



Intervention report

Local Value Chain Development of Vegetables in Kalpitiya



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Abbreviations and terms

DEC	Dedicated Economic Centre
DS	Divisional Secretariat
Enter-Growth	Enterprise Development for Pro-poor Growth
ILO	International Labour Organization
LOCA	Local Competitive Advantage
VCD	Local Value Chain Development
MSE	Micro and Small Enterprise
NGO	Non governmental organization
NWP	North Western Province
<i>Pradashiya saba</i>	Lowest level of local government, reporting to Provincial council

1 Introduction and background

A Local Value Chain Development (LVCD) exercise concentrates on developing the value chain of a certain business sector of which the producers are located in a limited geographical area (several divisions or at most a district). It considers the competitive advantages and ways they can be strengthened. In particular, it considers five triggers of value chain development, i.e. system integration, improving productivity and quality, product diversification and improved working conditions. An LVCD involves local stakeholders such as farmers or producers as well as those further up in the value chain through a participatory approach comprising a series of workshops and interviews combined with background research. This results in a number of proposals which the stakeholders themselves are expected to implement.

This intervention report is part of a series of assessments and impact studies of the ILO Enter-Growth project in Sri Lanka. This report takes an in-depth look at the Kalpitiya vegetable VCD exercise, located in the Puttalam district, which was the second intervention conducted since the inception of the Enter-Growth project in 2006.

The selection of a particular business sector that has development potential is done through the so-called LOCA methodology¹ which considers the competitive sectors within a certain geographic area. A sector with sufficient potential in a district can then be selected for a Local Value Chain Development exercise. The final selection is overseen by the MSE forum in the district²

Reasons for choosing Kalpitiya

There are several main reasons for selecting the Kalpitiya vegetable chain for the Value Chain Development Exercise. The Secretary of the Agriculture Ministry of the North Western Province (NWP) made a request to the district Micro and Small Enterprise (MSE) forum and the Enter-Growth programme to carry out a LOCA exercise for the vegetable sector in Kalpitiya, which was granted based on the considerations below.

Firstly, the Kalpitiya division meets most of the criteria defined in the LOCA 'Social Objectives Checklist', such as criteria of poverty, sizes of poverty and women involvement.

In addition, the Kalpitiya DS division is the only area in the Puttalam district where farmers are involved in vegetable cultivation on a commercial basis. This commercial vegetable sector of Kalpitiya is prominent in the district and also works beyond the district. Since the mid-nineties, Kalpitiya is considered a major supplier of onions, chilli, and other vegetables to urban areas of Colombo and Kandy. Besides, active stakeholders are available in this sector, and all three ethnic communities, Sinhalese, Muslims and Tamils, are represented in the division and they are involved in various activities of the vegetable sector. There is, furthermore, a potential to grow further in this sector.

¹ LOCA is worldwide known as PACA – Participatory appraisal of Competitive Advantage. It is a product of Mesopartner. For more information see: www.mesopartner.com

² MSE forums are platforms which bring together stakeholders involved in business development from public and private sector as well as NGOs to encourage dialogue and facilitate solutions to problems faced by entrepreneurs in the districts.

A brief description of the main issues within the different groups of actors in the vegetable chain is included below.

Producers / farmers

The vegetable producers in the Kalpitiya area produce and supply an estimated 20% of the country's vegetables. The farmers are using mainly simple technologies and they are unaware about more advanced technologies to improve their productivity, such as proper irrigation, use of chemical and non-chemical fertilizers and solar power. Their input costs are rising continuously; notably water supply, fertilizers, fuel and electricity. This also goes for many other business sectors but unlike others, the Kalpitiya vegetable farmers have limited access to equipment, finance and subsidies. Infrastructure is generally poor in this division. Also, most of the supplies needed by the farmers (seed, fertilizer, pesticides) are not available nearby, only in Puttalam or Colombo. Moreover, they suffer high post-harvest losses because of 'primitive' transport methods and poor access roads with potholes and security checks which increase transportation time, hence risk damaging the perishable vegetables. Most Kalpitiya producers are not linked to resellers. The Dedicated Economic Centre (DEC) in Nurachcholai serves as the main selling point in the district, but is not much frequented by buyers. There are no good storage and payment facilities at the centre and it is generally not well managed as there are issues with gates that do not close properly and cattle roaming around. This DEC is facing stiff competition from the Dambulla Dedicated Economic Centre.

