OC			

## III. Social Map Details

### Community-based organizations

SHGs, VO, Gram Committee, VSS, PACS, occupational groups, Cooperatives etc

For each category of group,

Total no. of groups	No. of members	Date of formation (first)	Services	Total corpus	Any collective livelihood activities taken	Other Details (linkages,

					up, describe	activities etc)

Scope for collective action – for what purpose, by whom; Livelihoods based institutions

Different ideas from Social Map include imparting skills to migrant labour, promotion of dairy and livestock, infrastructure development, measures to provide security to single women and old aged etc.

#### IV. **Details of Resource map**

##### a. Land holding pattern

Community	No. of landless	No. of small & marginal farmers	Total landholding (acres)	No. of medium farmers	Total landholding (acres)
SC					
ST					
OBC					
OC					
<b>Total</b>					

##### b. Land use pattern

Category of land	Extent (acres)	Remarks

##### c. Livestock

Livestock	No. of families	No. of	Main community having the

	<i>owning</i>	<i>animals</i>	<i>livestock</i>

*d. Water resources*

<i>Type of source</i>	<i>No.</i>	<i>No. of families depended</i>	<i>Status of resource</i>	<i>Access to the poor</i>	<i>Remarks (usage etc)</i>

*e. Common property resources*

<i>Type of land</i>	<i>No.</i>	<i>No. of families depended</i>	<i>Status of resource</i>	<i>Access to the poor</i>	<i>Remarks (usage etc)</i>

Different ideas from Resource Map include Land development, land purchasing for land landless, reviving CPRs and increasing income for the dependents on CPRs and increasing work-days for rural labour, promoting NTFP collectors and training them on sustainable practices, etc.

**V. Traded-in and Trade-out**

<i>Traded-in</i>				<i>Traded-out</i>			
<i>Item (product/ service)</i>	<i>No. of units (&amp; description of unit)</i>	<i>Unit value</i>	<i>Total Value (Rs.)</i>	<i>Item (product/ service)</i>	<i>No. of units (&amp; description of unit)</i>	<i>Unit value</i>	<i>Total Value (Rs.)</i>

*Traded-in*

- a. Any collective purchases – scope for collective purchase
- b. purchased daily, weekly, monthly
- c. source of purchase - local/ shandies / trader
- d. Seasonality
- e. Problems in buying

*Traded-out*

- f. Any collective sale– scope for collective selling
- g. Sold daily/weekly/monthly
- h. Sold locally/shandies/traders
- i. Seasonality
- j. Problems in selling

**VI. Value Chain Analysis**

*2 value chains of major livelihoods of the poor*

- *Different stages in value chain: pre-production -- production--- harvesting --- post-harvesting --- local value addition --- marketing etc*
- *Value addition*

Stage					
Activity					
Expenditure					
Income					
Profit					
Gaps					
Suggested interventions					

**Best Practitioner**

*Study of 2 best practitioners (1 for each value chain)*

Stage					
Activity					
Expenditure					
Income					
Profit					

- Name, caste, occupation etc
- Technical, financial and other support – from whom, how, what, when
- What are the best practices that he/ she is adopting
- Reasons for adoption such practices

## VII. Study of Households

Make sampling as per

- Livelihood
- Poverty
- Community (SC, ST, BC, Minority)

Aspects to be covered

- Major development programmes that they accessed – both Govt. and non-govt, Benefits/ impact of it
- Poverty – level, status; reasons for being poor
- Income & Expenditure analysis

Name of the head:	Main Livelihood:		Caste:	No. of Family Members (Adults & Children):	
Sl. No.	Source of Income	Amount	Sl. No.	Expenditure Item	Amount
	<b>Total</b>				

### Sources of credit

Total credit requirement per year (Rs.)

Amount (Rs.)	Source	Interest	Purpose

- *Membership of family members in any groups*

Family member	Group	Member from when	Reason to be in group	Benefit received from group

- *Different assets that the HH own/ access*

Name of the asset	No. (give in relevant units)	Ownership	Access & Control	Status of the asset

- *Seasonality of works*

Activity	Season/ Month	No. of days of employment (per year)

- *Major changes in their lives in past 10 years – time line (like marriage, death, change in livelihood, birth, house construction, major purchases, illness etc.)*
- *Future plans – both in occupation as well as personal life*
- *Risks – major risks they faced in last 5 years; how they cope up with them*
- *Details of the primary livelihood*
- *Food security - Total rice requirement per month (kgs), Source, Cost*

## **VIII. Others**

1. Youth - Number (education level wise), how they are engaged presently, their aspirations etc)

## 2. Status of Migration

<i>Seasonal</i>				<i>Distressed</i>		
<i>Number</i>	<i>Place</i>	<i>Type of Work</i>	<i>Reasons for migration</i>	<i>Number</i>	<i>Place</i>	<i>Type of Work; Reasons for migration</i>

### **IX. FGDs with occupational groups**

#### **X. For entire village as a whole, identification of gaps, opportunities and possible interventions**

<i>Gaps</i>	<i>Opportunities</i>	<i>Possible interventions</i>

# Session

## Livelihoods Analysis, Tools -Value Chain& Sub-sector Analysis

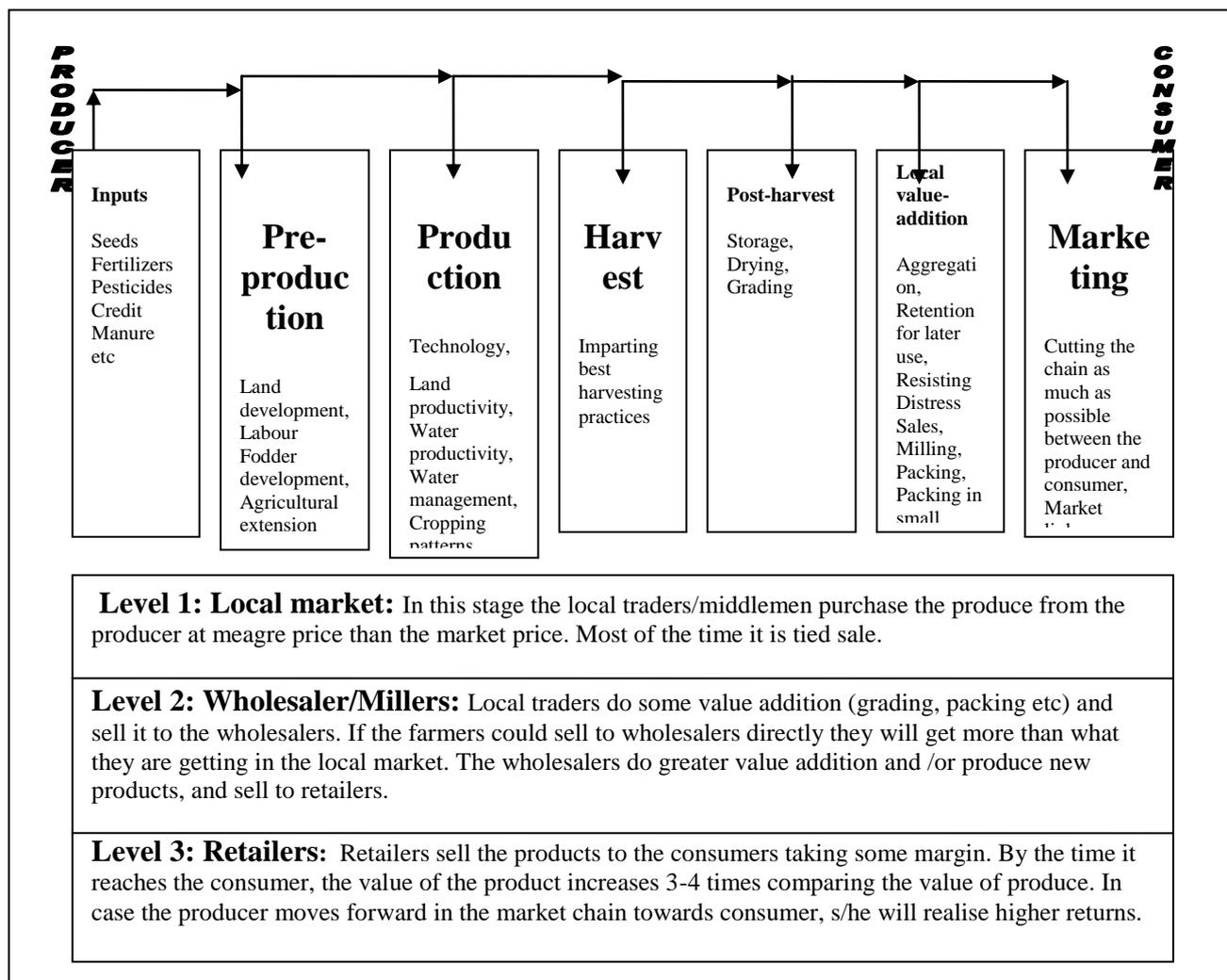
### CHAPTER 4: Value Chain Analysis

The value chain consists of different stages starting from inputs --- pre-production -- production--- harvesting --- post-harvesting --- local value addition --- marketing nearer to the consumer. In the value chain analysis, the linkages, backward and forward, will thoroughly be analysed for appropriate intervention.

The value chain analysis involves the following processes:

- a. Identification of the various produce/commodities produced in the village; business cycles
- b. Pre-production: Inputs – Raw material, processing systems, support services for supplying inputs, infrastructure, actors
- c. Production: Infrastructure, technology, processes, actors, quality, productivity
- d. Post-Production: Storage, Cleaning
- e. Local Value-addition: Aggregation, retention for later use, resisting distress sales, packing, etc
- f. Marketing: Marketing channels, actors, terms & conditions, credit requirements
- g. Identifying the gender dimension in every stage of the value chain

***Value-Chain format for agricultural products***



### Analyzing sub-sector dynamics and leverage points

To analyze the dynamics of the sub-sector, the following needs to be undertaken carefully:

- Identify the channel with most secure prospect of growth
- Assess the emerging threats for these channels
- Role of micro- and small enterprises in these channels
- Method to enhance their ability to participate in the growing niche

To analyze the above points, the following factors are important to study in detail:

- Market demand
- Technological changes
- Profitability of different niches.
- Risk in the entire sub-sector stages
- Barriers to entry
- Large firm behaviour
- Input supply
- Institutional support

## Ragi Value Chain and Sub-sector Study

### **Contents**

1. *Objective of study*
2. *Methodology of study*
3. *District profile*
4. *Ragi: as crop, commodity and product*
  - a. *Introduction*
  - b. *Production*
  - c. *Varieties*
  - d. *Nutritive value*
  - e. *Uses*
  - f. *Ragi based products*
5. *Value Chain of Ragi*
  - a. *Production*
    - ✓ *Stage 1 to stage 8*
    - ✓ *Gender in value chain*
    - ✓ *Analysis of benefit to cost for Ragi*
  - b. *Marketing*

- ✓ *Description of Market channels*
- ✓ *Local market*
- ✓ *State level markets*
- ✓ *National markets*
- ✓ *International markets*
- ✓ *Government support for marketing*
- c. *Value Addition*
- d. *Producers' share in consumers' money*
- 6. *Sub sector analysis*
  - a. *Production and trends*
  - b. *Consumptions and trends*
  - c. *Technology and research*
  - d. *Government Policies*
  - e. *Opportunities in National & International Markets*
- 7. *Gap and Opportunity analysis*
- 8. *Intuitional models*
  - a. *type of models*
  - b. *examples of models*
- 9. *Recommendation*

## **Executive Summary**

This study tries to analyze the Ragi value chain and sub-sector to gain understanding of its production processes, market (from local to international) for commodity as well as its products and policy framework, so that relevant interventions in Ragi value chain can be suggested for tribal areas of coastal Andhra Pradesh with suitable institutional model to implement the recommended interventions. The study has covered 5 districts of Andhra Pradesh – Srikakulam, Vizianagaram, Visakhapatnam, East Godavary and Chittoor. In addition to this, Koraput district in Orissa is also covered as a part of extended tribal area. The analysis and recommendations are based on primary data collected from these districts

through field visit, focused group discussions and interviews along with the secondary data, collected through library search and Internet browsing.

Ragi is an important staple food grain crop in Andhra Pradesh along with Rice, Bajra and Jowar. It is also an important staple food in other parts of India as well as in other countries of Asia and Africa, particularly in Eastern Africa. Its small seeds can be stored safely for many years without insect damage for as long as 50 years, which makes it a traditional component of farmers' risk avoidance strategies in drought-prone regions.

Ragi grain is an excellent dietary source of methionine and calcium. It is also higher in several other nutrients as compare to the raw milled rice, which is replacing Ragi in tribal areas. As per an estimate, 80 percent of the world's Ragi production is used as food, the remainder being divided between feed (7 percent), other uses (seed, beer, etc.,) and waste. Ragi is also used as folk medicine. The major Ragi products are Ragi Flour, Ragi Malt, Ragi Malt weaning food, Ragi Weaning food and Ragi based energetic foods.

It can be grown in a wide range of environment and growing conditions from southern Karnataka state in India to the foothills of the Himalayas in Nepal, and throughout the middle-elevation areas of Eastern and Southern Africa. Across the world, Ragi along with other millets is cultivated on around 38 million hectares. Current global production of Ragi and other millets is about 28 million tons, where Asia and Africa are the main producers. India, Nepal and Srilanka are main Ragi producing countries in Asia. The major Ragi producing states are Karnataka, Orissa, Uttar Pradesh and Tamil Nadu in India. The total area under Ragi cultivation was around 16.41 lakh hectares in India in 1999 –2000 and its production was around 24.8 lakh tones in 2001 –02, which accounts for 1% of total food grain production in India. Both area and production keep fluctuation from year to year and slowly coming down. In Andhra Pradesh, the total area under Ragi has come down from 2.26 lakh hectares in 1984-85 to .99 lakh hectares in 2000-01, similarly total production

has slide down to 1.2 lakh tones in 2000-01 from 2.45 lakh tones in 1980-81. Other crops are replacing Ragi, as more farmers are opting for rice, wherever irrigation facilities are available or groundnut, cotton and sugarcane. Field visits indicate that the number of farmers growing the crop is also coming down slowly. At present, around 50% of total households are growing Ragi in Tribal areas as against 100% few years back.

At present, Ragi is mainly grown in coastal Andhra, which accounts for 58% of total Ragi growing area of Andhra Pradesh and produces 54% of total Ragi production of Andhra Pradesh. However, 85 % of the total area under this crop is grown in Srikakulam, Vizianagaram, Visakhapatnam, Anantapur, Chittoor and Mahabubnagar districts.

The analysis of Ragi value chain from studied districts shows that Ragi is grown on dry, peripheral and marginal land with no irrigation facilities. This type of land cannot be used to grow any other crop with small scale of financial investments. It was observed that wherever farmers have irrigation facilities, they have shifted to Paddy. Ragi cultivation is still done in traditional way, evolved over generations. It is not at all technology intensive and tune to modern cultural practices. Farmers are using own local variety seeds in all the districts. Use of improved or hybrid varieties, inorganic fertilizers and pesticides are negligible. It is sown through transplanting or broadcasting, however transplanting is more common, in the month of June and July. Ragi cultivation is also observed to have minimum cultural practices. Except for plough and manure application before sowing Ragi, no other cultural practices are followed but for one weeding in case of broadcasting. Family members, particularly female members, contribute most of the labour, required for crop. On an average women work for 30 to 39 person days, whereas men work for 11 person days for cultivation of Ragi in a season. In addition to this, grinding of Ragi to make flour require 2hrs for 1 Kg, which has been expressed as major concern by women.

The Ragi yield ranges from 3 to 12 quintals for transplanting and 3 to 8 quintals for broadcasting. The average cost of cultivation of Ragi through transplanting in one acre is around Rs. 700 to Rs. 800 and Rs. 1400 to Rs. 1500, if opportunity cost of family labour is considered. However, the benefit from Ragi crop is around Rs. 900 to 1300 from one acre. The cost benefit analysis for transplanting method does not show the positive value addition, if opportunity cost is considered. Otherwise also, net profit margins are very low. Due to this, farmers are not investing more in the crops.

There are international, national, state level and regional level institutes; universities, research station and organizations are working on Ragi and other millets. Despite this, very little has been achieved in terms of increasing the yield and production of Ragi so far. Whereas, the production of Bajra has been doubled in last two decades due to release of improved varieties and extension work. The few reasons for this are difficulty in crop improvement in Ragi as compare to other crop, lower budgets for research in Ragi, lack of coordination between research work and farmers requirement.

Only 15-20% of Ragi food surplus enters into the commercial marketing system, remaining is kept for own consumption for a year. The surplus Ragi is exchanged for other items of household consumption through barter system. Most of this exchange takes place in the villages between either villagers for other agriculture produces or petty traders for household consumption items. The petty traders exchange 3 Kgs of Ragi with items worth Rs. 8 to 10 and sells to local trader at the rate of Rs. 3.50 to 4.50 per kg. These local traders, in turn sell, Ragi at the rate of Rs 5 per Kg to other wholesale traders, who sell Ragi in state level markets. The major state level markets are in Srikakulam, Parvatipuram, Ankapalli, Vijayawada, Madanpalli and Kurnool. Here, Ragi is sold at Rs 7 or 8 per Kg.

The national market for Ragi is in Yashwantpur, Kolar, Bangalore and Hassan in Karnataka. These centres supply Ragi to Rajasthan, Delhi, Uttar Pradesh, Maharashtra, Chhattisgarh, West Bengal and Madhya Pradesh, mainly. The peak season for Ragi trade is from February to June and it is available in 4 grades in the market - Poultry feed, Local, Graded and Medium. The current price of Ragi in Bangalore is Rs. 6 per kg. Ragi prices, on an average, are lower in Karnataka and higher in Andhra Pradesh, Tamilnadu and Maharashtra. The prices are further, high in Delhi, Rajasthan, Uttar Pradesh and Madhya Pradesh as demand for Ragi and Ragi based products (Ragi malt and Ragi based weaning foods) is comparatively high.

Global trade in millet is estimated to range between 200,000 and 300,000 tons, representing roughly 0.1 percent of world trade in cereals or 1.0 percent of world millet production. Proso millet and Bajra together add to about two-third of recorded millet exports. Ragi with other millets accounts for remaining recorded export. The major importers of Ragi along with other millets are developed countries – European countries, Japan, Switzerland and Canada. The primary use of imported Ragi is in preparing Ragi based products, mainly malts – either Mixed malts, blended with other commodities or Ragi malt. International trade in millet is controlled by a few specialized trading companies and generally conducted on a sample basis. The high degree of price variability among suppliers, even in the same year, is due to the "thin" market, with small trade volumes and very few buyers and sellers. The current average price of Ragi is Rs 18 to 20 per Kg in international market.

Ragi marketing channels are not well developed. The main reasons for this are limited demand in urban areas, lower prices of Ragi, lower margins in Ragi trade, scattered and irregular supplies on account of only food surplus being sold and large distances between producing areas and the main urban centres. However, Value chain, from local market to final consumer, clearly shows that there is significant value addition in terms of place and form within Andhra Pradesh itself. Selling of Ragi as raw commodity after

grading and flour at super market offers huge margins, which are kept by supermarkets and middlemen. For example, around 50% of total margin from consumers' money goes to supermarket and only 22% comes in the hands of producer, when graded Ragi is sold by supermarket.

Analysis of focused group discussions and interview during field visits indicates that although Ragi is still an important staple food for tribal, Rice is slowly replacing it. Ragi is believed to be essential for their survival as it makes them stronger and energetic, as well as reduces the expenditure on food because it is cheaper than rice. However, per capita consumption of Ragi is coming down due to various factors, but niche market for Ragi malt and other products in urban area is increasing. It is difficult to project the size of niche market, but it is expected to grow in near future as health consciousness among average Indian, particularly working middle class, is increasing. This coupled with their increased disposable income and willingness to pay for healthy food ensures high demand for Ragi based food in future. To indicate the size of market, the total Ragi trade is around 2.7 lakh quintals per year in Andhra Pradesh and around 48 lakh quintals per year in India.

In the given situation and based on above analysis, it is recommended that intervention should not focus on promotion of Ragi consumption or production. The constraints within tribal micro economy have built such mechanisms, by which Ragi's consumption and production have been sustaining for long and would continue to do so for some more years to come.

The analysis suggests that interventions should focus on value addition first and, than, on enhancement of production. Better returns from value addition would encourage farmers to take more interest in Ragi crop. To do so, proper resource survey for Ragi, feasibility study of setting up grading or Flourmill unit and designing of appropriate community owned institutional model should

be undertaken beforehand. The appropriate model could be a producers company or cooperative.

The policy framework analysis reveals that there is no direct policy on Ragi except for announcing minimum support price for Ragi. Since the concerned department gives emphasis to regulate the Paddy market, the minimum support price for Ragi is also not effective. The other policies, related to food grains, particularly Rice, have affected the consumption of Ragi, but none has supported or facilitated the production or consumption of Ragi in the villages. However, the policies of Government of Karnataka have supported the production and marketing of Ragi to a large extent. These facilitative policies include subsidy on hybrid seed and effective agricultural marketing committees, which regulate the marketing of Ragi in marketing yards and lower sales tax on trade of Ragi. In order to promote the production of Ragi, policy advocacy should be undertaken to increase the research budget for Ragi to develop new improved varieties and hybrid seeds, and provide the subsidy for buying these seeds.

In addition to this, self life of Ragi seed is as high as 50 years and it can be stored for long time without any treatment and damage. The other food grain like wheat and rice cannot be stored for long despite of chemical treatments. For this reason, food grain reserve of Food Corporation of India gets damaged in huge quantity every year. If Ragi is stored by FCI, it can be stored for several years without damage and can be used effectively by millions of Indians during the time of natural calamities. For this to happen effective policy advocacy should be undertaken.

# SESSION

## Feasibility & Viability Assessment

### **Objectives**

- To make participants to be able to appraise whether a business idea is financially viable or not
- To enable them to make most financially viable investment decision for a business

### **Methodology**

Interactive session

Group exercise

**Duration:** 1.5 hrs

### **Facilitation Tip:**

The discussion can be started by giving a simple case and asking participants key questions. The concepts can be explained by the illustrations. The illustrations have to be flashed and discussed with participants.

### **Introduction**

Generally, many organizations implement livelihood interventions without proper appraisal of the business ideas that were generated. This lead to only production by the target group, making it financially not viable and no clues for marketing. Hence, particularly in livelihoods promotion interventions, it is utmost important that the intervention idea has to be appraised thoroughly for its financial viability and technical feasibility before it is implemented. So, if investment is planned for a business, then we will see whether that investment is worthwhile or not by following methods.

## Appraisal of Capital Investment

Let's start with a simple question. Consider following example of a proposal for an enterprise from a SHG.

### A.

S. No.		Year 1	Year 2	Year 3	Year 4	Year 5
1	Net Cash Flows	-18005	12470	12470	12470	21803
2	Cumulative Cash Flows	-18005	-5535	6935	19405	41208

What suggestion you make whether the proposal is financially viable or not; whether the enterprise should be taken up or not.

Before answering the above question, let's look at some conceptual issues.

### Capital Investment

It takes money to make money.

Making profit should obviously be the most important goal of a business enterprise. But, profit will not come without making some investment in the beginning. And, it is not that investment is without cost. No capital comes freely. Every capital is associated with some costs. What can be the most important cost of capital? Definitely the interest. So, what investment has to be made to generate maximum profit is one crucial decision that has to be made by any entrepreneur. Naturally, any capital investment is assessed by the benefits it generates versus its cost.

Generally in many enterprises even if the investment occur only once, the benefits come over a period of time and not just once and that too in long run.

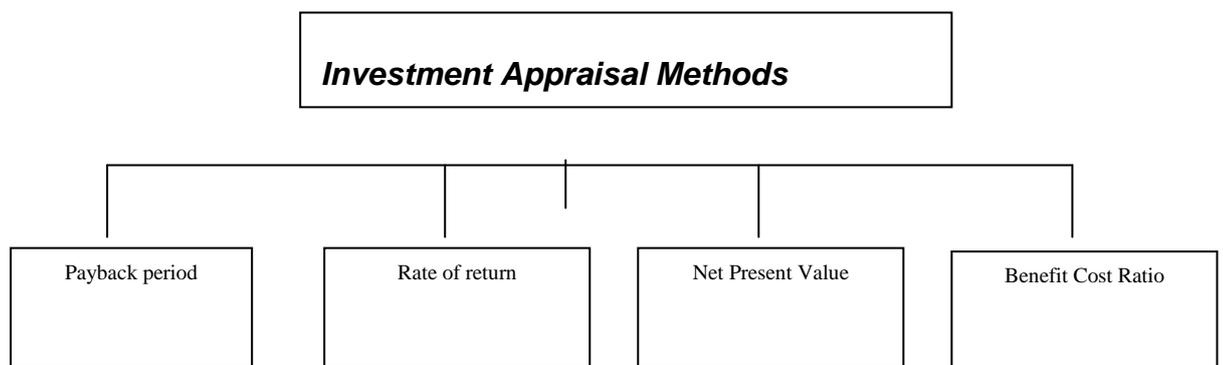
### **Incremental Benefits**

An important principle in capital investment appraisal is to take into account only those *incremental* benefits that are produced by the investment proposed.

For example, if an additional investment on water supply is made for aquaculture, then the incremental fish yield only by this investment has to be considered to judge the profitability of the investment. Even if the yield increases by other factors like fewer diseases, better climate this should not be taken into consideration for this purpose. Further detailed example can be seen in illustration H.

### **Investment Appraisal Methods**

The above given kinds of investment situations can be appraised by different methods. Following are different such methods.



Now, let's look at each of these methods.

## Payback Period

One simple method to appraise a financial investment is to know *how long it takes to cover its initial cost*. According to this criterion, *the shorter the duration of the recovery of initial investment, the more desirable the project is*. Longer the payback period, the greater is the risk associated with the project. For example –

	<b>Project x</b>		<b>Project y</b>	
Initial investment	Rs.20,000		<b>Rs.20,000</b>	
Year	Income	Cumulative Income	Income	Cumulative Income
1	4000	4000	6000	6000
2	6000	10000	8000	14000
3	7000	17000	6000	<b>20000</b>
4	3000	<b>20000</b>	3000	23000
5	5000	25000	2000	25000

The above illustration indicate that of two projects x and y, even if the investment is same, project y is more worth since the investment is recovered in 3 years compared to 4 years in case of project x.

The only shortcoming of this method is that it does not account the time value of money as it just adds the cash flows and does not look at the timing of the cash flows. Also, in the case of few projects, the cash flows may continue even after covering the initial investments. In the above example, even if project x takes 4 years to recover the investment, the further cash flows may continue for more years than that of project y. So, the alternative is Net Present Value method, which we will see further below.

## **Rate of Return**

In this method, an investment is judged by the rate of it generate on it.

Obviously, higher the rate of return, more suggestible is the investment.

Rate of return		
	Local buffalo	Jersey Buffalo
Cost	Rs.5000	Rs.15000
Total estimated milk yield per annum	400 lt	1000 lt
Return (@Rs.10 a lt)	4000	10000
Rate of return	80%	75%

In the above illustration, local buffalo is giving more return on investment i.e. 80% compared to jersey buffalo making it more viable investment.

Before going further to other methods, we need to look at the concept of time value of money and present value.

## **Time Value of Money**

Discussion Question: Rs.1 tomorrow will be worth less than Rs.1 today. Discuss.

Suppose you have Rs.1000 today and you deposit it with a bank, which pays you an interest of 10% compounded annually, for a period of 3 years. The deposit would grow as follows.

First year:	Principal at the beginning	1000
	Interest for the year (Rs.1000*0.10)	100
	Principal at the end	1100
Second year:	Principal at the beginning	1100
	Interest for the year (Rs.1100*0.10)	110
	Principal at the end	1210

Third year:	Principal at the beginning	1210
	Interest for the year (Rs.1210*0.10)	
	Principal at the end	1331

The general formula to calculate this is:

$$FV = PV (1+k)^n$$

Where FV = future value; PV = present value; k = interest rate per year;  
n=number of years

### **Net Present Value (NPV)**

Any business involves cash flows – both inflows (income) and outflows (expenditure). And it is not that these cash flows occur at same point of time also. In fact in most of the cases like above, they occur at different points of time. Like the outflow of capital investment mostly happen in the beginning and afterwards to some extent working expenses may be involved. And income may start coming after some time only.

