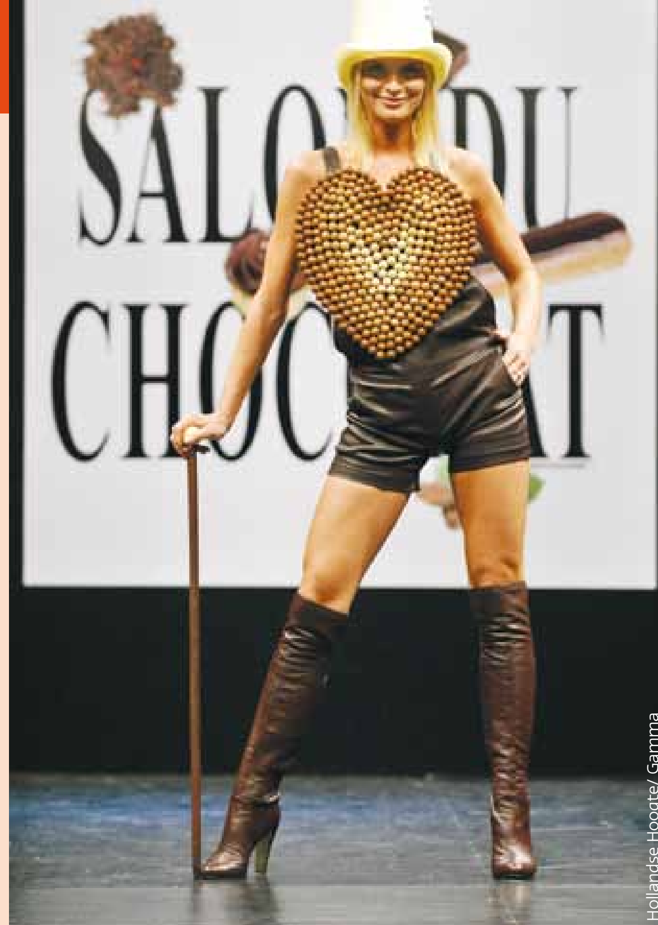
# Beyond the retail revolution

**The retail revolution is threatening the livelihoods of millions of farmers in many developing countries. But recent research in India demonstrates that it is possible for small farmers and artisans to be included in modern, integrated value chains.**



Hollandse Hoogte/ Gamma

India is a country of small farmers. About two-thirds of its 1.1 billion people still live in rural areas and farming is the mainstay of their livelihoods. But it is also a country of massive change. India's call centres and software houses, and the lavish lifestyles of its billionaires, may be well known, but for the average urban middle-class Indian one of the most dramatic changes has been the long-delayed retail revolution. 'Modern' retailing – in the form of self-service supermarkets – has come late to India. In attempts to maintain employment, the central and state governments resisted change in retailing for longer than in any other country. With these barriers now broken, however, it is estimated that modern retailing in India is growing at an unprecedented rate of 40% per annum.

### Mismatched chains

How do modern retailing and the growth of exports affect India's small producers? There is a widening mismatch between traditional small producers and the new multi-branch retailers. In 2008 the International Food Policy Research Institute (IFPRI) warned that India's farmers were in for a 'painful shock' because modern retail chains require large volumes of standardized products, delivered at precise times and to closely specified high quality standards. These large companies also tend to pay slowly. Indian farmers are feeling the impact just like small producers in Malaysia and Thailand did before them.

In India, such changes have already caused serious tensions. Rioters have attacked and burned modern supermarkets, and in Uttar Pradesh (home to many of India's poorest small farmers) the state government forbade supermarkets to sell fresh produce. The protesters often march under the hammer and sickle, which is still a powerful political symbol in India. Marx seems to have been right: progress seems inevitably to be associated with increasing inequity.

But India can never retreat to the economic isolation that characterized its first 54 years of independence. There is an urgent need to establish value chains that can include rather than exclude the smallest producers.

### Inclusive chains

It is commonly believed that it is very hard profitably to include small producers into modern, integrated value chains. The findings of recent research contradict this assumption. The book *Inclusive Value Chains in India* (2009) describes 14 case studies of 12 'farm to fork' value chains of fresh vegetables, cotton, rice, shrimps, honey, coffee and broiler chickens, and two non-food products. None of the chains were large, with an average of 4000 producers each.

These value chains were selected because the lead organization in each case – a processor, an external development agency, a supermarket group, a producers' organization and an exporter – had made a deliberate effort to include small producers. They may have done this for business, development or 'social' reasons, or for a combination of motives, but the results were the same.

