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ITC CHOUPAL FRESH: A CASE IN PRO POOR VALUE CHAINS

Rewa Misra, MPhil

Coady International Institute

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Rewa Misra, MPhil
Coady International Institute

St. Francis Xavier University
PO Box 5000
Antigonish, Nova Scotia
Canada B2G 2W5

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Coady International Institute
St. Francis Xavier University
P.O. Box 5000
Antigonish, Nova Scotia
Canada B2G 2W5

Phone: (902) 867-3960
Fax: (902) 867-3907
E-mail: coady@stfx.ca

ITC CHOUPAL FRESH: A CASE IN PRO POOR VALUE CHAINS

Introduction

The Growth Oriented Microenterprise Development (GMED) Program¹ was initiated in September 2004 at a time when the transformation of India's retail sector had just started. Between 2005 and 2007 India consistently topped AT Kearney's Global Retail Development Index² ranking, based on criteria such as market saturation, investment profile etc. By 2006 single brand retailers were allowed to own the majority stake of 51% in a joint venture with a local company. Since only single brand retailers were given this opportunity, this provided a space for Indian companies like Reliance, Subhiksha, Foodland etc to take advantage of the high growth groceries market.

But this was only the beginning. Organising fresh produce supply chains are the most challenging aspect of groceries retail. Ensuring that the customer has the same product, in the same quality, at the same place, fresh and at the any time during the year presents a tremendous challenge. Especially so in a context where numbers of large farmers are limited, and organising small ones to reach scale and reliability of supply, notoriously high cost and risky. What is one Indian company ITC doing to make the best of this situation?

This case presents one way of supporting the development of a value chain that can integrate, potentially, over 125,000 smallholder farmers. For the purpose of this case study, value chain is defined as all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers. (Lusby, 2007). The study uses value chain analysis³ with a view to highlighting three aspects in the case namely 1) which activities/types of firms/strategies yield higher value than others for small holders, 2) what forms of relationships, contractual and otherwise work in the value chain and, 3) what models work best for service delivery. The key hypothesis is that integrating small holder farmers within fruits and vegetables value chains is possible, provided lead firms take on a larger role by fulfilling key functions, an efficient extension services model exists delivered on a sustainable basis by firms embedded in the value chain, and inter firm relations are purely market based and mutually beneficial.

¹ The program is funded by the United States Agency for International Development and implemented by ACDI VOCA.

² For the past four years, A.T. Kearney has published the Global Retail Development Index (GRDI), a survey to help retailers prioritize their global development strategies. The survey is recognized globally as a key indication on retail investment climate and opportunities.

³ The case is based on interviews with GMED project staff, and primary data available with the GMED.

Horticulture⁴ in India: Opportunities and constraints for small holder farmers in the fresh fruits and vegetables sub sector

India is a country of small holder farmers. The size of operational holdings in India has declined from 2.28 ha (hectares) in 1971 to 1.57 ha in 1991 to 1.41 ha in 1995-96 and some estimates say it has further declined to 1.22 ha in recent years (ICRIER: 2006).

Table 1: Distribution of farm holdings by size

Classification by size of holding	Percentage of all operational holdings
Marginal holdings (of size 1 hectare or less)	70%
small holdings (size 1 to 2 hectares)	16%
semi medium holdings (2 to 4 hectares)	9%
medium holdings (4 to 10 hectares)	4%
large holdings (over 10 hectares)	<1%

Source: NSSO 59th Round (2006)

As can be seen from Table 1 above, India's marginal, small and semi medium holdings (less than 4.0 ha of farmland) together comprise 95% percent of the country's total operational holding. Future increases in agricultural growth have to be essentially achieved through increase in yields or transition to high value crops. This coupled with changing consumer trends and rising consumer income, especially in the non-agricultural sector and urban areas, is creating opportunities for high value agricultural products like fruits, vegetables, fish, eggs, milk, meat etc.