The principal aspects in cash flow is that the *net* cash flow i.e. inflow minus outflow has to be worked out

So, each year (or month), the net cash flows are to be worked out and they have to be discounted to present value (since investment is judged now) using some discount factor.

The process of discounting is the reverse of compounding of interest rate. For example, Rs.1000 in a safe investment will yield Rs.1100 in the next year and Rs. 1210 in the second year and so on at an interest rate of 10%. Discounting

reverses the process and finds out the present value of Rs. 1220 that we will get after two years.

The NPV of a business plan is the sum of the present value of net cash flows (Positive/negative) of each year that is expected to occur over the business plan period.

Example:

Two projects A and B's earnings over 5 years are discounted with an interest rate 10%. The initial investment available is Rs.1000.

	Project A		Project B	
	Earnings	Present value	Earnings	Present Value
Year 1	200	181.80	500	454.50
Year 2	300	247.80	400	330.40
Year 3	500	375.50	100	75.10
Year 4	200	136.60	200	136.60
Year 5	200	124.20	200	124.20
<b>Total</b>		<b>1065.90</b>		<b>1120.80</b>

By deducting the initial investment from Project A, the surplus is Rs. 65.90 (1065.90-1000) and from Project B is Rs.120.80 (1120.90-1000). From Project B, the institution is able to pay back the loan in 5 years and also able to make a surplus more than the Project A. Hence, Project B should be taken up.

<b>F: Cash Flow and Present Value of a Dairy project</b>						
		<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>I</b>	<b>Costs (outflows)</b>					
	<b>Investment Costs</b>					
	Buffaloes-2 ( @7500 each)	15,000				
	<b>Operating Costs</b>					

	Feeding	7,425	10,395	10,915	11,460	12,034
	Veterinary aid	225	315	331	347	365
	Labour (180 person-days@ Rs 25pd)	4,500	4,612.50	4,727.81	4,846.01	4,967.16
	<b>Total Costs</b>	27,150	15,323	15,973	16,654	17,365
	<b>Returns (inflows)</b>					
II	Sale of milk (1200 ltrs/buffalo@Rs 9 per ltr)	10,800	10,800	10,800	10,800	10,800
	Closing stock (buffalo) value	15,000	11,250	8,438	13,828	17,871
	Total					
		25,800	22,050	19,238	24,628	28,671
	<b>Net Returns</b>					
III		-1,350	6,728	3,264	7,974	11,306
	<b>Total Returns</b>					
IV		<b>27922</b>				

In the above example, taken into consideration money has time value, can we consider the net cash flow of Rs.27922 as it is for investment appraisal?

No. This is because we are making investment appraisal at present but the value of benefit we are considering is future value. Since the future money is less worth than the present money, so as to make a judgment now, we need to discount the above amount to present value by some discount rate say 18%. This rate is to at least see that this investment meets covers the interest rate also.

So, if this net cash flow is discounted by 18% rate, the net returns are as follows.

		Year 1	Year 2	Year 3	Year 4	Year 5
	<b>Discounted Returns at 18%</b>					
<b>IV</b>		-1,144	4,832	1,987	4,113	4,942
	<b>Net Present Value @ 18%</b>					
<b>V</b>		14,729				

Now, note that the NPV is Rs.14, 729 and not Rs.27, 922!

So it can be noted that in above case, even the net cash flow looks attractive, after actually assessing its present value, it may not so attractive!

This method is Net present Value, in which an investment is appraised by assessing whether it yields a return of a preset interest rate. For example, if for a business, a loan is taken from a bank at an interest rate of 12%, it is wise to earn an income of at least 12% per annum on that investment!

An investment is viable if the NPV is positive and not viable if the NPV is negative.

### **Benefit Cost Ratio**

Cost benefit analysis compares the cost of the project and returns from the projects for a period and reflects whether the total benefits from the project would be higher or lower than the total cost of the project. Obviously, for a project to be taken-up, the benefits should be more than the costs.

This method is also based on cash flows and present value concept. In this method, the ratio of benefits and cost is calculated by following equation. So as to work out this, costs should also be taken to present value since benefit is taken to present value.

$\text{Benefit Cost Ratio} = \text{Present Value of benefits} / \text{Investment Cost}$

In the illustration of dairy project, this works out to 0.98 (14729/15000).

In the illustration I (land development), this works out to 1.74:1.

In the illustration I (cashew plantation), this is 1.67:1.

<p>When <math>\text{BCR} &gt; 1</math> accept When <math>\text{BCR} &lt; 1</math> reject</p>
--------------------------------------------------------------------------------------------------

## **Assignment**

Given below are some cases of business proposals. Appraise, in groups of 4-5 members, the financial viability and technical feasibility of the projects.

### **I. Farmer's Cooperative Project**

A Producer's cooperative has been set up to procure and market, a wide range of agriculture produce of the farmers. The procured produce would be brought to a central storage (CS) and sold through 200 retail shops both belonging to the cooperatives. The CS would be a sophisticated facility consisting of sorting and grading line and cold stores with temperature and humidity controls. The cooperative has made estimates of project costs, likely activity levels, sales and revenues which are shown below:

#	Head	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
1	Cost of CS and Associate facilities	30 Crores					
2	Cost of retails shops	6 Crores					
3	Projected Activity Levels						
(i)	Quantity of Agro Produce to be sold (Tons)		80000	100000	110000	121000	121000
(ii)	Weighted Average variable cost/ton (Rs.) excluding interest		7000	7000	7000	7000	7000
(iii)	Weighted Average selling price/ton (Rs.)		8500	8500	8500	8500	8500
(iv)	Fixed Cost (Rs.) other than interest and depreciation		2 Crores				

II. According to the projected total investment of a Weavers Promotion Society for the next five years for reaching 5000 weaver households is Rs. 2 crores. The conservative estimate of increase in income per household is 20% of the current income (20% of Rs.1500 per month per artisan household) i.e. Rs. 300. Assuming that only 50% of the collectives survive and servicing only 2500 artisans as against the targeted 5000 artisans calculate the following.

What is the payback period of the investment?

The return on investment at 10% discount rate – in figure and in percentage

<b>III. Two Dairy Animals Unit (Murrah Buffaloes)</b>	Unit Size	2 Animals
1		
2	Breed	Graded Murrah
3	Unit Cost (Rs.)	32800
4	Repayment period (Years)	5
5	Interest rate (%)	12

### Basic Assumptions:

1. The second animal is purchased in the second batch with a gap of 6 months so as to produce the milk throughout the year.

2. Replacing of milch animals after 6 lactations (at the end of five years of the Subproject).
3. Both the animals will be culled at the end of the fifth year of sub project period and sold at 1/3 value of the purchase price.
4. Techno-economic Parameters for Graded Murrah Buffalo:

Sl. No.	Parameter	Details
1	Cost of each animal	Rs. 15000
2	Milk production (litres/day)	6
9	Cost of Shed /Animal (3 sq. space)	Rs. 500
10	Daily feed cost /animal during lactation period	Rs. 33.50
11	Daily feed cost/animal during dry period	Rs. 23.00
13	Insurance Cost (4%) per Animal	Rs 600
14	Veterinary aid/animal/year	Rs. 500
15	Sale price of milk (Rs/litre)	10.25
16	Sale of Manure (3 .5 MT /animal/year) @ Rs 400/- per MT	Rs. 1400

#### Investment/ Project Cost (Rs):

Sl. No.	Items	Phy units	Unit Cost in Rs	Total Cost in Rs
1	Cost of animals (Graded Murrah Buffalo)	2	14000	28000
2	Shed Construction	2	500	1000
3	Transport Cost	2	400	800
4	Insurance Premium @ 4 %	2	600	1200

5	Cattle Feed/Fodder Cost for 30 days (@ Rs 30/-per day for each animal)	2	900	1800
6	Total cost			32800

IV. Consider the following illustration of profitability projection of a potato wafer unit. Appraise whether this investment is viable by using different investment appraisal methods.

<b>TABLE : PROFITABILITY PROJECTION</b>						
#	Items	1st Month	2nd Month	3rd Month	4th Month	5th Month
1	Installed Capacity	18000	18000	18000	22500	22500
2	Capacity Utilization	4500	9000	12000	18750	20250
	<b>Sales Realization</b>					
<b>3(A)</b>		4500	9000	12000	18750	20250
4	Cost of Production	3000	6000	8000	10000	10800
5	Operating Cost	800	800	750	750	750
6	Sales Expenses	1780	2460	3220	3520	3284
	<b>Total Expenses (B)</b>	<b>5580</b>	<b>9260</b>	<b>11970</b>	<b>14270</b>	<b>14834</b>
	<b>Gross Profit (A-B)</b>	<b>-1080</b>	<b>-260</b>	<b>30</b>	<b>4480</b>	<b>5416</b>

### **Appraisal Parameters and Criteria for Community Projects**

Community projects essentially satisfy the three parameters – Productivity (of the resources and/or an enabling environment), Equity and Sustainability (of the benefits). Further, the critical criteria, governing the sub-projects, include:

- a). Originating from the beneficiary community, from a range of options and adequate information to make the choice; - Community demand driven

b).significant social impact – social tensions, disturbance in social relations; gender relations; women; children; aged; Decision-making aspects

c). Control on Assets, Employment Generated (for the poor)

## 1. Gender Dimension

- Livelihoods assessment has to be gender-segregated including gender division of labour, control over income and expenditure etc.
- Single women, women-headed families, destitute women, handicapped women, deserted women, widows etc., have to be identified and focused.
- Focus to identify the problems of the women and sub-projects to deal with these common problems.
- Women need to be consulted at every stage of the sub-project, including appraisal, and care must be taken that consultation is scheduled at times convenient to them.
- Women's involvement should be related to skilled work, management and monitoring. They also need to be provided with these skills.
- The appraisers have also to be gender sensitive.

## Peoples' Projects Appraisal

### The components of feasibility analysis

Each of the components has various parameters. The livelihood activity should be evaluated against these parameters, however all the parameters may not be used. The parameters for each component are presented below:

<b>Market</b>	<b>Technical</b>
Industry analysis and current trend	Relevance of proposed technology
Current and future market	Practically possible to adopt the proposed technology

<p>situation</p> <p>Competition</p> <p>Sales projections</p> <p>Potential buyers</p>	<p>Access to the technology</p> <p>Access to necessary technical expertise</p>
<p><b>Organizational</b></p> <p>Purpose of organization</p> <p>Governance structure</p> <p>Management</p> <p>Skills and expertise of staff</p>	<p><b>Operational</b></p> <p>Interest, need and feelings of household</p> <p>Feeling and support of staff</p> <p>Resistance from household or staff on account of change in status quo</p>
<p><b>Political</b></p> <p>Government intervention</p> <p>Tax policy</p> <p>Labour and Environmental law</p> <p>Trade restrictions and Tariffs</p> <p>Political stability</p>	<p><b>Social</b></p> <p>Cultural aspects</p> <p>Demand and choices</p> <p>Age distribution</p> <p>Population growth rate</p> <p>Health consciousness</p>
<p><b>Environmental</b></p> <p>Weather</p> <p>Climate</p> <p>Climate change</p>	<p><b>Legal</b></p> <p>Discrimination law</p> <p>Consumer law</p> <p>Antitrust law</p> <p>Employment law</p> <p>Health and safety law.</p>

## Session: Business Planning

### Lakshmi's teashop: A case study by Ms. Shashi Rajagopalan

Meet Lakshmi. She came to Rajapuram village when she got married. Her husband Ramesh owns 2 acres of land. Lakshmi helps Ramesh on the farm. She also goes to work on other people's farms. She has three children. It is not easy to earn a living, especially in a year of low rainfall. A new nursing home has been set up in Rajapuram. People from the surrounding villages like the treatment there. The nursing home is quite busy. Lakshmi feels that she could set up a small teashop next to the nursing home. The patients, and the families of the patients, would be happy for such a service. Ramesh, too, thinks this is a good idea. They both discuss it. If you were Lakshmi, would be your major concerns before you set up such a business?

Use the blank space provided below to note down your concerns if you were to set up a teashop in your village.

Let us now turn to what Lakshmi thought about before she decided to set up her teashop.

#### **Size of business**

Lakshmi and Ramesh first speak to Rajamma, the helper at the nursing home. They ask her roughly how many patients come each day to the nursing home, and how many persons accompany them. They then ask Rajamma how many patients, on average, stayed overnight in the nursing home. They also want to know how many people come from the same village and how many come from neighbouring villages. Both Lakshmi and Ramesh feel that many people will be glad to have a teashop near the nursing home. However, they know that not everyone can afford tea. They also feel that not every visitor to the nursing home will want a cup of tea. Lakshmi agrees that

people from neighbouring villages were more likely to want tea. She feels that the accompanying family members of patients admitted to the nursing home would want tea. Ramesh and Lakshmi both feel that, on average, 75 cups of tea could be sold each day.

### **Shop timings**

Lakshmi feels that it would be a waste of her time to sit the whole day at the teashop. She has so many other jobs to do at home and in the farm. She finds out that the doctor comes every day at 11 am in the morning, and at 5pm in the evening. Patients come in large numbers around these hours Lakshmi, therefore, feels that she would like to keep the teashop open from 10am till 1pm, and from 4 pm till 6 pm, everyday. However, Wednesdays are market days in the village. Ramesh feels that on market days in the village. Ramesh feels that on market days, the shop should be open from 10am right through till 6 pm. Lakshmi, too agrees that this would be a sensible thing to do.

### **Location of the teashop**

Lakshmi speaks to the Sarpanch and other elders about her desire to set up the teashop. They advise her to set up a small hut near the nursing home. Narasaiah owns a small vacant plot near the nursing home. Lakshmi and Ramesh meet Narasaiah. He is willing to let Lakshmi sets up a small temporary hut there. He asks Lakshmi to pay him Rs 1000 every month as rent. Lakshmi and Ramesh are very excited about the plot. They are, however, worried about the rent. They say they will think about it, and come home.

### **Cost of setting up teashop**

Lakshmi wants to build a small hut on Narasaiah's plot, to set up her teashop. She needs to buy one or two benches, so that people have place to sit if they want to. Lakshmi needs to buy a stove, a kettle, a pan for boiling milk, some glasses to serve tea in, a pot for keeping drinking water, and containers for keeping tea leaves and sugar. She may also need a table for the stove and

the containers. Lakshmi knows that she has to spend on these items even before she can make and sell her first cup of tea. Of these items, most are such that they do not have a resale value. Yet, without these things, she cannot make or hope to sell tea near the nursing home.

Lakshmi and Ramesh work out the costs of setting up the teashop, and their list is given below. Look at it, and see whether you would like to make any changes in the items or the costs.

Remember, these are only the costs of setting up, not of running, the teashop. We will come to the running costs later

S. No.	ITEM	Rs
1	Thatch, nails, bamboo, matting, rope for hut	1500
2	Stove	200
3	Kettle, frying pan, milk pan, drinking water Pot, containers, spoons, etc	300
4	Glasses	100
5	Table	200
6	Benches	200
TOTAL INITIAL INVESTMENT		2500

### **Cost of running the teashop**

Lakshmi knows that apart from the Rs 100 each month for the plot, and this amount of Rs 2500, she also needs money to run the shop each day. She feels that some of the expenses will have to be met on a daily basis. Some will be met on weekly or monthly basis.

Lakshmi and Ramesh do not own any cows. They will need to buy milk every day. Once a month, perhaps, they will need to buy kerosene for the stove,

tea, sugar, some biscuits, and other items, from Peddapalli village, 5 kms away. There will be costs on the bus fares, too, because some items can be bought only in Peddapalli. Ramesh feels that they should make a list of all such costs.

The list they prepare of costs for running the shop for one month is given below. Have they forgotten anything? Are their estimates reasonable? See if you would like to suggest any improvements.

Ramesh and Lakshmi feel that the teashop is worth opening only if they can sell more than 1500 cups of tea each month. They also realise that for every cup they sell over and above 1500 cups, the net gain will significantly increase.

What will Lakshmi's net gain be from selling 1500 cups of tea each month? Use the space provided below to do your calculations. Then check your answer with those of your friends.

It does seem very important doesn't it, for Lakshmi to be able to make a good guess of how many cups of tea she can sell each day? Most small and big businesses are like this. Below a certain amount of sale, they run into losses. At a particular quantity of sale, they break even- that is, they cover all their costs. Above that level, they earn profits. These profits can rise quite significantly for small increases in sales, as in Lakshmi's case.

### **What if**

Lakshmi now begins to feel that she should think more carefully about all that could go wrong with her tea business, before she makes up her mind.

Read each of the questions given below, which seem to be bothering her. Think of what you would do if u were in Lakshmi's position. Discuss with your friends and you will be surprised at the number of ways to deal with each of these.

- ✚ What if her children want to have some biscuits every time they come to the shop?
- ✚ What if the summer months of April and May, the milk spoils on some days?
- ✚ What if, in the months of July and August, the rains keep people indoors?
- ✚ What if the rains are so heavy, that she has to repair the roof of the hut?
- ✚ What if the cost of tea leaves goes up? What if the cost of kerosene goes up?
- ✚ What if her stove needs repair?
- ✚ Where should she leave the benches, the utensils, and the stove each night?
- ✚ What if on some day, there is an unexpected number of visitors to her teashop?

These were some of the questions that Lakshmi thought of. Are there any more questions that you would like to add? Any more that you would like to discuss with your friends?

Well, Lakshmi and Ramesh feel that they can manage all these problems. They decide that it is worth their while setting up the teashop.

### **Where will the money come from?**

Lakshmi now needs Rs 2500 for the initial investment on the hut, the utensils, the stove, and the furniture. She needs Rs1200 for the first month's working

expenses- for tea leaves, sugar, rent, and so on. Of the committed costs of Rs 1100, she needs at least Rs 100 to pay as advance rent for the plot.

Lakshmi is confident that her thrift cooperative will help her. She has been a good member for 6 years now. Her savings in the cooperative are regular, as are her loan repayments. She now has Rs 1100 saved as thrift in her cooperative.

Her cooperative lets her borrow 3 times of her savings. That is, she can borrow up to Rs3300. She needs Rs 3800 in all. She wonders how to manage with Rs 500 less than she has. Would you like to look at the two lists she first made, to see whether she can manage with Rs 500 less?

Use the space provided below to make your notes on how you feel Lakshmi can manage with Rs 400 less than she needs to set the shop, and run it for one month. Later, we will see what Lakshmi's ideas were.

Lakshmi's solution for the managing the shortfall of Rs 500 follows.

#	Particulars	Rs
1	Lakshmi will not buy any biscuits the first month. This way, her initial expenses will reduce by	90
2	She requests the milkman to take only a weekly advance, instead of a monthly advance, for the first month. She, therefore, needs to give him only Rs 90 to start with. This way, her initial expenses which would have been Rs 360 for the milk advance, will reduce by	270
3	She does not expect any repairs at the start. Therefore, at the time of starting, her initial financial need will further reduce by	40
4	She will need to pay local tax, either at the end of the month, or once a year. This again reduces her	20

	requirement by	
5	Her thrift cooperative will expect interest on her total loan only at the end of the first month. This further reduces her requirement by	70
6	TOTAL REDUCTION IN REQUIREMENT	490

Of the Rs 500 shortfall, Lakshmi feels she can easily make up for Rs 490. Finding the remaining Rs 10 should not be such a problem for her, should it?

### **A dream comes true**

Lakshmi tells Ramesh that she would very much like to set up the teashop; Ramesh knows that he will miss her on the farm. She was a very good farmer. All the same, Ramesh also knows that the teashop will give the family income throughout the year. After all, on the farm, you sow your crop and then wait for months for the income. He suggests that at the very next meeting of the thrift cooperative, Lakshmi should take the loan needed to set up the shop. Lakshmi applies for a loan. All her friends tease her and say that she is now going to become a businesswoman. Lakshmi laughs with them. She is very happy. She is a little afraid, but she feels she is doing the right thing. The thrift cooperative considers her loan application. Her request for a Rs 3300 loan is approved. After fulfilling all the conditions, Lakshmi takes the loan amount, and goes home. Ramesh and Lakshmi work hard, and within 10 days of getting the loan, the teashop is ready. They invite the Sarpanch, the doctor and other friends for the puja. Lakshmi is all smiles. So are Ramesh and the children. Their dream of a more regular and steady income now seems to be in sight.

### **Cash flows**

Lakshmi now comes in every day to her teashop. She makes good tea. The people who drop in like the tea. Soon the doctor starts asking her to send tea over when visitors come to see him. The local farmers cooperative, too, asks

her to send tea for their visitors. Each day, she gets Rs 105 more from sales. There are school fees to be paid for the children. There is fertiliser to be bought for the farm, and clothes to be bought for the family. The family is very happy. They think they can buy whatever they need when they need it. Lakshmi, however, does not feel the same. She knows that she has to be careful. She can only spend from the net income for her family. She has to make sure that she does not ever spend from money needed for the shop. In fact if her business does well, she may have to expand it. She might start making idlis in the morning for those going work on farms early in the morning. This will mean that she will need to spend more money on the shop. Also, she knows that she and Ramesh have no savings for their old age.

### **Cash Management**

Lakshmi makes a rough calculation of how much she can afford to spend on the family from her daily sales. From sales she gets at the least Rs105. The 70 cups of tea cost her roughly Rs 35 to make. Those 35 rupees will be needed again to buy more tealeaves, kerosene, and so on. The committed cost per month was Rs 1100. This committed cost, however, included Rs 900 which she would have earned as a farm labourer. Lakshmi reduces this amount and notes that she has to set aside Rs 200 per month towards committed costs. This means that she has set aside Rs7 per day towards these costs. Her thrift cooperative expects her to pay monthly instalments of Rs 150 along with interest. That is, each day she will need to set aside Rs 5 towards this. She also saves Rs30 each month as thrift with her cooperative. For this she has to keep Re1 aside each day. She then decides that every day she will save Rs 5 additionally for old age, and another Rs 5 for expanding her business at a later date.

Let us see what she now has left for the family.

Particulars	Rs
Set aside to buy tea, sugar, milk, kerosene, etc =	35
Set aside for committed costs =	7
Set aside for loan instalment =	5
Set aside for thrift =	1
Set aside for old age savings =	5
Set aside for business expansion =	5
Total to be set aside each day =	58
Receive from sales each day =	105
Therefore, amount which can be sent on family each day =	47

With this calculation, Lakshmi puts into a little piggy bank Rs 68 every day for all these other needs. The rest, she puts in the little cash box at home from which the family spends.

On most days this amount is much more than Rs 47. She is able to sell as much as 100 cups of tea on several days.

From the amount that she puts into the cash box, the farm labourer who has taken her place is paid Rs 30 for the day. This means that the family still has to at least Rs 17 additionally, each day, for their expenses.

### **Bad business**

Ramesh and the children tease her saying that she is stingy. She laughs and says that when we are all older, all of you will be glad that I was so strict with the money. Ramesh says he was only teasing her. He tells the children of Yadaiah who had set up a small bangle shop in the village. He had taken a loan from the moneylender, to start his business. He was very happy to see so much money coming in each day from the sales. Yadaiah's wife and daughters tried out new bangles all the time. Some broke. Some looked old when Yadaiah later tried to sell them .the lost money on all these. He and his family spent on clothes, on the house, on relatives, on festivals. Soon he ran

out of money. He could not buy first set of bangles were sold out. These business was of course wound up. The moneylender was annoyed. He took away the small piece of land they owned, since Yadaiah could not repay the loan.

**What about you?**

# Session

## Institutional Models

### Typology of Community Enterprises

Based on different parameters, following are different types of community enterprises, indicative if not exhaustive.

Table: Typology of Community Enterprises			
#	Sectoral	Commodity	Activity Based
1	Agriculture	NTFP items	Seed production
2	Dairy	Food grains (cereals, pulses, millets)	Back-end Services
3	Sheep	Horticultural Commodities	Marketing
4	Fishery	Milk	Productivity Enhancement
5	Forest	Meat& wool	Financial services
6	Crafts	Plantations	Water management
7	Multi-purpose	Sugar	Forest management
8	Non-farm	Eggs	Procurement& processing

The forms and strategy follows purpose. Thus, it is very important to clear out the purpose of the enterprise to arrive at the appropriate legal form for it. The overarching purpose of the community enterprises that is kept in view in this article is *sustainable economic development of their members by extending required services in an integrated manner*. Within this broad purpose, there are different institutions with specific purposes.

## **The 1995 ICA Statement on the Cooperative Identity**

### **A. DEFINITION**

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

### **B. VALUES**

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

### **C. PRINCIPLES**

The cooperative principles are guidelines by which cooperatives put their values into practice.

#### **1st Principle: VOLUNTARY AND OPEN MEMBERSHIP**

Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

#### **2nd Principle: DEMOCRATIC MEMBER CONTROL**

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote), and cooperatives at other levels are also organised in a democratic manner.

#### **3rd Principle: MEMBER ECONOMIC PARTICIPATION**

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

#### **4th Principle: AUTONOMY AND INDEPENDENCE**

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

#### **5th Principle: EDUCATION, TRAINING AND INFORMATION**

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

#### **6th Principle: COOPERATION AMONG COOPERATIVES**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

#### **7th Principle: CONCERN FOR COMMUNITY**

Cooperatives work for the sustainable development of their communities through policies approved by their members.

*[Formulated by the International Cooperative Alliance (ICA) in 1995, affirmed by the United Nations (UN) in 2001 and the International Labour Organisation (ILO) in 2002.]*

## Case Studies for Institutional Development

1. In an area of 2,000 Tons onion (principle crop produced) production a cooperative is procuring and marketing 100 Tons of onion in a year. Another cooperative in the same area is able to procure 1,200 Tons of onion and sell. Can you present what are the implications on trade, trade commissions and profits in the case of both cooperatives? Also present which cooperative will have active member interest in the area?
2. An agriculture cooperative has its own brand sells wheat in the nearby towns. The cooperative procure around 2,000 Tons of wheat every year while selling nearly 6,000 Tons of wheat in the market. To overcome the deficiency in the procurement and to fulfil market demand the cooperative procures nearly 4,000 Tons from a nearby cooperative.

Another cooperative is procuring 2000 Tons from members and selling in the market 1600 Tons directly and 400 Tons to a trader. Compare these two cooperatives and predict what will be the relation between the members and staff, which will sustain and why?

3. The Mulukanoor Women Dairy Cooperative was promoted by Cooperative Development Foundation (CDF) by extending a total loan of Rs 4.15 Crores to the dairy federation. The dairy federation has taken 5 years and completely repaid the entire amount to CDF. This was possible due to two reasons – through profits accrued from operations and by encouraging members to save 5% of milk bill payments at the federation. Today the dairy federation has nearly Rs 2 Crores of cumulative members saving. What will be the difference in the orientation of members and the performance of the dairy as compared to another dairy where the NGO has extended grant for purchase of land, building and machinery and the members related themselves as sellers of milk.

