



Linking small farmers to modern retail through producer organizations – Experiences with producer companies in India



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ABSTRACT

Since the early 2000s, India's agro-food sector has undergone rapid transformations towards greater market share of modern food retail. This has impacted Indian agriculture and farmers as supermarkets re-organize supply chains towards more explicit forms of coordination. Compared to other developing countries, little has been said in the Indian context about what role farmer organizations can play to help smallholder farmers specifically, improve their position in those emerging value chains. In this paper, I address this gap and demonstrate that producer companies are a promising tool to strengthen farmers' position in their relationship with supermarket chains in India, but one which needs further improvement.

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Introduction

Supermarket chains are regarded as pivotal change agents in agricultural production systems today, especially in developing countries where modern food retail¹ became widespread two to three decades ago. This spread of supermarkets² and the internationalization of supermarket chains from western economies into developing countries has been described in a model of waves by Thomas Reardon and colleagues (e.g. Reardon and Berdegue, 2002, p. 81; Reardon et al., 2007). According to this model, modern food retail began to spread to Latin America, Eastern Europe and South Africa in a first wave in the early to mid-1990s, and continued to South and South East Asia, South East Europe and Central America in a second wave in the late 1990s. India, where major transformations in the retail sector in general, and the food retail sector specifically started to pick up speed in the early 2000s, is classified as part of the third wave of supermarket spread together with countries in Eastern and Southern Africa, Russia, and China (Reardon and Minten, 2011b).

The emergence of modern retailers in a country's food retail market also affects agricultural production and farmers, as supermarkets build new supply chains or modernize existing ones to facilitate the enforcement of stringent quality standards. This transformation of supply chains often goes in hand with tighter governance structures and increasing direct cooperation between supermarkets and farmers (Berdegue and Reardon, 2008). Generally, such transformations present greater challenges for smallholder farmers³ in the countries concerned as they often find themselves in unfavorable bargaining positions with supermarket chains if they are at all considered as part of their supply chains. Against this backdrop, there has been a re-emerging interest in Farmer Producer Organizations (FPOs) in recent years from governments, donors and non-governmental organizations alike, who see them as appropriate institutions for building capacity among smallholder farmers and for helping them participate in more competitive and globalized market environments (Rondot and Collion, 2001; World Bank, 2007).

Regarding the Indian context, a growing literature has come up in recent years which addresses the supermarket-led transformation in the retail sector and its potential impacts on consumers, the traditional trading system, and farmers (see for example Chari and Raghavan, 2012; Franz, 2010, 2012; Harper, 2009; Minten et al., 2010; Neilson and Pritchard, 2007; Pritchard et al., 2010;

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¹ Characteristics mentioned in literature to define what modern retail is involve the following: (a) self service, (b) certain scale of operation (the store itself, the size of the chain, or both), (c) the owning entity is a corporate entity but can also be state, cooperative, or private, and (d) foreign or domestic, (e) use of modern management techniques (Reardon and Minten, 2011b, p. 138; Sengupta, 2008, p. 691).

² The terms 'modern retail' and 'supermarkets' are used synonymously throughout the paper.

³ Although there is a huge heterogeneity among smallholder farmers, in this study a smallholder farmer is simply defined as a farmer who works on less than two hectares of land.

Reardon and Minten, 2011a,b; Sengupta, 2008; Trebbin and Franz, 2010). Surprisingly, the debate on how farmers may be affected has not been connected to the abovementioned debate on the new role of farmer organizations. Such studies, however, were conducted in other countries, where modern food retail is a recent phenomenon, for example in China (Jia and Huang, 2011), Vietnam (Moustier et al., 2010), Honduras and El Salvador (Hellin et al., 2009), Peru and Ecuador (Devaux et al., 2009), Nicaragua (Michelson et al., 2012), Kenya (Fischer and Qaim, 2012) and Uganda (Kaganzi et al., 2009).

This paper aims to join the debate on the role of FPOs in linking smallholder farmers to modern retail with an analysis of the current status of so-called producer companies in India. The concept of producer companies was initiated by the Indian government in 2002 at the sight of ongoing agro-food transformations in the country. A decade after the first producer company was officially registered in India, I aim to look at the current potential producer companies have to integrate their members into modern retailers' supply chains. To do so, I embed my discussion of the producer company model into the already existing theoretical framework of value chain governance and link it to the general debate on the role of FPOs in contemporary agro-food networks in developing countries.