Reseller / supermarkets

Generally, the Kalpitiya vegetable sector and the Nurachcholai Economic Centre are not recognized as a big potential supplier by wholesalers and supermarkets. Partly because information about the farmers' production volumes, price and products is not readily available and partly because most of farmers are not producing (nor packing) the required quality and quantity to be of interest of the main supermarket chains in Sri Lanka such as John Keels and Cargill's Food City. Moreover, infrastructure such as access roads to Kalpitiya are not well developed and there is no proper packing and grading centre which would greatly assist access to supermarkets.

Exporters

Sri Lankan vegetables are predominantly consumed by customers in local markets. Only very few growers actually export their produce. Latest figures available through the Export Development Board indicate that between 0.3% and 0.003% of Sri Lankan exports in 2006 consist of vegetables, depending on the country of export. The association of producers and exporters of Sri Lankan fruits and vegetables reports that there are currently 22 active exporter companies in the entire country. Many of those are entirely focussing on organically grown produce. Despite efforts by the Enter-Growth project to contact and involve vegetables exporters in the Kalpitiya exercise, exporters did not participate in the workshops, not did they appear interested. They have their own network of suppliers and are not looking to increase their span of vegetable suppliers.

2 Enter-Growth plan

At the time the Kalpitiya exercise first started, there was no specific approach to conduct a value chain analysis. Therefore, ILO used the LOCA methodology to identify weaknesses within the actors (producers, supermarkets, exporters) in the vegetable sector, as well as their competitive advantages. The needs of the sectors were then prioritised and proposals to address them formulated. For some of the proposals particular stakeholders were identified to implement them.

More specifically, the LOCA exercise was contracted out to the Industrial Development Board of Ceylon, District Office Chilaw, and consisted of several workshops and interviews. The workshops comprised first a hypothesis workshop, then a start-up workshop, followed by a result workshop and finally a presentation workshop. These workshops were held within a period of three weeks, in July 2006. Besides these workshops, also mini-workshops with different stakeholders in the value chain and interviews in the field were conducted.

There was good participation of the private sector and the government, but less of NGOs, since there are not many NGOs active in local economic development in the region. Also, the process was largely male-dominated, since the majority of the actors in the vegetable sector are Muslim men. The sector assessments were done by the team of 5 trained LOCA facilitators and 5 LOCA team members (4 farmers / growers and 1 agricultural instructor from the ministry).

Proposals made

The LOCA exercise led to several proposals for the main vegetable value chain, the super market vegetable value chain and the vegetable export value chain. In total 22 'main' proposals were identified as high priority and an equal number of 'additional' proposals was made, also important but more for the longer term. The tables below summarize, for the first two value chains, the main proposals and their rationale. Because there were no exporters involved in the exercise, the export value chain's main and additional proposals were not considered in this study because they have not been followed-through.

The full list of proposals, including the proposals made for the Export Vegetable Value Chain, can be found in Annex 1 – All proposals made in the LOCA exercise

Table 1 - Proposals made for the Main Vegetable Value Chain

Main proposals	Rationale	Responsibility
1. Establish an information centre within the economic centre to provide information on market oriented vegetable production, sales, price, etcetera	To make stakeholders more aware of market behaviour and widen their knowledge	The NWP Ministry of Agriculture
2. Expand and regularize the Dedicated Economic Centre and provide agriculture equipments and sales outlets	To get a higher price for products and minimize post harvesting wastages	The NWP Ministry of Agriculture
3. Establish direct sales outlets around the urban area	To expand market access	The NWP Ministry of Agriculture
4. Promote an alternative energy supply method, in particular solar power for water pumping	To reduce the cost of production	Mr. Faiz from Shell Solar Company
5. Declare Kalpitiya DS division as a specialized agricultural zone	To earn proper recognition for Kalpitiya farmers and receive benefits and subsidies	The NWP Ministry of Agriculture
6. Intervene to get subsidies for fertilizers and fuel	To reduce cost of production	Not identified