4. A weaver's cooperative was facing difficulty to deliver cloth at right time for the orders received from various well known traders like Fab India. When examined closer it was found that it is not planning that was the weakness of the cooperative but rather it is the members who are delaying the delivery of cloth. What could be the reasons for their poor performance? How can that be corrected?
5. In India democracy has been practiced since independence. Over the years it was realized that unless the grass root level democratic entities are not active, meeting the needs of rural people will be difficult. Compare the democratic process at village level and at national level. Where do you think democracy is more effective? What are the lessons for cooperatives design? How do we make representative governance stronger?
6. In a particular cooperative after every 5 years there is election for identifying the board of directors. In the recent elections almost all of 10 board of directors have changed. There is another cooperative which has structured the elections in such a way that  $\frac{1}{5}$ <sup>th</sup> of the board are elected every year and each board member has a term of 5 years. When elected for the first time through draw of lots the term period is determined for every 2 members. It implies that in the first election, 2 members each are given 1 year, 2 year, 3 year, 4 year and 5 years term period. Subsequently every year there is election to identify only 2 positions of board of directors. What will be the difference and effect on the management of cooperative?
7. This year Krishna Agriculture Producers Cooperative made a profit of Rs 1 Lakh. The cooperative has 200 members. Of which 100 members transacted Rs 200,000 worth services with the cooperative. Another 80

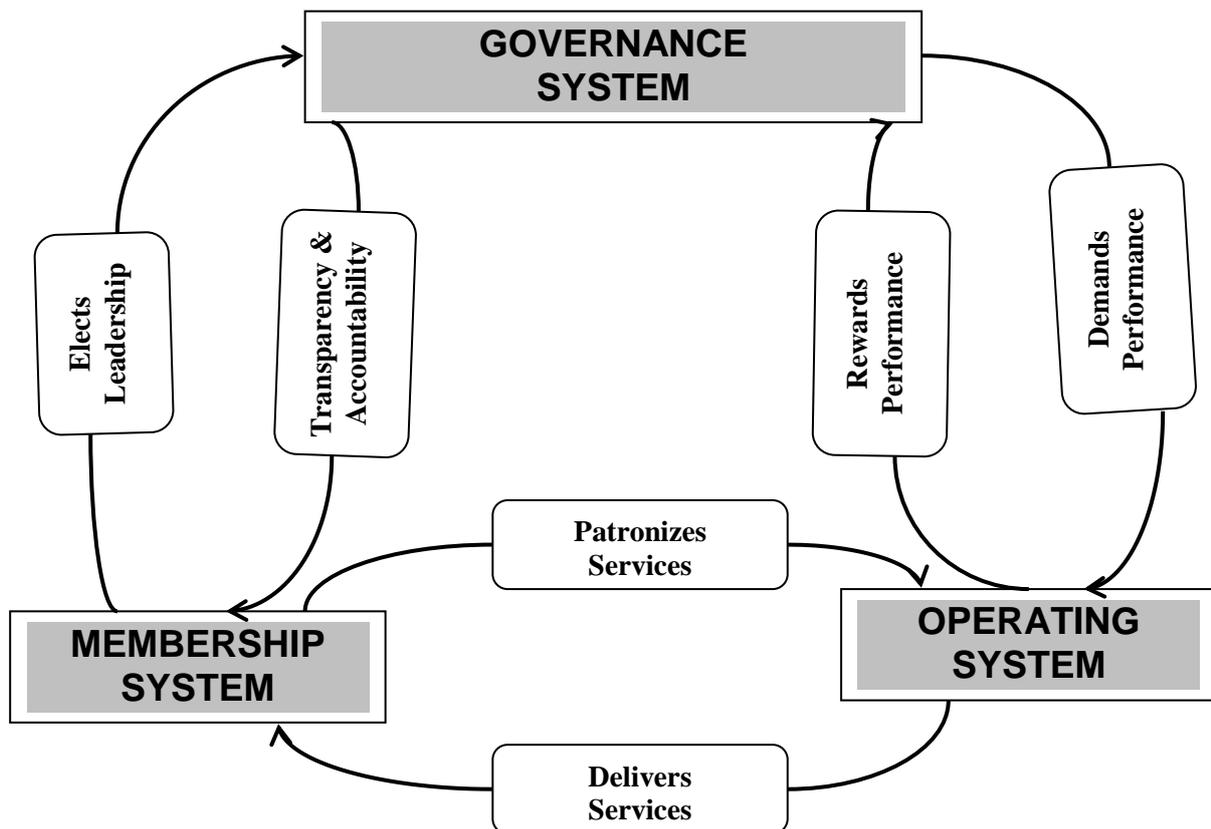
members transacted service of Rs 500,000 while another 20 members transacted Rs 1000,000. Each of the members has also invested Rs 1000 as share capital in the cooperative. The cooperative is just 3 years old and it has some priorities. How should it distribute the profit this year? Please calculate and present the same.

8. In a village a person is a part of 3 different cooperatives. At the dairy cooperative he supplies on an average 2 litres of milk/day, from NTFP cooperative he gets an income of Rs. 3000 per month for 3 months in year and from the Agri-marketing cooperative he is able to save Rs. 400 per month for 6 months and earn a net income of Rs.5000. He gets a rate of Rs.13 per litre on an average for the quality that he gives. Which cooperative will be more important to this particular member?
9. BAIF has supported an organisation with a processing unit worth 50 Lakhs. After 5 years the cooperative has to replace its machinery and BAIF also withdrawn. How will the replacement take place and what could have been the strategy from the beginning to be taken care for this requirement.
10. The Mulukanoor Cooperative Dairy packed milk with the name of Swakrushi is in great demand due to its quality. Currently they are able to procure only 27000 litres of milk from their 90 villages while the market is for 45,000 litres per day. There is also a demand from the new nearby villages to start societies in their villages. Should the cooperative expand its area of operation? What are the implications on the cooperative management?

## **Design of Collective Institution<sup>2</sup>**

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<sup>2</sup> Adopted from *Reflections on Challenges in Institution Building for Collectives* by KV Raju



*Fig: Basic Design of Collective*

Design Proposition 1: *Core Purpose of the Collective Central to Members*

Design Proposition 2: *Get the Right Operating System*

Design Proposition 3: *Patronage Cohesive Governance*

Design Proposition 4: *Securing and Retaining Member Allegiance*

Design Proposition 5: *Democratic governance system can be strengthened by smaller electoral groups, defining eligibility criteria for membership, criteria for conferring rights to vote, contest and continue in positions of power and share benefits. Right to recall of representatives will strengthen democratic governance.*

Design Proposition 6: *Significant internal funds raised from members will pave way to leadership accountable to members*

## **IMPORTANCE OF MEMBERS' CAPITAL STAKES**

The main cause for failure of cooperatives is the inadequate member stake in capital funds, resulting in inadequate member control on decisions and performance of cooperatives and making them less member oriented. There have been isolated instances of innovative methods to get member contribution to capital funds and these could show the way for the future.

The argument here is that a close positive relationship exists between the degree of member resources commitment to their organization, the level and quality of member participation in decision-making and improved cooperative business performance. One of our contentions is that the greater the amount of member 'financial stake at risk' in their cooperative, the more they will tend to feel themselves its owners and the more they will ensure that the organization is properly managed.

This thesis has two important implications: (1) that increasing member ownership stake in cooperatives will generally improve rates of member participation in cooperative decision-making; and (2) that increased member participation will cause cooperative managers to give higher priority to the pursuit of member identified objectives rather than those defined by themselves or outsiders

An important corollary of this thesis is that externally driven cooperative financing strategies which give high priority to the mobilization of local cooperative member capital as the primary source of funds, for cooperative investment will achieve better results in building sustainable farmers' cooperatives than those which give greater emphasis to the use of external funding sources. This is equally true of collectives as well.

*Capital Stakes Proposition 1:* Financial participation beyond a critical minimum level in proportion to patronage in case of each member seems crucial for internal generation of demand for efficient performance, transparency and accountability

*Capital Stakes Proposition 2:* High capital stakes of members generates internal drive for performance and tends to keep the locus of control within the collective and high dependence on external funds invariably shifts the locus of control outside the collective.

*Capital Stakes Proposition 3:* Without members' active participation in 'each controlling other's behaviour' (mutually reciprocal influencing in promoting responsible behaviour and curbing irresponsible behaviour) and in the absence of recognising mutuality of their obligations to the collective in ensuring their patronage (supply produce or repay loans or purchase goods and supply or arrange adequate capital), the benefits that collective can secure for them cannot become real.

*Capital Stakes Proposition 4:* Low financial stakes of members in their collective can be construed as their weak commitment to future patronage and as a measure of their low risk in case if the combined effort fails. Lower the quantum and proportion of member funds lower their risk and lower their effort to succeed and avert failure. Members effort, to be more precise the lack of it or weak effort, is indicated by their gross indifference even in case of denial of rights and use of collective by vested interested from within or outside.

# Session

## Process of Promoting Collectives

### **Session Objective:**

1. To identify the sequential steps in the promotion of a livelihood based collective
2. To enlist the activities to be taken up within each identified step
3. To understand the role of the promoting agency in the promotion of such collectives with the help of a case study of Women's Dairy Cooperative Society promoted by Sahavikasa

**Duration:** 1.5 hours

**Method:** Discussions and small individual exercises

### **Facilitator Tip:**

The facilitator should ask the participants to list down in chronological order, the various steps they follow in the process of setting up a collective institution. The facilitator should then note down all the points. The facilitator can then proceed to the discussion of the various steps that have been mentioned in Chapter 14. Any steps, which have not been mentioned in the chapter, should be additionally discussed. Also refer to the chapter 5 and discuss the relevant aspects for each step from this chapter. The facilitator can then ask the participants to reflect on the role of the promoting agency in the entire process. The discussion can focus on describing the role at each step of the promotion process. In the end, the participants should be asked to list down the different types of collectives discussed in the previous chapters and for each reflect as to whether any additional steps are required.

### **Exercise:**

List down the different steps taken by the participants in the promotion of

collective institutions in their area.

**Minimum Learning for Participants:**

The participants would be able to appreciate the different steps in the process of promoting a collective. They would also be able to visualize ideally the role of the promoting organization in the process.

**Reading Material:**

# Chapter-14

## Process of Promoting Collectives

Design of a Collective Institution: Practical Exercise

### **Methodology**

The game is to be played in groups of 3 to 4 participants. Each group can choose a particular location of their choice and then choose the livelihood activity for which the collective is to be designed. For example, a group can choose the location of a village in Orissa and decide to choose Non-Timber Forest Produce (NTFP) marketing as the livelihood activity. Each group has to then design a collective after choosing the location and the activity.

The following is a **list of guidelines** for the designing of the collective institution.

The groups have to consider all of these and other additional aspects they think are relevant and then prepare the project for the collective.

1. Brief Profile of Area and justification of how the chosen livelihood activity is relevant in that area (hints: member centrality, resource base of area, untapped markets)
2. Sub-sectoral analysis of the livelihood activity chosen including value chain analysis, market situations- demand and supply estimation (approximately), major players and intermediaries (strengths and weaknesses of each)
3. Product or services of the collective including the scale of operation, the value addition that would be done by the collective, the markets for the product
4. Form of collective and the justification of how the particular form is suitable for the collective and the activity chosen

5. Brief heads to be included in the byelaws and business rules of the collective membership criteria, governing body criteria, compliance mechanisms, cost and benefit sharing mechanisms, conflict resolution
  6. Roles of the collective members and the promoting organization and training and capacity building requirements for different stakeholders
  7. Year wise activity plan of the collective for 3 years and list of the fixed costs and the variable costs for each year (a quarterly plan can be prepared for the purpose)
  8. Financing structure for the activities including amount of member contribution, bank loan, government schemes for both fixed costs and working capital for variable costs
  9. Calculation of the benefits to the members- economic and social (for social benefits only list)
  10. Potential Risks and Issues in the Collective
  11. Comment on the replication of the model or the scaling up and expansion of the same
- Each group should then present the project to the remaining groups. The other groups should carefully analyze the presentation and seek clarifications. Recommendations should then be included by the group and the submitted to the facilitators.

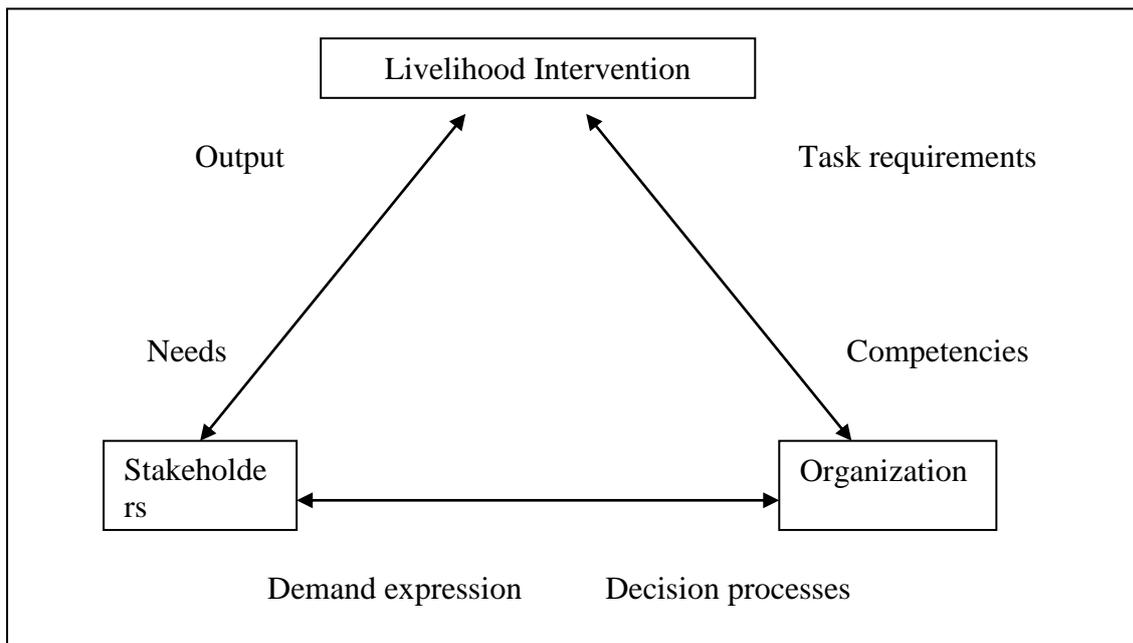
## Process steps in promotion of a collective

1. *Livelihoods assessment*
2. *Identification of gaps, constraints and need*
3. *Brief Profile of Area and justification of how the chosen activity is relevant in that area*
4. *Social mobilisation – awareness building*
5. *Calculation of the benefits to the members- economic and social*
6. *Deciding on the Legal form*

7. *Formulation of objective/ purpose*
8. *Deciding on the Services/ activities*
9. *Member Education and Capacity Building – plan for it*
10. *Making Policies and systems – HR, Financial, Operational, Monitoring, Administrative etc*
11. *Formulating organization structure*
12. *Deciding roles & responsibilities*
13. *Making Governance structure – no. of members in governing body, mode of election, term etc*
14. *Membership – criteria etc*
15. *Operating system – staff, number, way of recruitment, reviews etc*
16. *Year wise activity plan of the collective for 3 years*
17. *Financing structure – different kinds of funds; different sources of funds; internal vs external etc*
18. *Formulating Bylaws*
19. *Formulating Business Rules*
20. *Potential Risks and Issues in the Collective and plan for mitigation*
21. *Linkages – financial, technical and others*
22. *O&M arrangements*
23. *Taking required Permits and licenses*

## The Learning Process Approach

David Korten's Learning Process Approach is often a useful tool in understanding the effectiveness of development organisations. This framework is useful in assessing the livelihoods intervention and its effectiveness from different perspectives.



The learning process approach has three main stages for successful implementation of intervention plan.

Stage 1: learning to be effective: One or two staff spends time with families to understand the problem and develop an idea with them. The idea is tried and modified/corrected based on the errors and successes; thus a final idea emerges.

Step 2: learning to be efficient: Efforts are focus on eliminating activities which are non-productive and working out simplified problem solving routines for handling critical activities for a layman or less qualified staff.

Step 3: learning to expand: Efforts are to build the skills, management systems, structures and values in the assisting organization to carry out the prescribed activities on a large scale.

## Session

# Legal environment for community enterprises

### **Rationale for Legal Form**

Taking up wide range of business operations calls for the need of *legally compliant institutions*. The other reasons that these enterprises need to be registered under some Acts are that as legal entity, they can sue or be sued in a court of law and enter into contracts, which is very important business activity.

A registered entity is a legal person and can acquire and own property, transfer property, enter into contracts and sue and be sued in its own name. Being a legal person, an enterprise has a separate legal entity, a personality distinct from its members or shareholders. It is easier to access finance for a registered entity since it offers credibility for the investors. A registered entity can become partner in other entity/ association as it is a body corporate.

Even if there are many situations of unregistered community enterprises, following are the reasons for which they need to be registered as a legal form.

Having a community enterprise registered opens up opportunity of roping in membership beyond the close ones and thereby contributing to the scale necessary for a viable enterprise; Moreover the status of being a body corporate improves the control and accountability for all stakeholders particularly for members; The merits of having a registered entity clearly

outweigh the costs of licensing and compliance that these enterprises have to afford at different times; Legal form leads to robust institutional systems required to fulfil different compliances and thus to be effective institutions

### Legal Forms for Community Enterprises

Although the legal form depends on the purpose (which is interplay of various dimensions; for whose benefit, business/commodity, profit orientation, social& environmental concern, ease to raise capital etc), there are some particular legal forms suitable for community enterprises operating on above-mentioned principles. These forms include *Cooperatives* (under old Cooperative Acts, Liberal Cooperative Acts and Multi State Cooperative Societies Act), *Producer Companies*, *Private Limited Company* and *Limited Liability Partnerships* (LLP).

**Table: Possible Legal Forms for Community Enterprises**

<p>A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise</p>	<p>A “Producer Company” to emphasize that it is fundamentally designed to serve producers of primary produce<sup>3</sup></p>
<p>A corporate business vehicle that enables professional expertise and entrepreneurial initiative to combine and operate in flexible, innovative and efficient manner, providing benefits of limited liability while allowing its members the flexibility for organizing their internal structure as a partnership.</p>	<p>Company is a voluntary association of persons formed for the purpose of doing business having a distinct name and limited liability and registered under The Companies Act, 1956.</p>

<sup>3</sup> Primary produce is defined as produce arising from agriculture, including animal husbandry; from horticulture; floriculture; pisciculture; viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products, as well as the produce of those engaged in handloom, handicraft and other cottage industry or artisan’s products. It includes those products, including the by-products thereof, which result from adding value to any primary produce.

## Cooperatives

As community enterprises are institutions of producers, form like cooperative is very promising for them. This is in view that they are member<sup>4</sup>-based organisations owned and controlled by members themselves. The related form is Producer Company which carries the basic principles of cooperation.

**Box: Promising features of cooperatives apt for community enterprises**

- *Member control & ownership*
- *Democratic control*
- *Member service based*
- *Enhanced bargaining position in view of aggregation*
- *Autonomy & independence*

Within cooperatives also, it is essential to differentiate between the cooperatives promoted under the old cooperative societies' act of the respective states and those promoted under the relatively new, more progressive and liberal acts (known as the parallel cooperative societies act). Initially promoted by the government as instruments of rural development, cooperatives across different sectors received considerable government patronage. Simultaneously government control was high in the form of government representatives on the board and crucial role and control of the registrar.

In view of this a policy response in the form of 'Parallel Cooperative Acts' surfaced. The Andhra Pradesh Mutually Aided Cooperative Societies Act, 1995 was the first in this category of liberal, more progressive Acts and 8 other states joined.

## Multi State Cooperative Society

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<sup>4</sup> 'Member' means a person or group of persons (whether incorporated or not) qualified as stipulated in the Articles/Byelaws and admitted under it to Membership therein, and who retains the qualifications necessary for continuance

Multi-State Co-operative Societies (MSCS) Act 2002 facilitate the organization and functioning of the cooperative societies having jurisdiction in more than one States. This Act which came in force with effect from 2002 was enacted to replace the Multi-State Cooperative Societies Act, 1984. The Act facilitates voluntary formation and democratic functioning of multi-state cooperative societies as member driven institutions based on self-help and mutual aid and to enable them to promote their economic and social betterment and provides for functional autonomy.

### **Producer Companies**

To further provide an enabling environment for producer or member owned collective institutions, especially in the changing global economic environment, wherein they have to compete against other players including big private corporations, a new Act was envisaged that would combine the unique elements of cooperative principles within a regulatory framework similar to that of a private limited company. The Act is known as the Producers' Companies Act came into force in 2003. The notable feature is that it retain the principles of cooperation that emphasize voluntary membership, democratic decision-making, patronage rather than capital, distribution of surplus based on patronage, education of members etc.

### **Limited Liability Partnership (LLP)**

The LLP form enable producers, entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. LLP is a body corporate and a legal entity separate from its partners having perpetual succession. While the LLP is a separate legal entity, liable to the full extent of its assets, the liability of the partners would be limited to their agreed contribution in the LLP.

It provides an alternative to the traditional partnership firm with unlimited liability. By incorporating a LLP, its member can avail the benefit of limited

liability and the flexibility of organizing their internal management on the basis of a mutually-arrived agreement, as is the case in a partnership firm. LLP combines the advantages of running a Partnership firm, and separate legal entity status & limited liability aspect of a Company. However, in view of much ease in promotion and operation of LLP, the required legal compliances are minimal that it may not lead to robust internal systems for the organisation.

### **Critical criteria to evaluate legal forms**

Given the unique nature of community enterprise, following are the few in-spirit criteria that one must ensure to enshrine while choosing legal form for registering the community enterprise.

Criteria			Producer company	Private limited company	Limited Liability partnership	Self Reliant Cooperative	Old Sate Cooperative	Multi State cooperative
1	a	Community members with common purpose alone own share capital equally	Any individual who is a primary producer or producer institution can be member and contribute to share capital. Restricts membership if no common purpose.	Subscribers of the memorandum of a company and on its registration shall be entered as members in its register of members. <i>Members beyond community with / with no commonality of purpose can own share capital</i>	Partners can agree on proportion and contribute share capital accordingly. <i>Partners beyond community with/with no commonality of purpose can own share capital</i>	Each Member with commonality of purpose can alone contribute equally to share capital.	Differs from state to state. However share capital is contributed by members. Non community member is also allowed to own share capital.	Each Member with commonality of purpose can alone contribute equally to share capital.
	b	No external investment involving voting rights	External investment in the form of equity contribution involving voting rights is disallowed.	External Equity investment can be accommodated with proportionate voting rights	External Equity investment can be accommodated with proportionate voting rights	External investment in the form of equity contribution involving voting	External investment with proportionate voting rights can be accommodated.	External investment in the form of equity contribution involving voting rights is disallowed.

						rights is disallowed.		
2	a	One member one vote	One member one vote	One Share one vote -	As per partnership agreement. However One Share one vote	One member one vote	Varies from state to state	One member one vote
	b	Limitation on non member directors/governors on key decision making boards	Restriction on non member with no commonality of purpose becoming elected representatives	Members / Non members with/with no commonality of purpose can become director and is left to AoA.	Members/Non members with/with no commonality of purpose can become director and is left to AoA.	Restriction on non member with no commonality of purpose becoming elected representatives	Members/Non members with/with no commonality of purpose can become director and is left to AoA.	Restriction on non member with no commonality of purpose becoming elected representatives
	c	Election of governing boards by members with common interest alone	Yes	Not Necessarily	Not Necessarily	Yes	Partly	Yes

3	a	Patronage linked sharing of surplus	Direct link between patronage and sharing of surplus.	Sharing of surplus is linked to proportion of shares owned and not patronage of service	Sharing of surplus is linked to proportion of shares owned and not patronage of service	Direct link between patronage and sharing of surplus.	–	Direct link between patronage and sharing of surplus.
	b	Decision on distribution of surplus left to be decided by members (Except for tax laws)	Act doesn't stipulates, it is left to be decided by members	Act doesn't stipulates, it is left to be decided by members	Act doesn't stipulates, it is left to be decided by members	Act doesn't stipulates, it is left to be decided by members	Act clearly stipulates the majority part of disposal of residual surplus in most of the states.	Members can decide the disposal of majority part of residual surplus.
4	a	Notional and not higher returns on capital	Ceiling on returns for capital contributed is specified	No ceiling on returns for capital contributed	No ceiling on returns for capital contributed	Ceiling on returns for capital contributed is specified		Ceiling on returns of capital is specified
5	a	Explicit providence in objectives of the act for promoting members economic interest	Objects are to promote / facilitate members economic interest	Objects are to promote / facilitate Promoters /members economic interest	Objects are to promote / facilitate Promoters /members economic interest	Objects are to promote / facilitate members economic interest	Objects are to promote / facilitate members economic interest	Objects are to promote / facilitate members economic interest

	b	Facilitates mutual self help and principles of cooperation	Imbibes the principle of cooperation and self help	–	–	Imbibes the principle of cooperation and self help	Imbibes the principle of cooperation	Imbibes the principle of cooperation and self help
6	a	External / non member interference in the affairs	No regular interference of externals in conducting the affairs of the organisation	No regular interference of externals in conducting the affairs of the organisation	No regular interference of externals in conducting the affairs of the organisation	No regular interference of externals in conducting the affairs of the organisation	Government machineries' regular interference is permissible	No regular interference of externals in conducting the affairs of the organisation

## Legal Compliances for Community Enterprises

It can be noted that whatever the legal form, there are certain legal compliances that need to be complied under specific Act. To be a robust and effective one, institutions need to be legally compliant entities. Thus, it is very important to fulfil these legal compliances. The lists of different legal compliances that need to be met are furnished in Table.

## Institutional Systems and Legal Compliances

While complying relevant Laws is important, it can be noted that most of such compliance depend on the right internal systems of the institutions and unless these systems are in place, it is not possible to be legally complaint institutions. Thus, while appreciating different legal compliances is important, it is equally important to build the required systems for it. Following Table illustrates different legal compliances (common compliances irrespective of the Law) for community enterprises and required institutional systems for it.

#	Legal Compliance	Required Institutional System
1	Election of Board members	Meetings, democratic process, participation in decision making, board meeting compliance, governance system, dividend, capital raising
2	AGM	Annual reporting, membership, share capital, bylaws, information system, annual plans
3	Taxes filing	Financial system
4	Audit	Financial system, Internal audit system
5	Annual returns filing	Documentation
6	Statutory records	Accounts& Bookkeeping; Information systems of membership, eligible voters,

## **Other Legal Compliances**

Legal compliances are twofold. While by virtue of registering under particular Law some compliances are required, by virtue of engaging in particular activity/ business calls for compliances specific to that activity/ business. Both are important and required. To list some of the Laws under which compliances are required; VAT & Service Tax, Factories Act – Compliance Compulsory for manufacturing, Pollution Control Board, Prevention of Food Adulteration Act, Trade Marks and Certification, Weights & Measurements Act etc.

## **Institutions promoted by Acts**

Whereas, there are community institutions registered under different Acts, the other category are the institutions which are promoted out of some Acts. The examples are highly scaled-up Water Users Associations (WUAs), promoted under Andhra Pradesh Farmers Managed Irrigation System Act (APFMIS Act) in 1997; Labour Groups under Employment Guarantee Act etc. Apart from this, many institutions are promoted by government and non-government agencies under many policies and programmes. To mention few, Vana Samrakshana Samithis (VSS)/ Forest Protection Committees (FPCs), Watershed Committees, Pani Panchayats, Commodity Groups, Farmers Groups etc.

## **Unregistered Institutions**

In addition to many registered forms, there are substantial numbers of community institutions which are not registered. Most common of them are Self-Help Groups (SHGs). Majority of these SHGs are not registered legally. However, they are being promoted mostly by the state and thus have identity. In view of this, many government programmes and also bank loans are being linked to the SHGs. Even if they are not registered as cooperatives, their essential functioning is on the lines of cooperation, mutual self-help, membership socio-economically homogeneous, mutual collateral, joint liability and mutual monitoring to compensate for individual.

## **Conclusion**

Owing to their member centric existence and design, community enterprises found to be very promising, particularly to set free the economically marginalised. It is important that

the decision of appropriate legal form be made based on the purpose and such features of the institution. This is in view that there is no one superior or best form for any case and it depends on purpose and local situations like members, key promoters, type of business, geographic location etc.