India is the second largest producer of both fruits and vegetables in the World.⁵ (Economic Survey, 2007). 15.3% of farm households grow vegetables and 4.6% grow fruits. Nearly 16% of households with less than 2 hectares grow vegetables. The corresponding figures for medium and large farm households are 14.8 and 10.4%, respectively. Growing markets for these products presents an opportunity for farmers to diversify their production away from cereals and raise their incomes. The major challenge is integrating marginal, small and even medium farmers in this growth paradigm (henceforth all generically called smallholders⁶ in this case). The organising of the retail sector is expected to create opportunities for smallholders but also potential threats to their continued access to remunerative markets.

Unless the domestic supply side can improved and current fresh produce supply chain constraints resolved, the important urban retail markets could become dominated by imported fresh produce. This has happened in Manila supermarkets, where much of the fresh vegetables are supplied from Australia and the Jakarta market, where domestically sourced vegetables prevail, but a significant volume of tropical fruit is imported from Thailand and Malaysia. In both of these cases, the inherent ability to produce vegetables or fruit that is competitive in both quality and price is not a constraint; the fault lies in the inadequacy of the supply chains. (Taylor & Jones, 2005)

⁴ Includes fruits, vegetables, spices, floriculture and plantations

⁵ The National Horticulture Mission (NHM) aims at doubling horticultural production by 2012.

⁶ The average size of land holdings in the GMED project is ranges from 2.5 to 3 acres depending on the region, which borders definitions of small and semi medium categories.

Bringing smallholders into supply chains for organized retail is therefore not only an 'additional option' but a necessity at this point of time, as otherwise their access to high-value markets via processors will seem in perspective increasingly distant and constrained, and there will be no real incentives at least for the private sector, to integrate smallholders into knowledge or service networks.

Organised retailing and the success of brands such as Namdhari, Choupal Fresh⁷, and others are a trigger for value chain development in the fresh fruits and vegetables sub sector in India. Private partnerships can play a key role in creating farm to fork linkages that can, on the one hand, satisfy the market demands for high quality and safe food, while retaining smallholders in the value chain. While the private sector in India has been fast to enter organized retailing and most have definite plans for at least some kind of linkage, relatively few companies are actually reaching the farm gate.

"When we first started there was no established model." Donald Taylor, Chief of Party, GMED India. "And it was a hard sell to get anyone interested in working with smallholders". Most major organized retailers followed a cash and carry and wholesale approach to procurement. In the Indian context this might include direct procurement from local markets or *mandis*, or private agents at collection points such as warehouses. This is partly induced by regulation but is also about the costs and complexity of developing a farm to fork chain. The result is lack of control on volume or quality for the retailers, and lack of access to potential market opportunities for farmers.

What are the constraints along the chain? Existing policy measures have adversely impacted agricultural marketing, particularly the Agricultural Produce Marketing Act (APMA). The APMA is enacted and administered at the state level. It requires all agricultural produce to be purchased only through state government-operated markets (*mandis*), although a number of exceptions are currently being made by several states. As originally structured, the APMA typically bar farmers from selling produce directly to private buyers. The purpose of regulation of agricultural markets was to protect farmers from the exploitation of intermediaries and traders and also to ensure better prices and timely payment for his produce. "Over a period of time these markets have, however, acquired the status of restrictive and monopolistic markets, providing no help in direct and free marketing, organized retailing, smooth raw material supplies to agro – processing, competitive trading, information exchange and adoption of innovative marketing systems and technologies".⁸ Under the APMC Act, only State Governments are permitted to set up markets. Farmers cannot sell their produce directly in bulk except on retail basis to the consumers and have to bring their produce to the market yard.

The Ministry of Agriculture developed a Model Marketing Act in 2002. The Act permits direct sales by farmers, provides for contract farming and incorporates other provisions further liberalizing agricultural marketing. The states are being encouraged to replace the

⁷ Namdhari is a seed company and retailer with contract farming scheme for local and export markets. Namdhari Fresh and Choupal Fresh are the Retail and wholesale stores for Fruits & Vegetables owned by Namdhari and ITC respectively.