Table 2 - Proposals made for the Supermarket Vegetable Value Chain

Main proposal	Rationale	Responsibility
1. Establish a grading and packaging centre at Nuraicholai with cold room facilities	To improve the quality of vegetables for higher prices	Cargills
2. Establish a model farm for cultivation of suitable fruits to the area and use it for extension services and technological services to the farmers	To increase prices	Cargills
3. Establish a fresh vegetable outlet for Kalpitiya vegetables and register Kalpitiya farmers as suppliers	To expand market access	The NWP Ministry of Agriculture
4. Draw attention of development banks in the area to provide credit facilities, by keeping forward agreement of supermarkets as a guarantee	To provide access to credit facilities to have working capital to increase production	<i>Not identified</i>
5. To minimize pre/post harvest losses	25% loss as a result of damage occurs during transportation	<i>Not identified</i>

3 What actually happened

Only few of the proposals of the main vegetable value chain and the super market chain were carried out, with limited success. The implementers of these proposals were mainly the NWP Ministry of Agriculture and, to a lesser extent, private partners.

Main vegetable value chain

Proposal 1: To establish an information centre within the economic centre to provide information on market oriented vegetable production, sales and price.

This proposal was to be implemented by the NWP Ministry of Agriculture to make stakeholders more aware of market behaviour and widen their knowledge. Farmers were to be better informed on the demand for products, would be better able to get a good price for their products by diversifying their products. Thus far, the Ministry did not implement this. They mentioned that they have limited resources and no clearance (including budget) from national ministry to set this up.

Proposal 2: The expansion and regularization of the Dedicated Economic Centre and the supply of agriculture equipment and sales outlets.

The NWP Ministry of Agriculture implemented this proposal to a certain extent, with the expectation for farmers to get a higher price for products and to minimize post-harvesting wastages.

What has been done in reality were the tarring of the road and building a new fence and gates at the DEC to prevent cattle from wandering around and to improve loading and unloading. Expansions are not yet realized and there has been no handing out or selling of agricultural equipment. Again, the assistant director of the ministry mentioned that they do not have the resources and capacity to work on this. He reported that “national level influence is needed and although responsibilities were allocated during the workshops, there was no action plan or follow-up to ensure that proposals were implemented.”

Proposal 3: To establish direct sales outlets around the urban areas.

This proposal was aimed at expanding market access, and to be carried out by the NWP Ministry of Agriculture.

The Ministry has started two sales outlets, one in Kurunegala, and one in the Kelanya Dedicated Economic Centre in Colombo . In Kurunegala, 6 stalls were set up in Kurunegala at the premises of the province agriculture department including vegetable, fish, fruit juice and plants. At the time of the interviews, the vegetable stall was closed for the last two weeks due to a personal problem of the person running it. In Colombo, the stall was outsourced to a cooperative society called Sinco but has been closed since Sinco and the ministry had different interpretations of the proposal. The ministry reports misuse of funds. Sinco could not be contacted.

“I participated at every meeting and workshop related to the LOCA exercise. I also supported the proposals that were put forward. I expected effective solutions for the problems faced by farmers.”
Mr. Nifas (Faiz) – farmer and LOCA team



Proposal 4: To promote an alternative energy supply method, in particular solar power for water pumping.

The proposal itself has been implemented, which means that the use of solar power has been promoted by a demonstration given by a Colombo-based company to farmers. However, since the alternative water pump running on solar power did not have a sufficient capacity to pump the water, which should be more than 2.5 horse power, it was not a feasible alternative to the diesel pumps currently in use and farmers have kept to their diesel pumps.

Proposal 5: To declare Kalpitiya DS division as a specialized agricultural zone, which brings benefits such as subsidies to the farmers.

Around 30 officials of the NWP agricultural ministry, including the provincial minister, participated in a field visit in November 2006. They were introduced to the farmers in Kalpitiya and to the DEC. As a result, the sector was recognized as one with potential and the ministry supported the proposal to declare it agricultural zone. As such, it has started working on the proposal. It has been given to a sub-committee of the provincial council, which decided to do a mapping of the possible agricultural zones in the province to identify where and how much it is needed. This is in line with current government procedures where technical feasibility is studied first. The ministry is careful in declaring agricultural zones as it has many consequences and once it declares one zone as specialized, other sectors and divisions will also demand this. In an effort to try to speed up the process, the GA recently agreed to accommodate a sub-office of the agricultural department in Kalpitiya division.