Table: Comparative statement of different legal forms						
#	Parameter	Cooperative under liberal Acts	Multi State Cooperative Society	Producer Company	LLP	Private Limited Company
1	Governing Act	Vary in different states	Multi State Cooperative Act 2002	Companies Act, 1956, amended in 2002	Limited Liability Partnership Act, 2008; The partners can enter into agreement to make their own guiding rules. If there is no agreement among partners, the LLP will be guided by Schedule I.	Companies Act, 1956
2	Governing Authority	Registrar, Cooperative Societies, Department of Cooperation	Central Registrar, Department of Agriculture & Cooperation, Ministry Agriculture, Gol	Registrar of the Company, Ministry of Corporate Affairs, Gol	Registrar of the Company, Ministry of Corporate Affairs, Gol	Registrar of the Company
3	Membership	Vary in different states; However, generally, minimum 10 if individuals and 2 if institutions	In case where all members are individuals, by at least fifty persons from each of the state concerned; in the case of a multi-state cooperative society of which the members are cooperative societies, by duly authorised representatives on behalf of at least five such societies as are not registered in the same state; and in the case of a multi-state cooperative society of which another	10 or more individuals, each of them being a producer or any 2 or more <i>producer institutions</i> , or a combination of 10 or more individuals and producer institutions; no upper limit	Minimum 2 members and there is no limit on maximum	Minimum 2 members and maximum 50

			multi-state cooperative society and other cooperative societies are members, by duly authorised representatives of each of such societies			
<b>4</b>	<b>Liability</b>	Liability of the members are limited	Liability of the members are limited	Liability of members are limited to share capital	Liability of members are limited to amount of contribution; No partner would be liable on account of the independent or un-authorized actions of other partners, thus allowing individual partners to be shielded from joint liability created by another partner's wrongful business decisions or misconduct.	Liability of members are limited to share capital

5	<b>Incorporation</b>	Application along with 1 original & 1 photocopy of byelaws; List of names of individuals or cooperatives with addresses, occupations & financial commitments (contribution); True copy of minutes of meeting in which byelaws are approved	Application for registration (Form 1 & 2) signed by members; 4 copies of byelaws, name, headquarter & address, list of persons contributed to the share capital with amount, area of operation, objectives, certificate from bank stating credit balance, business plan, resolution of the promoters	DIN for Directors (required for this are identity proof & residence proof); Name approval (in Form 1A); Filing MOA & AOA; Opening of Bank Current Account; PAN card in the name of individual members termed as Directors; Common seal	No requirement of filing of MOA & AOA; DPIN (Form 7); Reservation of Name (Form 1); Incorporation Document (Form 2); If want to register the partnership, then Form 3; Partner Details (Form 4)	By filing MOA & AOA
6	<b>Initial Share Capital</b>	No minimum requirement	No minimum requirement is provided in the Act; Transfer of shares is restricted, in no case exceeding 1/5th of the total share capital	No requirement as to minimum share capital; Member's equity cannot be freely traded but only be transferred with approval of the Board	No requirement as to minimum share capital. LLP starts on the contribution made by the partners and transferability depends on their agreement	Minimum requirement of Rs. 1 lakh; Member's equity cannot be freely traded but only be transferred

7	<b>Voting Rights</b>	One member-one vote	Every member, including a member who is an employee of such society, shall have one vote in the affairs of the society. A multi-state cooperative society, the membership of which include cooperative societies or other multi-state cooperative society, may provide in its bye-laws for an equitable system of voting having regard to the membership of, and the extent of business carried on by such cooperative societies or multi-state cooperative societies	where the membership consist of individuals every member has single vote irrespective of the share owned; In case of Producer Institution, the voting rights are based on participation in business of the producer company in the previous year	The voting rights can be decided by the partners as per their terms and conditions.	Voting rights in proportion to share owned
8	<b>Distribution of Dividend</b>	As per patronage	The profit is distributed in proportion to the share at the rate which can be fixed in the bye laws.	1. Every Member shall, on the shares capital contributed, receive only a limited return. 2. Member may be allotted bonus on share value in accordance with the provisions contained in section 581ZJ. 3.The surplus if remaining after all this may be distributed as patronage bonus (based on the contribution of the	The distribution of dividend can be decided through agreement and if no agreement it will be in accordance with the Schedule I	Profits are distributed as dividend in proportion to share owned

				members)		
9	<b>Raising of external finance</b>	Deposits, loans, grants	A multi-state cooperative society may receive deposits, raise loans and receive grants from external sources to such extent and under such conditions as may be specified in the bye-laws and under conditions given in the act.	Cannot raise funds through shares to the external public	Cannot raise funds from the external public	Cannot raise funds through shares to the external public

**Table: Legal compliances for different forms**

#	Compliance	Cooperative under liberal Acts	Multi State Cooperative Society	Producer Company	LLP
1	Governance	The Board of Directors to be elected before the expiry of the term of the existing directors.	The board of director shall exceed 21.	At least five and not more than fifteen directors; Board Meeting once a quarter	There is no provision as to directors
2	General Body	AGM at least once a year and has to be held within 6 months of the completion of financial year.	The board of every multi-state cooperative society shall, within such period as may be prescribed, and not later than six months after the close of the corresponding year, shall call the annual general meeting.	At least once a year and not more than 15 months shall elapse between the date of one AGM and that of the next	There is no requirement for conducting annual general meeting
4	Audit	Annual by a qualified CA appointed by the General Body	Every multi-state cooperative society shall cause to be audited by an auditor referred to in sub-section (2), its accounts at least once in each year.	Every Producer Company shall have internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles and all the provisions of companies act related to audits.	Audit is not required unless capital exceeding Rs. 25 lakh or turnover exceeding Rs. 40 lakh

	Annual return	Within 30 days of conduct of the annual general body meeting; Annual report of activities, Annual audited statements of accounts with auditor's report, List of members at the close of the year under reporting with services provided to each member, Statement on the disposal of surplus or on the allocation of deficit, List of names of directors, their addresses and their terms of office; and f. Compliance reports relating to audit, special audit and inquiry, if any.	Every year within six months of the closure of the accounting year every multi-state cooperative society shall file the following returns with the Central Registrar, namely-(a) annual report of the activities (b) audited statements of accounts; (c) plan for surplus disposal as approved by the general body; (d) list of amendments to the bye-laws of the multi-state cooperative society; (e) declaration regarding date of holding of general body meeting and conduct of elections (f) any other information required by the Central Registrar in pursuance of any of the provisions of this Act.	Annual Accounts and Annual Return to be filed with ROC within 60 days of AGM	Every limited liability partnership shall file an annual return duly authenticated with the Registrar within sixty days of closure of its financial year in such form and manner and accompanied by such fee as may be prescribed in LLP
6	Statutory records	Cash book, Accounts of assets and liabilities, Accounts of all purchases and sales of goods, Updated register of members, Copies of audit reports and special audits,	Audit statements, annual report, annual budget, members registrar	Books of Account; Register of shareholders; register of its directors, managing director, manager, secretary	Books of Account

	Copy of the law, Updated bylaws with all amendments, Minutes Book, Bye laws book			
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1. In the case of inter-State co-operative society incorporated as a Producer Company, such Company may have more than fifteen directors for a period of one year from the date of its incorporation as a Producer Company. After one year, maximum number of directors should not be more than 15
2. Cooperatives under liberal Acts have the flexibility of designing many aspects in their own Bylaws. Similarly, LLPs have such flexibility. Thus comparatively, legal compliances are more rigorous in producer company
3. Since, for all practical purposes, producer companies are like private limited companies, the compliances required for private limited company are same as that of producer company
4. Compliances for cooperatives under old Acts vary as per state. However, under these Acts, the compliances are very high without required freedom for them in view of high control of RCS
5. Compliances for cooperatives under liberal Acts depend on the state. However, the above-mentioned ones are common and applicable for many states

# Cases of Enterprise Development

## Venkatamma cabbage garden

Venkatamma is a farmer in the Shadnagar village in Mahabubnagar. She has 2 children. Her husband works as a factory worker. Venkatamma has 5 acres of rice land. For many years she has been cultivating rice and has not made good profits.

Because of her very low profits from cultivating rice she thought about planting vegetables. But before she made a decision, Venkatamma made a careful survey in the market of which types of vegetables are in demand and commands higher price. She went to several market places and found out that cabbage sells at a very high price and was in high demand.

She went to an agricultural technician from the agricultural Bureau and asked how cabbage is grown. Fortunately there was a workshop to be given on cabbage for 2 days. She attended conducted through demonstration and field practicum, Venkatamma learned how to plant water, fertilize, weed and harvest cabbage. She also learned that on 5 acre as of land, she would need 2000 RS for land preparation, fertilizers, chemicals, labour and other incidental expenses.

Venkatamma has only 1000 RS .she went to her parents and requested for a loan of 1000 RS at 2% interest per month. Then she went to the market place and secured the commitments from buyers for her cabbage produce. With a ready market for her cabbage, she started to grow cabbage in her land. She religiously followed what she had learned from the workshop at the Agricultural Bureau. I in recoded all her production expenses on cabbage production.

After 3 months, she started harvesting cabbage and selling them to her buyers. She also recorded all her sales. Her total sales amounted to 6000RS. She made a profit of 4000RS.

Out of the profit, she paid her loan of 1000RS to her parents including the interest. All the rest of the profit, she reinvested in cabbage production by renting an additional 5 acres of land.

### **Tasks**

1. Is Venkatamma's business successful?
2. If so, what are the factors, which contributed to her success?
3. Does the undertaking contribute to more self-reliance?

## Case - Sandhya tea processing project

Sandhya is one of the active members of the women's group in the Guidun village, a farming community with rolling terrains located some 30 km from the city. Like other households in the village, her husband is engaged in farming and wood gathering. She's 33 years old and takes care of the household work and takes care of the household work and their three children.

Since she joined the group she has been thinking how to help her husband generate additional income for the family. At first, upon discussion with other women members, she thought of a small-scale furniture workshop. But the capitalization required was 50000RS and she could not afford such capital.

She finally decided on a tea-processing project. The raw material (tea leaves) is readily available in the village since most farmers, including her husband, grow tea in the village. Moreover, she learned from the peddlers who often visit their village looking for tealeaves, that processing tea would earn her good income. She learned from them that if she sells in city, she can make a gross profit of 20 RS per and even higher at 1 20 RS if she sells in Wuhan. Also, she has a younger sister who used to work in a tea-processing factory and she was confident she could learn the techniques required in such activity.

Encouraged by the potential of the project she obtained a loan from the women's group. In addition, she had some savings of her own and she was able to start the project in March 1993. In spring the tea crops produce the best quality tealeaves. Sandhya decided to process tea only during this season for the whole season she was able to sell 56 in selling at Tongshan she later learned that there are different prices depending on the quality of dried tea. Nevertheless after investigating which among the three buying stations in Tongshan offered the best price, she settled into one station.

She however incurred losses when she tried to sell in city. About 20 RS was not paid for at all. She personally took care of the project .her husband and children assisted her in some

of the activities of the project like gathering of wood for the stove and stirring the leaves on the pan. They could process 5 RS of wet leaves per day. She had minimal expense for the project. She bought about 50% of the wet tea requirements from the village. The rest of the wet tealeaves, she obtained from their own harvest. She also had sufficient wood oil, which was already good for the whole season she did not buy the needed pans as she had already two before the project and these were enough for the quality she has been processing

She was not able to keep records of the financial transactions but she is confident she was able to earn from her business. Although the income of the project is mixed with their other household income, she was sure that the whole net profit was used to invest in another project, a chair-manufacturing project. At the same time. She is planning to expand her tea-processing project for the whole three seasons that is including during summer and autumn. She also plans to hire workers so that she can process more.

### **Task**

1. Analyse the internal and external factors that affect this micro-enterprise, using the format of visual aid I-4
2. Is this a good project for Sandhya to become more self-reliant? If so why & how?

## Case Ramapur shop

Ramapur is a farming village with 102 household (940 population) of Basheerabad block. Since the village is quite far from the township proper, people used to buy their groceries in the township operated grocery shop in the village, the shop however was not very well run as the operator was ill for some time.

Realizing this situation Ms. Maheswari of operating her grocery shop right in the village. Their house is located in the centre of village; hence it is very convenient for most villagers to come to her store. She constructed a small shed to convert part of her house into the grocery shop.

She obtained a loan for the shop from the women's group. In this amount plus her own savings (total 1000 rs). Enabled her to refurbish the shed and to buy in wholesale grocery items from the township.

Seventy percent of her groceries are food products, like canned goods, soft drinks and beer while 30% are basic necessity items such as soap. She goes to the township about 5 to 6 times a month to buy her groceries. Besides transportation she has to pay a tax regularly.

About fifty percent of the villagers buy from her shop on credit, which they pay with 10 to 30 days. The rest buys on cash. She reported a gross sale of 1500 month and gross margin of 20% on her groceries.

So far her business is doing well. Fast selling items are usually the consumable items like beer, soft drinks and cigarettes, since she's also busy with other work she let her child look after the store, likewise, she has not enough time to regularly record her financial transactions. She accepts that sometimes the family consumes some of the grocery items of the shop and these are not recorded.

**Task**

1. Analyzes the internal and external factors that affect this micro-enterprise.  
Using the format of visual aid I-4
2. Is this good project for Ms Maheswari to become more self-reliant? If so, why, how?

# SESSION

## Working Capital Management for Enterprise - Effectiveness

### Objectives:

- To understand the meaning and importance of working capital for profitability of an enterprise
- To understand the various aspects of working capital like estimation of working capital requirement, level and sourcing of working capital

### Methodology:

Interactive session

Case study

**Duration:** 1.5 hrs

### Facilitation Tip:

The concepts have to be discussed by class exercises and given examples. For each of the rules of cash management, the importance and possibility may be discussed. The participants should be provided with copies of *Lakshmi Tea Kottu* (Books for Change).

### Introduction

One common mistake in many interventions, even if the fixed capital is planned well, planning for working capital is missed out. So, even if sufficient investment capital is provided, the enterprises fail because of inadequate working capital, no planning and awareness on working capital and no proper management of working capital.

This session address following key questions.

1. How much working capital is required for a business
2. From which sources, working capital has to be raised
3. How working capital can influence profitability of the business and

#### 4. How working capital has to be managed

### Meaning of working capital

Working capital means the amount required to run the day to day operations of a business. Any enterprise has to arrange its required assets by some finances – whether from inside or outside which are basically liabilities. There are basically two types of assets and liabilities – current and fixed. Fixed or capital investment, on the other hand, is one which is incurred generally in the beginning of the project, long-term in nature and do not generally change by the volume of business.

Working capital is basically the current assets of a business i.e. those assets which are short term and readily convertible to cash.

Exercise: List some examples of working capital
Eg.1. Inventories
2. Immediate Debtors
3. Cash

### Importance of working capital management:

Efficient management of working capital is an essential pre-requisite for the successful operation of a business enterprise. In most of the small enterprises, generally of all assets, the requirement of working capital is high compared to fixed capital so most of the time and energies go into management of the working capital. In business planning, planning

for working capital is very important. This planning includes aspects like amount of working capital required, financing of working capital, how to utilize the working capital etc.

*Class Exercise: A cooperative society is into the business of procurement, processing and selling of coconuts. Assume that the minimum level of business is 1 ton per season and make other required assumptions.*

*In the above example, list what all financial assets are required to take up this business and tick whether these are current assets or fixed assets.*

<b>Asset</b>	<b>Current</b>	<b>Fixed</b>

In above example, the working capital cycle is as follows.

Cash (buying) ---- Raw Materials (processing) ---- Final Goods (sales on credit) ---- Accounts Receivable (collections) ---- Cash

*From the above example, we can also observe that some minimum level of working capital is required at all stages of the business and some working capital may be required at some stages only.*

- The important decisions regarding working capital management***
- How efficiently the working capital is engaged
  - Optimum level of working capital
  - Financing of working capital

## Level of Working Capital

For a business to be profitable, the level of working capital at any stage should be so optimal that it should not either surplus i.e. idle or deficit to meet required costs of the business.

The optimum working capital is the trade-off between its cost (like interest) and profitability.

### Exercise:

In potato wafer unit case, following is the manner of determination of working capital requirement.

**TABLE: ESTIMATION OF SALES AND PRODUCTION**

#	Items	1st Month	2nd Month	3rd Month	4th Month	5th Month
1	Installed Capacity (qty. per month in kg)	300	300	300	300	300
2	No. of working days	30	30	30	30	30
3	Estimated production (in kg)	75	150	200	250	270
4	Capacity utilization (in %)	25	50	66	84	90
5	Sales (in kg)	75	150	200	250	270
6	Value of sales (in Rs)	4500	9000	12000	18750	20250

**TABLE : WORKING CAPITAL REQUIREMENT**

#	Items	1st Month	2nd Month	3rd Month	4th Month	5th Month
1	Raw Material	2250	4500	6000	7500	8100
2	Rent	600	600	600	600	600

3	Printing and stationery	100	100	50	50	50
4	Op. Sales expenses	1100	1100	1400	1475	1750
5	Utilities	750	1500	2000	2500	2700
6	Misc. Expenses	100	100	100	100	100
	<b>Total</b>	<b>4900</b>	<b>7900</b>	<b>10150</b>	<b>12225</b>	<b>13300</b>

## Financing of Working Capital

If, for a business Rs.10,000 is required for 6 months, then which of the following options is efficient?

- A loan of Rs.10,000 for 6 months at 18% interest rate
- A loan of Rs.10,000 for 24 months at 12% interest rate

**Principle of working capital financing:**  
Finance current assets/ working capital with short-term sources and fixed assets with long-term sources of finance.

### Working Capital Management

Since working capital includes many types like listed above, management of working capital involves management of each of these types. In estimating the working capital requirement, operating expenses directly or indirectly related to the production and sales operations are taken into account. Inventory, work-in-progress, receivables, creditors and contingency are the main components of working capital. Working capital requirement are calculated for a business cycle, which is the time period between purchase of raw material to realization of the money from sales.

Now, for example, let's look at the management of cash, the most common working capital.

## Management of Cash

Have you ever heard the phrase, “Cash is king”? For any business, cash is truly king. It takes cash to pay employees, to purchase supplies, to pay bills etc.

One important way to manage cash is Cash budgeting or short term cash forecasting.

Cash budgeting involves

- Estimating cash requirements
- Planning short term financing
- Scheduling payments and receivables

Exercise:

The estimated sales for a business for the period Jan' 06 to June '06 are as follows. Rs.100,000 per month from Jan to Mar and Rs.1,20,000 per month from Apr to June.

Cash and credit sales are expected to be 20% and 80% respectively. The receivables from credit sales are expected to be collected as follows. 50% one month after sale and balance 50% two months after sale.

Other expected receipts are 1) Rs.50,000 for the sale of a machine in March and 2) Rs.2,000 interest on loans given in June.

Now forecast of cash payments is as follows.

The company plans to purchase materials worth Rs.40,000 in Jan and Feb and Rs.48,000 each month from Mar to Apr. The purchase for last Dec is Rs.40,000. The payments for these are made after one month of purchase. Other miscellaneous cash purchases of Rs.2000 per month are expected from Jan to June. Wage payments are expected to be Rs.15,000 per month for all months. A machine worth Rs.50,000 is proposed to be purchased on cash in Mar. Assume that there is a cash balance of Rs.25,000 on 1<sup>st</sup> Jan and the minimum cash balance required is Rs.20,000.

From the above illustration, prepare month by month cash budget i.e. forecasting of cash payments and receipts, net cash flow and net cash position each month considering the minimum balance that has to be maintained.

### **Five Rules for Handling Cash**

#### **1. Keep money coming in separate from money going out**

*For example,* an enterprise into selling of seed sells 10 packets of seed @ Rs.25.00 per packet each to 10 farmers. The cost of packets and transportation is Rs. 150.00.

In the above case, if the surplus of Rs.100.00 is just deposited in the bank as surplus, will it be a problem?

#### **2. Always give receipts for money received**

#### **3. Always obtain receipts for money paid out**

#### **4. Put surplus cash into the bank**

#### **5. Keep cash transactions to an absolute minimum**

# SESSION

## Costing & Profit Planning/ Breakeven Analysis for Enterprise

### **Objectives**

- To make participants identify, account and control various costs
- To assess sensitivity between costs and profit and make profit planning

### **Methodology**

Interactive session

Group exercise

**Time:** 1.5 hrs

### **Facilitation Tip**

The session has to be dealt with examples and class exercises as given in the contents.

### **Introduction**

One common drawback in most enterprises is that they are not cost consciousness. One most important aspect of any business is to identify all costs involved in the business and estimate them. Then only there will be proper estimate of business profitability.

This session address following key questions.

1. What are different kinds of costs in a business, how to identify and estimate them?
2. How costs have to be kept at minimum possible level
3. What is the minimum level of business required for an enterprise to cover all its costs and make profit

It is of common knowledge that any business involves some costs and these costs are one single most important determining factor for profit. In fact, costs are one side of the coin, the other side being returns of any business.

So, following functions with regard to costs are very crucial for any entrepreneur.

- *Identifying various costs*
- *Ascertaining these costs*
- *Assessing the sensitivity between costs and profit and*
- *Controlling costs*

To explore further into this subject, let's start by looking at different elements of costs.

## The Elements of Cost

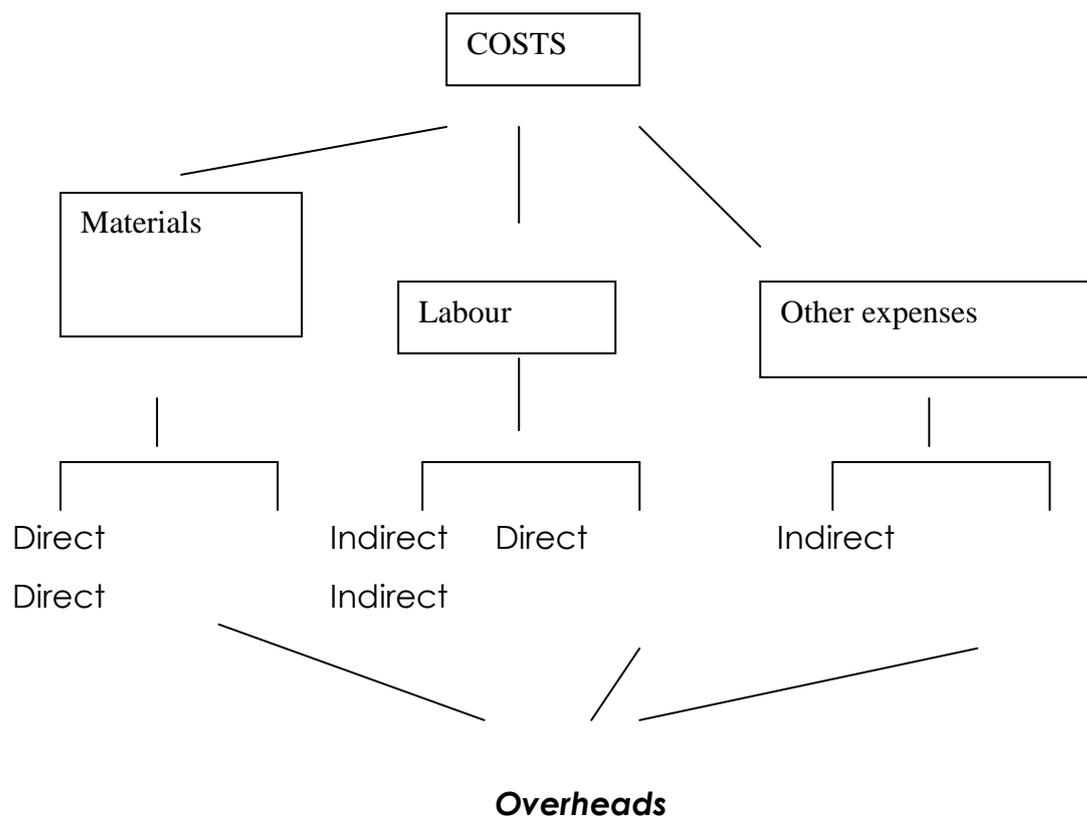
Take an example of a cement bricks manufacturing enterprise and different costs involved in this enterprise are as follows.

Equipment	Machinery
Building	Cement
Wages	Clay
Salaries	Labour
Interest on loan	Transport
Moulds	Taxes
.	.
.	.
.	.

We can notice that all these costs comprises of mainly three elements of **Material, Labour** and **Other expenses**. These three elements again comprises of direct and indirect costs. All these are shown below.

	<b>Material</b>	<b>Labour</b>	<b>Others</b>
<b>Direct</b>	Cement	Wages	Machinery Transport
<b>Indirect</b>	Clay	Salaries	Building Equipment Interest on loan Taxes

The indirect costs of material, labour and others are referred as **overheads**.



**Figure: The elements of costs**

## Classification of costs

So as to know different types of costs in a business, consider the following example of a woman selling tomatoes in a market.

### Example: A woman selling tomatoes

Daily operations		
Daily Sales*	Rs.	Rs.
20 kg tomatoes @ Rs. 5.00 per kg		100
Daily Expenses		
Cost of tomatoes: 24 kg @Rs. 2.00 per kg.	48	
Transport**	12	
Market fee***	10	
Total expenses		70
Profit		30

\* Assume 4 kg wastage per day

\*\* Transport – Rs. 12 bus fare from her village to market

\*\*\* Market Fee – Rs. 10 per day (fixed)

In this example, even if she is making a profit of Rs. 30, can it really worth profit that she is expecting? If she is able to earn a wage of Rs. 30 a day by doing some agricultural labour back at her village, then the profit of Rs. 30 is not worth for her.

That too, selling tomatoes in a market outside her village incurs other indirect costs like

- market fee
- time
- being away from village
- risks (like damage of tomatoes, no demand on a particular day, rains etc)
- foregone wages back in village
- dealing with market authorities
- The costs of food, tea etc in market etc.

Let's assume these indirect costs amount to Rs.20. In that case, what can be expected profit for her by this activity? Let us assume Rs. 50 a day. So what she has to do to achieve a profit of at least Rs. 50 a day?

- Reducing costs?
- Reducing wastage?
- Selling more tomatoes?

So as to help her in answering these, let's go further with following steps.

To start with, let's look at different costs she is incurring for the activity and calculate the total cost incurred per kg of tomatoes sold (since profitability can be had from those tomatoes which are sold only).

Cost per kg of tomatoes =  $70/20 = \text{Rs.}3.50$

If the indirect cost of Rs. 20 is included, then cost of per kg tomatoes is as follows.

Cost per kg of tomatoes (including indirect cost of Rs.20) =  $70+20/20 = \text{Rs.}4.50$

If she could sell only 10 kgs tomatoes, then what will be the cost per kg?

The total cost in this case is not Rs.90, but is Rs.66, the break-up of which is Rs.12 – transport, Rs.10 – market fee, Rs.20 – indirect costs, Rs.24 (Rs.2 per kg of tomatoes; assume 2 kgs wastage) – cost of tomatoes.

