

# Indian smallholders in dynamic markets

A study on the expectations of Hivos partners and their producers towards changing market structures within the rice chain in India



Master thesis Margriet van der Zouw  
PDOO / CIDIN  
Hivos  
October 2008

# Indian smallholders in dynamic markets

A study on the expectations of Hivos partners and their producers towards changing market structures within the rice chain in India

Master thesis Margriet van der Zouw  
PDOO / CIDIN  
Hivos  
October 2008



## Preface

The past year I have been working at the Sustainable Economic Development (SED) department of the Humanist Institute for Cooperation with Developing Countries (Hivos) as a trainee for the Postgraduate Programme for Development Studies of CIDIN. It has been an interesting and dynamic year due to contextual changes in SED's policy. Based on these contextual changes Hivos asked me to conduct a study towards changing markets in India.

I got the opportunity to go to India for 2,5 weeks and visit eight Hivos partners and other alliances to discuss their expectations and experiences towards the changing market structures occurring in the (organic) rice chain. These changes happened as a result of movements in the private sector. 'Organic rice' has been chosen as case study based on the fact that this study may provide input for a Regional Meeting on the rice chain in Asia that is scheduled for the end of 2008 in Indonesia. Besides, it provided an ideal opportunity to visit the Regional Office of Hivos in Bangalore and meet our colleagues.

I would like to thank the staff of CIKS, Kudumbam, CSA, CDF, DDS, ICRA, Green Foundation, SMS, Sresta and Access for Livelihoods for their hospitality, support and their openness in the interviews. Furthermore I would like to thank the rice producers I spoke to, in the field, for their time. Without both groups of informants this study would not have been possible. I would like to continue by showing my gratitude to the staff of the Regional Office in India, and then specifically Jamuna Ramakrishna, Bishwadeep Ghose, T. Muralidharan (Murali) and Julietta Venkatesh for their preparations, guidance and information during my stay in India. Furthermore I would like to thank my colleagues at Hivos HO, in particular Erik Nijland, Carol Gribnau, Willy Douma, Marieke Kragten, Stacey Büscher-Brown and Marieke van der Sanden for their input and reflection on my (academic) learning process. Subsequently I am grateful to Luuk van Kempen for his helpful comments and support, and for linking me to relevant literature. I am of course also grateful to my fellow students for their advice on my drafts. Finally, I want to thank Arne Lanting for his enduring support.

It has been an enjoyable year and I am happy that I have the opportunity to stay with Hivos for another year.

Margriet van der Zouw  
October 2008

## List of Abbreviations

AIV	Advisory Council on International affairs
CEO	Chief Executive Officer
CDF	Cooperative Development Foundation
CIKS	Centre for Indian Knowledge Systems
CSA	Centre for Sustainable Agriculture
DDE	Sustainable Economic Development Department of the Ministry of foreign affairs
DDS	Deccan Development Society
EIU	Economist Intelligence Unit's
FAO	Food and Agriculture Organization of the United Nations
FS	Financial Services and business development
GSCF	Global Supply Chain Forum
Ha	Hectare
Hivos	The Humanist Institute for Cooperation with Developing Countries
ICS	Internal Control System
IFOAM	International Foundation for Organic Agriculture Movements
ICRA	The Institute for Cultural Research and Action
IIRR	International Institute of Rural Reconstruction
IMO	Institute of Market ecology
KIT	Royal Tropical Institute
LEISA	Low External Input and Sustainable Agriculture
NGO	Non-Governmental Organisation
NPOP	Standard Indian Organic Program
OFAI	Organic Farming Association of India
PGS	Participatory Guarantee System
PPG	Pro-Poor Growth
PSD	Private Sector Development
SED	Sustainable Economic Development
SP	Sustainable Production
SMS	Sahakara Mitra Samstha
UPS	United Parcel Service of America
US / USA	United States of America
WDR	World Development Report

# Index

Preface	iii
List of Abbreviations	iv

1	Introduction.....	1
1.1	Rationale and relevance .....	1
1.2	Study objective.....	2
1.3	Problem statement.....	3
1.5	Outline of paper.....	3
1.6	Methodology.....	3
1.7	Validity and limitations.....	4
2	A Theoretical and Conceptual Frame.....	5
2.1	Elaboration on concepts: value chain development, quality markets, private sector development .....	5
2.1.1	Hivos as donor .....	5
2.1.2	Supply chain versus Value chain .....	6
2.1.3	Position of producers: value adding activities and management in the chain.....	7
2.1.4	Quality markets .....	9
2.1.5	Private sector development.....	10
3	What is the current state of the producers' position and partners' intervention in the rice chain in three states in India? .....	11
3.1	Introduction: Rice production in India.....	11
3.2	Hivos' focus on the rice chain .....	11
3.3	The organisation's intervention and producers' position - empirical data .....	11
3.4	Concluding Remarks.....	18
4	What are the expectations of Hivos partners regarding changing market structures based on a changing focus of the private sector?.....	19
4.1	Introduction: Current market changes in food retail sector in India.....	19
4.2	Expectations of partners on the market changes in India's food retailing sector .....	19
4.3	Analysis.....	22
4.4	Concluding Remarks.....	24
5	Conclusion and Recommendations.....	25
6	Bibliography.....	27

Annex 1: Interview topics on position producer

Annex 2: Climatic, environmental and agricultural features of Tamil Nadu, Andhra Pradesh and Karnataka

Box 1: SP policy focus in linking small scale producers to markets

Box 2: Forms of chain participation by small scale producers

Box 3: Sresta's vision and activities

# 1 Introduction

## 1.1 Rationale and relevance

Rising incomes, urbanisation, greater female participation in the workforce and wider media access; these are all factors driving the demand for higher-value products, semi processed and processed products<sup>1</sup> (WDR 2007; 124) resulting in changing agri-food systems all over the world. There are new opportunities to supply these high-value food crops, with a consequent chance of higher farmer profitability, especially in countries with a rapidly growing middle-class (Shepherd 2007; 11). The World Development Report of 2008 states that these new market opportunities are important for increased agricultural and non-agricultural growth and for greater employment and rural incomes. There will be increasingly greater coordination between farmers, processors, retailers and others, and farmers will more and more produce based on the requirements of buyers. Furthermore, these market opportunities facilitate the entry and rapid growth of supermarket chains, and the food processing and food service industries. Nevertheless, these new markets also demand quality, timely deliveries, and economies of scale, and therefore pose many challenges for smallholder farmers (WDR 2007; 126).

The changing character and development of the private sector, for example the entry and rapid growth of supermarkets and other food services industries, is experienced by many as an important step towards alleviating poverty and creating healthy economies (Posthumus 2008). The World Development Report of 2008 states that 'the private sector can enable smallholders to participate as partners in modern procurement systems and exports. It can setup innovative vertical coordination arrangements with farmers or producer groups. It can facilitate farmer access to credit, inputs, extension, and certification. It can support the training of farmers in good agricultural practices to meet quality, food-safety, and international sanitary standards' (WDR 2007; 134). The Dutch government too, stressed its focus on the role of the private sector in poverty alleviation in developing countries. In 2006, the Advisory Council on International Affairs (AIV) published a report advising the Dutch government that private sector development (PSD) should be 'a central element in countries' poverty reduction strategies as it clearly has potential to contribute to pro-poor growth (PPG) in developing countries' (AIV 2006; 6). It is observed that the Dutch Minister of Development Cooperation adheres to this advice in his current work as he states: 'private sector development is the motor for development'<sup>2</sup>.

### *Role of changing markets in Hivos work and policy*

The Humanist Institute for Cooperation with Developing Countries (Hivos) also experiences the effects of the changing character of the private sector in their programmes focused on linking smallholders to markets. At the end of 2007 this changing character became visible in Hivos' Organic Agriculture programme in East Africa in the results of a Programme Evaluation. It showed that the private sector initiatives (in this case mainly export businesses) 'have been the driving force behind the growth of organic markets. Companies have largely found their own markets and organised their own supply chains' (Guijt and Woodhill 2007; 3). It concluded that 'NGO supported initiatives (funded by Hivos) have resulted in no more than a dozen farmer groups (20-30 members) in any country now selling their produce at a higher 'organic' price, business-led initiatives in Uganda led to an increase in the number of certified producers from under 20.000 in 2000 to approximately 70.000 by the end of 2006' (SED Addendum 2008; 4). Based on these statements it appears that smallholders have mainly benefited due to a moving private sector and not because of the intervention strategies of NGO supported initiatives. This caused discussion within Hivos on its policy intervention.

Based on the outcomes of the above Programme Evaluation, and together with other identified context changes, Hivos' department of Sustainable Production conducted a policy review in the beginning of 2008. During this review two important trends were mentioned that are important for the focus of this study. First it is said that 'markets for quality products are expanding both in terms of volume as in terms of scale. Quality markets are no longer a unique feature of industrialised countries, but are equally emerging in countries in

---

<sup>1</sup> higher-value products are products that have to meet for example food safety standards like private sanitary and phyto-sanitary (SPS) standards (Otsuki et al. 2001, Henson 2003, Unnevehr 2003, World Bank 2005a in: Umali-Deininger and Sur 2006; 1) semi processed and processed products are products in which the producer already adds value to the raw product by processing a half- or end product.

<sup>2</sup> www.minbuza.nl; statement during a congress on Africa at February 13<sup>th</sup>, 1998 in Rotterdam

Latin America, Asia and Africa'. Secondly Hivos identified that 'quality markets are no longer the sole domain of alternative trade organisations: multinational companies have arrived to the quality market arena and are increasingly dominating large parts of the agri-food chain, including quality elements of it' (SED Addendum 2008; 2). Even though these trends sound promising for farmers because of the seemingly new market opportunities, Hivos expressed its concerns: 'despite the strong economic growth and growth in quality markets (especially where products are exported to Europe and the USA) over the last few years, marginalised groups and small-scale producers have not equally benefited. In cases, small-scale producers have been further excluded because of the principles of economies of scale (volume), requirements to deliver good quality products within a short time span, agro-businesses gaining considerable influence over chains at the expense of producers' influence, and the stringent and continuously increasing quality standards' (SED Addendum 2008; 2).

Based on the above trends in the global market, the results of the Hivos programme evaluation in East Africa, the trends and concerns identified during the Sustainable Production policy reviews, and the increased interest of the public sector in private sector development, the following question is posed: What is the effect of these changing market structures – the demand for high-quality products, the expansion of quality markets, the intervention of multinational companies in these quality markets– on the chains Hivos partners are working in, and what is the effect on the income of small-scale farmers?

These trends do not only occur in East Africa. In India Hivos' staff maintain that the private sector is moving into the farm and food sector: 'the many organised retailers like Reliance have entered the farm sector (conventional) and are competing with traditional distribution channels. These are likely to influence the demand for specific type and quality of agricultural produce and also the nature of agriculture production systems'<sup>3</sup>. Based on these developments Hivos asked me to conduct a study towards the position<sup>4</sup> of producers in this changing market and the expectations of Hivos' partners towards these changing market structures in the rice chain<sup>5</sup> in India.

## 1.2 Study objective

From this introduction I arrive at the topic that I want to discuss in this paper. Based on the focus of Hivos towards improving the livelihood of small-scale producers by using the support of partner organisations in linking them to markets, the most important issue here is to focus on the expectations of the partner organisations and their producers towards new market opportunities and challenges (identified by Hivos India) that arise in the changing context of the rice markets in India. Subsequently it will be interesting to see whether they react to these changing market conditions. This preliminary policy research may be used for a Regional Meeting on the (organic) rice chain in Asia that is scheduled for December 2008. Therefore I chose 'organic rice' as a case study. In this Regional meeting various partners of Hivos, working in the rice chain, will be represented to exchange the best practices in linking rice farmers to (changing) markets so that a program on rice can be developed. This paper includes empirical data from Hivos' partners' practice and the producers they work with in India. It also includes empirical data from other actors working in, or providing services for, the rice chain, like organic retailers, consultants and Hivos' staff with the purpose of describing the current market changes and its effect on quality markets.

This preliminary policy research paper may also be discussed within the team Sustainable Production of Hivos to contribute to the current discussions on linking small-scale producers to markets in the context of private sector development.

---

<sup>3</sup> Information I got through the context description of Hivos India for Annual Plan 2009

<sup>4</sup> With the position of producers I mean the types of activities a producer undertakes to add value to the product and the involvement of producers in the management of the chain

<sup>5</sup> In her policy Hivos focuses on quality of the production processes with regard to product, ecological and social (including gender) aspects to gain access to quality markets (concept will be explained in chapter 2) to obtain better prices. Organic agriculture is seen as a better option for the small producer in rice (Hivos 2004) and this means that this study focuses on 'organic rice chains' in which 'organic rice' is the case.