⁸ Agmarknet.nic.in – website of scheme of Directorate of Agriculture Marketing and Inspection, Ministry of Agriculture, Government of India

APMC with the model Act and some like Karnataka, Maharashtra, Punjab are either proceeding to or already have amended current Acts. However there is considerable resistance at the state level to adopting the new Act in full. This is mainly due to concerns about loss of state revenue from purchase taxes.

On the other extreme of the chain, smallholder farmers are handicapped because of fragmentation of operational holdings, limited market surpluses, and the perishable nature of high-value food commodities. Food retailers have developed elaborate standards relating to pesticide residues and traceability, of which smallholders are usually ignorant. Smallholders also lack information on prices, grades and standards required by supermarkets, and sanitary and phytosanitary measures under the World Trade Organisation guidelines. These factors substantially raise transaction costs and market risks for both retailers and smallholders in jointly tapping the opportunities presented by high-value agriculture.

Agriculture is a state subject in India and the main extension agency is the state Department of Agriculture (DoA). All states have a separate DoA. Sometimes a separate Department for Horticulture may exist and offer extension services. DoA is responsible for the provision of field staff for extension. The Department of Agriculture and Co-operation of the central Ministry of Agriculture has a separate Division of Extension which lays down major policy guidelines on extension matters. The World Bank funded Training and Visit (T&V) system of extension supplemented these efforts starting from the 1980s. However over time, and as the Finance Minister himself stressed in his budget speech of 2007, the extension services system including T&V has lost its effectiveness.

Besides the government organisations that provide extension services, support include Agricultural Universities (AUs); Commodity Boards (spices, rubber, coconut, coffee etc); non-governmental (voluntary) organisations (NGOs); and agri-business companies (dealing with seed, fertilizer, pesticides, farm machinery) etc. While the quality of these services is in some cases exceptional, there are issues of sustainability, scalability and the problem of services being tied to marketing of products such as agricultural inputs. For farmers this translates into lack of consistent quality access at affordable rates.

Not specific to, but significant in the case of vegetable and fruit farmers is the issue of working capital. Vegetable and fruit farming has typically short production cycle but requires high cost, good quality inputs.

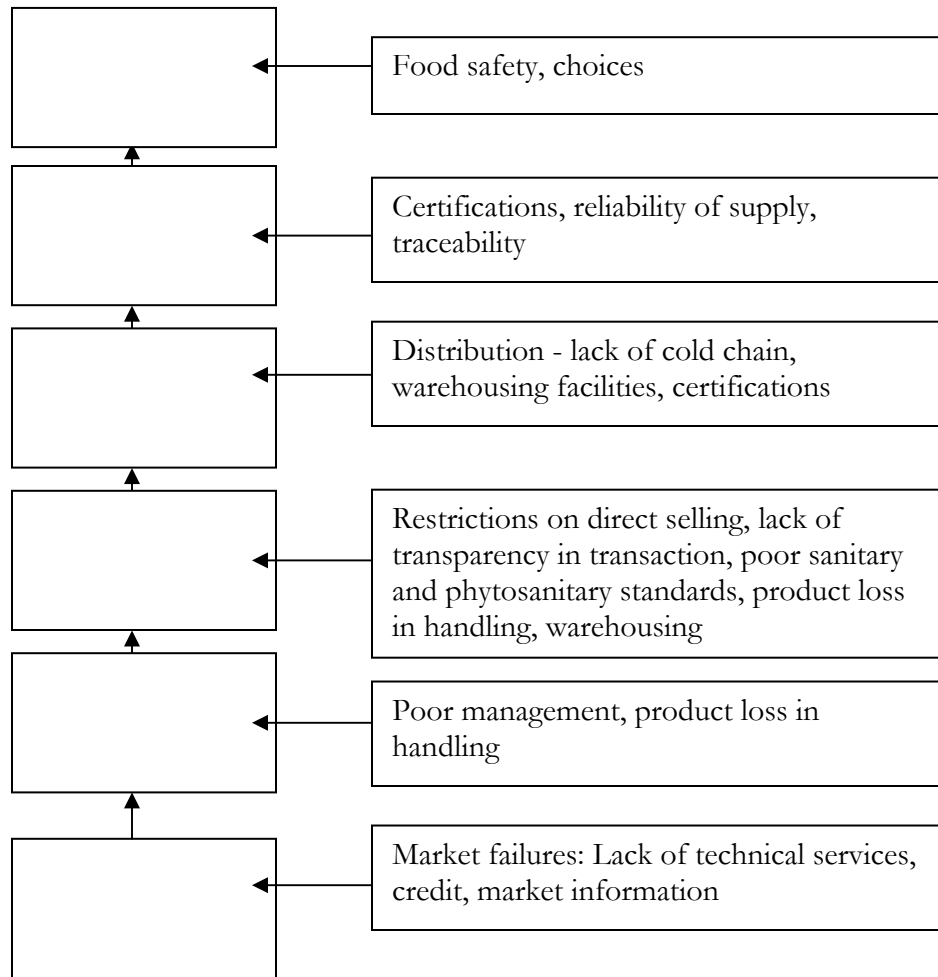
Aside from the above other needed improvements include:

- Infrastructure such as irrigation to minimize post-harvest losses such as cold storage chains, better and efficient processing, appropriate storage and warehouse facilities⁹
- Timely and adequate supply of inputs delivery, credit,
- Efficient and competitive retailing

Source: (ICRIER: 2007)

⁹ The extent of losses of fruits and vegetables in India is estimated at about Rs. 10,000 crore to 12,000 crore per annum, and the loss of quantity ranges between 10 per cent and 80 per cent in the most perishable fruits and vegetables

Figure 1: Constraints along the traditional supply chain



Creating Value through Integration

From the above discussion it becomes evident that any model evolved to work with smallholder farmers would therefore primarily need to address, a) delivery of extension services, b) issues relating to market information such as pricing, grading, certification and traceability and c) factor constraints like finance and technology. Until now the development of the retail sector, as mentioned before, has been focused on the front end of the chain and has resulted in no intrinsic changes in the supply chain. This is because procurement of fresh produce has been largely dependent on purchasing from mandi agents or, in the case of large farmers, spot transactions.

ITC's pilot, on the other hand, aimed to offer an integrated solution, which while still in a learning phase has begun to offer a number of significant lessons for the private sector. ITC is one of India's foremost private sector companies with a turnover of over US \$ 4.75 billion and a diversified presence in Hotels, Packaging, Agri-Business, Cigarettes, Packaged Foods & Confectionery, Information Technology, Branded Apparel, amongst other products.

What convinced ITC to take part in an initiative of this nature was the realization that the numbers of large farmers were limited and supplier loyalty challenging in a context where competition is on the rise. Integration also enabled effective control of supply. In the beginning ITC only started with three retail points, besides working with other retailers with a "shop within a shop" approach. This did impact and to some extent limit scalability however since then the ITC strategy is being reworked to take advantage of economies of scale.

Box 1: About GMED

In September, 2004 ACIDI/VOCA with support from USAID initiated the Growth Oriented Microenterprise Development Program (GMED) in selected states and sub-sectors (see below) in India. The program which formally ended in December 2007 has been recently extended to September 2008. The goal of the program is to develop commercially viable, sustainable and scalable approaches to fostering the growth of micro and small enterprises. The project focus is on linking smallholder vegetable and fruit farmers with higher value organized wholesale, retail, processing and export markets and helping to build the capacity of farmers to meet the requirements of those markets. The GMED program is based in Rajasthan and offers technical services in a number of states including Rajasthan, Maharashtra, Punjab, and Andhra Pradesh.

GMED focuses on building the technical, financial, and policy institutions and systems that will create an enabling environment for growth-oriented micro enterprises (GMEs¹⁰). The GMEs have been supported in three broad areas: (1) improved access to markets and ability to capture and maintain those markets; (2) improved access to financial services; and (3) an improved policy environment.

The program has been implemented with an integrated strategy that focuses on key constraints to GME growth in two key areas, i.e., agri-business and services, particularly urban services. The agribusiness component is focused on fruits and vegetables, organically certified food products, maize value chain improvement, integration of HIV/AIDS-affected communities into commercial supply chains and the development of information and communications technology (ICT)-enabled, cost-effective private sector agricultural extension services. The urban services component is concerned with improving municipal solid waste management through outsourcing to MSEs. GMED is solely a technical service program and has no grant or subsidy component.