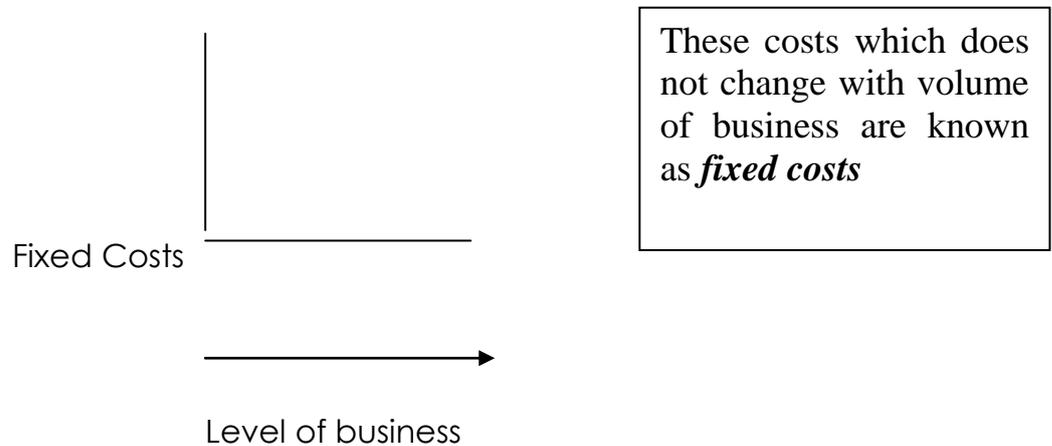
So, per kg cost =  $66/10 = \text{Rs.}6.60$

Suppose, she could sell 30 tomatoes (assume no wastage in this case), then what is the cost per kg? It is  $102/30 = \text{Rs.}3.40$ . The cost of tomatoes being Rs. 60

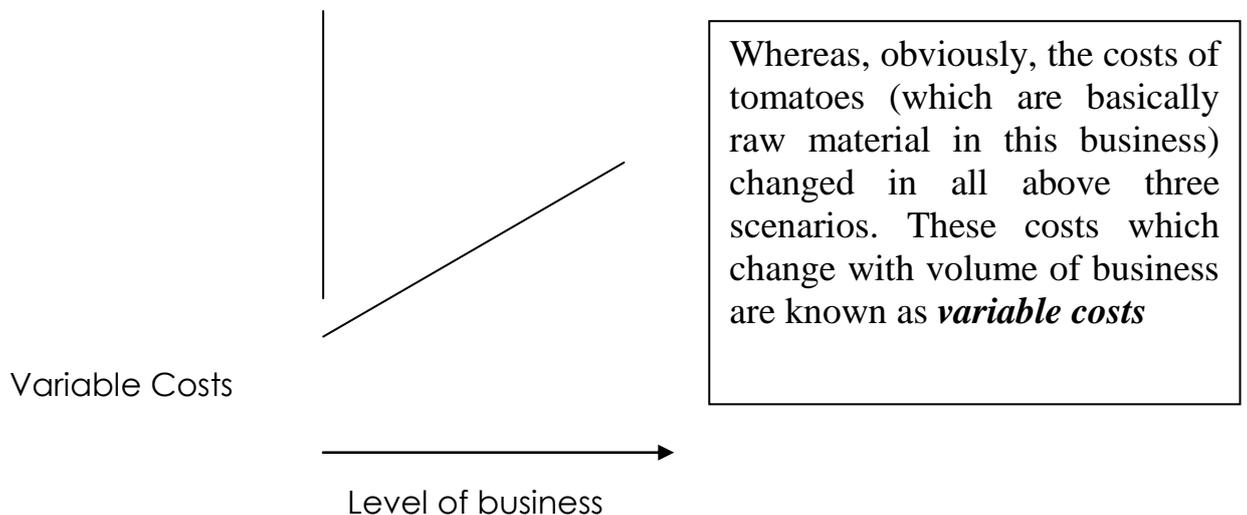
So, now think what is mainly determining the cost of tomatoes per kg? *This is nothing but the cost of tomatoes itself.*

Of the above different costs, which costs are not changing in all three scenarios (20 kgs sale, 10 kgs sale, 30 kgs sale)? Obviously these are Transport, Market fee and Indirect

costs. That means these costs are not changing with volume of business i.e. sales (at least in short term and in particular volume of business).



**Figure:** Fixed Costs



**Figure:** Variable Costs

Direct costs are those that are related to an activity or object directly and traceable easily.

Indirect costs are those that are related to an activity or object indirectly and can not be traced easily.

### Discussion Question

Discuss whether the costs of transport, market fee and indirect costs in above example do not change even after one year or for a business of beyond 100 kgs?

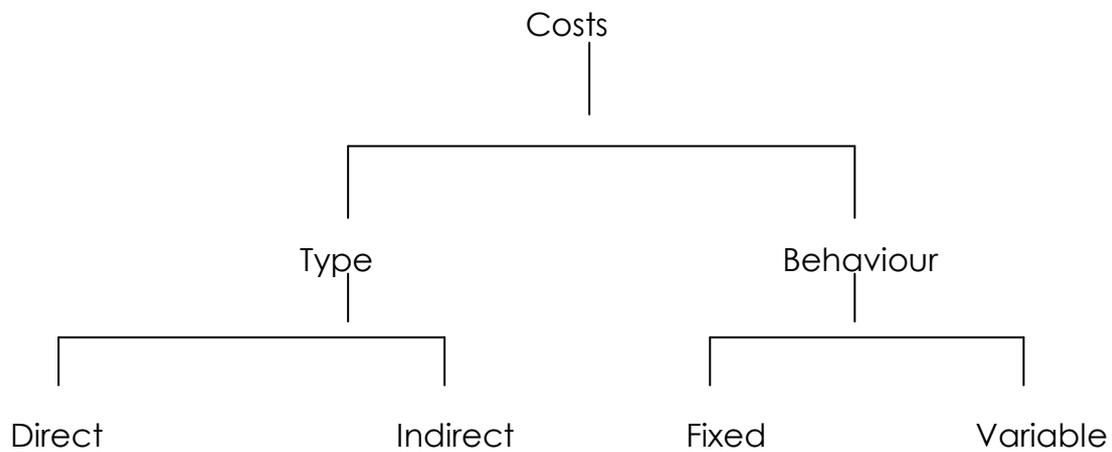


Figure: The classification of costs

### Further Ideas

No cost item is inherently of one type – either fixed, variable, direct or indirect. Their type is determined by the activity, the context, time etc. What are fixed costs at some point of time and in some context may be variable at another point of time and context and same way with direct and indirect costs.

In fact, in the long run, all costs are variable!

**Exercise 1:** Following is the general listing of different cost items in a business. Put tick in the relevant boxes.

S. No.	Cost Item	Fixed Cost	Variable Cost
1	Raw material		
2	Insurance		
3	Wages		
4	Salaries		
5	Rent		

6	Maintenance & Repair		
7	Marketing expenses		
8	Machinery		
9	Building		
10	Transport		

**Exercise 2:** Take the example of a freshwater aquaculture, list out all costs in the activity and categorise them into various costs.

	Direct costs	Indirect costs
Fixed costs		
Variable costs		

**Exercise 3:**

Ask the participants to divide into different groups, each group take one enterprise of their interest and attempt following tasks.

1. Identify and list various costs involved in the enterprise
2. Categorise these costs into various types of costs

Costs behave in different ways in different contexts. Identifying different costs of a business and understanding their behaviour is an important skill that any entrepreneur needs to

have. In any business, not only direct costs but also indirect costs exist which should be taken into account.

The illustration of a woman selling tomatoes indicates that for many important decisions of cost determination and control, not only Total Costs are to be considered but also working out of Unit Costs is also important.

## **Breakeven Analysis**

### **Purpose**

The particular learning objectives of this session are to enable participant's address the questions like

- What is the minimum level of business to make profit
- How much business has to be done to reach a target profit level
- What are the effect of changes in costs and volume on profit

Ultimately it should help in deciding *the most profitable combination of costs and volume for a business.*

Maximizing profit is the first and most commonly agreed purpose of any enterprise. So it is very important that any entrepreneur need to make profit planning for his/her business in so meticulous manner to maximize profit. It can be noted that profit is highly correlated with costs and volume of the business. *The entire profit planning of a business is associated with this cost-volume-profit interrelationship.* This particular session presents breakeven analysis, an important tool of cost-volume-profit analysis.

So as to discuss these concepts, let's continue with the example of a woman selling tomatoes in session cost structure.

### EXAMPLE: A woman selling tomatoes

We can recall from the session that in this case, anyway some costs are fixed and variable costs incur for every unit of business. That means *profit do not start coming right from first unit sold but it comes only after fixed costs are covered* (even if it appears that this is profit, it is actually not since she will be left with nothing after making payments).

So as to achieve the expected profit early in the business, the fixed costs are to be covered first and as early as possible. That means we need to calculate the number of kg of tomatoes she would have to sell in order to cover the fixed costs and earn a profit of Rs. 50 per day.

From the first example where she sell 20 kgs, we can know that out of the selling price of Rs. 5.00 per kg of tomatoes, Rs. 2.00 is the cost of tomatoes (i.e. variable cost) and the remaining Rs. 3.00 is what is contributed to cover fixed cost. This Rs. 3.00 that is contributed by each unit sold towards fixed cost is called as **contribution**.

$$\text{Contribution per unit} = \text{selling price per unit} - \text{variable cost per unit}$$

$$\text{Total contribution} = \text{contribution per unit} * \text{units sold}$$

So what is the number of units of tomatoes to be sold to cover total fixed cost of Rs.22? Obviously 7 (rounded off) (22/3.00).

This means 7 kgs is the level at which all fixed costs are covered. These 7 kgs of business is what is called as **breakeven** i.e. the point where she makes no profit, no loss.

So, following formula can be derived from above to calculate breakeven units.

$$\text{Breakeven point in units} = \text{Fixed costs} / \text{contribution per unit}$$

**Class Demonstration:**

Following tables are constructed for three scenarios.

Scenario1: Selling 7 kgs of tomatoes		
Sales	Rs.	Rs.
7 kg tomatoes @ Rs. 5.00 per kg.		35
Daily Expenses		
Cost of tomatoes: 7 kg @ Rs. 2.00 per kg.	14	
Transport	12	
Market fee	10	
Total expenses		36 (round off to 35)
Profit		0

Scenario2: Selling 25 kgs of tomatoes		
Sales	Rs.	Rs.
25 kg tomatoes @ Rs. 5.00 per kg.		125.00
Daily Expenses		
Cost of tomatoes: 25 kg @Rs. 2.00 per kg.	50	
Transport	12	
Market fee	10	
Total expenses		72.00
Profit		53.00

Scenario3: Selling 5 kgs of tomatoes		
Sales	Rs.	Rs.
5 kg tomatoes @ Rs. 5.00 per kg.		25.00
Daily Expenses		

Cost of tomatoes: 5 kg @Rs. 2.00 per kg.	10	
Transport	12	
Market fee	10	
Total expenses	24	32.00
Loss		7.00

This illustration takes us to the following finding.

7 kgs – break even (no profit; no loss)

Below 17 kgs – loss

Above 17 kgs - profit

So 7 are the minimum number of kgs that the woman has to sell per day to start making profits.

The breakeven point can be indicated in terms of value also. In above example, the breakeven value is Rs.35.00 of sale revenue.

The breakeven can be expressed in a chart also like following chart for the tomato business.

### **Capacity Utilization**

In the above example, if the woman has capacity (in the sense not incurring further fixed costs) to bring at a time 50 kgs of tomatoes, then what she has to do to maximize the profit? Obviously using entire capacity i.e. 50 kgs of tomatoes.

Breakeven can be expressed in terms of percent of capacity also. In case of tomatoes, it is 14% (7 kgs of 50 kgs).

### **Exercise: Dairy Activity by a Mandal Samakhya**

A Mandal Samakhya plans to take up dairy activity by a cooperative covering some villages of the mandal. The plan is to set up a 2000 ltrs bulk milk cooling unit in the mandal headquarter.

A survey of dairy potential in the mandal was done covering aspects like population of milch animals, number of dairy farmers, milk production etc. Following are main findings of the study.

- b. Of 30 villages in the mandal, 10 villages have the potential of dairy
- c. The total milk available for sale in the 10 villages is 2000 litres a day
- d. The total milk available for sale from members of the Samakhya – 1500 litres a day
- e. The total number of members who can supply this 1500 ltrs – 100
- f. The maximum capacity that can be utilized in one year – 2, 00,000 litres.

Different Costs (for one year period):

1. Milk cooling unit – Rs. 10 lakhs
2. Building – Rs. 50,000
3. Automatic fat testing unit - Rs. 50,000
4. Cans – Rs. 1000 per can; 50 cans
5. Salaries – Rs. 1,20,000 per year
6. Milk procurement price – Rs. 8 per litre
7. Milk cooling cost – Rs. 1 per litre
8. Sale price of milk – Rs. 15 per litre
9. Transportation cost – Rs. 1.00 per litre

After studying the above case, attempt following questions. Make other relevant assumptions if required.

1. Calculate the breakeven point both in terms of number of liters and value
2. Indicate the percent capacity utilization at which the business breakeven

3. Calculate the minimum number of days in which the business breakeven
4. What is the level of milk procurement to achieve a profit of Rs. 1, 30,000 per year?
5. Calculate the profitability at three levels of capacity utilization – 60%, 70% and 80%
6. It makes no business sense to install a capacity higher than the potential. Substantiate.

**Which members to be focused?**

Let us assume that following is the breakup of 100 members in the above example in terms of quantity of milk they supply.

	I	II	III
No. Of members	10	30	60
Volume of milk (lt/day)	500	300	200

Then which segment of members has to be mobilized first so as to achieve breakeven quickly and make as much profits as possible with little effort?

Clearly, it is I category farmers followed by second and then third.

This is general distribution in many fields. Generally, there will be one category of people who are few but vital in terms of business, another category who are many but not so vital. In between present the average category. Business prudence is to put efforts accordingly only. So how soon the business breakeven depends on the intensity of mobilization of highly prospective members.

*Illustration:* A village level society which is into the business of supplying fertilizers to farmers

Where as in case of dairy, to what extent farmers supply milk is key in achieving breakeven, in case of village society, the extent to which farmers take the fertilizer is key in achieving breakeven for the society.

## **Conclusion**

It is common that enterprises incur some fixed costs. Since fixed costs, as the name suggests, locks up some capital, covering of these are crucial to earn profit. Costs and total volume of business are two key factors, which have sensitive influence on profits. So identifying this sensitivity i.e. percent change in profit by a change in volume or costs is an important consideration in profit planning.

Identifying fixed and variable costs and breakeven level of a business and planning the business accordingly are very crucial for any entrepreneur.

And also any activity should strive to cover the fixed costs as soon as possible so that the sale revenue after that directly adds to profit. In a business, how much capacity to be established should be meticulously planned taking into consideration the potential (of both availability of raw material and market) and risks (tradeoff between costs and returns).

After this decision, all possible ways and means should be explored to maximize the utilization of the capacity so as to see that unnecessarily capital is not locked idly and no interest and other cost are incurred.

# Chapter 6

## Marketing for Enterprise Promotion

### Why importance on marketing?

Marketing is a fundamental human activity  
Marketing impacts the village economy  
Marketing management is essential to success of organisations  
Marketing can contribute to societal well-being

Given this importance of marketing, Peter Drucker says (*writing about lesser developed countries*)

*"...in an economy that is striving to break the age-old bondage of man to misery, want and destitution, marketing is...the catalyst for transmutation of latent resources, of desires into accomplishments, and the development of responsible economic leaders and informed economic citizens."*

*Many micro-enterprises failed mainly because they did not pay attention to the marketing.*

For any business to succeed, marketing orientation is required. This means striving to satisfy consumer needs and realizing maximum profit as the two most important goals of a business.

The experience of many enterprises is that they begin with some training on making a product like candle making, slate making, soft toy making etc which is arbitrarily chosen by an external facilitator. Working capital is provided through some source and stakeholders start producing till the working capital dries up and sit on the pile of the finished goods waiting for an imaginary buyer to rescue her. Its lesson is simple.

Start with market.

Particularly in livelihoods context, one important principle is that the interventions need to start with local market first. This is mainly in view of less risks and local demand.

### **Problems of rural producers while marketing**

The above-mentioned importance of marketing further gets corroborated by the fact the rural producers face many problems to market their products.

Small quantities
inaccessibility of the markets
high transaction costs
non-availability of the market information
Poor quality
non-existence of supporting institutions
Lack of knowledge about the legal issues in different markets
lack of infrastructure like storage facilities, grading and quality preserving processes
Tied up sales

## Amul: The Taste of Competition

**GCMMF is taking on transnationals across a clutch of product categories. But can a co-operative with limited financial mean stand up to the might of these MNCs? And will its USP of cost continue to stay relevant?**

It is the defining moment in the meeting with Bharat Mahenderbhai Vyas, the 51-year-old managing director of the Gujarat Co-operative Milk Marketing Federation (GCMMF), popularly known as Amul, after its larger than life brand. One of his colleagues, Sanjay Panigrahi, the general manager in-charge of the confectionery business explains how Amul proposes to enhance its portfolio with the launch of éclairs branded Chocolair and

Milkmaid. "Get your focus right," snaps Vyas. "We are into Re 1 confectionery; product-led segmentation will not work in this price sensitive category."

That's Vyas: self-confessed gourmand, GCMF-lifer, and keeper of the faith. Faith, in the case of the Rs 2,258 crore co-operative he heads, is price-leadership.

For, this is the basis of his strategy to make Amul India's best-known food brand, not just its most popular milk, butter, and cheese one. The numerical target? A turnover in excess of Rs 10,000 crore by 2006-7.

There's a minor issue of competition. Amul's ambitions have put it squarely in the radar of transnational marketing giants. Pizza Hut, Domino's, Cadbury, Nestlé, Britannia, Hindustan Lever Limited-pick a marketing major and chances are, Amul will be competing with it in one product category or another.

Does this intimidate Vyas? Not quite. "We know the modus operandi of the MNCs," he brags. "We'll embarrass them everywhere." Those words are typical of Vyas. Both he and the man who created Amul, its chairman, Dr. Verghese Kurien is critical of the way MNCs have gone about their business in India.

### **A Patchy Record**

In the context of Amul's past performance Vyas' words reek of bravado, nothing else. The co-operative's fight with HLL in ice cream, starting with its entry into the market five years ago, is well documented. The winner? HLL with a 40 per cent share of the 60 million litres a year (organised) market, although Amul is second with 27 per cent. Then, there is its performance in chocolates, a category it entered 27 years ago. Market leader Cadbury boasts a share of 70 per cent; Amul is a very distant third with 2 per cent.

Amul's obsession with price is only to be expected. It sources milk from over two million dairy farmers in Gujarat and is highly cost competitive. But the obsession cuts both ways. It has often blinded the co-operative to opportunities. Between 1983, when it launched a cheese spread and a dairy whitener and 1996, when it did ice cream and condensed milk, Amul was content to remain in launch-limbo. Since then, of course, things have

changed. Today, Amul is "everywhere" as Vyas claims it to be: from cottage cheese (paneer) to gulab jamun, packaged long-life milk to curd, cheese to pizzas, confectionery to ice cream mixes, and baby foods to ice creams.

"Amul is a brand worthy of the trust of 1,000 million Indians," says Verghese Kurien, the octogenarian who is the chairman of GCMMF and the icon of the co-operative movement in India. "Why should it just be a label for butter?"

That argument has been translated into a numerical goal for Amul: today, just about 15 per cent of GCMMF's revenues come from value-added offerings like long life milk, ice cream, curd, and gulab jamuns; in the next five years, the co-op wants to see this increase to 35 per cent. "To do this, the number of consumers interacting with Amul has to grow at a faster rate than that of those interacting with any of my competitors," says Vyas.

### **Marketing Overdrive**

To do this, Amul has moved its marketing efforts up a gear. In the pizza market, for instance, it first tested the waters with an unbranded mozzarella cheese pizza. Satisfied that there is a market for frozen pizzas, it has now soft-launched the Utterly Delicious brand. Over the next two to three months, it will work out issues related to packaging and distribution before bestowing the Amul brand name on the product. Similarly, Snowcap is GCMMF's test-brand in the ice cream mixes category.

Amul hopes to have sold 100,000 pizzas per day by end of day, March 31, 2002. With 3,000 outlets doing the selling, and a price-tag of Rs 25 for a mid-sized pizza (8 inches in diameter if you are one of those people for whom size matters) that target is well within the realm of the possible, but the competition is having none of it. "We will not allow anyone to walk away with our customers in the northern market," says Gurreet Singh, General Manager (Operations), Nirula's, a New-Delhi based fast food chain that sells 5,000 pizzas a day. Now, taking a leaf from GCMMF's book, Nirula's is set to launch frozen pizzas in six flavours in the Delhi market.

Other competitors are, literally, blasé. "We have no plans to lower prizes (to combat Amul)," says Pankaj Batra, Marketing Director (Subcontinent), Tricon Restaurants, the company that runs 21 Pizza Hut outlets across 10 Indian cities.

Competitors in other categories are downright derisive of Amul's efforts. "Amul has been growing its market share; (but it has made) no efforts to grow the ice cream category," says J.H. Mehta, Executive Director, Ice Cream, HLL. GCMMF's General Manager in-charge of marketing R.S. Sodhi counters that the company's immediate objective with Snowcap (the ice cream mix) is to "create a market for ice cream mixes, not necessarily for Amul ice cream itself." But with both competitors eyeing the lucrative 75-100 crore units a year ice-cream-in-a-cone market, a clash is imminent. Over the next three years, HLL plans to sell its offering in this category, Kwality Walls Softy & Creamy, from over 1,000 machines. Vyas' response is a quiet, "we know just how to tackle the competition."

No surprises for getting that one right-price it is. Thus, GCMMF's milk-based confectionery will take on HLL's sugar confectionery brand Max in the sub-Re 1 segment. Even in a category like long-life milk targeting high-end consumers, Amul competes with Nestlé primarily on the plank of price

### **Life beyond price**

Price is without doubt the source of Amul's edge over the competition, but that doesn't mean the co-operative isn't familiar with other marketing weapons. In August, Nestlé discovered that to its disadvantage, when it launched its eponymous brand of butter in the Delhi and Mumbai markets. The refrigerators of the key retailers it had identified for the launch, were overflowing with Amul butter, which normally sells so much that retailers don't have much of it in storage. "We knew where they would go and flooded the market with Amul butter," grins Sodhi. And, given GCMMF's wide range of products no retailer could say no.

Apart from helping Amul keep capital costs low, these alliances will prove critical in the case of low-shelf life products like milk and curd. And the ability to outsource products from other co-operatives will help GCMMF keep its wage cost low. Its wage costs in 2000-

01 were 0.8 per cent of sales; HLL's, although the MNC's revenues were nearly five times GCMMF's, were 5 per cent of sales.

"Today, my strength lies in (the ability to tap into) farmer co-operatives," says Vyas. "If I want to enter sugar-boiled confectionery, all I have to do is tie up with a sugar co-operative." That should certainly help, but is there a downside to being a co-operative? Raising money seems to be the least of GCMMF's concerns. "I have a father-in-law in NDDDB, for money as and when I need. Why should I then tap the market," says Dr. Kurien, referring to GCMMF's relationship with the apex dairy co-operative federation in the country. Over the next four years, GCMMF will invest Rs 400 crore in its foods offensive; apart from NDDDB, other sources of these funds will be loans from banks and debentures issued to the members of the co-operative.

The Government's decision allowing multi-state co-operatives, like GCMMF, to become producer companies will help reduce state governmental control and interference, and enhance its autonomy of functioning.

Does Amul have the marketing wherewithal to compete with the men? It does have a close relationship with the Institute of Rural Management, Anand, from where it recruits 10 young managers every year. But middle- and senior-management salaries in the co-operative are not really comparable to those in companies like HLL and Nestlé. "GCMMF typically pays a middle or senior level executive 40 to 50 per cent of what he will get in HLL," says Ronesh Puri, Managing Director, Executive Access, a head-hunting firm. Kurien's response to this is typically Kurien. "How much should a farmer pay his employee? 50 times his own earnings?" Well, he at least needs to pay him enough to ensure he's not tempted by the (taste of) competition.

# Case let

## AGROCEL Service Centre, Mandvi, Kutch

### **Context**

Agrocel even though a registered, for-profit company, has made it into a Livelihood Promoting Organization because of its unique design and philosophy. All the activities of Agrocel are driven by the twin motives of profitability and farmer service. And unlike other market led interventions, it does not receive subsidy or grant for its capacity building or farmer empowerment activities. Instead it has often implemented development activities for a fee, while helping the farmer with free guidance and education in using latest technology. It also provides them quality seeds, helps them take to organic farming; which provides a premium market, undertakes exports of certified products, absorbs risks and offers many other such services.

### **Introduction and Background**

Agrocel Service Centre, referred to as “Agrocel”, is a division of Agrocel Industries Limited. Agrocel Industries earlier was Agrocel Pesticides Limited, a joint venture company of Excel Industries Limited and Gujarat Agro Industries Corporation Limited of the Government of Gujarat. The company revolves around the magnetic personality and philosophy of the late C.C.Shroff, founder of Excel and Kantisen Shroff more popularly known as “Kaka”.

### **Setting up Agrocel Service Centres**

“Kaka” together with the secretary, Government of Gujarat, came up with a formula, which could achieve a major breakthrough in farming. It was of providing the right kind of inputs, at the right time along with education on their use to the farmers. Towards this, the joint venture company agreed to start Agrocel with a small service centre at Koday Char Rasta, near Mandvi in Kutch in 1988. (Presently the centre caters to a farming community spread over an area of 20,000 hectares).

Today it has grown to 15 centres in different parts of Gujarat, Orissa, Haryana and Uttaranchal. About 20,000 small and marginal farmers directly and indirectly have benefited from the services of Agrocel.

### **Activities of Agrocel**

Agrocel undertakes a range of activities with service centre as their base unit. Agrocel in Gujarat is mainly working for organic cotton and groundnuts; a centre in Haryana is mainly for Basmati rice, a centre in J & K is for walnut, and one centre in Maharashtra is for cashew nut. The other centre in Maharashtra works on a special project on soil reclamation in Sangli district with a NGO "REWARD". It gets financial assistance from the Government of Maharashtra.

Agrocel offers advice and services in the following areas:

- *Crop Improvement*
- *Land and Water Management*
- *Nutrient Management*
- *Pest and Disease Management*
- *Marketing and exporting quality produce to other countries as per demand*

### **Agrocel's Marketing Intervention**

Agrocel's marketing intervention starts with setting up agriculture extension service and thereby developing relationship with the farming community. Agrocel's extension and other services have helped them earn farming community's goodwill by selling them good quality seeds, fertilizers, pesticides and agri-implements. While providing extension and input services, Agrocel guides farmers on proper crop management practices. Agrocel adds value to the crop produce by processing and /or packaging and helps market these products nationally and internationally. To cover a large number of farmers, Agrocel offers a wide range of products to the buyers, other than organic products. The main focus is however organic cotton and food, including dry fruits. The table below gives a distribution of Agrocel Products in Conventional, Fair Trade and Organic Channels.

Agrocel also helps farmers access credit by linking them with commercial banks (like the ICICI) or get subsidy from government scheme (like in drip irrigation) for their input purchase. This intervention contributes to about 50% of Agrocel's turnover. Typical percentage contribution of input sales in a centre in Mundra is: Sales of fertiliser –50%, Seeds-20%, Pesticides-17%, Agri-implements (drip, sprayers etc.) –9%, Bio fertilizers-3%, and rest through sale of oil mills, neem naturals, etc. The output marketing (especially all exports) is done mainly from the Agrocel head office at Koday. So the sale of Koday centre is higher than the other centres.

### **Large Domestic Market**

Though Agrocel was able to get better price from exports, 75% of the output sales still come from the domestic market, which is through whole sellers and other exporters. The contribution of output marketing of Agrocel shows: cotton-20%, rice-10%, and sesame-40%, cashew nut-4%, walnut-4% and rest others. Certain percentage of organic cotton, cashew nut and walnut is mainly exported through the fair trade channel and rest is sold in the domestic market.

The marketing intervention by Agrocel can be said to be multi-dimensional, it has built collaborative linkages with both input suppliers and buyers of produces from the villages. They have also built linkages with variety of other agencies working in the rural areas, which include other NGOs and development agencies, producers and sellers of other consumer goods required by their customer groups.

### **Agrocel Financials**

The Agrocel team comprising of Hasmukhbhai Patel, Sailesh bhai Patel, Kamalbhai and many others whose entrepreneurial ability and commitment to farming community has seen Agrocel service division raise its turnover in agri business from around Rs.18 lakhs in 1988 to Rs.374 lakhs in 2000-01, to a whopping Rs.12.3crores in 2003-04, with a revenue surplus of Rs.80 lakhs. The growth of the service division in the last three years can be seen from the table given below.

## **Factors Contributing to Organisational Success**

- **Entrepreneurial Character** -Agrocel team is encouraged to be creative and to look out for opportunities that can be converted into a profitable business. Agrocel has always entered a new location with a special programme.
- **Sharing Knowledge** -Lots of new ideas and cross learning takes place during the monthly meetings when all centre heads meet and share their work and ideas.
- **Pragmatic Hiring** -Agrocel management is quite pragmatic in hiring; they emphasise on ability rather than on formal qualifications.
- **Inculcating Values** -Agrocel management gives great importance to orientation and induction of new comers to the organisation. A Fresher is trained under an employee for more than six months where he /she observes and learns his /her job from the seniors. All employees shared the view that *"profit is the by-product of our services"*.
- **Decentralization** -Institutionally, there seemed a strong commitment to decentralization and non-hierarchical management structures.
- **Multi-tasking** -The employees revealed that though everyone is assigned a specific task, all were trained in multi- tasking and undertook any job that required to be done to fulfil the organisation objectives.
- **Homely Work Environment** -Another striking feature is the homely environment in the Agrocel office.
- **Man-making** -Another thing unique to Agrocel is the art of man-making. Some describe it as making men out of zeros.
- **Minimum Attrition** -Due to encouragement and a chance to grow, attrition rate at Agrocel is minimal. They have organizational information at their fingertips, are knowledgeable about their business and keen to learn more as they explore other enterprises for output marketing.