### 1.3 Problem statement

Derived from the objective I define the following research question:

*'To what extent does Hivos' partners and their producers in the Indian rice chain anticipate changing market conditions?'*

I will elaborate on this question by focusing on the following topics:

- 1) *What is the current state of the producers' position Hivos' partners work with within the rice chain in three states in India?*
- 2) *What are the expectations of Hivos' partners regarding the changing market structures in India?*

### 1.5 Outline of paper

In 1.6 I will describe the methodology I employed in this case study. In chapter 2 I elaborate on the theories and concepts that are central in this study. Chapter 3 describes the current state of affairs and the position of producers (target group in the Hivos funded projects) within the (organic) rice chain. As I will explain, the intervention strategy of the partner organisation cannot be separated as these are of major influence herein. In chapter 4 I elaborate on the expectations the partner organisations, and some other alliances of Hivos, have concerning the changing market structures in the food retailing sector in India. I will elaborate on their expectations towards the impact these changes may have on smallholders' practices. These expectations are finally placed in a broader academic discussion on opportunities and threats for small-scale producers in dynamic markets. In chapter 5 I will conclude by reflecting on the anticipation of producers and partner organisations by linking the outcomes of chapter 3 and 4.

### 1.6 Methodology

I will briefly elaborate on the choices I made regarding the modes of analysis, sampling method and methods for data collection for this study.

#### *Modes of analyses*

For this paper I conducted a case study research. 'Case study research calls for selecting a few examples of the phenomenon to be studied and then intensively investigating the characteristics of those examples ("cases"). By closely examining a relatively small number of cases, and comparing and contrasting them, the researcher learns about significant features of the phenomenon and how it varies under different circumstances.' (RAND 1999; 527-528). In this paper my cases are based on interviews I had with eight partner organisations, an organic retailer and a consultant Hivos regularly works with, on their expectations towards the impact of the changing markets structures on small-scale producers. I will closely examine these ten cases and I will try to find out what features of the changing market structures affect the work of the Hivos partners and how they deal with this in their work with the aim of improving the livelihoods of small-scale farmers.

#### *Sampling*

The sampling method used in this study is judgement sampling. As Russell Bernard (1995; 95) explains 'in judgement sampling, you decide the purpose you want an informant (or a community) to serve and you go out to find one'. After formulating my study focus I found my informants together with my colleagues in India.

#### *Methods for data collection*

Literature study: As Russell Bernard (1988; 126) states: 'a thorough literature search is vital to the success of any research project'. This paper is an empirical study in which the data gathered in the field is placed within broader scientific discussions and analysis on current changing food market patterns. The theoretical framework for this paper is formed through literature review. Scientific journals, Hivos documentation and the partner's promotion and research material are the main sources for this study.

Interviews: Together with Hivos staff at Head Office and Regional Office India I formulated the topic of this study based on the current policy reviews and identified changing context. During my fieldwork in India I mainly had group discussions with farmers to discuss their position (see Annex 1). With the staff of the Hivos partners, and other chain actors I conducted semi-structured interviews to discuss the topic under study.

### *Research area*

I conducted this study in three states of India: Tamil Nadu, Andhra Pradesh and Karnataka (see Annex 2). Rice is cultivated throughout India, and Hivos is working with partners in more states than the above-mentioned three. These states were purely chosen because of logistical reasons; I only had 2,5 weeks to conduct this research and this area was good to travel.

### **1.7 Validity and limitations**

Some factors could have affected the value of the information gathered. First of all I needed interpretation during the interviews with the farmers. In all situations this was done by staff of the partner organisations. This may have affected the formulation and interpretation of the responses of interviewees. Secondly, the responses I got can be influenced by the fact that I am an employee of the donor organisation; this may result in socially desired answers. Based on both facts I will make some assumptions in my analysis based on own interpretation. Some issues were not spoken out loud; however through other answers I got, I could make an interpretation of reality. For example: when I asked producers to their market relations, some of them only mentioned the partner or producer organisation. Nevertheless, later on it would be explained that these organisations were not able to sell all produce. Therefore I assume that they will then look for other market opportunities to sell their produce.

## 2 A Theoretical and Conceptual Frame

### 2.1 Elaboration on concepts: value chain development, quality markets, private sector development

In this chapter I will discuss the concepts and theories that are central in this paper. First, I will briefly elaborate on the role of Hivos as a donor to contextualise the concepts and theories that I will introduce in this chapter. Then I will focus on the definition of supply chain<sup>6</sup> development versus value chain development. Hivos' policy is focused on working through value chains, though in practice we notice that the producers we work with are often working through supply chains. In this paper I will describe the definition KIT et al (2006) use for both value and supply chain developments and elaborate briefly on alternate views around supply chain management. I will continue to elaborate on the method used by KIT et al (2006) to analyse the position of producers in a value chain. This position cannot be separated from the intervention of Hivos partners and therefore I will describe five intervention models based for value chain development designed by Posthumus (2008). Both the method used by KIT and the intervention models designed by Posthumus are used for analysing the data in chapter 3.

I will end this chapter by focusing on the concepts of quality markets and private sector development. Both concepts are central to this study as I will explain below.

#### 2.1.1 Hivos as a donor

The Humanist Institute for Cooperation with Developing Countries (Hivos) is a non-governmental organisation, rooted in the Netherlands and guided by humanist values. It aims to contribute to a free, fair and sustainable world where citizens, women and men, have equal access to resources, opportunities and markets and can participate actively and equally in decision-making processes that determine their lives, their society and their future (Mission statement in 'Civil Voices on a Global Stage' 2004).

Hivos' policy is based on two pillars, namely civil society building and sustainable economic development. This paper is a preliminary policy research for the latter pillar. Within the sustainable economic development programme the purpose is to improve the economic position of poor or marginalised groups in a sustainable way by 1) increasing and improving the access to resources leading to sustainable income opportunities; and by 2) improving the quality of production processes (Policy document SED 2004; 4). One of Hivos' main activities is linking small-scale producers to quality markets and within this intervention lower the threshold for market access (or try to prevent the threshold from rising) (SED addendum 2008). Within Hivos, quality markets are defined as 'preferred yet not exclusive markets because of their strong focus on social (including gender and labour conditions) and environmental (sustainable production practices) sustainability, and because of added value being translated into higher prices and more stable income for the small-scale producers' (Addendum SED 2008; 4). 'Organic' is one example (an important one for Hivos but not limited to this) of a quality market in which elements of social and environmental sustainability are guaranteed through organic standards.

The Sustainable Economic Development (SED) department is build on two sectors, to be specific Sustainable Production (SP) and Financial Services and Business Development (FS). I write this paper in the context of SP's policy and therefore will highlight the elements of this policy that are essential for this paper (see Box 1). I do want to note that in the focus on access to markets there is much overlap between SP's and FS' policies and activities so that this study may be relevant for both sectors. I moreover visited FS partners to learn from their marketing models as I will explain in chapter 3.

---

<sup>6</sup> In this paper the supply and value chain are production chains. Production chains can be explained as a network of organisations, people and activities that exchange information and/or goods (see for example wikipedia.com)

#### Box 1: SP policy focus in linking small scale producers to markets

Linking small-scale producers to markets is evident in the work of the Hivos Sustainable Economic Development department. In this context, quality (management) is essential in order for producers to deliver marketable products, be it at the local or the international playing field. But alongside the induction of quality management, business / organisation development and empowerment are required for small-scale producers in order to have an increased say in (the governance of) value chains. Key factors are, amongst others, entrepreneurial attitudes, negotiation skills, market information, organisation of small-scale producers, linkages in the chain (producers – buyers), and an enabling environment (including access to financial services).

SP applies a value chain approach, which recognises that producers are linked to buyers and production is linked to markets and consumption. Though small-scale producers are SP's point of departure, direct collaboration with the other end of the chain is desirable. It is recognized that for the promotion of rural entrepreneurship, a business development approach is required, focusing primarily on private sector development. SP's strategy is to link producers to buyers and the other way around, always with the objective that small-scale producers should benefit (SED Addendum, 2008).

### 2.1.2 Supply chain versus Value chain

Within Hivos we plan to work through value chains. Value chains recognise that producers are linked to buyers and production is linked to markets and consumption and are in this way beneficial for small-scale producers (see box 1). The idea is that all actors, from producer to trader to retailer, invest in the chain and consequently benefit from a top-quality product. However, in practice we experience that in many situations we are still working through supply chains, for example in India. Based on this finding it is important to conceptualise value and supply chain in this paper. That is, Hivos partners in India plan to promote working through value chains as they define it as more beneficial and profitable, though, in reality they are faced with producers working through supply chains. During a training of the Royal Tropical Institute (KIT) in June 2008 on value chain development the characteristics of value and supply chain management were clearly explained. I sensed that these characteristics were usable for the Hivos staff members. Therefore I decided to use KIT's explanation for value and supply chains.

KIT (2008)<sup>7</sup> explains that value chains 'are built on private interests and initiatives, focused on satisfaction of consumer needs through a process of value addition, profitable to all chain actors, built on preferred business partners, actors all perform specialized functions in recognition of mutual interdependence, actors cooperate to achieve the same interest and that is to satisfy consumers at the lowest cost possible, and actors undertake joint activities and maintain a chain government system'. The World Development report highlights the positive effect of linking farmers more closely to consumers as 'marketing systems transmit signals to farmers on new market opportunities and guide their production to meet changing consumer preferences for quantity, quality, variety, and food safety'. This leads to reduction of food costs and less uncertainty of supply, and improvement of food security of poor and non-poor households (WDR 2007; 118)

Nevertheless, reality appears to be different and it is experienced that Hivos is also working through supply chains. Supply chains are characterised by KIT (2008) as follows: small volumes and inconsistent supplies, many steps between producer and consumer, ad-hoc trade rather than long-term business relations, low trust, little exchange of information, business processes not coordinated, no quality assurance, and a poor business environment in terms of finance, policies etcetera. Nevertheless 'the Global Supply Chain Forum (GSCF) is more in favour of supply chains and defines supply chain management as "the integration of key business processes from end user through original suppliers that provides products, services, and information that add value for customers and other stakeholders" and the Chairman and CEO of UPS, described supply chain management as a process "that seeks to optimize costs as second generation supply chains" and went further to describe the third generation supply chain management as "being focused on customer intimacy, and being a synchronized supply chain where consumers have the power to pull value". Both descriptions reflects the evolution of supply chains that synchronise the flows of value and supply' (in: Feller, Shunk and Callarman, 2006; 4).

In this paper I argue that in India most producers (funded through Hivos projects) are still working through supply chains. These supply chains are characterised by ad hoc trade, a poor business environment in terms of finance and no ability to bargain prices. However, in some cases a synchronisation of the value

<sup>7</sup> Hivos got the definitions on value and supply chains during a workshop that was held by KIT on pro-poor value chain development, June 2008

and supply flow is visible. Hivos SP chose to work through value chains as it sees the comparative advantage regarding supply chains by linking producers to consumers as explained in box 1. I experienced that the partners' strategies are also based on moving from a supply chain to a value chain mainly because they see it as an important development for producers to improve their bargaining position.

In the next paragraph I will start by elaborating on the idea behind KIT's definition on the position of the producer and then continue by explaining the tool for analysis. It will be interesting to know more on the activities a producer undertakes and to what extent the producer is able to bargain at the market. This information will give me more insight whether the producers anticipate and/or interact in changing markets. This I will discuss in chapter 3. However, this analysis of the position of the producers cannot be detached from the intervention of the Hivos partner. For example, Hivos' partners make choices relating to which strategy to follow to access markets. This decision may have effects on the farmers' choice in accessing markets. Building on this idea, I will introduce five intervention models designed by Posthumus (2008) that explain typical value chain development interventions. I will use these models in chapter 3 to typify the intervention strategy of the various partners.