Detailed studies of the small producers in the honey and shrimp chains show that they significantly increased both their incomes and assets as a result of being included in the chain. Anecdotal data suggests that the other 12 value chains have been equally beneficial to the small producers. Most, if not all, have significantly improved their economic position since joining the chain. Moreover, the volumes of produce and the numbers of producers involved are growing.

All the value chains are now profitable and are in no way dependent on subsidies or 'corporate social responsibility'

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By **Malcolm Harper**, emeritus professor of enterprise development, Cranfield School of Management, UK.

budgets. This was achieved partly because it had to be. The NGOs and other non-commercial agencies were operating to fixed time scales, and were working towards their own withdrawal. The commercial firms regarded any initial losses as investments in future profitability, and worked to reduce and eliminate them as they would with any new venture. Crucially, they also understood that it was in their interest to develop and maintain a loyal group of suppliers; if suppliers dropped out and had to be replaced, the investment in training and other services would be lost and would have to be repeated with new entrants. Hence, it was good business to ensure that producers were properly remunerated.

## Lessons learned

These 14 cases offer a number of valuable lessons.

*Appropriate inputs*. Many livelihood and value chain interventions are undertaken by institutions that specialize in providing finance, or technical training, or marketing, or administration, or some other service. Such institutions supply the inputs that they have at their disposal, regardless of whether they are actually most seriously needed. The critical inputs provided in the 14 sample cases were chosen on the basis of careful analyses of what was needed and not because of pre-existing institutional prejudices.

*Institutional support*. The government played a minor role, and in some cases existing government regulations had to be removed in order to allow the value chain to succeed. Government's role was to do less, not more. Private businesses, both small and large, on the other hand, played a major role as customers, suppliers and often as the initiators of positive and inclusive change. These companies made use of subsidies when they were available, but they were not always necessary; inclusive value chains can be good investments.

*Independent management*. Small producers are often organized into cooperatives in order to achieve economies of scale and bargaining power. There have been some dramatic successes, such as the Amul milk producers' societies. But overall, the track record of such groups is not good. The 14 cases showed that such groupings are not always necessary. Groups were involved in seven cases, but in the other seven the producers operated individually. The systems for the flow of inputs, information and products worked effectively under corporate or other independent management, and the producers' share of the benefits was such as to encourage them to remain in the value chain.

*Comparative advantages*. Success was achieved through higher quality, rather than by lower prices. Small producers were treated not as the 'weaker sections' (as the official Government of India phrase has it) but as economic actors with their own peculiar strengths. Five of the 12 food chains were producing organic crops, in which small producers have particular comparative advantages. Organic cultivation requires an intimate knowledge of the land, which small farmers have, and on-farm labour is often used for weeding or composting, replacing purchased chemicals or other inputs. The emphasis was on exploiting these strengths for the advantage of all parties, rather than on protecting and thus preserving their weaknesses.

## The future

India's modern retail sector is growing rapidly, but it is still small. Most farmers and artisans continue to sell their produce through traditional channels, local vendors or open markets, and only a few are as yet included in modern value chains of any kind, whether inclusive or not. Yet modern retailing will keep growing, and further research is needed to ascertain the extent to which the benefits found in these case studies can be spread more widely.

There are almost 92 million small farms in India, and many more millions of non-farm artisans. The value chain research discussed here includes a mere 70,000 producers, and does not claim to be representative of India as a whole. The results do show, however, that it is possible for small farmers and artisans to be included and play a profitable part in modern, integrated value chains. Marx was not necessarily right, and progress under capitalism need not be associated with increasing inequity. ■

### Entrepreneurship in agricultural cooperatives

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Producer organizations such as cooperatives face considerable challenges in developing the new entrepreneurial skills they need in order to cope with global trends in the agribusiness sector. Forming strategic alliances with development agents and private firms may contribute to this process, but many challenges await those who are willing to participate in such initiatives.

For agricultural cooperatives, the issue is how to deal with the inevitable tension between engaging in new entrepreneurial relations while also remaining an organization that is truly controlled by and works for the benefit of its members. For the development sector, the question is how to adopt a more business-oriented vision without becoming part of the mainstream business. For the private sector, the challenge will be to convince managers that social concerns are not just a matter of building a good corporate image, but of adopting an ethical approach towards society. Overall, the critical question is how to mainstream partnerships between these three sectors without jeopardizing social inclusion.

For the full text of this article, visit *The Broker* website.

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