## **Networking with Other Agencies**

Agrocel recognises the fact that, though they have made an impact on the livelihoods of a large number of farmers, it could not have been done on their own. They needed other agencies to complement their work. Agrocel besides intervening at various points in the

sub sector has made linkages with other NGO's like VRTI, which help the farmers in water harvesting and other techniques for assured irrigation for the crops, with specialised input from companies like Excel, Bayers, Netafim. The credit needs of farmers are met by linking the farmers with banks like ICICI. The output like cotton is ginned washed and spun at specialised mills (not part of Agrocel). Similarly organisations like Srujan, who specialise in handicrafts, are brought in to make designer clothes. Agrocel also uses the services of research organisations, which makes its intervention in livelihoods effective.

### ***Risk Mitigation Strategy***

Keeping Agrocel Service Division and the Marine Chemicals Division under the Agrocel Industries Limited is strategic, one division acts as a backup, when the other division makes a loss. When there are good rains, the profits of Agrocel Service division go up and the marine division does not fare well, and vice versa. For instance when the marine division made a loss, dividend was given from the Agrocel service division account and vice versa.

### ***Impact of Interventions on Farmers and Market***

- Agrocel has been able to reduce the cost of inputs, huge expenditure on chemical fertiliser and pesticides by providing inputs at a fair price and adoption of IPM and ICM techniques.
- Agrocel provides free skill training, and education in improved agriculture, which has helped the farmers increase their productivity and quality, and thereby get a better price.
- Agrocel's efforts to link the farmers with credit institutions like ICICI and its assurance of buyback of the fair trade food crops at a premium price and introduction of organic cotton has encouraged farmers to go in for more acreage of crops, which means more number of days of employment and at the same time reduction in price fluctuation.
- Agrocel directly provides all these services to more than 4,000 farmers, besides making available limited services to more than 20,000 farmers every year.
- Agrocel's effort has made the farmers aware of the advantage of organic farming and protecting it from turning into a wasteland. Also it has made the customers

aware of the advantage of organic cotton and organic food by building a strong brand. Customers and farmers both are realising the importance of growing and consuming organic products, which is environmental friendly.

Thus Agrocel is helping the farmers economically by providing gainful employment with dignity, and at the same time ensuring sustainability of the assets and returns from the markets.

### Cotton Intervention

The above sections have discussed the broad contours of Agrocel operations, finance and impact. This section provides an in-depth look at the cotton intervention to get an understanding of the processes followed.

Agrocel initially entered the organic and fair trade activities in 1998 through a project titled 'Straight from the Cotton Fields'. The project was a collaborative venture with Vericott Limited, a company based in UK. It was part of a larger program sponsored by MDM Oxfam and Oxfam Solidarity of Belgium to improve returns to cotton producers by reducing the role of intermediaries in cotton apparel production. The project was started with a group of 38 ethical farmers and has now grown to 1200. These farmers were trained in Integrated Crop Management Practise (ICMP) and in organic farming. During the growing season, field officers of Agrocel provided guidance at the farmer's doorstep.

To capture the international markets, farmers for example were advised to grow cotton in the fields following ICM and /or organic practices. Agrocel works on Integrated Crop Management (ICM) and Integrated Pest Management (IPM) practices with a pre-identified group of farmers (at present about 4,000 in its 15 locations) with crops like organic cotton (branded and registered as Agrocel cotton), sesame, and basmati rice. The raw cotton is purchased from the farmers at a fair price (usually 8% more than the market price of cotton) to give them a stable income and protect them from price fluctuations in the international commodity market. It liaises with the organic certification agencies on behalf of the farmer and undertakes exports of the certified organic

produce. It absorbs the risks arising out of the complexities of export (such as risk of rejection and fluctuating foreign exchange rates) and hence charges a margin on the prices received by the farmers.

After purchase, the cotton is ginned, spun, knitted and fabric stitched into T-Shirts. The first consignment of T-Shirts was sold through the fair trade channel to OXFAM, Belgium and it turned out to be a success. Since then Agrocel has been consciously making efforts to gain their market share in the fair trade channel. Agrocel is now exporting fabrics, yarn and other garments on order. It has established a market chain nationally and internationally through the fair trade channel.

Much of the credit of Agrocel's intervention in organic products goes to Abigail Garner of Traidcraft plc who came to India and stayed over for 18 months (1997-1999) to train Agrocel team in different areas of cotton processing. During this period, Thomas Petit, a Frenchman having expertise in textile production joined her.

Initially Agrocel faced major problem in fabric washing, which used chemicals for bleaching or dyeing. Garner and Petit designed a new eco-friendly washing unit, which used only hot water and no chemicals. The water obtained after washing was eco-friendly as it contained only natural wax and could be used for irrigation purpose. This was practiced in the Agrocel demonstration plots. This unit is the only one of its kind in India.

Garner and Petit left India in 1999 and are selling organic cotton T-shirts, and have set up a company named as Vericott India limited in UK to market its cotton products/brand. Agrocel cotton is branded and sold under the brand of "Farmers art" in U.K. Agrocel also obtained organic certification for its products to be sold under the fair trade channel by IRFT, Mumbai.

## **Business Management Practices**

### *Procurement Price*

The cotton thus grown is then procured from the farmer who gets 8% more over the prevailing market price. The procurement price is fixed based on the market feedback (from mandis + farmers on the price other traders are buying their produce and then add 8% on the agreed price).

But, before purchasing, Agrocel team does a rigorous exercise to project their sales for the coming year (based on orders + present customers + likely new customers + projections based on last year sales) and then calculates the number of acres required to be serviced to fulfil this demand, which is then distributed among the different service centres and farmers. Agrocel follows an open fair trade standard with all the farmers they work with, which is monitored from time to time.

### ***Conclusion and Learnings***

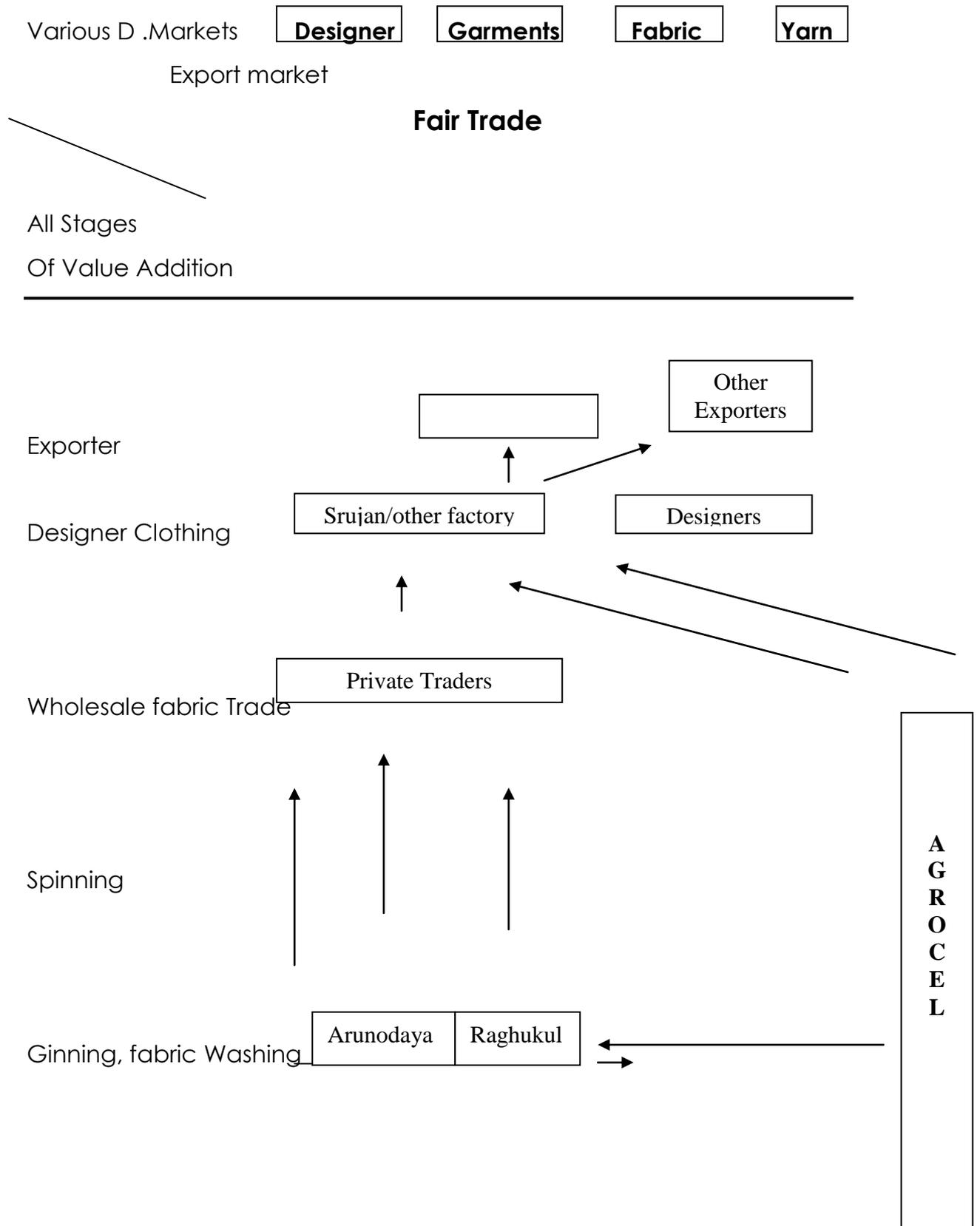
It is clear that agriculture will continue to be the most important source of livelihood for the rural poor. It is also clear that with increasing population and consequent pressure on land, farmers have to manage their resources judiciously, to give them high returns as well as protect the future generations. Therefore adopting modern agricultural practices is inevitable and which needs educating the farmers in scientific practices.

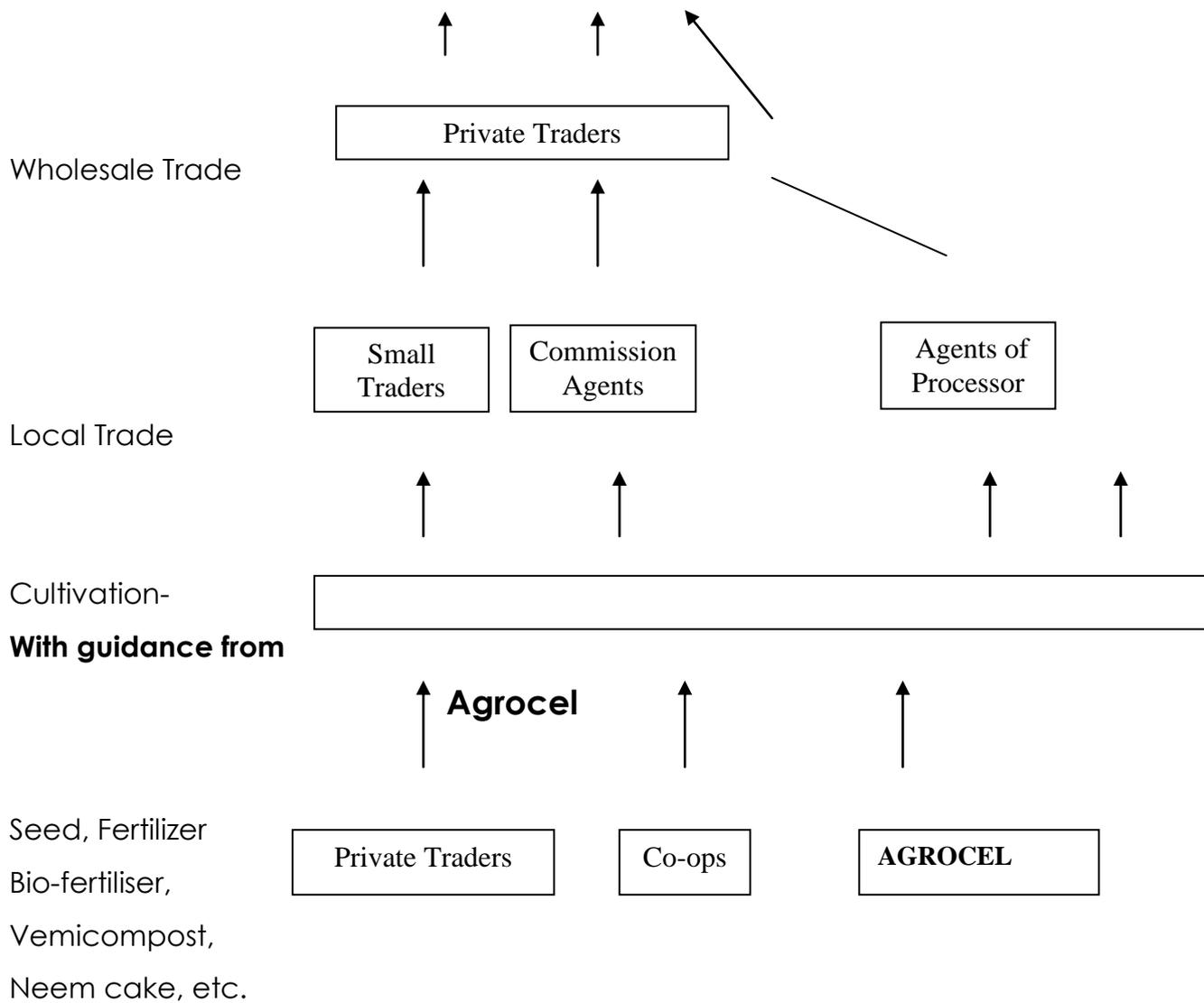
The role of Agrocel seems clearly in line with this requirement; they are acting as a private extension services agency, educating the farmers to use their resources judiciously. It is important that the farmers get all their inputs, education and can sell outputs under one roof; this reduces their risk and transaction cost. Numerous studies have shown that the market is usually not farmer friendly; therefore it is important that the farmers get an assured return for their produce. Agrocel by educating the farmers to grow organic products is helping the farmer get a better return on his produce, as it is a niche market where people are willing to pay premium prices.

The unique feature of Agrocel is its commitment to work for "progressive, regenerative and yet sustainable agriculture for mutual benefit of the company as well as the farmer. Agrocel servers the small farmers at the same time generating profit to keep the

operations profitable without any external funding. Their service is based on the philosophy and culture “profit is the by-product of our services”.

**Diagram 1: VALUE CHAIN ACROSS THE ORGANIC COTTON MARKET:**





Agrocel has adopted a holistic livelihood model (The Livelihood Triad), and unlike other organisations, has also been able to generate sufficient profits due to its sound management practices, making the programme sustainable and not donor driven. The Agrocel model has a large livelihood implication in our country where 60% of the population is dependent on agriculture with poor or no extension service. Agrocel has selected the difficult route to make its unit sustainable by developing multi skills among employees, reducing wasteful expenses, yet making the employees feel committed to the mission.

## Session

# Monitoring & Evaluation for Community Enterprises

The Monitoring & Evaluation and Management Information System (MIS) is ensured by following ways.

Development and monitoring of LogFrame for the enterprise

Development of M&E/MIS indicators to track performance of the enterprise

Development of required backend systems for M&E/ MIS

### **Development and monitoring of LogFrame for the enterprise**

Development of LogFrame is an important element in the planning and monitoring of the goal, objectives and activities of the enterprise. Following are the typical outlines of LogFrame.

## Example of Logical Framework for a Project

	Intervention Logic	Objectively verifiable indicators of achievement	Sources and means of verification	Assumptions
Overall objectives	What is the overall broader objective to which the project will contribute?	What are the key indicators related to the overall objective?	What are the sources of information for these indicators?	
Project Purpose	What are the specific objectives which the project shall achieve?	What are the quantitative or qualitative indicators showing whether and to what extent the project's specific objectives are achieved?	What are the sources of information that exist or can be collected? What are the methods required to get this information?	What are the factors and conditions not under the direct control of the project which are necessary to achieve these objectives? What risks have to be considered?
Expected Results	What are the concrete outputs envisaged to achieve the specific objectives? What are the envisaged effects and benefits of the project? What improvements and changes will be produced by the project?	What are the indicators to measure whether and to what extent the project achieves the envisaged results and effects?	What are the sources of information for these indicators?	What external factors and conditions must be realised to obtain the expected outputs and results on schedule?
Activities	What are the key activities to be carried out and in what sequence in order to produce the expected results?	Means: What are the means required to implement these activities, eg personnel, equipment, training, studies, supplies, operational facilities, etc	What are the sources of information about project progress?	What pre-conditions are required before the project starts? What conditions outside of the project's direct control have to be present for the implementation of the planned activities?

It needs to have the logic as indicated below.

Objectives	Indicators	MoV	Assumptions
Goal			
Purpose			
Outputs			
Activities		<i>then</i>	<i>and</i>
<i>If</i>			

#	PARTICULARS	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS OF ACHIEVEMENT	SOURCES & MEANS OF VERIFICATION	ASSUMPTIONS
1	<b>MISSION</b>	To enhance livelihoods (or any other) of _____(Community?social, occupational, gender etc) in _____ (areas?), by enabling them to access required _____ (services?); or any other	Increase in _____(return, resource, & reduced risks, increased employment, reduced expenditure, increased options, ?)	1. Annual report 2. Comparison data of baseline	1. There is a need & scope of such enterprise 2. The _____(activity/product?) is the primary source of livelihood for members. 3. Congenial policy& legal environment (specify) 4. Members will continuously patronize the services _____(specify?) of the enterprise
2	<b>VISION</b>	1.To reach out to _____(number?) _____ members of _____(community) by _____(time?) by providing all necessary _____ ( linkage services?) in _____ (number) of villages in	1. increase in income by _____(in real terms) 2. outreach of _____(number?) members 3. Enhanced capacities (specify?) of members and the enterprise	1. Audited financial statement 2. Household data of members 2. Registers of	1. Concerned product/service is important to meet needs of consumers (in market) 2. The interventions are technically feasible 3. Necessary CB inputs (specify?) are given

#	PARTICULARS	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS OF ACHIEVEMENT	SOURCES & MEANS OF VERIFICATION	ASSUMPTIONS
		_____ (area) and increasing the income by _____ (Rs.)	4. Access to integrated services of _____ (specify?) 5. _____ Increase of share of the product/ service to total value of the product/service of members	Meeting minutes	4. Members will be interested in collective action 5. Adequate number of members for the business present in the area
3	<b>OBJECTIVES/ OUTCOMES</b>	1.To raise finance of _____ (Rs. ?) (Rs. ____ internal), (Rs.____ external) (external: Rs.____ loan & Rs.____ grant?) 2. Input service/ technical service/ financial service/ procurement, processing & value addition/marketing/ _____ (number/scale/value of services? number of members for each service?) If any other	1.No. of partnerships 2. _____ (products?) 3. The increase in average income per household 4. Increase in the total turnover (sales in Rs.) 5. _____% increase in the quantity,	1. Real time data (farmer level/beneficiary level survey)	1. Sustained management of natural resources applied continuously 2. The production potential for _____ turnover or business exists 3. Continuous felt need of members for services. 4. The required number of members (specify?) and raw material available for targeted

#	PARTICULARS	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS OF ACHIEVEMENT	SOURCES & MEANS OF VERIFICATION	ASSUMPTIONS
		<p>please specify? (define?).</p> <p>3. Financial services worth Rs _____ (credit Rs.____, insurance Rs._____)</p> <p>4. To have a total turnover of Rs_____.</p>			<p>capacity utilisation</p> <p>5. Market demand for the products exists</p> <p>6. Required institutional base exists</p>
4	<b>Activities</b>	1.To establish_____(specify number of infrastructure required?) (if any) with minimum facilities	No of _____ established	Lease/rent agreement for AHSC building Inventory of procurements	Financial resource available from different sources as per schedule

#	PARTICULARS	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS OF ACHIEVEMENT	SOURCES & MEANS OF VERIFICATION	ASSUMPTIONS
		2.To mobilise _____(number?) potential members into _____(cooperative)	No of members mobilised	Minutes of meeting No of community meetings held in villages & clusters Membership register	Communities are willing to accept the project/enterprise
		3.To take up required capacity building programmes for _____ (number?)	No. of trainings		Stakeholders to realise the true/ ground level situation
		4.To establish technical linkages with _____ (agencies?)	Number of linkages		
		5.To establish financial linkages with _____ (agencies?)	No of departments linked	Agreement document with various department	

## Development of M&E/MIS indicators to track performance of the enterprise

Following are the indicators for monitoring the performance of a community enterprise.

#	CATEGORY	INDICATOR	UNIT	PERIODICITY
1	<b>FINANCIAL&amp; BUSINESS EFFICIENCY</b>	Turnover (Sales + Indirect Revenue)	Rs. Lakhs	Quarterly
		Net Worth		Annually
		Gross profit	Rs. Lakhs	Quarterly
		Net profit	Rs. Lakhs	Quarterly
		Current ratio (Current assets to Current liabilities)	Ratio	Quarterly
		Debt-Equity Ratio	Ratio	Quarterly
		Ratio of External Funds (Grant + loan) to Turnover	Ratio	Annually
		% value (& volume) of business to breakeven value (& volume)	%	Half yearly
		Per employee turnover	Rs. Lakh	Half yearly
		% of overheads to turnover	%	Half yearly
		Inventory Turnover Ratio	%	Quarterly
		% of marketing expenditure to total turnover	%	Half yearly
2	<b>ECONOMIC</b>	Ratio of member realisation to total turnover	Ratio	Half yearly
		Average per member realization	Rs. Thousands	Half yearly
		Net profit per member	Rs. Lakh	Half yearly
		Per member turnover	Rs. Lakh	Half yearly
		% procurement per member to total production per member	%	Annually
		% income from the enterprise to member to total income of member	%	Annually
		% patronage by members to total patronage	%	Half yearly
3	<b>INSTITUTIONAL</b>	Growth in Membership of the enterprise	%	Annually
		% of potential members covered as actual members of enterprise	%	Annually
		% of active members to total members	%	Half yearly
		% of attendance in Board meeting	%	Half yearly
		% of members attending General body meeting	%	Annually
		% of legal compliances met to total number of legal compliances	%	Half yearly
		Proportion of elections happened regularly to total number of elections	Ratio	Annually

		% of members participated in elections	%	Annually
		Proportion of Board Meetings happened regularly to total number of Board Meetings	Ratio	Annually
		Proportion of decisions of the Board Meeting complied to total number of decisions	Ratio	Half yearly
		Proportion of decisions of the AGM complied to total number of decisions	Ratio	Annually
		% of recommendations complied to total recommendations in audit	%	Quarterly
		% of total annual turnover spent for training, education and information of the members	%	Annually
<b>4</b>	<b>SUSTAINABILITY</b>	% renewable energy to total energy	%	Annually
		% recyclable material to total material	%	Annually
		Pollution control compliance	Yes/ No	Annually
		Compliance with certifications/ fair trade	Yes/ No	Annually
<b>5</b>	<b>SOCIAL INDICATORS</b>	% members covered from marginalized communities to total members of enterprise	%	Annually
		Number of leaders from marginalized communities	No.	Annually
		% women members representing in local bodies	%	Annually
		% women undertaking direct financial and market transactions	%	Annually
		Increased availability of disposable income with members	Rs.	Annually
		% income used for education/health	%	Annually

## **M& E and MIS Systems for Enterprise**

### **The required M&E and MIS systems for an enterprise are**

Accounting& Bookkeeping

Decision Support System

Reporting

### **Accounting& Bookkeeping**

### **Required Books& Records for a Community Enterprise**

Following is the list of required books/ records for a community enterprise.

## **Accounts**

1. Receipt Book
2. Voucher Book
3. Cash Book
4. Ledger Book (Specify different accounts)
5. Member (Members transactions with Group) Ledger Book
6. Any others

## **Legal**

1. AoA (updated with all amendments), MoA, Registration Copy
2. Membership Register
3. Balance Sheet/ Accounts of assets and liabilities
4. Copies of audit reports and special audits
5. P& L Statement
6. Registration certificates of other legal compliances (sales tax, service tax)
7. Factories Act, Pollution Control Board, Prevention of Food Adulteration Act, trademarks and certification, and Weights & Measurements Act etc
8. Directors Register
9. Shareholders Register
10. Any others

## **Administrative**

1. Minutes Book
2. ToR/ contracts file
3. Annual Report
4. Compliance reports relating to audit, special/internal audit
5. Asset Register
6. Logsheets Register
7. HR Register
8. Annual Budget Register (Financial & Work Plan including Cash Flow Statement)
9. Member Passbook

10. Any others

### **Business**

1. Procurement/ Purchase Register
2. Production/ processing Register
3. Stock Register
4. Sales Register
5. Customer Database
6. Customer Feedback Register
7. Member transactions Register
8. Any others

### **Decision Support System**

<b>Template: Information system for Decision Support</b>					
<b>#</b>	<b>Stakeholder</b>	<b>Key decisions to be taken</b>	<b>Required Information</b>	<b>Source of Information</b>	<b>Periodicity</b>
1	Members				
2	Directors				
3	Office Bearers				
4	CEO				
5	Banks				
6	Funding Agencies (Grants)				
7	Collaborators				
8	Marketers				
9	Investors				
10	Others (Specify)				

## Reporting System

Template: Reporting System				
#	Report	For whom	Periodicity	Remarks

Template: Evaluation Plan			
#	Particulars of Evaluation	Periodicity	Internal/ External
1	Outcome evaluation	Annual	Internal
2	Impact evaluation	Once in 3 years	External
3	Thematic evaluation (like increased value to the producer etc)	Annual	Joint
4	Any others		

## Chapter 7

### SUSTAINABILITY OF SMALL PRODUCER UNITS THROUGH COOPERATIVES - LESSONS FROM CASE STUDIES

#### Introduction

It does not require any fresh evidence to point out that a large number of people living precariously near or below the poverty line originate from the classes of landless rural workers and small and marginal farmers. How to make them viable and bring them back to the mainstream of development is the subject-matter of this paper. The paper, based on eight case studies, argues that there is no alternative to forming genuine cooperatives of small producers and a thorough re-engineering of the existing cooperative structure. The main lessons from the case studies are summarised in the final section.

#### Case 1

##### The Share-croppers of English Bazaar, West Bengal (1992)

The implications of the lack of an appropriate organisation which can supply the critical inputs for modern agricultural practices at reasonable costs to weaker sections like sharecroppers and small and marginal farmers can be seen with the help of this example from the 'barind' areas of the district of Malda in West Bengal. Assuming that the sharecropper is a purchaser of 59 water for 'boro' (i.e., summer paddy), his cost and returns at 1992 prices would look as follows:

Item	Rs. per acre
Cost of labour	800
Hiring of equipments like plough	100
Seed cost	100

Fertilizer & manure	200
Pesticide	30
Water charges	450
Rent of land (@25 % of gross value of production)	520
Total cost	2200
Gross value of output of 18 maunds/acre of paddy @ Rs. 1 1 5/- per maund	2070
Net loss	130

The implications of the above-stated example are as follows: The tenant's residual earning is Rs.800 less Rs.130, i.e., Rs.670, which means he gets less than the stipulated market wage on family labour, and that too is possible as long as the landowner does not claim anything more than the legally stipulated crop share (i.e., 25% of gross produce). Obviously, the cost of non-labour inputs (Rs.880) far exceeds the implicitly assumed (in law) 25 percent of the value of gross produce. If the landlord claims no less than 25 percent, the tenant must stand to lose, unless through an organised effort of the tenants, for example, through a cooperative society, some economies can be achieved in the procurement of equipment services, seeds, fertilizers, pesticides, irrigation etc. If the sharecropper owns both a shallow tubewell and a pumpset, his water charges would drop down to only the cost of fuel and minor repair cost of the tubewell and the pumpset. But if he is having only the tubewell or the borewell usually encountered in this part of the district of Malda, still he has to hire a pumpset at Rs.300/- for the whole 'bow' season from the owners of these equipments, besides incurring an additional expenditure of Rs.70 to 80 on fuel.