### **2.1.3 Position of producers: value adding activities and management in the chain**

Hivos believes that added value will be translated into higher prices and more stable income for the small-scale producers (SED Addendum 2008). KIT et al (2006; 17) confirm this in their book on chain empowerment by stating 'that farmers may improve their position in the chain when they add value to their product'. For KIT et al (2006; 17-18) adding value to a product means that small-scale producers may be involved in other activities than only the production side which is characterised by the preparation of the land, planting of seeds, applying of fertiliser, controlling of pests and weeds, and harvesting the crop when it is mature. Moreover they may add value to the process by procuring inputs, drying their crops, sorting and grading, processing, transporting and trading. Golleti and Samman (in: Lundy et al 2002) verify that value adding activities can have a positive effect, though explain that a value adding activity does not have to mean increase in income per se. As KIT et al (2006; 24) confirm 'it depends on the specific situation, and it may even revolve over time'. In this paper I argue that value adding activities are experienced as a positive development by Hivos' partners as they may improve the smallholders income and efficiency; nevertheless financial means are missing.

KIT et al (2006; 4) further argue that empowerment is vital for sustainability. Reviewing literature empowerment is defined as a process wherein individuals or groups obtain more influence on the events and happenings that are important to them. This can be done by strengthening people within their social context so that they are able to control their environment, by developing their skills that help them control their lives and by giving them the opportunity to participate in, to them, relevant activities (Delahaij 2004).

In this paper empowerment is explained as developing the chain management skills of producers so that they can control their lives: 'producers may be excluded from any decision making about issues that affect them, like what crops to grow or what animals to raise. Someone else may make these decisions and inform the producers. Though producers can also have a high degree of decision making control over the issues that affect them: they may be able to decide how much they sell, to whom and at what price, or control the terms of payment, the definition of grades and standards, the targeting of consumers, the management of innovation, and so on' (KIT et al 2006; 18). By developing management skills producers are able to improve their bargaining position towards buyers and so increase income (see for example: Verkuijl and Peppelenbos 2007). Improving chain management skills of smallholders is seen as a positive development; nonetheless in practice it is sometimes does not work out as planned. For example, donor organisations that are confronted by short time frames often make the mistake of trying to intervene too much, resulting in managing the chain themselves instead of the farmers doing so (see Peppelenbos and Verkuijl 2007).

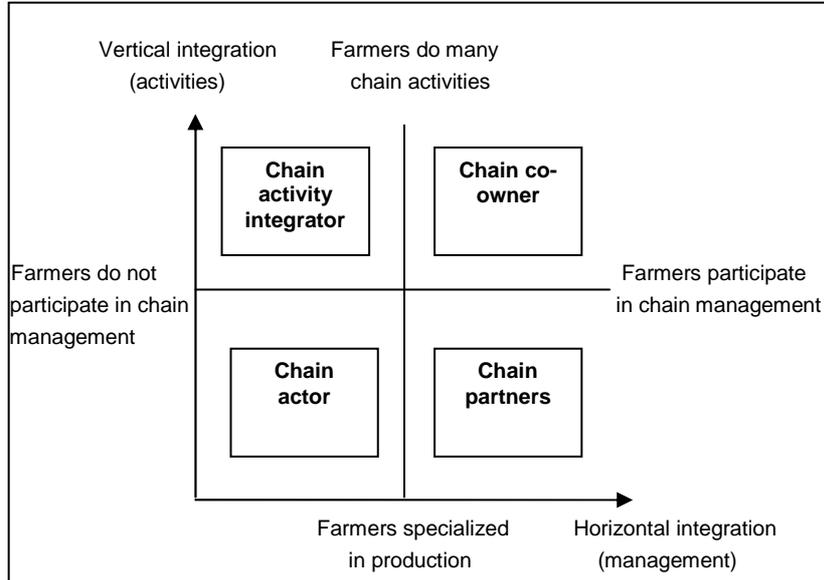
In this study cases are shown in which the partner organisation is indeed managing the chain instead of the farmers. This may have its effect on the choices farmers make in relating and anticipating to changing markets.

In the following part I describe the method I use in chapter 3 for analysing the position of the producers and the intervention models I use in chapter 3 for typifying the intervention of the Hivos partners.

### Method for analysing position of producers

This matrix serves as a method for strategic thinking about chain development. The matrix explains the position of the producers within the chain by focusing on the following two dimensions: 1) by looking at the producers value adding activities in the chain and 2) by looking at the producers involvement in the chain, also explained as chain management. See the illustration here (box 1):

Box 2: Forms of chain participation by small scale producers (KIT et al 2006)



The illustration shows four quadrants that each represents a position a producer can have in a chain: as chain actor, chain activity integrator, chain partner and chain co-owner. Nevertheless, as the authors of the book correctly mention: the four quadrants are vague, blurred areas, and a producer can be located anywhere within the large rectangle (KIT et al 2006).

### Intervention models

Posthumus (2008) distinguishes five models that stress the typical value chain development interventions, designed by governments, donors or NGO's. These models are no blueprints as Posthumus explains, and they are only distinguished as possibilities to design interventions, no more no less. I will briefly elaborate on the five models here:

1. **Facilitating value chain development:** a development that is characterised by the idea that there is sufficient potential in the selected value chain to let it work, though coordination between the various chain actors is insufficient mainly through mistrust. The intervention then is mainly focused on improving transparency along the chain actors (p4).
2. **Supply chain development with smallholder inclusion:** this model is characterised by one lead company that is nearest to the market but has to improve its supplies. A NGO can intervene in this supply chain development by organising the small-scale producers, strengthen them in their business and organisational skills and link them to the leaders. The small-scale producers are typical 'resourceful and entrepreneurial farmers' that are able to invest in their business, assume (production and market) risk and manage their farm as a business (p5).
3. **Contract farming to include non-entrepreneurial farmers (out grower scheme):** a scheme in which the production risk is (mainly) for the producer, the marketing risk and benefits remain with the buyer, or better said contractor. The characteristic of this model is that the relationship between farmer and contractor is more 'intense' and leaning towards a 'employer-employee' one. The type of farmers in these out grower schemes is typical relative resource-poor and risk-averse farmers. The intervention of NGOs is quite the same as in model 2, and that is organising producers into groups and facilitate them in creating the best negotiating methodologies for the delivery of the produce (p6).

4. Leading farming organizations: many value chain development projects take the farmers as a point of departure. Most often they are seen as the traditional target group of donors and NGOs, and in many cases they focus on creating or supporting existing farmer organisations, usually with the intention of capacity building or organisational development. In most cases, it is seen that the farmers are traditionally active in a number of sub-sectors and value chains, and the entire value chain development process starts, or should start, with the identification and selection of potential sub-sectors and chains. A major role for value chain development interventions begins with building the capacity of the participants to undertake, or only steer, the analysis. Depending on this process, they may select a reasonably developed value chain, resulting in a strategy to link, or strengthen the organisation or its members to the chain (p7).
5. Do it yourself: in this intervention model it is often seen that a public funded organisation (a donor or NGO) establishes a company and this company becomes a chain actor, buying from producers and selling to buyers, with or without processing functions or the company is created (with donor funding) to enable the chain to function properly. The typical value chain development interventions can be summarized as 'creating a viable company', from value chain analysis, through business plan development including all business aspects to brokering and financing (p8).

Throughout the paper the concepts of quality markets and private sector development are essential. I will elaborate on both concepts in the following paragraphs.

#### **2.1.4 Quality markets**

The concept of quality markets is central in this thesis for the following reasons: in its intervention Hivos is focused on quality markets as will be discussed below. In working with producers and producer groups Hivos focuses on making the production process more social and environmental sustainable; this often includes standardizing the production process with labels like organic, Fair Trade etc. Important in the standardization process is that the intention of improving the livelihoods of small-scale producers is guaranteed. In this paper it will become clear that quality and quality markets have different meanings for the various actors operating in the food sector in India. Will these actors focus on improving the livelihood of smallholders in their quality requirements? Hence I conceptualise quality markets from a Hivos' point of view.

Within Hivos, quality markets are defined as 'preferred yet not exclusive markets', because of the strong focus on social and environmental sustainability (SED Addendum, 2008). Hivos considers organic agriculture a better option for small-scale farmers because of its economic benefits, health benefits and independence in farming. Based on this idea organic markets can be considered as preferred markets. Derived from literature, it is said that organic markets are characterised by many different quality standards and certification. 395 organisations worldwide offer organic certification services today (IFOAM et al 2007; 11). Moreover, through increasing consumer awareness in terms of health and environmental conditions, the global organic food market is growing rapidly, with a growth rate of about 19% in 2007<sup>8</sup>. This certainly opens new market opportunities for organic farmers, nevertheless the FOA indicates that this growth will mainly benefit large farmers as the high costs of certification will exclude small-scale farmers (Shepherd 2007; 13).

However, until now, organic markets remain niche markets (see for example Shepherd 2007). Therefore Hivos got a broader focus regarding quality markets and formulates that producers should organise themselves with a vision on quality in which they keep the market accessible for their production. In practice this means that producers may choose many different quality standards, either quality standards with many requirements (like organic) or quality standards with fewer requirements (like Utz Certified). This (also) depends on the market the producer or producer group focus on. The main aim of Hivos' policy now is that they work on transparency and traceability<sup>9</sup>.

In this paper I will show that the demand for quality products in India is growing. It seems that the quality requirements in these markets up to now are mainly based on the 'appearances' and taste of a product. What will this mean for smallholders? This paper furthermore shows that the international and domestic

---

<sup>8</sup> [www.marketresearch.com](http://www.marketresearch.com)

<sup>9</sup> Information I got from Hivos staff, 2008

markets for Indian organic products are growing. Even so, at this moment organic still remains a niche and is not yet interesting for the private sector to promote.

As final concept I introduce private sector development. As explained in the introduction, the private sector in India is developing, is changing, resulting in new market opportunities and challenges for the small-scale producers Hivos works with. Therefore it is important to get a better insight in the development of the private sector in the past decennia and more specifically in the development of the private sector in India occurring now. This I will discuss in chapter 4.

### **2.1.5 Private sector development**

Reviewing literature on the private sector and the development of the private sector de Haan (2001) writes that in the 1980s and 1990s major efforts were made in the world to stimulate economic growth in developing countries. As he mentions 'a major role was assigned to the private sector to generate jobs and stable incomes. Economic reform program were adopted to make available the right conditions for private sector development and the role of the state was reduced' (de Haan 2001; 4). As I already pointed out earlier on, the Dutch government has, since 2003, again emphasised its focus on private sector development in poverty alleviation. As the Sustainable Economic Development Department of the Ministry of Foreign Affairs reflects on private sector development: 'A flourishing business sector creates more jobs, enabling more people to earn a living and be self-reliant' (DDE working paper 2006; 3). Shepherd (2007; 20) even points out that 'the private sector can be the major driver for sustainable linkages and often develops commercial linkages without the involvement of a third party'.

However, also critical messages can be heard towards private sector development. De Haan (2001; 5) mentioned that 'it is by far insufficient to solve the enormous unemployment and poverty problems in these countries'. According to Shepherd (2007) the NGO sector is hostile towards private sector development. NGO's are concerned that small-scale producers will be excluded in their marketing models and therefore they search for alternative trading channels (Shepherd 2007).

In box 1 it is shown that Hivos recognises the importance of focusing on private sector development in promoting rural entrepreneurship. In this study private sector development is seen to be occurring among large retailers in India. The private sector is defined as the big retailers that have become increasingly interested in quality food products over the past years; including retailers like Reliance, Spencers, Foodworld, More and other similarly organised retailers. In this paper the focus is on the expectations of Hivos' partners and their producers towards these changes in the market; these seem to vary per case. I will show that some see new market opportunities arising for small-scale producers, all the same some say this change in market structure also poses many new challenges.

### **3 What is the current state of the producers' position and partners' intervention in the rice chain in three states in India?**

#### **3.1 Introduction: Rice production in India**

Rice is the staple food for 65% of the total population in India (1.12 billion in the beginning of 2008)<sup>10</sup>. Indian rice cultivation is found in all states, but West Bengal, Uttar Pradesh, Madhya Pradesh, Orissa and Bihar are the major producing states. About 600 improved varieties of *indica* rice have been released for cultivation since 1965, but *Basmati* rice is still planted over large areas. Rice-based production systems provide the main income and employment for more than 50 million households. Although the country exports several varieties of rice, many scientists have expressed concern that current Indian rice production techniques cannot sustain the growing domestic population<sup>11</sup>. Rice cultivation becomes less remunerative, environmentally unsustainable, and hence alternative crops have been propagated and this option will be less subscribed as a large chunk of the Asian population's staple food is rice (Rajendran 2002).