Proposal 6: To intervene to get subsidies for fertilizers and fuel.

Since this depends on the division being declared a specialized agricultural zone, it is still in progress (see Proposal 5). The ministry representative reported that the provincial governments will not be able to support this short term.

Supermarket Vegetable Value Chain

Proposal 1 & 2: To establish a grading and packaging centre at Nuraicholai with cold room facilities and to establish a model farm for the cultivation of suitable fruits. These proposals aimed at improving the quality and thus the prices of the vegetables, and was to be implemented by Cargills³.

This proposal was followed up, but the implementation was not successful. Cargills showed initial interest and agreed to implement the proposal, but gave up after a while. The Cargills vegetable supply manager was approached to comment on this but had been replaced in the mean time. Another Cargills representative briefly indicated that Cargills did not have a business interest to invest in facilities in Kalpitiya, since they have their own collectors and packaging centre. As a business policy, they will not allow farmers to do their own packaging. Moreover, Cargills would only support this proposal if government allocated land and space for the facilities which they did not do. It appears that though initial interest was shown, there was never a serious commitment from Cargills national head office.

³ The representative from Cargills could not be contacted to obtain feedback, there have been changes in the marketing staff and the initial person involved was no longer in that position. However, the successor made a brief comment about the Kalpitiya experience

Proposal 3: To establish a fresh vegetable outlet for Kalpitiya vegetables. This proposal was started but discontinued. See proposal 3 above.

Proposal 4: To draw attention of development banks to provide credit facilities. This was to provide farmers access to working capital and to improve investments in the sector.

The province agriculture department gave the Sinco society Rs 400,000/- to be given as loans to farmers. It is a cooperative loan system that gives loans at interest rate of 6%. According to the assistant director of the ministry, farmers are not interested in borrowing money, since the interest rate is too high. Apart from this, there have not been any linkages or networks with other finance providers or NGOs.

Proposal 5: To minimize pre and post harvest losses by providing crates for the transportation of vegetables, instead of using gunny bags.

This proposal was not been taken up as such by a particular stakeholder but some farmers were contacted individually by the Enter-Growth project to address this problem. One possible solution is to transport vegetables in crates, instead of in so-called gunny bags, which do not protect the produce. The ministry is currently subsidizing the purchase of crates by 50% (selling at 300 LKR instead of market price of 600 LKR). Still farmers seem unwilling to buy: because they can not or do not want to invest in this. Another reason is that in gunny-bags, farmers can 'hide' their lower quality produce (the bags are not transparent) while in crates it become immediately obvious.

4 First signs of impact

To assess the first signs of impact ten persons were interviewed: four farmers, two resellers, a reseller functioning as de facto manager of the Dedicated Economic Centre (DEC), the assistant director of the ministry and a Cargills representative (by phone). As described above, only few of the proposals have actually been followed through and the implementation that was done mostly covers only part of the identified needs.

The small improvements that were done to the DEC, i.e. the gates and the tarring of the roads, are appreciated but have not really led to any change. The same can be said for the sales outlets which were started and then closed. The solar energy demonstration session did not result in any changes and because Cargills dropped out of the exercise, no facilities were built or upgraded. Credit facilities were made available, as well as subsidized supply of better cargo container (crates to transport vegetables), but the farmers reported not to have made use

An often quoted reason for the lack of effect of the modest improvements to the DEC is the competition from the economic centre in Dambulla, and to some extent those in Welisara and Meegoda. One of the farmers stated that his sales had dropped with 60% as a result of the competition from the Dambulla Economic Centre. A reseller agreed that the competition from Dambulla was very strong and that buyers now prefer the Dambulla Economic Centre over the Kalpitiya one, as a result of which he now only did about an hour of business per day. Farmers and resellers expressed their hope and expectation that the DEC would evolve into a centre comparable with the one in Dambulla.