The broad strategy of the pilot was to organize 1600 smallholder farmers into clusters, train field extension specialists to transfer a package of production and post harvest techniques and link clusters to organized retail markets. This case covers only one cluster – Malerkotla in Punjab – where the GMED project covers 299 farmers of the total 1600.

¹⁰ Growth-oriented microenterprises are microenterprises which have the ability to provide jobs and grow in scale, a process critical to India's development. Growth-oriented enterprises (GMEs) sit between traditional micro-enterprises, in India largely defined as household income support, and small businesses. (www.acdivoca.org)

However similar program strategies were also used in clusters in Andhra Pradesh and Maharashtra. In Maharashtra the Nandini Cooperative provided a leverage point for access to services such as extension, processing, finance etc. for farmers as also for the marketing of produce.

Figure 2: Map of Punjab showing Malerkotla



While initiating the program in Punjab the first step was to mobilize farmers. Due to the short production cycle of fresh vegetables, farmers are able to see a quick return on their investments. Malerkotla, in particular was traditionally a source of vegetables. However, due to a previous bad experience with the private sector there was initially a reluctance in working with ITC. These were gradually overcome when GMED India and ITC offered extension services support.

Initially Malerkotla farmers said they would only grow vegetables as GMED suggested on one half of their farm and on the other half would follow regular methods to grow vegetables. Gradually, as they began to see greater returns and consistent technical support they switched to using their entire operational holdings for vegetable cultivation in the way GMED suggested. While many farmers were not initially convinced that this was the way to go, the experience of this initial phase and increasing returns to participant farmers will surely contribute towards their involvement in the future.

"The farmers did not understand the concept of free extension services. They were so used to bad quality government extension services or private services conditional on input purchases. After one season however their trust grew. In fact extension services became the key incentive for farmer loyalty."¹¹ GMED staff introduced a series of simple but effective changes in production techniques. Introducing tray nurseries to ensure a uniform crop, improve survival rates and productivity, introducing raised beds, also shade nets for crops like tomatoes and cucumbers were just some of the key changes introduced.

In addition the project brought in improved seed varieties, and other inputs. Farmers were also trained in practices such as using expensive inputs like seeds judiciously which sometimes helped cut the cost of operations by one-third.

For example, farmers were sowing 900 gms of cucumber seed per acre (price Rs. 12000/kg) while the recommended seed rate is 300 gms only. Farmers were using twice the fertilizer required and same was true for irrigation (more electricity consumption and labour) and pest and disease control (pesticide cost and application cost). Farmers were investing more owing to lack of awareness. After soil testing extension staff recommended an appropriate fertilizer dose and farmers were trained to decide upon threshold limit of pest and disease management resulting in less fertilizer and pesticide use.

The approach taken was to inform farmers of the pros and cons of different varieties and input suppliers and letting them choose what suited them.

Benefit also accrued to the farmer as they used improved techniques like improved variety, plug tray nurseries, raised bed, etc.

GMED farmers also earned more because they were able to supply early and late in the season fetching better price. GMED farmers were 15 days ahead of other farmers in the region because plug nurseries took only 21 days to get ready for transplanting while traditional nurseries took around 30 days. Seedlings from traditional nurseries take around one week to get established in the soil after transplanting because the root system is disturbed during uprooting but this is not the case with plug tray nurseries.

Staking, Integrated Crop Management (ICM) and Integrated Pest Management (IPM) also allowed prolonged crop production leading to off season supply late in the season.

One of the key changes introduced was grading of vegetables like tomatoes. Due to the amount of time expended, and the perception that grading would lead to lower returns, farmers consistently resisted grading produce. ITC and GMED trained farmers to grade tomatoes into three categories – A, B and C – with A being the highest grade – based on the quality and consistency of produce. ITC regularly procured the top two grades while grade C would be sold in the regular mandi. As farmers came to realize which grades fetched them the highest returns they made greater efforts to bring the quality of their produce upto that level. Farmers who started with only 30% of their produce in grade A, by the end of the first year had 90% of their produce in this grade.