## Case 2

### Taldangra Adivasi Large-sized Multi-purpose Cooperative Society Limited (1991)

The Taldangra Large-sized Multi-purpose Cooperative Society (LAMPS), located at the block headquarters of Taldangra in the district of Bankura of the state of West Bengal was established in 1986. Currently, the society is covering an area of 349.7 square kms. stretching over 45 villages which are all Intensive Tribal Development Project (ITDP) villages with cent percent tribal population. The Society has expanded more than 5 times in terms of membership and annual turnover during 1985-86 to 1990-91. Most of the land under this LAMPS is cultivable, though irrigation continues to be a severe bottleneck. Interestingly, none of the cropping activities is being directly or indirectly assisted by this LAMPS. Marketing of agricultural inputs and outputs constitute only a minor component (1.48 percent) of the total turnover of Ks.60.17 lakhs of the society in 1990-91.

The major business activity of the society is collection of kendu leaves and sal seeds from the government protected forests with permission from the Forest Department (contributing 88 percent in the society's turnover in 1990-91). Even there, no serious efforts have been made to achieve cost reduction, productivity increase or value addition. The society tried to produce plates out of sal leaves but in the absence of various cost reduction strategies to beat the large number of private entrepreneurs in this area, it had to give up.

Given the high incidence of inactive membership as well as non-membership of the organisation, apparently consequent upon the failure of the society to provide sufficient incentives to the members as opposed to the non-members, on the one hand, and the low 'centrality' of this organisation to the members' needs as well as to the resource endowments of this region, on the other, it is doubtful that sufficient collective action would automatically be forthcoming in the coming years to carry it forward and bring it closer to success.

## Case 3

### The Pioneer Farm Forestry Cooperative Society of Banskopa, West Bengal (1991)

The society has been the outcome of an initiative taken by Mr. Kisor Mohan Sinha Mahapatra, an 'ayurvedic' medicine practitioner and a secondary school teacher of Panchmura High School in the district of Bankura in West Bengal, who after some initial hesitations, started plantation of Eucalyptus on his waste land on the advice of some officials of the State Forest Department. This led to a strong demonstration effect and as a result, a larger number of local people began to participate in a five year plantation programme by developing a non-registered Pioneer Social Forestry Association under the leadership of Kisoribabu. After the five year plantation (under World Bank support) was over, the association was registered as a farm forestry cooperative in 1987. The purpose of the newly formed society was to popularize farm forestry on non-cultivable land and to augment the income of the members through building up of business around farm forestry.

The society has done plantation on 794 hectares of land till 1991. The 12 villages so far covered by the society have nearly 60 percent waste land and almost 50 percent of the local population are Santals. Almost all the landless households of these areas have been in possession of some amount of vested waste land given under 'patta' (i.e., a deed). Given the quality of land, the farmers were not able to grow any regular food crop or vegetable profitably. It is at this point, the official interest was combined with the collective action generation capability of some local leadership in order to achieve a shift from crop production to farm forestry. The rough cost-benefit analysis for Eucalyptus plantation which these people worked out is as follows:

The total cost of one acre of plantation (from site preparation to harvesting) during 7 years of gestation period was Rs.5,560. They expected to receive a gross income of Rs.35,640 from one acre of plantation, thus leaving a net income of Rs.30,080 in 7 years which turned out to be Rs.4,297 per acre per year, and which was a considerably better

performance | than achieving a low yield of either paddy or one coarse cereal once in 3 to 4 years.

So far the society has not gone beyond the core activity of planting | Eucalyptus on uncultivable land and helping the tree-growers with technical information and getting their incentive benefits and harvesting permits f collected from the respective government departments. The society is yet to integrate production with marketing currently done by individual tree growers, and thus to play a direct role in marketing and value-addition of its products. Moreover, given the background of the tribal members and the availability of other local resources, there exists enormous potential to diversify the society's activities towards bee-keeping, rabbit-rearing, dairying, production of palm sugar and poultry.

The very fact that Kisoribabu commands a lot of respect and influence in the locality and yet he has not started hobnobbing with the politically powerful elements nor allowed himself to be used as an instrument of the political machinery, has been posing a number of hurdles to the day to day functioning, of the society and constraints the future growth of his society in the current political climate of West Bengal.

## Case 4

### The Grape-Growers of Solapur, Maharashtra (1992)

The villages of Nanaj, Karambha and Boramoni located at a distance of 15, 10 and 30 kms. respectively, to the south of the Solapur town, are ideal for growing grapes which require dry arid regions and humid atmosphere. Anab-e-shahi and Thomson Seedless are the most popular varieties grown in this area.

From the cropping pattern of the representative grape growers, it emerged that both types of farmers - large and small, in order to achieve full utilization of their lands, cultivate a variety of crops ranging from the lowest irrigation intensive crop jowar to the highest irrigation intensive crop -sugarcane. The representative large farmer, Mr. Nanasaheb Kale, seems to have utilised his several dug wells and the drip irrigation system to put -as much as 84 percent of his gross cropped area under grapes. In the remaining area, he grows jowar during rabi and some green vegetables along with jowar during kharif season. Given his affluence, risk-bearing capacity and also the relatively low rate of return on jowar, it is important to see why this farmer goes, in for grapes rather than sugarcane or vegetables like onion or tomato. The small grower puts two hectares under jowar in both the seasons, 0.4 hectares under onion in both the seasons and allocates 0.4 hectares under grapes and 0.8 hectares under sugarcane. It is important to see in this case why he prefers to hold a portfolio of the three crops - grapes, sugarcane and onion rather than going in for any one of these three crops.

It is seen that the large farmer enjoys the highest net return per hectare on grapes (about Rs.62,000/-), which far exceeds the net return on onion (about Rs.26,000 and about Rs.40,000, respectively, for kharif and rabi) or the net return on tomato (varying from Rs. 4 1,000 to 46,000 approximately) or the net return on sugarcane (Rs.30,000). So, the representative large farmer - Mr. Nanasaheb Kale has put the maximum amount of land under grapes. The representative small farmer, Mr. D.B. Gaikwad, on the other hand, derives a net return of Rs. 17,600 from grapes, Rs. 23,700 from onion and Rs. 11,200 to 16,200 from tomato. Naturally he has put the maximum area under sugarcane and then

diversified his cropping structure by distributing the rest of the irrigated land between grapes and onion.

Development of a grapevine involves a huge amount of capital investment. For example, Mr. Kale made an initial investment of Rs. 5-6 lakhs in mid-60's to develop his present grapevine. Moreover, farming operations involve employment of hired labour by both types of farmers though the incidence of hired labour is considerably greater for the large farmer. Given non-availability of casual labour at appropriate times, these farmers employ some permanent labourers at an annual cash wage of Rs.6-7 thousand plus perquisites in the form of clothes and other goods in kind in case of good performance and good harvesting. These permanent labourers are supplemented by casual labourers in periods of peak activities. In order to ensure year round activities for these permanent labourers as well as for the family labourers (especially in the cases of small farmers), these farmers often choose to produce seasonal crops even though those seasonal crops generate lower returns. Allotment of small parcels of land to crops like onion and tomato enables the farmer also to meet his consumption needs from his own farm. Therefore, holding of a portfolio of crops by the small farmer of grapes, Mr. Gaikwad has many possible explanations including the advantages of risk diversification.

## Case 5

### The Vegetable Growers of Pune-Kumbharia, Gujarat (1992)

For a long time the black cotton soil of Surat has contributed to the growth of cotton on a large scale and of a variety of organisational and industrial structures based on cotton. However, over time the pride of the place went to banana as the main crop until a serious virus problem led to its decline. This factor as well as the availability of canal irrigation has led to the current supremacy of sugarcane in the cropping pattern. Paddy has never been very significant; the area under it seems to be on a continuous decline. Banana, on the other hand, has been displaying in recent times some signs of revival, though it is unlikely to dislodge sugarcane, especially because of the successful operation of sugar cooperatives in South Gujarat enabling a large magnitude of value addition in sugarcane and ensuring a high as well as steady price of sugarcane to its producers. Because of the proximity to the market and active support of cooperatives and other organisations, growth of vegetables especially as an inter-crop to banana and sugarcane in the surrounding villages of the Surat city has received a tremendous encouragement over the last 2-3 decades. This has happened in response to the strong market incentives which either pre-existed or have been created in this particular context. How the regulated Sardar market as well as the fruit and vegetable cooperatives of this area have been promoting certain seasonal vegetable crops like cabbage and cauliflower is the subject of discussion in this case.

Both cabbage and cauliflower require sandy loam, medium black and fertile soils for best results. The sowing time is between August and November and they require approximately ten to twelve irrigations during 3.5-4 months of the cropping period. Thus given the scientific requirements for growing cabbage and cauliflower, the surrounding areas of the Surat city seem to be ideal for growing vegetables and cabbages during the post-kharif season. There is no doubt that the price risk associated with horticultural crops (as measured by C.V. of weekly wholesale prices in 1990-91 which is 40.42 and 43.89

percentage, respectively for cabbage and cauliflower) are enormous specially in comparison to sugarcane which is being processed by the cooperative sector and for which the cooperatives have been maintaining steady prices. However, when cabbage and cauliflower are grown as intercrops alongside the main crops of either banana or sugarcane, the fanner is less likely to be guided by the separate measures of risk (namely, C.V) associated with production of only cabbages or only cauliflowers. In this situation, the joint return as well as the combined risk on cabbages/cauliflower and banana/sugarcane seem to be the crucial determinants.

As expected, the large grower spends proportionately more on hired human labour and also on pesticides than a small grower, whereas the small grower spends proportionately more on interculture. The last mentioned factor seems to be playing a crucial role in achieving a higher yield rate of both cabbage and cauliflower by the small grower. As a result, the net return over cost 'C' is higher for this small grower than for the large grower.

## Lessons from the Case Studies

In order to extract useful lessons out of the eight case studies narrated in the preceding section, it is necessary to answer the following three interrelated sets of questions:

1. Whether and how far are the common programmes of land reforms like distribution of vested land under ceiling laws in favour of landless people as well as small and marginal farmers and registering the names of sharecroppers in order to give legal protection to them against eviction, coupled with certain measures to make some small amounts of credit available to the beneficiaries of these reform measures, capable of generating sustainable development for these people?
2. If the commonly understood programmes of land reforms and even poverty alleviation measures are not enough to sustain the landless and land-poor farmers in the country, what are the supplementary measures necessary?
3. Even though cooperatives of poor farmers are looked upon as panacea by almost everybody, why is it the case that such cooperatives are few and far between in this country? What exactly are missing in most of the cooperatives?

### **Relevance of Cooperatives or Cooperative-like Organisations**

A Cooperative organization of member-producers is necessary for maximizing the rate of return on member-farmer activities in a 'second best' world where the markets for the produce are largely imperfect, the farmers have very limited alternative choice of crops, and they are incapable of confronting the input risk, output risk and marketing risk because of their inadequate access to the markets for various complementary inputs like irrigation, credit, agro-processing facilities, extension and even information. A genuine cooperative of farmers is expected to build up the necessary backward and forward linkages, - the functions the regular market system is often incapable of performing, in order to maximize the producer's share in the consumer's rupee.

More precisely, the scope for cooperative action arises when the input, production, agro processing, marketing sub systems display certain unfavourable characteristics as listed below:

1. When production is undertaken by a large number of scattered and small farm holdings, each having only small quantity of marketable surplus, a producers' cooperative can procure supplies at lower transaction cost through suitable backward linkages and can make such units viable through pooling.
2. When the market for the crop under consideration is highly imperfect (sometimes coupled with the fact that the farmers have limited choice of crops), a cooperative can insulate the farmers from the vagaries of the market.
3. When non-availability of inputs in adequate quantity, at standard quality and at reasonable price is a problem, or when there is poor interface of farmers with technology and extension, resulting in low yield with high risks, a cooperative through suitable backward linkages can insulate the farmers from input risk and/or output risk.
4. When there is (a) high perishability of raw materials calling for instant agro-processing, (b) high seasonality and thus need for storage of the raw materials for prolonged agro-processing, and (c) bulky raw materials highlighting the need for reducing volume and/or weight through agro-processing, a cooperative with storage and agro-processing facilities can strengthen the bargaining position of the farmers.
5. When it is difficult to assess the quality of raw materials on the spot, a cooperative through pooling can offer a credible contract to the farmers for supplying their raw materials and thus save the farmers from exploitation by unscrupulous traders. Unless the technology for primary processing is highly sophisticated and complex requiring specialized skills for comprehension and management, a farmer-owned and farmer-managed organization will find it easier to handle agro processing. Moreover, the higher the share of raw materials in total cost of the product, a producers'

cooperative would have a larger stake as well as a greater say in the control and management of activities.

### **Mismanagement of Five 'M's in Cooperatives**

Unfortunately, due to serious mismanagement of one or more of the five 'M's - namely, Mission, Membership, Manpower, Management and Money, most of the cooperatives in this country are no different from either charitable organizations permanently on the payrolls of the government exchequer or loss-making public-sector units. What is needed is a professional approach on the above-stated five major dimensions in the following manner:

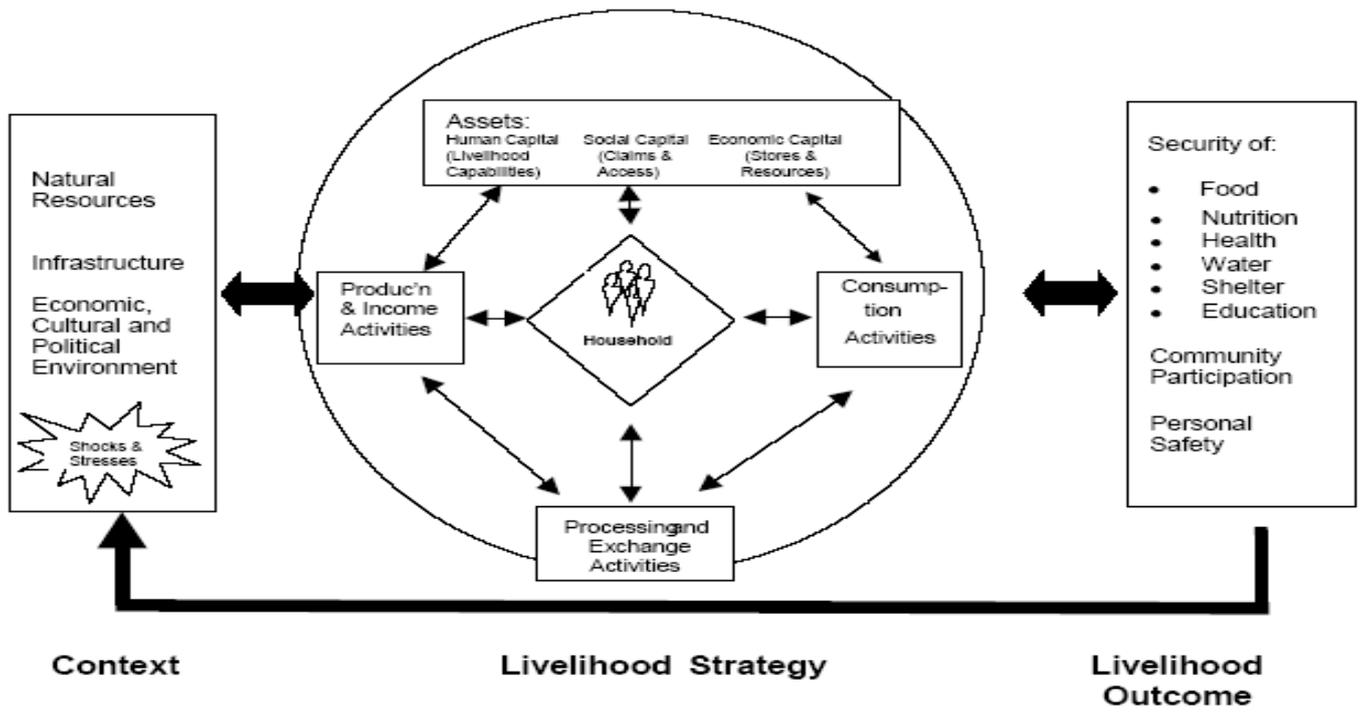
1. Redefine and reinterpret the cooperative principles with possibly constitutional safeguards but without violating the fact that a cooperative society is an organization exclusively of the members, by the members and for the members (Mission & Membership aspect).
2. Have continuous interface with the scientific and technological developments so as to bring about on time the necessary technological and institutional changes including management practices within cooperatives. For this purpose, professionalize members, leadership, management as well as employees by exposing them regularly to modern, scientific, technological and management practices (Manpower aspect).
3. Redefine the duties, obligations and powers of the Management Committee (i.e., the Board) so as to permit its democratic and independent functioning vis-a-vis the office of the Registrar of Cooperative Societies (RCS) (Management aspect).
4. Redefine and professionalize the roles and approaches of higher-tier organizations and also of the promotional agencies like National Bank for Agriculture and Rural Development, National Co-operative Development Council and National Dairy Development Board as per the requirements of the changing time and environment (Management aspect).
5. Build up financially independent cooperative societies by

- a. adequately emphasizing the role of members' capital,
- b. by encouraging societies to generate bankable projects and
- c. by restricting the role of government share capital and loans in a phased manner (Monetary aspect).

# ANNEXURES

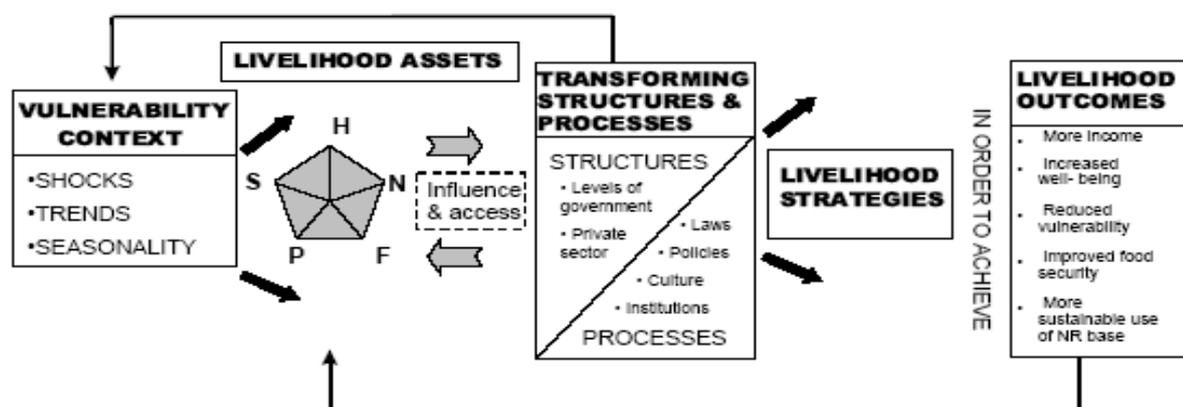
## Annexure 1: Care's Livelihood Model

Figure 2 CARE's Livelihood Model



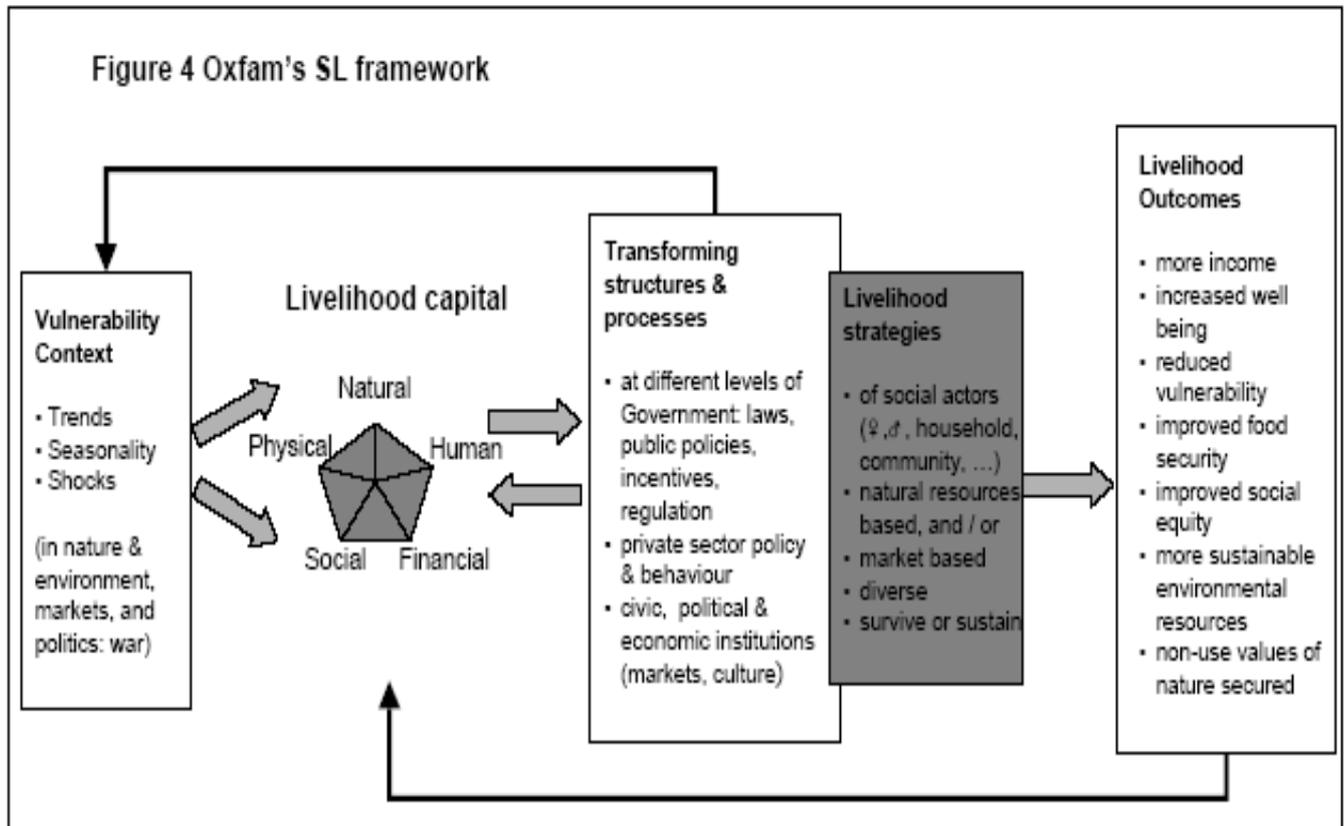
## Annexure 2: DFID's SL framework

Figure 3 DFID's SL framework



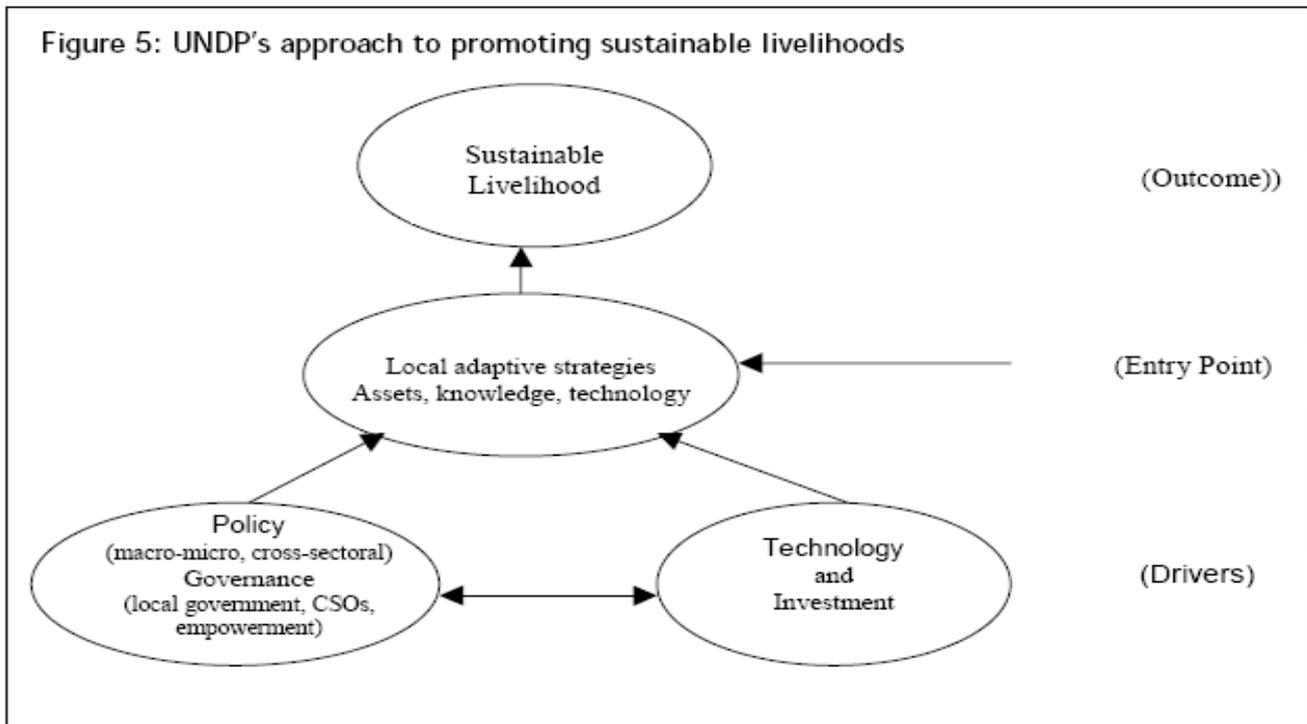
- H represents human capital: the skills, knowledge, ability to labour and good health important to the ability to pursue different livelihood strategies;
- P represents physical capital: the basic infrastructure (transport, shelter, water, energy and communications) and the production equipment and means that enable people to pursue livelihoods;
- S represents social capital: the social resources (networks, membership of groups, relationships of trust, access to wider institutions of society) upon which people draw in pursuit of livelihoods;
- F represents financial capital: the financial resources which are available to people (whether savings, supplies of credit or regular remittances or pensions) and which provide them with different livelihood options; and
- N represents natural capital: the natural resource stocks from which resource flows useful for livelihoods are derived (e.g. land, water, wildlife, biodiversity, environmental resources).