5 Learning, conclusions and next steps

The process of the VCD exercise of the Kalpitya vegetable sector itself went well. Local stakeholders, consisting of the local farmers and resellers, private stakeholders and of the governmental stakeholders, participated and contributed actively in the whole process and the time schedule was mostly kept. However, the study also indicated that the real decision makers at, for example, the provincial ministries, were not adequately involved. As a result, some proposals were developed and promises were made but not followed through.

Although some proposals in the Kalpitya Value Chain were implemented to some extent, they were not implemented in such a way that beneficiaries were found to profit from them. Based on our findings, we have identified several possible reasons as to why the proposals made in the exercise did not have the desired impact. These reasons can be considered as lessons learned for future VCD exercises.

Differentiate between ‘needs’ and ‘proposals’

During the Kalpitya vegetable VCD, which was among the first implemented by the Enter-Growth project, problems and needs of the vegetable growers and others stakeholders were identified. Most of these have been directly translated into proposals. This has led to a large number of proposals, which do not all seem feasible nor have they all been formulated precisely (with for example action plans, targets, time indication and an implementer).

Limit the number of proposals

A total of 40 proposals have been made, of which 20 are main proposals. A high number of proposals may decrease the prominence or importance of a certain proposal. Since some of the proposals have no clearly identified purpose or owner and are not likely to be implemented, they could as well be taken from the list of proposals. One proposal can tackle more than one need as well.

Sharpen the formulation of proposals

Further, most of the proposals were rather broadly formulated. After initial identification of the needs and solutions in the various value chains, a more detailed proposal can be formulated which includes precise targets (for example number of sales outlets), locations, costs and expected benefits.

Emphasise the benefits of the proposals

The purpose of a proposal may seem self-evident when it is discussed and proposed, but when implementers need to convince other parties or find funds, they need to be able to clearly explain why this proposal needs to be implemented and how it will improve the competitive advantage of the value chain. For example, when subsidies or price control mechanisms are proposed, funds need to be allocated. Without a clear benefit for the farmers, the government authority expected to pay for the subsidies is less likely to be convinced. Reflecting monetary benefits for the other stakeholders (e.g. Cargills, exporters) is also needed.

Manage expectations

The farmers, resellers and government representatives generally report that they expect all proposals to be implemented and expressed disappointment when they are not. High expectations may lead to disappointment when expectations are not met, which in turn may lead participants away from LOCA exercises or value chain development exercises. Therefore, it is important that participants in the process get an honest picture of the feasibility of proposals: what it can and can not achieve.

Include or influence the real decision-makers

One of the main reasons why many proposals were not implemented is lack of commitment from the stakeholders (government, private sector) to invest and live up to certain promises. Including the actual decision makers in the process can be a way to improve real commitment. If this is not feasible, then influence through the MSE forum can be an option.

Improve ownership of proposals

Formulating proposals is one thing, finding organizations or bodies capable and willing to implement is another. Commitment should be measured in terms of having necessary resources and capacities to actually implement the proposal. A proposal without an owner is less likely to be implemented and lacks accountability.

Many of the above learnings have already been taken into account in other local value chain interventions of Enter-Growth. While most of the proposals in the Kalpityia vegetable chain - being among the first Enter-Growth interventions, have not been followed through, the process of formulating proposals and finding owners has in the mean time been improved.