#### **3.2 Hivos' focus on the rice chain**

Hivos selected rice as a product because it is Asia's most important food crop and started to intensify its work on rice chains in 2003 (Hivos 2004). Today, Hivos is working with partners in Indonesia (Java, Sumatra), Sri Lanka and India (Orissa, Tamil Nadu and Andhra Pradesh) on the rice chain. I visited six of them in three different states in India; these are Tamil Nadu, Andhra Pradesh and Karnataka (see Annex 2). I also visited two partners that were not engaged in the rice chain, the Deccan Development Society (DDS) and Sahakara Mitra Samstha (SMS), respectively in Andhra Pradesh and Karnataka. I will discuss their intervention strategies as well, because they provide an insight in alternative marketing models to support and strengthen small-scale producers. Besides, the Cooperative Development Foundation (CDF) and Sahakara Mitra Samstha (SMS) are partner organisations of the Financial Services (FS) sector, and also relevant in the course of this study due to their marketing models. 'Organic rice' is chosen as the case study (see study objective) even though all producers work in many other food chains as well, like fresh fruits, vegetables, groundnuts, etc.<sup>12</sup>.

#### **3.3 The organisation's intervention and producers' position - empirical data**

In this part I will elaborate on my experiences with the Hivos partner organisations and the producers they work with. I will briefly start describing the aims and activities of the organisation under discussion and then continue to focus on the position of the producers and the intervention of the partner organisations as explained in chapter 2 (see Annex 1 for the interview topics I used with producers).

##### **3.3.1 Centre for Indian Knowledge Systems (CIKS)**

Based on the idea that Indians have to identify and build upon own inherent strengths and potentials, CIKS develops programs for the strengthening of Indian knowledge systems. CIKS' activities can be generally classified under the headings of research and extension work in the area of organic farming, biodiversity conservation and rediscovering lost sciences. The extension work consists of training programs and developing educational material<sup>13</sup>. CIKS works in about 125 villages in 4 districts of Tamil Nadu with about 3000 farmers<sup>14</sup>. During my visit to CIKS they told me that approximately 200 farmers have formed groups; three in total (the so-called societies) and all in a different district. All three societies are divided into self-help groups. These groups meet once a week to discuss prices, new crop methods, new government rules and other business related to their production process. Furthermore I was told that each society has a Board that meets once a month to discuss issues similar to the self-help groups. All three societies are in the run for organic certification by the Institute of Market Ecology (IMO)<sup>15</sup>. The producers CIKS works with are in the run for the Indian Organic Program, NPOP standard, and in this way they hope to get access to certified organic markets. CIKS explained that the other 2800 farmers receive training on cultivating organic,

---

<sup>10</sup> [www.cia.gov](http://www.cia.gov)

<sup>11</sup> [www.foa.org](http://www.foa.org)

<sup>12</sup> Diversification in crops is part of organic cultivation methods and reduces risks. When harvest of one crop fails, a farmer can still rely on other crops (see for example Hivos 2006)

<sup>13</sup> [www.ciks.org](http://www.ciks.org)

<sup>14</sup> [www.hivos.nl](http://www.hivos.nl)

<sup>15</sup> IMO is one of the first and most renowned international agencies for inspection, certification and quality assurance of eco-friendly products ([www.imo.ch](http://www.imo.ch))

though they were not interested in getting certified. This disinterest was mainly caused by the high costs of certification. During my three days in the field I spoke to approximately 25 producers that were members of two of these societies.

*Producers:* In my meetings with the producers I learnt that the societies are focused on the production and marketing side of the organic rice chain. They are growing paddy<sup>16</sup> by using organic cultivation methods. The activities the producers undertake are preparation of the land by using bio-compost, planting seeds, applying bio-fertiliser, controlling pests and weeds, and harvesting the crop. After harvest the producers sell the paddy to their society. In practice this means that the producers sell their paddy to two staff members of CIKS, of which one is also a member of the society. These staff members also buy and market the rice of the other societies. The staff members bring the produce to a rice miller<sup>17</sup>. After the milling process the society (staff member) buys the rice from the miller and market the rice. At this moment the rice is mainly sold to (conventional) retailers, (conventional) wholesalers, direct consumers, and an organic outlet that are all situated in Chennai. However, the farmers still face many problems, including lack of money to pay the producers, lack of labour and lack of inputs. Some of these result in members selling to other sources, like middlemen who provide immediate money, albeit without paying for quality, providing loans against high interests, and no ability to bargain on the price.

Later on I learnt that CIKS is cooperating with Sresta in marketing the supplies of the producers they work with. Sresta is an organic retailer and I interviewed the Managing Director for the discussion in chapter 4. This means that a small portion of the rice of the societies is sold with a premium for organic (see box 2). The rest is sold at the market price for conventional rice. One society is establishing their own mill with funding from Hivos and CIKS.

*NGO intervention:* CIKS provides the following services to the producers: training in organic cultivation methods and applying the Internal Control System (ICS)<sup>18</sup> into their production system (if preferred). During the trainings CIKS provides inputs like worms for the vermi-compost and big containers for fermenting bio-compost. The staff also organises the marketing of the produce. Furthermore, CIKS describes itself as a 'chain actor'.

#### Box 3: Sresta's vision and activities

Sresta is a retailer that has integrated activities that cover the whole value chain, from farming, processing, packaging to domestic retailing and exports with the vision of providing the highest quality, organic food in India and other countries and creating sustainable livelihoods (sresta.com). They identify farmers to grow organic under contract, train them to grow organic, train them in ICS and get them certified and then get their produce. The produce is being processed by Sresta and they sell it in their own outlets.

*Position producers in matrix:* From the empirical data it can be seen whether the producers are chain actors or chain partners. Based on the activities they undertake it can be said that the producers themselves do not add value to their own produce (yet). Regarding the management in the chain it can be said that the producer groups (societies) are in the quadrant of chain partners as they market the rice themselves. However, this part of the analysis cannot be explained without looking at the intervention of the NGO, as staff members of CIKS are actually taking care of the marketing of the rice, though one is a farmer himself. Market relations like Sresta and other organic retailers in Chennai are arranged by CIKS staff. Much of the chain management is still in their hands.

*Intervention model:* Based on the intervention models Posthumus (2008) describes the intervention of CIKS can be best explained by model 4. The activities of CIKS are 'related to assistance in the analysis part (technical expertise, process management and funding), within the overall capacity building process (management, organizational aspects, human resource development, access to finance) as well as brokering with potential chain actors' (Posthumus 2008; 7). Besides, this model implies that the producers'

<sup>16</sup> Paddy is untreated rice

<sup>17</sup> CIKS' societies could only make a deal with two rice millers in the district. The other rice millers did not want to mill the paddy because of the low quantities. I spoke to both millers and they told me that quality mattered in the sense that the rice is white, long, not broken, does not contain stones, though they did not care that the rice was grown organic. They mill both conventional and organic for the same price.

<sup>18</sup> ICS simplifies the certification process as farmers are encouraged to form groups to get group certification. This reduces costs (Hivos 2006; 98) .

organisation will take an active role in functions like input supply to members, processing and trading of members' produce, but also with all related constraints and risks. In the case of the producer groups, most of these activities are still done by staff members of CIKS. Posthumus explains this as one of the typical dilemmas that may occur during this intervention process, to be specific 'an important dilemma that most organizations face is between a members' organization that works with and for its members versus the model whereby professional staff work for the benefits of the organization and its members' (p7). This is happening in the case of the CIKS staff member that is also part of society, that work for the benefits of the organisation and its members. As mentioned, a part of the produce of the societies is sold to Sresta. The intervention model of Sresta is model 3: Contract Farming. Unfortunately I am not aware of the exact agreements with CIKS, Sresta and the producers and therefore I do not analyse this further. Based on the intensive intervention of CIKS in the management of the chain, taking care of activities like input supply to members, processing and trading of members' produce, and of all related constraints and risks, I stress that the producer organisations (societies) are still chain actors. Future interventions of CIKS like trainings in business skills and establishing providing machinery for producers to add value to their produce, may transform the producers' organisation into chain co-owner.

### 3.3.2 Kudumbam

Kudumbam has been a partner organisation of Hivos for approximately 15 years, though since 2005 the Hivos funding stopped based on the fact that Hivos will support a partner organisation for a maximum of ten years. However, the relationship between Kudumbam and Hivos is maintained mainly because of information exchange. Based on the mutual interest I visited them to learn more about their marketing model and expectations of the changing market structures. Kudumbam is an active member of the Low External Input and Sustainable Agriculture (LEISA) network. The network encourages organic farming to produce quality organic food grains. Kudumbam works in 15 villages with 1500 organic farmers in organic paddy and groundnut cultivation in Tamil Nadu. Kudumbam is also in the process of getting 1500 producers certified by IMO. Major activities in this field are: creating awareness on the ecological environment among producer communities by developing skills on agro-plantation and social forestry, e.g. on seed production and nursery raising, waste recycling, vermin culture, etc. Kudumbam also runs an ecological research and demonstration farm / training centre which I visited during my stay with Kudumbam (Kudumbam, 2008).

*Producers:* I stayed with Kudumbam for one day and I ended up talking to two organic producers that are beneficiaries of their training program in organic farming methods. Even though this is a very small sample, I have been told that more farmers in the area operate in a similar way to the farmers I spoke to. Both farmers grow rice and other crops as a risk management tool. Both farmers sell their paddy directly to the rice miller and do not get a better price because the paddy is organic. Furthermore, the government is buying the farmers' paddy seeds because it is of good quality due to the fact that it gives high yields. Every month the government checks their paddy fields whether they are not mixing varieties. Both farmers expressed their interest in collective marketing as they believe this will increase their bargaining position. However this is not possible at the moment, due to a lack of financial resources. They explained that the money lender is asking too much interest. I am not aware whether these farmers were trying to get the organic standard certification.

*NGO intervention:* From what I learnt in the field, Kudumbam's major activities are training producers on how to grow organic and getting them ready for the organic standard. Kudumbam collects the organic paddy produce from some of the producers in their program and sells it through their network. They have regular customers, like organic outlets as well as individual customers that buy their organic produce. Kudumbam works on demand and supply system. Kudumbam has a depot on the way to Trichy from which they sell produce. When customers place an order, Kudumbam will get the specific raw produce out of the warehouse, pack it and transport it to the customers. Furthermore, the demand from the government for good seeds is increasing. Kudumbam is working on stimulating farmers to build cooperatives so that they can negotiate the price for their seeds when they sell it to the government. In addition Kudumbam is trying to assess whether it will be possible for them to organise farmers to invest in machinery to modernise the production process.

*Position producers in matrix:* Based on the above observations both producers can be positioned as chain actors. First of all, they do not undertake activities to add value to the produce. Secondly, although they do decide whom they sell their produce to (like seeds to the government and the paddy the rice miller), their bargaining power on prices is very weak and they are not able to manage the chain.

*Intervention model:* The intervention of Kudumbam is diverse and not easy to cover in one specific model. Based on their activities in the chain of buying and selling the produce of some of the farmers to their network of consumers, they can be labelled as a 'company'. This means that Kudumbam can be linked to model 5. Based on their future activities Kudumbam can move to model 4. The staff plans to build cooperatives with strong bargaining power and moreover cooperatives that can add value to their own production. This means that the position of the producers in their programs may shift to becoming chain co-owners in the matrix of KIT et al (2006).

### 3.3.3 Centre for Sustainable Agriculture (CSA)

CSA is an organisation that focuses on technology and policy research with the vision to make agriculture productive, environmentally/ecologically sensitive, and capable of preserving the social structure of rural communities<sup>19</sup>. They act by working in the field with producers in the state of Andhra Pradesh, and through lobby and advocacy practices towards the regional and national government. CSA implements their work through experienced NGOs in the field. In the cotton chain they created a model farm in which they experiment with up-scaling organic cotton and this model proved to be successful. With this model they are planning to lobby the regional government to convince them that agricultural production can successfully be up-scaled without using expensive inputs like fertilisers. In the paddy chain they are not this far yet. All the same, the program for the coming year is that CSA wants to implement the Participatory Guarantee System (PGS) as market strategy. This system realises that production systems are quite diverse and that production is done in different socio-cultural contexts and different climatic conditions. The PGS builds strong relationships on the ground in which the status of the producer improves in their community. There is a better sense of ownership and responsibility towards the whole process and decision-making is decentralised (Hivos 2006; 99). CSA explained that PGS is a system in which farmers grow organic and can sustain themselves with the least possible costs. The staff continued that in PGS the market cycle is small and efficient based on the idea that in rural areas producers are consumers. In this system producers and consumers are not faced with chain actors, like middlemen and other traders that drive up costs. CSA wants to build producer organisations so that they can sell their organic produce to the mainstream local market with a PGS label. In this system it is also easier for producers to look at consumers preferences, which is important in a value chain approach.