## Annexure 3: Oxfam's SL framework

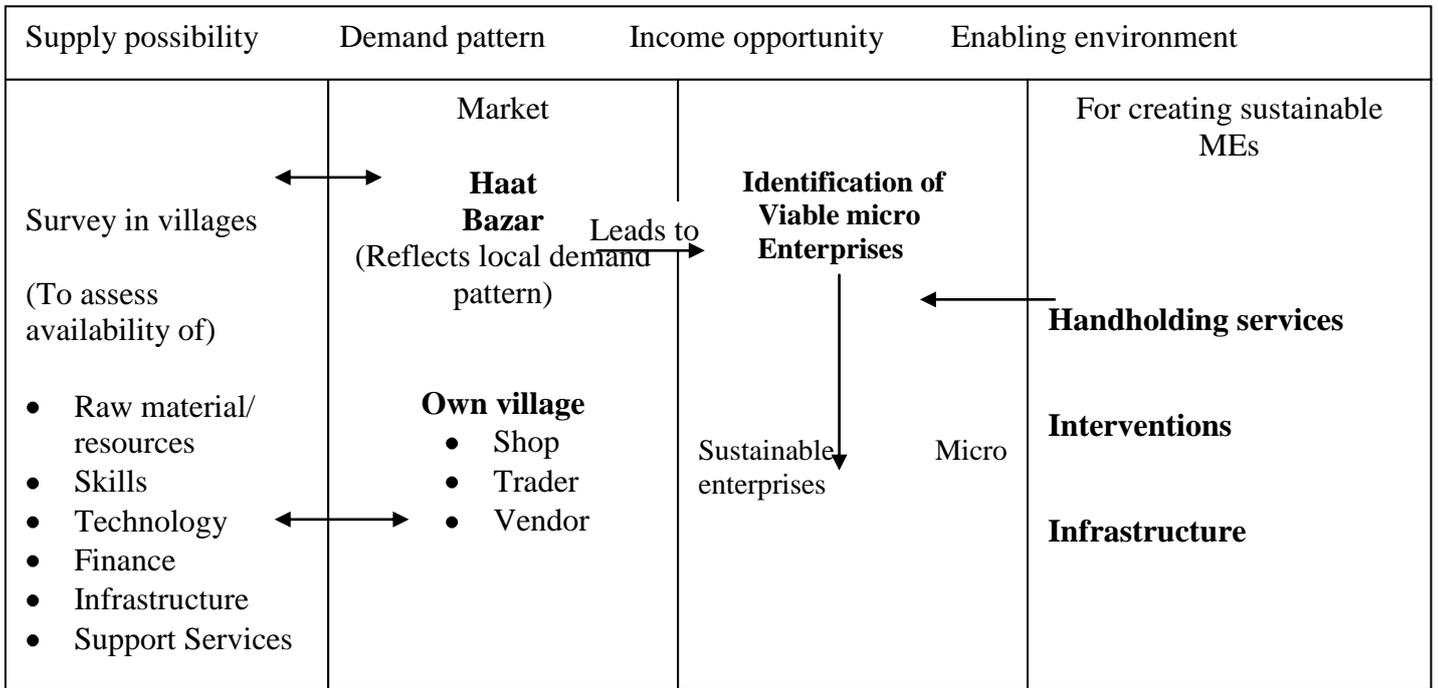


## Annexure 4:

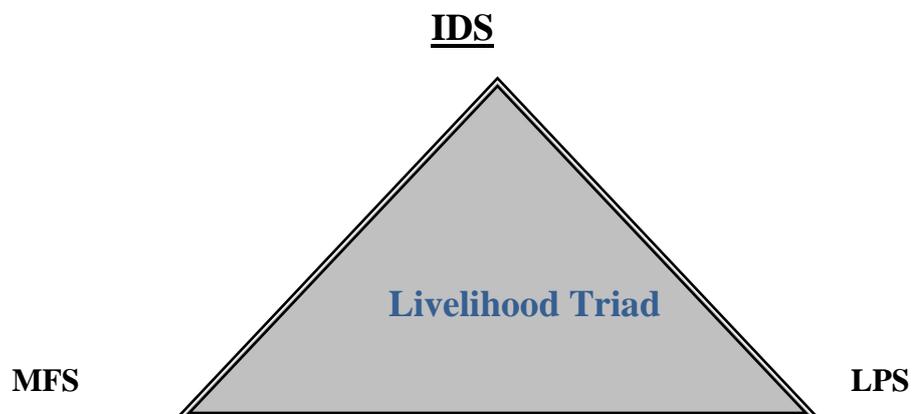
# UNDP's approach to promoting sustainable livelihoods



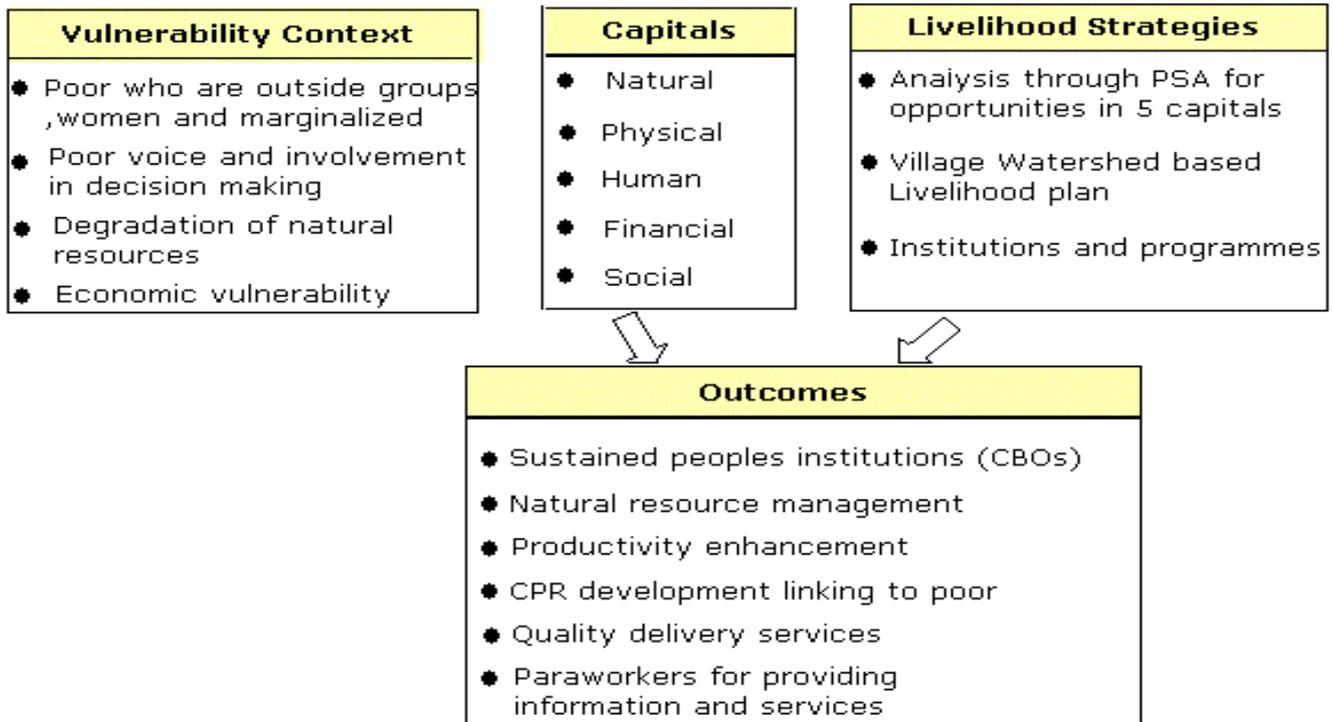
## Annexure 5: MART's Livelihood Framework



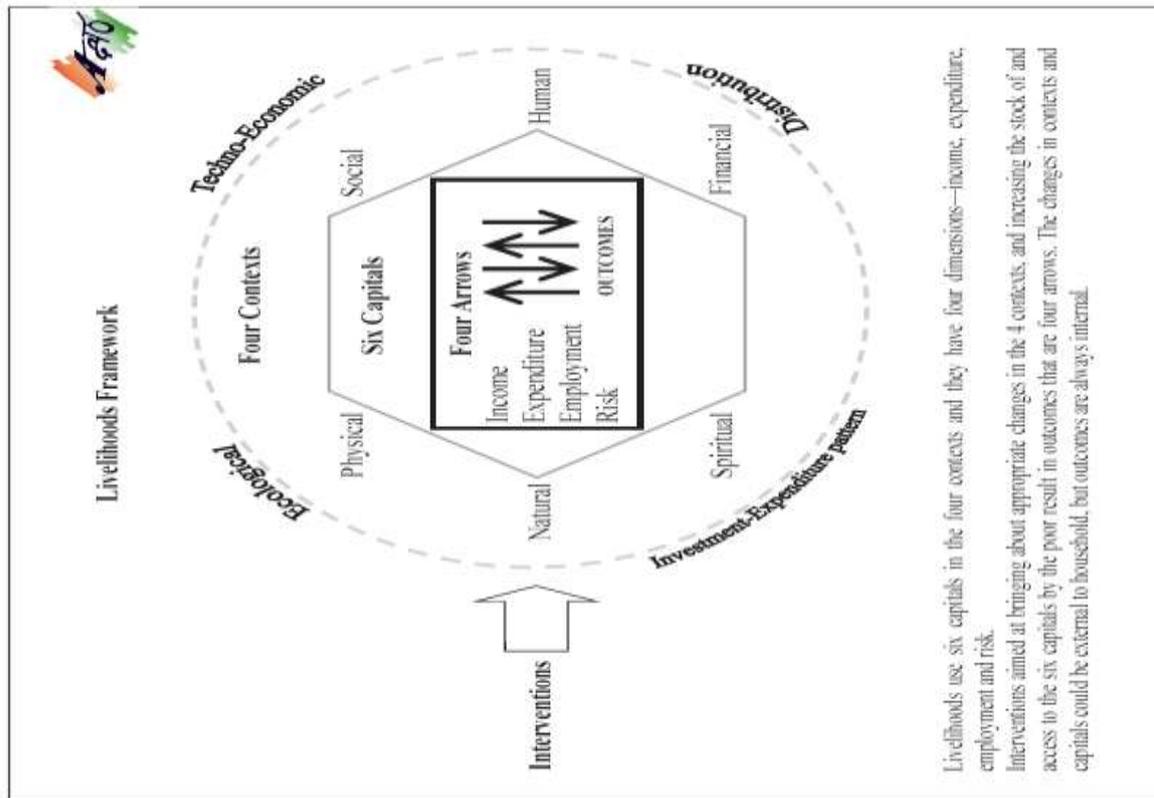
## Annexure 6: BASIX's Livelihood Framework



## Annexure 7: PRLP's Livelihood Framework



## Annexure 8: PRLP's Livelihood Framework



## Annexure 9: Income and Expenditure pattern

Table: Income and expenditure pattern of a family of size 4 (2 adult and 2 children) in the tribal area of Srikakulam.

Income per year		Expenditure per year		
#	Item	Amount	Item	Amount
1	Fuel wood: Rs. 25daily*10months*30	7500	Rice: 1.5kg/day, 45kg/month, 540kg/year	
2	Wages (about a month)	2000	From ration shop: 20kg*@5.25*12 months	1260
3	Cashew	2000	From others shops: 300kg@8.5	2550
4			<i>Sub-total</i>	<b>3810</b>
5			Oil: 1kg/month@35 *12 months	<b>410</b>
7			Chillies: 8kg/year*30	<b>240</b>
8			Other groceries	<b>1000</b>
9			Vegetables, meat and eggs: 100 per month*12	<b>1200</b>
11			Soaps: Rs.20 per month*12	<b>240</b>
12			Coconut oil	<b>150</b>
13			Education (text books, note books, pens and pencils)	<b>500</b>
14			House repairs	<b>300</b>
15			Cloths, bangles and foot wears	<b>1000</b>
17			Beedi, alcohol, gutkha etc: 150 per month*12	<b>1800</b>
19			Health	<b>600</b>
20			Travel expenditure	<b>500</b>
	<b>Total</b>	<b>11500</b>	<b>Total</b>	<b>11750</b>

Total expenditure per year = Rs.11750

Total income per year = Rs.11500

Short by = Rs. 250

#	Expenditure	Amount	Income	Amount
1	Groceries= 500*120*12	720000	I. Agriculture	
2	Cloths=1000*500	500000	a. Cotton: 100acr*7500	750000
3	Hospital=2000*120	240000	b. Castor: 50acr*3000	150000
4	Inputs: Seeds		c. Jowar and Bajra: 80acr*1200	96000
4	a Castor: 50 arc*150	7500	d. Paddy: 10acr*3500	35000
4	b Cotton: 100acr*600	60000	e. Red gram: 30 quintal*1900	57000
4	c Jowar and Bajra: 80acr*200	16000	f. Other crops	10000
4	d Other crops: 70acr*500	35000	<b>Sub-total</b>	1080000
	<b>Sub-total</b>	1185000	II. Wage labour	
	Inputs: Fertilisers		a. Agricultural wage labour: 200*150days*20	750000
4	e Castor: 50 arc*800	40000	b. Migration labour (Dam construction)	1780000
4f	Cotton: 100acr*5000	500000	III. Artisans: 50 families*150	7500
4	g Jowar and Bajra: 80acr*250	20000	IV. Bidi leaves: 120*200 per day*10days	240000
4h	Other crops: 70acr*1000	70000	<b>Sub-total</b>	2777500
	<b>Sub-total</b>	630000		
5	Agricultural implements: 70families*600	42000		
6	Credit: 70 families * 10000	700000		
7	Meat: 100 per month*120*12	144000		
8	Liquor: 400*120*12	576000		
9	Foot wear: 400*120	4800		
10	Bangles: 400*120	48000		
11	Education	200000		
12	Chutta: 60 members*720	43200		
13	Bidi: 200 *120*12	288000		
14	Cigarettes: 25 members*600*12	180000		
15	Travelling: 120*1500	180000		

16	Marriages: 8 marriages/year*35000	280000	
17	Entertainment: 60*120*12	86400	
18	Livestock: 20 members brought*15000	300000	
	<b>Total</b>	<b>4980900</b>	<b>Total 3875500</b>

Table: Income and expenditures of Village (families 120),  
Kalmulonipally, Amrabad mandal, Mahabubnagar district.

# Annexure 10: Village Assessment Checklist

## List of tools

1. Village Information
2. Village history
3. Social Map
4. Resource Map
5. Trade in and out
6. Income & expenditure analysis
7. List of livelihoods
8. Livelihood analysis
9. Best practitioner
10. 24 hrs of women & men
11. Case studies – moved in, out and remained in poverty
12. Value Chain Analysis

1. Village Information (broad information about village)
  - ✓ Geographical information of the village – District, mandal, distance from mandal office and main market, condition of approach road
  - ✓ Economic status of the village in general – poor/ rich, type of houses, electronic goods
  - ✓ Appearance of village and villagers – sanitation, dressing
  - ✓ Internal Roads
  - ✓ Agriculture related – status of land and water availability and issues related to it
  - ✓ Status of migration
  - ✓ Health status
  - ✓ Labour availability
2. Village History (Interaction with Old Age Persons in the Village)
  - ✓ Approximate time line of the village (benchmark-?????)
  - ✓ Which conditions did village emerge in (migration, health, labour work, agriculture)

- ✓ History behind the name of village
- ✓ Major changes in village in past (25 years)
- ✓ Development interventions in past by NGOs, individuals (insider and outsider both)
- ✓ Status and History of government program
- ✓ Political scenario in village
- ✓ Communal risks/calamities attacked, measures taken to overcome, active persons involved.

### 3. Social Map

- ✓ Demographic information (From Secondary Data)

Caste	No. of families	Adult (>18 yrs)		Children		Total population
		Male	Female	Male	Female	
SC						
BC						
ST						
OC						
Total						

- ✓ Change in total population of different castes over a period of time - which caste are growing and decreasing in population and reasons for the same.
- ✓ Status/ practices of untouchability
- ✓ Does any caste dominate the economic conditions of village, reasons for the same, has it changed in last 20 years; if so, why
- ✓ What are the main livelihoods of different castes? Are they same or different for all the caste? If so, list caste wise livelihoods and reason for the same? Is there any change over a period of time? If so, why?
- ✓ Economic status (well being analysis)

Caste	Total families	Rich	Middle	Poor	POP
SC					
ST					
<b>BC</b>					

OBC					
OC					
Total					

- ✓ Number of women headed families;
- ✓ How many families have moved in, out and remained in poverty in last 10/20 years?
- ✓ Reasons for the same
- ✓ Is there any change in the main livelihoods of these families; track the movement in and out of poverty based on the change in main livelihoods?
- ✓ Case studies – change in main livelihoods, moved in/out/remained in poverty (select movement from different livelihoods and caste)

(For above table – name of family head, caste, economic status and main livelihoods ten years back, present economic status and main livelihood, main reason for change in economic status and livelihood)

- ✓ Status of housing (social map & village transact walk)

Caste	Slab	Hut	Asbestos	Thatched Roof
SC				
BC				
ST				
OC				
Total				

- ✓ List of sources of fund to construct houses in the villages and type of Construction
- ✓ Number of houses taken support from the govt to construct houses
- ✓ Is type of housing changing? If so, when did it change significantly and why? Is it same for all the caste and all the families with different main livelihoods?

- ✓ Status of Migration

Caste	Permanent			Seasonal			Distressed		
	Number	Place	Type of Work	Number	Place	Type of Work	Number	Place	Type of Work
OC									
BC									
SC									
ST									
Total									

- ✓ What was/is their main livelihood of families migrating (all three)?
- ✓ Seasonality of migration (partial)
- ✓ What were the main skills/ qualification of families migrated permanently and/or reasons for migration?
- ✓ What are the skills required, terms and opportunities for partial - ??? migration? Is a particular caste migrating? If so, what are the factors facilitating this?
- ✓ What are the reasons for distress migration? Is a particular caste or family with particular livelihood migrating in such a way? If so, what are the causes for so?
- ✓ Status of livestock (list of all small & big live stock)

Livestock	Number	Purpose

- ✓ Is there any relation between type of livestock and caste/ main livelihood/other livelihoods
- ✓ Change in population of livestock (for each livestock) in last 10 years and reasons for the same
- ✓ Basic Infrastructure

S. No.	Infrastructure	No of families

1	Water Tap (private)	
2	Individual Toilets	
3	Soak pit	

✓ Existing infrastructure

S. No.	Infrastructure	Number	Access to all (y/n)
1	School		
2	Electricity		
3	Street light		
4	Panchayati office		
5	Anganwadi		
6	Veterinary hospital		
7	Hospital (PHC)		
8	Community hall		
9	Drying platform		
10	Local R.M.P.		
11	Community Godown		
13	Temple		
14	Bore-wells		
15	Protected drinking water supply (OHR)		
16	Public Taps		
17	Drainages		
18	Telephone (private/public)		
19	Ration shop (PDS)		

✓ Any other significant infrastructure or facilities like – TV dish etc.

Number of beneficiaries from govt. program (caste wise and main livelihood wise)

Welfare activities accessed from Govt. (numbers & Amount)

- Old age pension
- Drought pension
- Destitute (Vithanthu) pension
- Physically challenged pension
- Antyodaya
- Annapurna Beneficiaries

Other govt. development program

- Housing
- PMRY
- CMEY
- SC/BC/Minorities
- Any other – artisan, Leather etc.

#### 4. Resource Map –

##### ✓ Land

- Type of soil:
- Land category (Cross check with secondary data available with secretary)

S. No.	Category	Families	Total area	Average land holding size
	Wet land			
	Dry land			
	Fallow land			
	Waste land			
	Wasted land			
	Forest Land			

- Average Land Size

Sl. No	Caste	Wet land	Dry land	Fallow land	Waste land
1	SC				
2	BC				
3	ST				
4	OC				
5	Total				

✓ *Cropping pattern*

Type of crop	Rabi / Extent	kharif / Extent

*Major changes in last 10 years (cropping area and crops).*

✓ *Water*

- *Major sources of irrigation – Tanks, wells, Bore-wells, streams, channels, Check dams and Percolation Tanks & Lift Irrigation Schemes etc...*
- *Number of Tanks, wells, Bore-wells, streams, channels, Check dams and Percolation Tanks & Lift Irrigation Schemes etc...*
- *Ownership over Tanks, wells, Bore-wells, streams, channels, Check dams and Percolation Tanks & Lift Irrigation Schemes etc...*
- *Total irrigated land –source wise*
- *Quality of water and availability of water for irrigation in a year – source wise*
- *Norms to share the water from community water sources*
- *Issues/ problems related to each water sources*

✓ *CPR*

- *List of CPRs in village*

- Norms to use these
  - Number of families dependent on this – caste wise and what are the other livelihoods?
  - Days of employment provided by this and average annual income from CPRs (CPR wise)
  - Issues/ problems related to it
- ✓ Forest/ tree cover
- Major trees, seasonality, parts used, present status of exploitation, present exploitation rate
  - No. of Families dependent on it – caste wise; what are the other livelihoods of these families? Is there change in number of dependent families over a period of time – caste wise or livelihood wise? And why?
  - Contribution of income from forest to the annual income (in %) and days of employment provided– caste wise and main livelihood wise
  - Norms or conditions (imposed by villagers) to exploit the forest
  - Is dependence of these families on this income increasing or decreasing? And why?
  - Issues/ problems related to it
- ✓ Minerals
- Type of minerals available
  - Nature of livelihood provided by these minerals to the villagers, terms and conditions of this livelihoods
  - No. of Families dependent on it – caste wise; what are the other livelihoods of these families? Is there change in number of dependent families over a period of time – caste wise or livelihood wise? And why?
  - Contribution of income from forest to the annual income (in %) and days of employment provided– caste wise and main livelihood wise
  - Norms or conditions (imposed by villagers) to exploit the forest

- *Is dependence of these families on this is increasing or decreasing? And Why?*
- *Issues/ problems related to it*

✓ *Finance*

- *Sources of fund, terms and conditions for each source, accessibility to these sources,*
- *Average loan requirement per family – caste wise and main livelihoods wise*

5. *Trade in and trade out*

- ✓ *List of traded in items, cost, any collective purchases, purchased daily, weekly, monthly*
- ✓ *Purchased from local/ shandies / trader*
- ✓ *Seasonality*
- ✓ *Trade out, cost, sold collectively or not*
- ✓ *Sold daily/weekly/monthly*
- ✓ *Sold locally/shandies/traders*
- ✓ *Seasonality*
- ✓ *Level of middle men*
- ✓ *Mode of transactions- cash/ immediate crop selling and repaying/ tied up sales*
- ✓ *Weighments & Measurements: how and mode of weighing or measurements- Nomenclature they use for different types of weighments and measurements*

6. *Income and expenditure analysis*

*This is to be done for different economic groups as well as for HHs with different livelihoods. (Rich can be ignored. Poor, BPL and POP as well as from different livelihood group.)*

- ✓ *Total number of persons in the family*
- ✓ *Sources of income, seasonality*

7. *List of livelihoods*

8. *Main livelihoods*

9. *Livelihood Analysis (in-depth value chain analysis and sector analysis)*

*Input – Pre production – Production – Harvesting – Post Harvesting – Local Value addition – Marketing (Producer to Consumer process with calculations), identified gaps at every stage.*

10. *Best Practitioner - same as value chain analysis*

- ✓ *Name, caste, occupation*
- ✓ *Average annual income – 5 years back and now*
- ✓ *How did he get this idea?*
- ✓ *Technical, financial and other support – from whom, how, what, when*
- ✓ *Major intervention or practices in that best practice*

11. *Case Study – Moved in and out*

*Selection – moved in, out and remained poor, 3-4 families who have changed their major livelihoods.*

- ✓ *Name, caste, occupation*
- ✓ *Family members – 10 year back and now*
- ✓ *Average annual income – 10 years back and now*
- ✓ *How do they perceive (happy or sad, rich or poor) their life 10 years back and now?*
- ✓ *Major changes in their lives in past 10 years – time line (like marriage, death, change in job, birth, house construction, major purchases, illness etc.)*
- ✓ *During those major changes – what did they do, how, why, with whose support, details of the support*
- ✓ *Impact or effect of those major changes in their life*
- ✓ *Future plans – both in occupation as well as personal life*

## 12. 24hrs of woman and man

Selection – poor, pop, middle, one woman each from major livelihoods

(3-4)

- ✓ Name, occupation
- ✓ Total number of persons in the family
- ✓ All the daily activities done by her/him from waking up to sleep
- ✓ Seasonality – to capture the difference or variety in her/his work schedule during 12 months (extra work load or different activities carried out by her /him during festivals or as the livelihoods activities in and out the village changes) - map
- ✓ List of months or time duration, when she/ he is relatively free.
- ✓ Support taken from family members to carry out daily chores.
- ✓ Perceived drudgery in daily chores and interventions required to ease women from it so that they can spend their time in other productive works.

### **Village level secondary data**

#### 1. Village population details

- a. Total population
- b. Total no. of HHs

Community	No. of HHs
SC	
BC	
ST	
OC	
Total	

#### 4. Details of different CBOs in the village - SHGs, VO, Gram Committee, watershed committee, WUA, VSS etc

Organization	No. of	Total	Activities
--------------	--------	-------	------------

	Members	Corpus	
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### 5. Poverty Data

Community	No. of HHs	Non-poor	Middle	Poor	PoP
SC					
ST					
BC					
OC					
Total					

#### **No. of HHs with vulnerable**

Category of vulnerable	No. of HHs
Single Women	
Physically Challenged	
child labour	
Chronic diseases	
mentally retarded	
Bonded labour	
Any others	

6. White Card Holders :

Antyodaya Card Holders: :

### 7. Infrastructure

S. No.	Infrastructure	Y/ N	Quantity (No's)
1	School		
2	Electricity		
3	Street light		
4	Panchayati office		
5	Anganwadi		
6	Veterinary hospital		

7	Hospital (PHC)		
8	Community hall		
9	Drying platform		
10	Godown		
11	Dish TV		
13	Protected drinking water supply		
14	Public Taps		
15	Drainages		
16	Telephone (private/public)		
17	Ration shop (PDS)		

8. Total Houses :

of them:

Pucca :

Semi pucca

Kutchha :

### 9. Ongoing development programmes in village (Govt. & Non-Govt.)

Name of the program	No. of beneficiaries

### 10. Land

S. No.	Category	Families	Total area (acres)
	Wet land		
	Dry land		
	Landless		-

Sl. No	Caste	Wet land	Dry land	Landless
1	SC			
2	BC			
3	ST			

4	OC			
5	Total			

### 11. Major Crops

Crop	Kharif area (acres)	Rabi area (acres)

### 12. Sources of irrigation

Source	Area (acres)

# Annexure 11: Checklist for Sub-sector Study

## **1. Introduction (From secondary data)**

- Presence in the country/world.
- General size of the sub-sector.
- Major (National and International) players and seasons.
- General description of the products of sub-sector.
- Recent innovations in the sub-sector.
- Recent trends in the sub-sector (yields, prices, percentage of produce processed)

## **2. What is the extent of the presence of the sub-sector in the area of study? (Compile information from all the LEAPs)**

- Districts and blocks.
- Percentage of dependent families on the sub-sector
- The value of output of the sub-sector in the area of study

## **3. Brief description of the sub-sector and the value-chain in the area of study (From the village level and market level studies)**

- Stage of activity and inputs
- Stage of activity and outputs
- Markets for inputs and outputs
- Input procurement practices
- Output marketing practices
- Risks in the sub-sector
- Recent trends in yields, prices, etc.
- Best practices available in the area
- Recent innovations adopted in the area
- Why are others not adopting the best practices/innovations found?
- Seasonality of the sub-sector vs. seasonality of other activities/products in the area

- Compared to the best practices and trends from secondary data, what could be improved in the area of study?

#### **4. Other actors in the sub-sector (Rule making agencies, controlling government departments, market associations, etc.)**

- List of such actors with their role (from market interactions and interactions at the village level)
- Various schemes and their access/usefulness
- Service providers – availability, access, level of skill, demand for the services.

#### **5. Analysis of sub-sector (with respect to the area of study)**

- Strengths
- Weaknesses
- Opportunities
- Threats

#### **6. Suggestions**

Suggestion, with implications of scale, impact and approximate costs.

Each suggestion should be congruent with the SWOT analysis.

## Annexure 12: Appraisal Checklist

### ***Stakeholders' participation and Sub-project Management***

- i. The process of the sub-project evolution (community involvement - poorest/ vulnerable groups and women)
- ii. Community's involvement in budgeting
- iii. Sub-project's significance in bettering the conditions of these groups
- iv. Community contributions (down payment and phased contributions in cash, kind labour etc.)
- v. Mechanisms for implementation, operations, maintenance, post-project aspects, fund management, record-keeping etc.
- vi. Manpower requirements
- vii. Institutional capacity to manage the sub-project and fund management capacity
- viii. Sub-project as understood by the community groups/SPA

### ***Pro-poor and Gender aspects***

- ix. Effect on poorest (negative, if any)
- x. Effect on women and children
- xi. Extra burden on women and the poorest
- xii. Decision-making aspects
- xiii. Control on Assets
- xiv. Wage rates
- xv. Employment Generated (for the poor)
- xvi. Expected results/incomes (women vis-à-vis men and poorest vis-à-vis less poor; and number)
- xvii. Number (and list) crossing the poverty line
- xviii. Expected changes in men-women interactions/relationships and Poorest-less poor relationships

### ***Technical aspects***

- xix. Technical feasibility

- xx. Technology availability/acceptability/adoptability to local situation (appropriateness)
- xxi. Technical Standards (quality)
- xxii. Cost-effectiveness
- xxiii. Skills required/upgradation aspects
- xxiv. Process appreciation
- xxv. Producer ----->----->----->---- Consumer chain aspects
- xxvi. Raw material aspects
- xxvii. Demand aspects
- xxviii. Backward-forward linkages

### ***Economic and Financial aspects***

- xxix. Infrastructure availability aspects
- xxx. Convergence aspects (other sources of funds; schemes); Institutional linkages
- xxxi. Unit costs; per capita costs
- xxxii. Cashflow (for micro-enterprises)
- xxxiii. Viability aspects (IRR, NPV or Pay back period)
- xxxiv. Repayment schedules
- xxxv. Costs and Benefits
- xxxvi. Post-project incomes and costs