Annex 1 – All proposals made in the LOCA exercise

Table 1 - Proposals made for the Main Vegetable Value Chain

Proposal	Rationale	Responsibility
Main proposals		
1. Establish an information centre within the economic centre to provide information on market oriented vegetable production, sales, price, etcetera	To make stakeholders more aware of market behaviour and widen their knowledge	The NWP Ministry of Agriculture
2. Expand and regularize the Dedicated Economic Centre and provide agriculture equipments and sales outlets	To get a higher price for products and minimize post harvesting wastages	The NWP Ministry of Agriculture
3. Establish direct sales outlets around the urban area	To expand market access	The NWP Ministry of Agriculture
4. Promote an alternative energy supply method, in particular solar power for water pumping	To reduce the cost of production	Mr. Faiz from Shell Solar Company
5. Declare Kalpitiya DS division as a specialized agricultural zone	To earn proper recognition for Kalpitiya farmers and receive benefits and subsidies	The NWP Ministry of Agriculture
6. Intervene to get subsidies for fertilizers and fuel	<i>Not identified</i>	<i>Not identified</i>
Additional proposals		
Fill up the vacancies of agriculture extension officers	<i>Not identified</i>	<i>Not identified</i>
Arrange field days to educate about the value of this area with the participation of officials from Provincial Ministry of Agriculture	<i>Not identified</i>	<i>Not identified</i>
Initiate a price protecting fund and determine stable prices	<i>Not identified</i>	<i>Not identified</i>
Supply electricity where it is not available	<i>Not identified</i>	<i>Not identified</i>
Produce Vegetable basket by using organic fertilizer for the market	<i>Not identified</i>	The NWP Ministry of Agriculture
Conduct a research programme for farming in long run	<i>Not identified</i>	<i>Not identified</i>
Raise awareness on packaging for farmers	<i>Not identified</i>	<i>Not identified</i>
Introduce suitable hybrid seeds to farmers	<i>Not identified</i>	<i>Not identified</i>
Promote the use of organic fertilizer	<i>Not identified</i>	<i>Not identified</i>
Direct farmers to fruit crop cultivation as an alternative farming practice, for example a suitable grape variety	<i>Not identified</i>	<i>Not identified</i>
Establish a price protecting fund that is being used in other countries	<i>Not identified</i>	The government and the cooperative Society - SINCO

Table 2 - Proposals made for the Supermarket Vegetable Value Chain

Proposal	Rationale	Responsibility
Main proposals		
1. Establish a grading and packaging centre at Nuraicholai with cold room facilities	To improve the quality of vegetables for higher prices	Cargills
2. Establish a model farm for cultivation of suitable fruits to the area and use it for extension services and technological services to the farmers	To increase prices	Cargills
3. Establish a fresh vegetable outlet for Kalpitiya vegetables and register Kalpitiya farmers as suppliers	To expand market access	The NWP Ministry of Agriculture
4. Draw attention of development banks in the area to provide credit facilities, by keeping forward agreement of supermarkets as a guarantee	<i>Not identified</i>	<i>Not identified</i>
5. To minimize pre/post harvest losses	25% loss as a result of damage occurs during transportation	<i>Not identified</i>
6. To promote cultivation of grapes varieties	<i>Not identified</i>	<i>Not identified</i>
Additional proposals		
To provide plastic buckets to farmers (subsidiary basis)	<i>Not identified</i>	<i>Not identified</i>

Table 3 - Proposals made for the Export Vegetable Value Chain

Proposal	Rationale	Responsibility
Main proposals		
1. Improve the cultivation of organic vegetable by using E.M. technology for export	<i>Not identified</i>	<i>Not identified</i>
2. To get government involvement to get money from export companies	<i>Not identified</i>	<i>Not identified</i>
3. Develop production at green houses	<i>Not identified</i>	<i>Not identified</i>
4. Increase the number of farmers who supply products to export market	<i>Not identified</i>	<i>Not identified</i>
5. Develop a booklet containing information of exporting	<i>Not identified</i>	<i>Not identified</i>
6. To make aware of product diversification	<i>Not identified</i>	<i>Not identified</i>
7. Pay focus on melon as it grows well in Kalpitiya	<i>Not identified</i>	<i>Not identified</i>
8. Identify export demand accurately	<i>Not identified</i>	<i>Not identified</i>
Additional proposals		
Regulate service of Export Development Board in to the area	<i>Not identified</i>	<i>Not identified</i>
Diversify exports	<i>Not identified</i>	<i>Not identified</i>
Regulate export procedures at airport	<i>Not identified</i>	<i>Not identified</i>
Formulate special laws regarding the export of perishable goods	<i>Not identified</i>	<i>Not identified</i>
Establish an export centre	<i>Not identified</i>	<i>Not identified</i>
Provide subsidies for farmers as happens in developed countries	<i>Not identified</i>	<i>Not identified</i>
Provide methodology to minimize pre / post harvesting wastage, for example with green houses	25% loss as a result of damage occurs during transportation	<i>Not identified</i>
Change the attitude of farmers	<i>Not identified</i>	<i>Not identified</i>
Use sprinkle watering technology	<i>Not identified</i>	<i>Not identified</i>