I aim to address two gaps that currently exist in literature: The first is the conceptualization of FPOs within the framework of value chain governance. This theoretical concept has already been widely applied in agro-food network studies which examine the relationship between multiple actors such as farmers, input providers and supermarket chains. However, it has not yet been applied to look at the effect FPOs might have on improving the position of smallholder farmers in developing countries in their interactions with large corporate buyers such as supermarket chains. The second gap in literature which I will address in this paper is the role of FPOs in the Indian retail transformation.

Following this introduction and a section on methodology, the theoretical background deals with the current debate on supermarket expansion in developing countries. This debate is being embedded into the theory of value chain governance and then linked to an outline of the renewed interest in FPOs. Transformations in the Indian food retail market gives background information on the development of modern retail in India. The potential of producer companies as new interface structures between smallholder farmers and modern food retail in India deals with the concept of producer companies and their potential to link smallholder farmers in India to the emerging modern food retail sector. In the final section I draw conclusions and discuss policy implications.

Methodology

The results presented in this paper are part of a study on producer companies in India within the frame of the author's PhD thesis in human geography. The main objective of the research was to understand the nature of links between India's smallholder farmers and the emerging modern food retail sector in the country and what role FPOs – and producer companies in particular – play in these relationships. To achieve this, the author applied both quantitative and qualitative research methods, with an emphasis on the latter. The quantitative research work focused on data collection from all 263 identified producer companies (see Fig. 1) through a questionnaire. Qualitative research was carried out via a total of 60 expert interviews with representatives of producer companies, modern retail companies, farmers and farmers' associations, non-governmental organizations (NGOs) and state agencies. In addition to this, eight producer companies were studied in detail via field visits of one to three weeks each.

The material, on which this paper is based, was gathered over a period of several months in 2010, 2011 and 2012 and through a

review of secondary data and literature. While interviews and site visits with major modern food retail chains were undertaken to understand their supply chains and the role producer organizations play therein, the field studies on eight producer companies were carried out to understand their operations on the ground. During these visits, company staff and farmers were interviewed and company records reviewed. The case studies were selected according to their activities which – following the main research question – had to be preferably in food production. As the total sample size was unknown at the time when research started, the first sites for field studies were selected according to advice from expert interview partners. Further into the study, the author aimed to reflect the regional distribution of producer companies in India in the sample. Therefore, six out of eight field studies were conducted in the states of Madhya Pradesh and Maharashtra (see Fig. 1). The interviews were later transcribed and their contents analyzed using MAXQDA.

The quantitative survey of all 263 producer companies known to the author at the time of the study was done via e-mail and telephone. Due to a lack of contact information and/or response from a number of producer companies, the complex questionnaire could be completed by only 79 of the 263 producer companies. Nevertheless, the quantitative approach revealed information on more than 200 producer companies in India as shown in Tables 1 and 2. Data from the quantitative survey was analyzed applying descriptive statistics and mapping tools.

Theoretical background

Over the past two decades, transnational retail chains have increasingly spread into developing countries where food retailing has been traditionally dominated by wet markets,⁴ neighborhood shops, and street hawkers. This supermarket spread has had significant impact on existing food supply chains, consumption patterns, and agriculture within these economies. In the countries which experienced this supermarket expansion, retail chains today account for a considerable share in the food retail market, similar to western economies from where much of the retail internationalization emanated (Reardon et al., 2004). Large shares in food retail sales are giving retail companies tremendous influence over the organization of food supply chains, the food processing sector, and also over farm-based production. This is often manifested in the re-organization of supply chains away from fragmented, decentralized procurement to centralized supply systems with large, integrated procurement catchment areas and the use of specialized/dedicated wholesalers and logistics firms instead of traditional wholesalers and spot markets. Often, it is also accompanied by an increase in use of preferred suppliers operating under de facto contracts (Berdegué and Reardon, 2008; Henson and Reardon, 2005). The re-organization of supply chains, aim in particular, to implement and enforce stringent quality standards. These are generally used as a means to guarantee food quality, safety, traceability, and originality, and are a response to growing consumer awareness of these issues. But private standards also serve as competitive barriers against the informal sector or competitor products (Coe and Hess, 2005). They also represent entry barriers for small or less capable producers (Altenburg, 2006).

From a value chain governance perspective, higher product standards lead to higher product or asset specificity which means that more information needs to be exchanged in value chains. This adds to the transaction costs. Besides transaction costs, there are other factors that determine how transactions are being executed. Amongst these are, asset specificity, environmental uncertainty

⁴ The term "wet market" generally refers to (open) fresh food markets in Asia where fresh fruits and vegetables, fish and meat are sold.

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