*Producers:* Together with a staff member of CSA I visited the first pesticides free village in the area of the Warangal district of Andhra Pradesh. Paddy is the main food crop grown in the area. I spoke to seven male farmers, one female farmer and the NGO representative. Currently the farmers are mainly dependent on the middlemen and sell most of their rice to him for as they indicate 'low prices'. The farmers grow two types of rice, a rough one to make iddly (savory cake people eat for breakfast) and a fine one. For the last two years they have sold the fine rice directly to consumers in surrounding villages for a better price than the one they get from the middlemen. The consumers pay for the quality. The farmers sometimes sell their organic produce to officers in the city or to CSA. They explained 'we first got 1600/1700 Rupees for 100 kg of paddy, for organic we get 2400 Rupees for 100 kg so we really benefit'. A big challenge to the farmers is the lack of bio-compost and other organic inputs. Sometimes these inputs are not available in the region and for this they need more financial support. At times the NGO provides them with some money as they rather not borrow from middlemen due to the fact that they ask high interests.

*NGO intervention:* Up to now the NGO I met in the village generally focused on training the producers in organic farming. Nevertheless CSA is planning to implement PGS coming year and then NGOs are needed for capacity building activities and trainings in business skills. Currently CSA is buying part of the organic produce from part of the farmers in their program. Once a month CSA organises an organic bazaar in their office in which their regular consumers (individual consumers familiar with the work of CSA) can buy organic rice, vegetables, fruits and so on. CSA has a depot in the office so that these regular customers can also call at any time to place their orders. Another major activity planned by CSA is to work on farmers' advocacy. CSA believes that farmers can speak for themselves towards government bodies. For now CSA is mainly undertaking this activity on their behalf.

*Position producers in matrix:* The position of the producers CSA works with can be situated at the borderline of being a chain actor and chain partner. Likewise the producers CIKS and Kudumbam work with, the producers in CSA's programs do not undertake value adding activities. Regarding the marketing of their

---

<sup>19</sup> [www.csa-india.org](http://www.csa-india.org)

produce the farmers point out that they are able to negotiate a better price for their finer rice based on quality requirements. This means that for part of their production they can be labelled as chain managers. On the other hand, for their 'rough' rice they are still dependent on the middlemen that set prices.

*Intervention model:* Looking at the future intervention model of implementing PGS, CSA's interventions can be linked to model 4. The producer cooperatives will finally undertake and steer the analysis. The producer cooperatives will take an active role in the input supply to members, processing and trading of members' produce, with all benefits of such functions, but also with all related constraints and risks (Posthumus 2008; 7). They take the lead in the development of the value chain. Up to now CSA's intervention activities fit in model 5 because CSA acts as a company by organising the bazaar in the way they do. Successful results of the implementation of PGS presumably will result in the position of the farmers shifting to a chain partner or a chain co-owner. During my discussions with CSA it remained unclear whether the value-adding activities will also be done by the producers. Nevertheless, the producers will probably be positioned in quadrant 2 or 4 as their bargaining power will be strengthened.

### 3.3.4 Cooperative Development Foundation (CDF)

CDF promotes an environment in which cooperatives flourish as decentralised, democratic, self-help and mutual-aid organisations, effectively harnessing and fostering local resources in harmony with the universally accepted principles of cooperation<sup>20</sup>. CDF build these cooperatives based on three commodities: paddy, thrift and dairy. CDF is not focusing on stimulating paddy producers to grow organic; they focus on strengthening paddy seed producers in getting a strong bargaining position at the mainstream market with a quality seed. Quality in this context means that the seed gives high yields. I stayed with CDF for one day in which I visited their office and one paddy cooperative. In 1999 CDF started to build four paddy cooperatives in the region. The paddy cooperative I visited consists of 148 farmers with a board of 12 members and 1 president. I spoke to approximately eight members of this cooperative.

*Producers:* The members of the cooperative explained that their main aim is to secure the production of quality seeds so that farmers can increase their incomes by selling better quality produce. The cooperative operates as follows: the members bring their seeds to the cooperative. The cooperative processes the seeds by using machinery to separate the seeds according to quality (short, middle and long sized paddy seeds; the middle ones are best) and by packing them in bags of 30 kg. The cooperative sells the bags to a dealer or distributor. The cooperative sets the price itself. On average, the members of the cooperative provide good quality seeds (their seeds give high yields) and this is the reason that the bargaining power of the cooperative at the market is strong. The inputs are bought from the government as their Agricultural University provides the best breeder seeds. Challenges they face are: low quality seeds due to mixing of seeds during cultivation, high moisture percentages in land, lack of labour.

*NGO intervention:* With the establishment of the cooperatives, CDF provides the farmers with a starting capital at an interest of 8-9%. This starting capital is used for investments in machinery, buildings and so on. Furthermore CDF provides a loan for working capital, also at an interest of 8-9%. Working capital can be defined as operational liquidity, so a loan for buying inputs etc. Both loans for the starting and working capital have to be paid back to CDF. CDF only provides free access to training for the members of the cooperatives.

*Position producer in matrix:* In the above example the members of the cooperative can be positioned as chain co-owners. The reason for this is that they add value to their product by processing the seeds and they are in total control of whom they sell to and at what price.

*Intervention model:* The intervention of the NGO can be linked to model 4. CDF build strong leading farmer organisations in which the cooperative takes an active role in implying and integrating various functions (input supply to members, processing and trading of members' produce), with all benefits of such functions, but also with all related constraints and risks (Posthumus 2008; 7). The only bottleneck in this intervention regarding Hivos' policies is that the producers use chemicals and fertiliser. This does not link with Hivos' ideas on sustainable agriculture. CDF is also not planning to stimulate organic cultivation methods in their interventions.

---

<sup>20</sup> [www.sahavikasa.coop](http://www.sahavikasa.coop)

### 3.3.5 Deccan Development Society (DDS)

As I already explained, DDS is not working in the rice chain. DDS mainly focuses on the organic millet and organic cotton chain. Due to their marketing model in millet production I discuss their intervention strategy briefly. I had a meeting with three staff members of DDS, but was not able to go to the field to meet their producers.

*NGO intervention:* The objective of DDS is to not disturb the local food production and consumption patterns<sup>21</sup>. Therefore they started implementing the Participatory Guarantee System 3 years ago. They have an outreach of approximately 200 farmers who apply PGS. The idea behind this approach is almost the same as highlighted in the description of the PGS CSA wants to implement. The only difference is that the producers of DDS also focus on other markets than the local market, for example regional markets. In the system of DDS all 200 farmers just received the PGS label from the Organic Farming Association of India (OFAI). DDS monitors the PGS in the villages. DDS also established a shop that sells the farmers produce. Women are the main stakeholders of this shop and they divide the final benefits of the sales. The benefits for the farmer (the one selling to the shop) is the following: the farmer sells the rice for the market price + 1 Rupee to the shop, and at the same time can purchase products from the shop at market price – 1 Rupee. Furthermore, external consumers do not have to pay for the intervention of middlemen and transport costs and this is what makes the shop attractive according to DDS. DDS' major activities are: providing training to the staff of the shop in processing the produce and in developing business skills. DDS explained that the women even bought their own mill. In addition, DDS has a mobile van that sells part of the produce of the farmers they work with in different parts of Hyderabad. They organise this twice a week. Besides, they have a depot in the office where the regular customers can come to buy the produce.

*Intervention model:* Based on the above data I typify DDS as a NGO that attempts to create leading farming organisations, though it is still very much involved in the process itself acting as a 'company' and as a monitor of the whole process. This means they are now in model 5 planning to move to model 4.

*Position producer in matrix:* I will not make a comment on the position of the producers DDS is working with as I am not able to define the group correctly. I lack information on the market relations, aside from the relations the farmers may have with the DDS shop and mobile van. Furthermore, I cannot make a comment on the position of the women as I am not informed whether these women are at the same the suppliers of the shop.

### 3.3.6 The Institute for Cultural Research and Action (ICRA)

ICRA promotes sustainable agriculture through action research in the larger context of rights, access and management of natural resources in rural areas of Karnataka. It is also critical of globalisation process and tracks its implications on agriculture. Four key areas were identified by ICRA to focus on: 1) sustainable agriculture; 2) action researches feeding into policy issues; 3) field interventions; and 4) technical literacy through practices and publications. It works directly with around 2300 farmers in four districts of Karnataka<sup>22</sup>. I spoke to one staff member of ICRA in Bangalore who informed me on the activities of ICRA.

*NGO intervention:* Within ICRA's program on sustainable agriculture they mainly work on making the production process more sustainable. They are not yet focused on teaching the producers marketing skills, except for the cotton program. In the cotton chain ICRA established a cotton growers association. ICRA provides this association with training on sustainable production methods and furthermore exposes them to markets. They do this by identifying buyers that are interested to be linked to the cotton association. This intervention increased the association's bargaining power. In the identification process ICRA is focused on the mainstream market as they believe that producers should be able to negotiate a better price in the open market for their quality produce.

*Position producer in matrix:* From the interview I had with the staff member I understood that currently the majority of the producers ICRA works with are still chain actors, as they are only skilled in using sustainable production methods. Except for the cotton producers, that is. They can be positioned as chain partners through their increased bargaining power.

---

<sup>21</sup> [www.ddsindia.com](http://www.ddsindia.com)

<sup>22</sup> [www.hivos.nl](http://www.hivos.nl)

*Intervention model:* ICRA is still in an initial stage of implementing marketing models. Though on the experience they have with building a cotton association and linking them to buyers, it can be expected that in future ICRA will fit in model 4. I also see some elements that link to model 1 regarding the exposure visit they organise for producers. In this way 'actors understand their own, but mainly the position of the other actors in the chain: what are the roles, constraints, gains and objectives of the others'. And this is a characterisation of model 1.

### 3.3.7 Green Foundation

The Green Foundation's purpose is stimulating organic production, adding value to the products locally, marketing them through foundations and guarantying agro-biodiversity. They focus on sustaining rural livelihoods by conserving bio-diversity in agriculture, which is ecologically sound and economically beneficial, to ensure food security to small and marginal farmers (and to the country)<sup>23</sup>. The Foundation works in 109 villages with 4200 farm families in the state of Karnataka. I spoke to a staff member of Green Foundation at their office in Bangalore.

*NGO intervention:* The Green Foundation also applies PGS in the villages they work in. The PGS is comparable to the ones CSA and DDS implement, though Green Foundation focuses moreover on urban markets to sell the supply, alongside the local markets. The monitoring of PGS is done by the farmers instead of by the NGO, unlike the model of DDS. The producers did not get the PGS label yet. Their produce is trusted organic, though not certified. Green Foundation established a foundation comprising of 750 producers that mainly sell to the outlet Green Foundation has in their office. The other farmers in their program sell to middlemen, retailers and so on. Besides, Green Foundation stimulates people to build on their indigenous knowledge by for example making 'papads' of their produce. Some of the members of the foundation now add value to their production by processing parts of it.

*Position producer in matrix:* From the interview I understood that the producers within the Foundation can be typified as chain actors and chain activity integrators, as some also add value to the produce. Green Foundation is in charge of the marketing part as they buy the produce from the Foundation for the shop. The non-organised farmers are probably chain actors, however I did not hear about their market relations and strategies.

*Intervention model:* I mainly got information on the Foundation that Green Foundation established. In this intervention strategy Green Foundation acts as a 'company', so this can be typified as being part of intervention model 5. In their PGS strategy they most likely can be classified in model 4.

### 3.3.8 Sahakara Mitra Samstha (SMS)

SMS' mission is formulated as follows: "to promote vibrant member owned, member managed and member controlled cooperatives primarily of the poor for their economic well being, and to build human and other resources for development activities in general and cooperative development and management in particular"<sup>24</sup>. SMS works in rain-fed, non-irrigated areas. This means the farmers can only grow one crop a year. For the rest of the year they work as wage labourers. They work with 3000 farmers in total. Each village they work in has a cooperative of 40 to 50 farmers. 2000 farmers are members of cooperatives now. In the system of SMS the farmers created cooperatives and get the market price for their produce as the middlemen is eliminated. The producers in the cooperatives moreover sell good quality (quality in the same sense as described with the paddy cooperatives CDF works with: long non-broken rice, not moisturised and so on) which sometimes lead to bargaining for a better price. Moreover the cooperatives wait till post harvesting times to sell their produce as the market price will be higher then. In the meantime the farmers are provided working capital. This means that the cooperative gives the farmers 60% of the money directly when they deliver their produce. After selling the produce farmers get the other 40%. This is in done in case the cooperatives face losses, for example the risk that the storage gets damaged, or prices for transport increase. The consumers of the produce are mainly local town traders and big millers. For SMS it is important that all the actors in the chain can be trusted, from producer to traders to consumer. I spoke to the founder of SMS.

---

<sup>23</sup> [www.greenconserve.com](http://www.greenconserve.com)

<sup>24</sup> [www.hivos.nl](http://www.hivos.nl)

*NGO intervention:* SMS' intervention activities are based on giving marketing advice to the producers, providing experience in market sales, and storing of produce, and finally they work on capacity building. SMS also participates in the meetings of the cooperatives. The cooperative can also lend money from SMS; money that SMS borrows from the bank. Future interventions will be focused on adding value to production, although there are no subsidies for purchasing machinery necessary for this intervention. Furthermore, SMS wants to establish a brand for the farmers they work with. To establish a brand 20.000 farmers are needed in one cooperative for securing steady and big volumes. SMS is convinced that the models they created can be scaled up, though in this case subsidies are requested. According to my informant the small-scale farmers are not able to address consumers' preferences yet. They are busy with surviving. This means they are working in a supply model now but slowly trying to move to a more value chain approach based on the fact that producers will add value to their produce.

*Position producer in matrix:* The producers in SMS' example can be typified as chain actors, at the borderline of being chain partners, and in the future moving to chain activity integrators at the borderline of being chain co-owners. SMS explains that the cooperatives are sometimes able to bargain their price due to the delivery of high quality products. However, presently the quality still varies a lot due to high risks small-scale producers face (climate changes, no water, no money for inputs and so on).

*Intervention model:* SMS has strengthening the capacity of farmer organisations in having an active role in implying and integrating various functions (input supply to members, processing and trading of members' produce), with all benefits of such functions, but also with all related constraints and risks (Posthumus 2008; 7); this means intervention model 4. They also expose the producers to markets (experience of market sales) with the aim of understanding their own, but mainly the position of the other actors in the chain: what are the roles, constraints, gains and objectives of the others. Likewise ICRA a characterisation of model 1.

### **3.4 Concluding Remarks**

Based on the majority of the cases, the position of the producers can be placed in the quadrant of 'chain actors', some exceptions aside. We see that the majority of the producer do not yet add value to their products, however, it is generally referred to as a positive strategy to focus on. Lack of financial means to invest in machinery is the main reason for producers not adding value to their products. Furthermore, in the majority of the cases the producers do not (yet) manage the chain. This can be explained by the fact that either producers still work through supply chains, that are typified by mainly ad hoc trade, in a poor business environment in terms of finance and no ability to bargain for prices. Alternatively it can be explained by the fact that the partner organisation is managing the chain and is responsible for selling the producers' produce (they do try to bargain a premium for organic produce). Many of the partner organisations are still in the initial phase of changing their interventions towards value chain development which includes looking at consumers demand that can attract value. In the past the majority of the partners merely focused on the supply side: improving the production process by focusing on organic production methods and changing this will require time. Nowadays, the majority of the partners are transforming its intervention towards building strong farmer organisations in a value chain. They do this by improving the producers' business skills and plan to hand over the chain management in future. Even so, the current situation may have its effect on the choices the producers make. Some organisations passed the initial stage and harmonisation of the flows of value and supply can be identified; for example in the case of CDF where consumers pull the value by asking for a specific quality. The quality is delivered by the cooperative through which the producers can bargain their price.

Nevertheless, I argue that producers can be seen as entrepreneurs as in the end they make their own choices. It is highlighted that they will choose for immediate money when money is needed (as expressed in some of the cases), with or without premium for organic. I argue that being a entrepreneur, a producer will always go for the best market opportunity. In the interviews with the producers I did not hear of new market opportunities arising through the entrance of the private sector in the Indian food sector. Furthermore, as expressed by some of the partners and many of the producers they still face many challenges in the value chain development process, included here are lack of financial support (smallholders' situation is too risky for banks to provide loans) and labour (through migration of rural population to urban areas). This may enable them from making choices and look at consumers preferences, as they will be more busy with surviving. In the following chapter I will look at the expectations of the partners regarding the changing market structures in the food retailing sector and its impact on smallholders' practices.

## **4 What are the expectations of Hivos partners regarding changing market structures based on a changing focus of the private sector?**

### **4.1 Introduction: Current market changes in food retail sector in India**

Currently the retail sector is largely unorganised and is made up of over 6.5 million small shops. The share of large, organised food retailing, is less than one percent. However, with the move of large Indian companies into the food retail sector, it is experiencing rapid growth and structural changes. For example, India's largest business house, Reliance, is reported to be considering an investment of about US\$2.2 billion over the next two years to establish more than 1,500 retail outlets (EIU in: Verma and Alam 2007; 4). With the entry of large companies, the share of organised retailing in the food sector is expected to increase from 1% to 20% by 2010. Moreover, Verma and Alam (2007) state that many of these companies are setting up operations to control the complete supply chain from farmers to retail stores (Economic times in: Verma and Alam 2007). Another change in the Indian food retailing sector is that foreign companies have been allowed entry since 2006 to own up to 51% shares in single brand outlets, and it is expected that foreign companies will play an ever increasing role in all Indian retail sectors in the near future<sup>25</sup>.

As I already mentioned in the introduction, Hivos India has confirmed the above-mentioned changes in the food retailing sector. This led to the question of what this will mean for the small-scale producers? A group that is expected to increase in size in future according to BIRTHAL et al: 'in India, the share of smallholdings (< 2 ha) in the total number of holdings has increased from 70 percent in 1971 to 80 percent in 1995 (GOI in: BIRTHAL et al 2005; 1). It is expected to reach 83 percent by 2010 (Jha in: BIRTHAL et al 2005; 1).

In this chapter I look at the expectations of various actors, including Hivos' partners, an organic retailer and a consultant who is working with Hivos, have of the current changing market structures (based on large Indian retailers moving into the food retailing sector). I want to note that these changing market structures are happening in a much broader spectrum than only the rice chain and this resulted in my informants talking of the (organic) food chain instead of the (organic) rice chain.

### **4.2 Expectations of partners on the market changes in India's food retailing sector**

In this paragraph I describe how Hivos' partners experience the move of the private sector into the sector and elaborate on their expectations as explained above. I will end with a case study analysis in which I focus on the opportunities and threats defined by my informants and place them in a broader academic discussion.

#### *4.2.1 Centre for Indian Knowledge Systems (CIKS)*

During my stay in India CIKS was also conducting a study towards the impact of new retail chains on the informal sector vending conventional food products as well as organic products. In an interview with my informant of CIKS the above trend of big retailers entering the food retail sector was confirmed. He showed studies that illustrated that many existing small vendors and shopkeepers experience a decline in sales when corporate retail outlets (like Reliance) open a shop in their vicinity. More than half of the small vendors and shopkeepers think of closing their businesses (25 small retailers were interviewed). The study also pointed out that retail chains like Reliance at first pay a higher price to farmers than the existing small vendors do. However concerns have been expressed as to what would happen if all small vendors left the market. It is feared that options for farmers to sell their produce will be limited and bargaining power towards the big supermarkets would decrease. My informant told me that vendors protested against the rise of large food retailers and showed me the following headline: '*Indian street vendors armed with iron rods and sticks attacked three stores owned by Reliance Industries Ltd. on Saturday, injuring around a dozen people in a protest against the large food retailer*' (Reuters 2007). Nonetheless, it can be said that Reliance's entry into the groceries and fresh food sector raises fundamental questions on the existing system of supply. This system is characterised by poor infrastructure in terms of transport and storage, wastage and losses which makes the existing system far from perfect. Reliance and others have linked up with farmers and wholesalers to procure directly from the farm gate and market with the rationale of reducing costs of procurement while at the same time encouraging farmers to grow high-valued products by assuring them of a market. By cutting out the middlemen, Reliance sells fresh vegetables at a lower price to consumers.

---

<sup>25</sup> Information I got during an interview with my informant from CIKS, Monday September 1st, 2008

Nevertheless my informant pointed out that 'when more farmers prefer to sell to these big players as Reliance, farmers that cannot deliver the best quality produce will be excluded and face ever-shrinking rural markets'; he concluded by saying that 'in the end it is likely that only large-scale farmers will benefit'.

Large retailers like Reliance did not yet enter the organic market, as he explained: 'they are waiting to see what the possibilities are'. My informant explained that the societies were not yet approached by large retailers like Reliance. Based on the outcomes of the study my informant is doing on 'the impact of new retail chains on the unorganised sector vending conventional food products as well as organic products' CIKS will develop their future market strategy.

#### *4.2.2 Kudumbam*

In an interview with my informant of Kudumbam on the changing market patterns due to the intervention of big retailers in the food chain I am told that the private sector is becoming increasingly interested in organic products. He explained that this interests was not based on the idea that organic is more sustainable because of the social and environmental benefits, but merely that the large retailers are mainly interested because of the appearances of the produce. The retailers also approached the farmers that are participating in Kudumbam's programs directly to get their produce. As my informant stated 'since two years the quality of conventional rice is not up to good standards because it is black and contains many stones. Organic rice is not broken, white and does not contain stones and therefore becomes attractive'. My informant explains that this has had its effect on the outlet of Kudumbam as well, as last year they were not able to purchase more than 200 bags of paddy. The large retailer purchased the paddy directly with a premium of 10%. What subsequently happened was that the retailers kept the rice and waited for the market prices to rise; this means they waited for the post-harvest period. This meant that the wholesalers in relation to the farmers made far greater profits. Though, as my informant explained, 'the farmers still got a better price then they get when they sell it either to Kudumbam or elsewhere'. Based on these advantages Kudumbam will create their market strategy. As explained in chapter 3 Kudumbam is focusing on building cooperatives so that their farmers get stronger in their bargaining power. This will be convenient in dealing with the private sector and government.

#### *4.2.3 Centre for Sustainable Agriculture (CSA)*

In my meetings with CSA it soon became clear that, even though they acknowledge the private sector is changing, they are not planning to cooperate with these bodies. CSA thinks that these big retailers will have the upper hand in the chain and this will lead to exploitation of the smallholders. As explained in chapter 3, CSA is focusing on the farmers to be chain owners and this means by keeping the chain short with their Participatory Guarantee System (PGS).

#### *4.2.4 Deccan Development Society (DDS)*

DDS, who applies almost the same market strategy as CSA (see chapter 3), explained that the organic market for the private sector has not been profitable up until now. The big players are waiting for a break-even point and then they will enter the organic market as well. For now DDS will not be changing their market strategy due to these changing markets structures.

#### *4.2.5 Green Foundation*

I spoke to a staff member of *Green Foundation* who explained his own vision to me on the move of the private sector: 'The organic market in India is growing with 10% a year. At present it is still a niche market, but this market can grow. The private sector is only waiting for this market to grow. Now it is still too risky because of irregular supply and the quality of produce. Though through the up-scaling of ICS, and by getting certified, farmers can benefit'. He has been an organic farmer himself from 2002-2007 and sold his certified produce 'in ready-to-retail' packaging to Spencers with a 15% premium.

#### *4.2.6 Access for Livelihoods*

Access for Livelihoods is a management consulting organisation run by experienced and passionate professionals from diverse fields, all with a single goal- to enable the creation and proliferation of sustainable livelihoods at the grassroots<sup>26</sup>. My informant also confirmed that the private sector is changing and has its effect on the food systems. His market strategy for small-scale farmers to adapt to the changing market structures is that they should cooperate and invent a 'brand'. They should create their own label as

---

<sup>26</sup> [www.accesslivelihoods.org](http://www.accesslivelihoods.org)

cooperative and in this way they can cover 20-30% of the market. That will be enough to get a good sustainable income. Still, this means that many small-scale farmers should cooperate, as it takes many to create a name. And, to build these strong cooperatives you need to subsidise the farmers as they need investment capital.

In the organic market it is not only about buying quality. People who want to buy quality, will pay for quality. Though there is also a group of people who want to go for quality but do not have purchasing power; consumers need purchasing power for the organic market to grow as well. My informant explained that this seems to be a challenge as well.

#### *4.2.7 Sresta*

I also had the opportunity to have a meeting with the Managing Director of Sresta. Sresta is an organic retailer and my informant explained the organic market and his future perspective. He told me that consumer behaviour in India is changing gradually but the interest is increasing. Organic now has a market share of 3-4%, whilst four years back this was nearly 0%. The food market grows annually with 6-7% due to a fast growing economy and this means that purchasing power of consumers for organic is growing as well. Consumers now pay 30-40% more for organic products than conventional products. My informant explained that this has to come down to 15%, and that therefore economies of scale is the key. In Sresta's marketing model of contract farming, they work with farmers that have an average of 10ha and the farmers get 25-30% more income due to higher premiums and lower input costs. This model is qualified for up-scaling activities and my informant is also interested in exploring cooperation opportunities with more Hivos partners other than only CIKS.

Sresta is mainly focusing on the domestic markets. They have shops, 24 letter mantra, in the bigger cities. They do not focus on export as they want to create awareness on building sustainable livelihoods in India. According to him the private sector (how it is defined here in this paper) is interested as organic is something new, though for now it is still a niche. Sresta has a deal with Spencers, who sells the certified produce of Sresta. Such deals with the big players are expensive as organic retailers have to pay for the market space at a retailer like Spencers.

#### *4.2.8 Cooperative Development Foundation (CDF)*

For CDF the question whether the private sector is changing and its effect at quality markets is not very relevant based on their context. Quality in their management structure is different than for the SP partners, as explained in chapter 3. Their cooperatives focus on the mainstream market with their quality product. As previously stated in chapter 3 the paddy cooperatives are so strong and healthy that they can bargain their own price. Based on these factors it can be stated that their market strategy works and that these new market opportunities can only be beneficial. However, literature states 'that demand for and supply of high-value food commodities (e.g. fruits, vegetables, livestock and fisheries) have grown much faster than that for food grains' (Kumar et al.2003; and Joshi et al. 2004 in: Birthal et al 2005). When I asked the staff to their future market perspectives they told me 'they were healthy'. The farmers were only facing challenges in keeping their quality up to standard and they faced labour problems.

#### *4.2.9 Sahakara Mitra Samstha (SMS)*

SMS did have a reaction on the impact of the rise of the private sector in the organic sector: 'At national level the food market is indeed changing towards a focus on more quality products, though not in the sense of organic'. For organic markets to grow, small-scale producers should be highly subsidised for more than 10 years, so at present they see no future. Furthermore, the awareness process of consumers should also be highly subsidised. For small-scale producers this market for high-quality products is difficult to access because of managing the standards.

#### *4.2.10 The Institute for Cultural Research and Action (ICRA)*

ICRA's marketing models are in an initial stage so therefore my informant could not give ICRA's clear expectations. As mentioned in chapter 3, ICRA is mainly focused on strengthening the sustainable production process. ICRA is however not focused on the organic niche market, as it believes that producers should negotiate a better price in the open market for their quality produce. This will be the base of their marketing model.

In the following paragraph I will position the expectations highlighted above in a broader academic discussion on opportunities and threats for smallholders in dynamic markets.

### **4.3 Analysis**

Based on their own argumentation, my informants of CIKS and Kudumbam acknowledged the advantages of the move into the food retailing sector by large retailers. They pointed out that they have heard and seen that small-scale farmers benefit due to an assured market and the elimination of the costs of the middlemen, and even bargain 'a better price'. In my assessment of the literature I came across articles that also emphasise the advantages for small-scale farmers in cooperating with the private sector. Firstly, BIRTHAL et al (2005) described cases in which the relationship between a firm and farmers are based on a out grower scheme (contract farming), in which the advantages for the contract farmers were mainly based on savings in production and marketing costs. They state that 'Reduction in transaction costs through vertical coordination is beneficial to the firm and the farmers mutually. The firm gets an assured and timely supply of the desired raw material. It helps the firm in having a better control over its operational and fixed costs and minimizing the risk on account of underutilization of its capacity; thus eventually minimizing the cost of processing. It also enables the firm to improve its market reputation. On the other side, the farmers get assured market for their produce that is otherwise not possible on a regular basis. Greater access to market improves the farmers' capacity to withstand risks arising out of production and price fluctuations. Besides they have a more reliable access to production inputs, capital, technology and information. Such a win-win situation was found to have a remarkably increased farmers' participation in contract farming' (BIRTHAL et al 2005; 14).

Secondly, Berdegué et al (2008; 1) confirm that the potential of the private sector in promoting economic growth in the countryside is high as it is very effective in linking smallholders to the increasing dynamic markets. However, they continue that the potential of the private sector as partner in development is underutilised, as long lasting economic empowerment of the farmers or their organisations beyond the trade relationship in question do seemingly not occur. The reasons for this is that governments, development agencies, and farmer organisations and their allies should act more pro-actively. Governments should introduce pro-poor policies, development agencies should build on their efficiency (the fact that value-chains are composed of various specialised companies rather than one company in charge of everything; the fact that the most effective entry point for intervention may not always be at farmers level; the fact that value-chains cannot be built by outside agents but must be built around) and small-scale producers need to change their way of working in the following areas: 1) upgrading of technical skills, infrastructure and management capacities; 2) include mechanisms such as quasi-membership arrangements and top-up suppliers to sustain participation and inclusion of all members; 3) specialisation within multi-agent organisational arrangements; and 4) increased working and investment capital, usually requiring subsidised external support for prolonged periods of time (Berdegué et al, 2008).

Nonetheless, Berdegué et al (2008; 4) correctly state that the cases they present and base their arguments on cannot in any way be representative for every situation as 'it is important that all elements are in place for inclusion to be successful'. Even so, I wanted to share their analysis because it poses relevant challenges and/or opportunities that the public and private sector have to face in working on the sustainability of trade relationships. In many situations various elements are indeed not yet in place for a success story to occur and this explains why there are still many concerns among NGO and other public bodies which should not be underestimated. My informant of CIKS, the staff of CDF and my informant of SMS all expressed the concern that it is not easy for small-scale farmers to deliver up to quality requirements.

My informant of CIKS pointed at the threats small-scale farmers face, specifically: not being able to deliver the quality produce and high volumes unlike large producers. Based on the fact that India is one such country dominated by smallholders (with 82% of landholdings less than 2 ha in 2001 and these numbers will even increase) (Roy and Thorat, 2008; 1875) these threats may be amplified in future. The staff of CDF and my informant of SMS also pointed out that delivering the quality produce is one of the main challenges for the producer cooperatives they work with. In reviewing the literature these threats (or challenges) are certainly confirmed (see for example Umali-Deininger and Sur 2006; Gahai and Thapa 2007) though Thorat and Roy (2008) show that small-scale farmers can live up to the high quality standards demanded by the private sector and its consumers, if there is a marketing partner to facilitate the farmer groups. This marketing partner should provide the groups with: information on quality standards (and bearing the costs of

getting this information); act as facilitator on the input and output market to solve the problem of economies of scale (the marketing partner should be able to trade bulk); in the implementation stage the marketing partners should provide materials and technical help along with infrastructural support to facilitate the implementation of the standards; monitor; provide the entire cooperative societies with certification to reduce costs (Thorat and Roy 2008; 1878-1880). The marketing partner is a for profit organisation and the primary source of funding is membership fees (Thorat and Roy 2008; 1877). The farmers should finally have the capacity to bear the costs of complying with the standards.

To elaborate on the quality requirements of the large India retailers: it seems that the quality standards required by the current large retailers in India are mainly based on the 'appearances' and taste of the product. Apparently transparency and traceability are not guaranteed in the quality requirements of large retailers; what will this mean for smallholders in future? This question will not be answered in this paper, though is interesting for future research.

To continue with the threats for smallholders in not being able to deliver high volumes unlike large producers, literature sources point out that small-scale farmers can have an added value compared to large-scale farmers. Even though large farmers have better access to market information and are able to provide high volumes that might add to the firm's transaction costs it was observed in the already cited cases of BIRTHAL et al (2005; 21) that 'the firms were finding it more convenient and beneficial to contract with smallholders and their associations. There were four obvious reasons for it: (i) Less effect on overall supply in the event of crop failure of one or few farmers (idiosyncratic risk); (ii) More flexible production portfolio (due to limited fixed assets and more family labour) of smallholders, which would help in quickly responding to consumers' changing preferences; (iii) Smallholders could ensure better quality as they strictly comply with the production practices advised by the firm mainly due to more family labour and lower bargaining power; and (iv) Low marketable surplus of smallholders increases their dependency on the firm for profit maximization'. Furthermore Gahai and Thapa (2007; 14) presented a study that elaborates on the comparative advantage of small-scale farmers by stating that 1) especially female smallholders are able to process crops that need careful attention due to stringent quality requirements; 2) some crops need non-mechanised techniques (e.g. pruning and trellising) and for this economies of scale is not required; 3) The traditional agro-economic and production practices of smallholders are more amenable to the requirements of some supermarkets, like organic supermarkets; 4) Small geographically dispersed units facilitate risk-sharing among supermarket suppliers and greater flexibility in procurement; and 5) in some cases, given the large numbers of smallholders, supermarket supply chains have no option but to involve smallholders (Swinnen in: Gahai and Thapa 2007; 14).

Even though smallholders may have added value compared to large farmers, it stands that collective action remains an important strategy in linking smallholders to the private sector based on the fact that transaction costs go down and transfer of capacity is more effective. Private companies often prefer to work with organised farmers rather than individuals, despite the increased bargaining power that groups enjoy (see Berdegué et al 2008, Gahai and Thapa 2007 and others like, WDR 2008; Bijman and Ton 2008).

Hivos partners and allies that mainly focus on selling their produce on organic markets expressed their expectations regarding future private sector moves. They believe that the large retailers will finally get interested in organic markets as well. But before that happens some important challenges have to be faced for example: improved efficiency in the supply chain in material availability; up-scaling; quality and processing; labour problems; and increased consumer awareness. And as my informant of Access for Livelihoods explains 'the purchasing power of consumers has to increase'.

In addition to the above expectations, Hivos India expressed that 'the National and State Governments have been promoting organic agriculture and the size of domestic organic markets has been growing. The growth in the supply of certified organic produce based on the premium based niche model is fuelled by the rising middle class in the cities'<sup>27</sup>. This shows that some challenges mentioned by the informants have already been addressed. Kolanu and Kumar (2007) moreover stated that the organic agricultural export market is one of the major drivers of greening of agriculture in India and this includes crops like rice. The growing US and European organic markets provide an enormous scope for Indian exporters. By this we can

---

<sup>27</sup> Information I got through the context description of Hivos India for Annual Plan 2009

see that there is definitely potential for quality markets as organic to grow, if challenges are faced, though at this moment organic is still a niche.

#### **4.4 Concluding Remarks**

New market opportunities are foreseen by some of the informants with the rising interest of large retailers in the food chain. These opportunities are backed up by literature stating that small-scale producers may benefit by linking up with large retailer and vice versa. In case of contract farming, for example, it is experienced that the advantages for the contract farmers are mainly based on savings in production and marketing costs. The advantages for the firm are that it gets an assured and timely supply of the desired raw material, and in this way minimises the cost of processing and enables the improvement of its market reputation. Furthermore it is stated that small-scale producers have an added value for larger firms compared to large farmers based on various reasons like their flexibility, their agricultural techniques and their dependency on the firm.

Threats were also mentioned by the informants. It is not easy for small-scale farmers to deliver up to quality requirements, retailers may exploit them and large farmers seem to have better access to market information, are able to produce higher volumes, and have strong bargaining power; threats that are likely to exclude smallholders from participating. Furthermore, it is important for governments, donor organisations and farmer organisations to act pro-actively. If not, the potential of the private sector as partner in development is underutilised.

The academic world shows possible intervention strategies for the inclusion of smallholders in dynamic markets in which the private sector is becoming increasingly demanding. It is explained that marketing partners should be created to facilitate the farmer groups in delivering high quality products, governments should work on pro-poor policies, development agencies should become more efficient, and farmer organisations and their allies should act more pro-actively, and working and starting capital should be provided.

I will take these academic ideas along with me to the next chapter to move the discussion to a higher level.

## 5 Conclusion and Recommendations

In this final chapter I will try to answer the question: *'To what extent do Hivos' partners and their producers in the Indian rice chain anticipate changing market conditions'*. This will be done by linking the outcomes of chapter 3 and chapter 4. I will identify two intervention models that appeared to be successful in linking smallholders to large firms. I will end this chapter by recommending areas for further research towards the impact of changing markets on the (organic) rice chains in India, Hivos' partners and their producers are working in.

Based on the analysis of the data in chapter 4 it becomes clear that the majority of Hivos' partners have their own expectations towards the new market conditions provided by the large retailers in India, however until now they did not consider specific intervention strategies. Some identified new market opportunities as well as challenges. Others clearly state that they do not want to operate under the new market conditions that may arise as these conditions will only have a negative impact on the smallholders' position in the chain. Despite this, some producers do operate under the new market situation created by the large Indian retailers as this provides them with better revenues for their produce than they would get in other markets. Even so, as expressed in chapter 3 it remains unclear whether the other producers in the Hivos funded projects anticipate changes in market conditions. This can be explained by the fact that either the private sector did not approach them, or alternatively this may depend on the chain they are in. Chapter 3 illustrates that many producers in the Hivos funded projects do not yet manage the chain, as this lies frequently in the hands of the partner organization (some exceptions aside). This may influence the choices they make as they may not be aware of new opportunities, because the partner organization is responsible for the selling of the produce, or perhaps they feel committed to the partners' ideas. Furthermore it is highlighted in chapter 4 that there are many protests against the move of the large Indian retailers into the food sector, specifically by small vendors. It is unclear what the role of small scale farmers are herein. This may also affect their behaviour. Finally, it of course can also be explained by the fact that their produce do not meet the quality requirements or standards set by the large Indian retailers.

Besides, I assume that the producers in the rice chain will interact with the private sector if the opportunity exists. As shown in chapter 3, the majority is still dependant on what the market offers in prices and opportunities, or by what the partner or producer organization manages to sell. Seemingly the large Indian retailers offer better prices than the market price, so when other market relations are not satisfying I believe that producers will always look for the best opportunity to sell their produce.

Identifying that partners and at least some of the producers anticipate changes in market conditions, the question arises: are these markets beneficial for smallholders participation? In chapter 4 it is shown that linking small scale producers to the current markets dynamics, and consequently to the growing private sector, can have a positive impact on their lives, under the condition that all elements for inclusion are in place to be successful. Opportunities for smallholder inclusion are acknowledged and are included in possible intervention strategies. Two successful intervention models were identified in chapter 4, more specifically: contract farming and a model in which the NGO functions as a marketing partner respectively illustrates a positive impact on the smallholders situation (Birtal et al (2005) and Thorat and Roy (2008)). Additionally, it is identified that collective action is an important strategy in linking smallholders to dynamic markets. It is advantageous for both the smallholders and the private sector. My informant of Access for Livelihoods state that producers should organize and establish a brand. In this way they can increase their income. Finally it is highlighted in chapter 4 that the public and private sector should work on the sustainability of trade relationships which will lead to benefits for smallholders.

In chapter 3 it is illustrated that the partner organizations are at the start or in the middle of institutional changes by focusing their interventions on developing value chains in which the intervention is focused on establishing strong producer cooperatives, or as Posthumus (2008) typifies: Leading farmer organizations. In the past, SP partners mainly focused on improving the production process with the focus of improving qualified (organic) supplies. Nowadays they have adopted a market oriented approach in which they try to look at market demand / consumer preferences (which may imply that they have to anticipate participate? on the changing market structures). This value chain approach assumingly will benefit the smallholders in

their bargaining position, however this process needs time, and as stated in chapter 3, many challenges still have to be faced.

Besides, chapter 3 explains that the partner organizations focus on different chains in their intervention strategies, these are the (inter)national certified organic markets and the conventional national, regional or local markets. Even so, both intervention models are focused on getting standards for organic, be it international standards for organic or local standards for organic, in which traceability and transparency are important. The interesting issue here is the fact that the quality standards demanded by the Indian large retailers do not seem to include these requirements as they are mainly interested in the 'appearance' and taste of a product. Even though this will not have its effect on the demand for the organic producers by large retailers (based on the case of Kudumbam, organic is interesting for the private sector due to its appearance and taste), the question arises whether the producers and partner organizations want to utilize these new market opportunities without clear requirements that are part of the standards they are purchasing now. As explained, some partners already expressed their concerns for exploitation.

Nonetheless, organic remains a niche market in India. Even though Hivos' partners and organic retailers expect the market to grow, and this is also confirmed by the literature, presently, the large retailers are not very interested to purchase organic with a premium; it has even shown that the organic supplier has to pay for market space in one of the retailers supermarkets.

#### *Areas for further research*

Based on this preliminary policy research many questions can be posed in the context of this study. I would like to start mentioning that this study is based on a small sample of Hivos' partners and their producers. It would (of course) be interesting to have a thorough research on the producers' and partners' perspectives and expectations of the topic under study within a spectrum of more of Hivos' partners and their producers.

It is most likely that every individual producer or producer group can be approached by the large Indian retailers in future as the demand from the large Indian retailers is growing (chapter 4) and as I argue, smallholders will finally go for the best market opportunity. Therefore I think it is important that all Hivos' partners have to anticipate changes in market structures by exploring what the best intervention strategies will be in their context to support smallholders in improving their livelihoods. To elaborate on these possible interventions they (amongst others) can look at:

- the exact quality requirements of the private sector (large retailers) in India and see whether this market will guarantee improvement in the livelihood of smallholders;
- Provide more clarity on the expectations of smallholders towards the current changing markets structures;
- the pro's and con's of the success models identified in this study; and
- Provide more clarity on the role of the public sector in the changing market structure in India as it is defined that both government and civil society can play a major role in linking smallholders to the private sector. It will be interesting to conduct a study on the relationships between the public and private sector and their perspectives on cooperation.

## 6 Bibliography

Advisory Council on International Affairs (2006), *Private sector development and poverty reduction*, Ministry of foreign Affairs, No. 50, The Hague

Alam G. and Verma D. (2007) *Connecting small farmers with dynamic markets: Case Study of a Successful Supply Chain in Uttarakhand-India*, Centre for Sustainable Development Dehradun, India

Bijman J. and Ton G. (2008), *Producer organizations and value chains*, in Capacity.org, CDPM/SNV/UNDP

Birthal, Joshi and Gulati (2005), *Vertical in high value food commodities*, International Food and Policy Research Institute (IFPRI), India

Delahaj R. (2004), *DOSSIER EMPOWERMENT*, Forum, Utrecht

Feller A. Shunk D. and Callarman T. (2006), *Value Chains Versus Supply Chains*, BPTrends, published at: [www.bptrends.com](http://www.bptrends.com)

Gahai R. and Thapa G. (2007), *Supermarkets, smallholders and livelihood prospects in selected Asian countries*, The fourth in a series of discussion papers produced by the Asia and the Pacific Division, IFAD

Guijt J. and Woodhill J. (2007), *Missing links, Growing organic chains from farmer to market: an evaluation of Hivos' organic agriculture program in East Africa 2000-2006*, Wageningen International, Wageningen

Haan, H. de (2001), *PRIVATE PRIVATE SECTOR DEVELOPMENT IN THE SOUTH: WHAT CAN BE THE ROLE OF THE PRIVATE SECTOR IN THE NORTH*, NETHERLANDS DEVELOPMENT ASSISTANCE RESEARCH COUNCIL, Amsterdam

Hivos (2004), *Civil Voices on a Global Stage*, May 2004, The Hague

Hivos (2004), *Analysing the Rice Chain: Towards a sustainable (p)rice*, Report of an international workshop organised by Hivos Polonnaruwa, Sri Lanka

Hivos (2006), *Paddy chain, building constructive alternatives*, Technical Report Series 2.1, The Hague

Hivos (2008), *SED Addendum*, the Hague

IFOAM et al (2007), *The World of Organic Agriculture. Statistics and Emerging Trends 2007*, IFOAM & FiBL, Germany

KIT, Faida MaLi and IIRR (2006), *Chain empowerment: Supporting African farmers to develop markets*, Royal Tropical Institute, Amsterdam; Faida Market Link, Arusha; and International Institute of Rural Reconstruction, Nairobi

Kolanu R. and Kumar S. (2007), *Greening Agriculture in India: An Overview of Opportunities & Constraints*, published at <http://www.fao.org/>

Lundy M. Ostertag C.F. Best R. (2002) Value adding, rural agro-enterprise and poverty reduction: A territorial approach to rural business development. Paper presented at the 1st Henry A. Wallace Inter-American Scientific Conference, "Globalization of Agricultural Research", Centro Agronómico Tropical de Investigación y Enseñanza (CATIE), Turrialba, Costa Rica.

Posthumus H. (2008), *Reader: Five VCD Models*, Management for Development Foundation (MDF), Ede

Rajendran S. (2002), *Environment and Economic Dimensions of Organic Rice Cultivation in South India*, Reader in Economics, DOS in Economics and Cooperation University of Mysore, Manasagangothri

RAND (1999), *Class action dilemmas*, ICJ publications Berdegué, J.A. Biénabe E. and L Peppelenbos (2008), *Keys to inclusion of small-scale producers in dynamic markets - Innovative practice in connecting small-scale producers with dynamic markets*, Regoverning Markets Innovative Practice series, IIED, London.

Roy D. and Thorat A. (2008) *Success in High Value Horticultural Export Markets for the Small Farmers: The Case of Mahagrapes in India*, IFAD, India

Russell Bernard H. (1988) *Research Methods in Cultural Anthropology*, Sage Publications, Newbury Park, London, New Delhi

Russell Bernard H. (1995) *Chapter 4: Sampling* in: *Research Methods in anthropology*, AltaMira Press, London, pp 94-101

Shepherd A.W. (2007), *Approaches to linking producers to markets: a review of experiences to date*, FOA, Rome

Sustainable Economic Development Department of the Ministry of foreign affairs (DDE working paper) (2006), *Market Opportunities and market challenges in private sector development*, Ministry of Foreign Affairs, The Hague

Umali – Deininger M. and Sur M, *Food Safety in a Globalizing World: Opportunities and Challenges for India*, Plenary paper prepared for presentation at the International Association of Agricultural Economists Conference, Gold Coast, Australia, August 12-18, 2006

Verkuijl H. and Peppelenbos L. (2007), *Chain empowerment: supporting African small holders to develop markets, in: producer organizations and market chains*, Wageningen Academic Publishers, The Netherlands

World Development Report (2007), *Agriculture for Development*, The International Bank for Reconstruction and Development / The World Bank

## **Websites**

[www.fao.org](http://www.fao.org), consulted at October 18<sup>th</sup> 2008, 16.29

Emerging Organic Food Markets, consulted at October 21<sup>st</sup> 2008, 12.15  
[www.marketresearch.com/product/display.asp?productid=1913620&g=1](http://www.marketresearch.com/product/display.asp?productid=1913620&g=1),

Indian street vendors attack retail chain's stores, Reuters (2007) Sat May 12, 2007 8:29am EDT  
[www.reuters.com/article/latestCrisis/idUSDEL3967](http://www.reuters.com/article/latestCrisis/idUSDEL3967), consulted October 22<sup>st</sup> 2008, 11.45

[www.state.gov/r/pa/ei/bgn/3454.htm](http://www.state.gov/r/pa/ei/bgn/3454.htm), consulted at October 21<sup>st</sup> 2008, 10.43

[www.ciks.org](http://www.ciks.org), consulted at October 5<sup>th</sup> 2008, 15:18

[www.hivos.nl](http://www.hivos.nl), consulted at October 5<sup>th</sup> 2008, 15.30 at October 6<sup>th</sup> 2008, 15.32

Institute of Market Ecology, consulted at October 21<sup>st</sup> 2008, 12.51  
[www.imo.ch/imo\\_about\\_credentials\\_list\\_accreditations\\_en,,998.html?ierung=NPOP](http://www.imo.ch/imo_about_credentials_list_accreditations_en,,998.html?ierung=NPOP)

[www.sresta.com](http://www.sresta.com), consulted at October 19<sup>th</sup> 2008, 18.08

[www.csa-india.org](http://www.csa-india.org), consulted at October 6<sup>th</sup> 2008, 11.10

[www.sahavikasa.coop](http://www.sahavikasa.coop), consulted at October 6<sup>th</sup> 2008, 13.34

[www.ddsindia.com/www/default.asp](http://www.ddsindia.com/www/default.asp), consulted at October 6<sup>th</sup> 2008, 13.50

[www.greenconserve.com](http://www.greenconserve.com), consulted at October 6<sup>th</sup> 2008, 18.19

[www.accesslivihoods.org](http://www.accesslivihoods.org), consulted at October 19<sup>th</sup> 2008, 17.43).