¹¹ GMED India Deputy Chief of Party, Deo Dutt Singh

Local market prices are often the standard for farmers and retailers alike. However the traditional market system is overcrowded and chaotic with no transparent mechanism for price setting. With multiple auctions often taking place simultaneously, which farmers rarely understand, intermediaries rather than farmers, control returns.

ITC's price discovery system is also based on local market prices. However aspects such as grading, assuring a minimum price realisation for producers, minimizing intermediaries and handling, ensures higher returns for farmers. ITC's method allows farmers to earn 15% more than local market rates on A grade produce¹² - a major incentive for farmers to continue to be loyal suppliers to the company.

From providing color coded crates to farmers to segregate produce by grade (contributing to grading and traceability), to transportation, storage and distribution, ITC's pilot integrated all functions of the value chain. The initial results have been positive. Devolving value addition such as grading to the farmer and improved extension services have increased farmers' net incomes by one third.

We use a simple cost benefit¹³ analysis to understand how returns have improved for a sample of 40 (out of 60) farmers in the Malerkotla cluster over two years – 2005-06 and 2006-07.

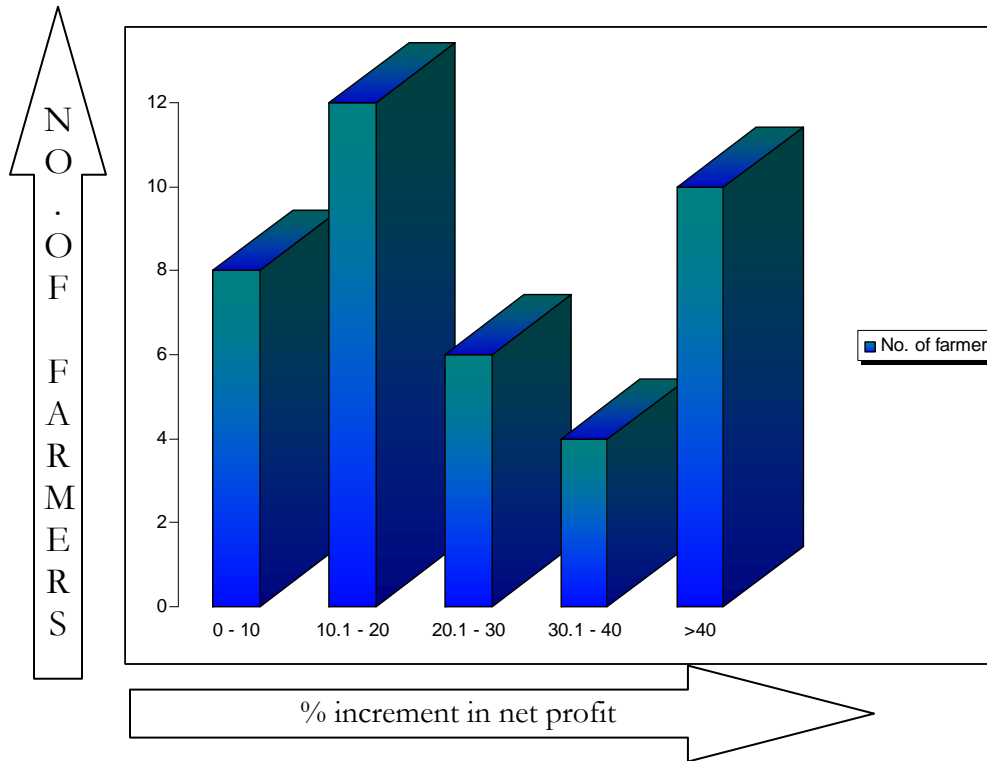
The cost benefit ratio shifted from 3.9 to 4.8 across the two years. This relates to commodities like tomatoes, onions, cucumber and brinjal and is attributable both to decreases in costs from optimization of use of inputs as also higher returns. The ratios (for both years) compare well with CBR figures based on data used by the National Horticulture Mission (ICRIER 2007) which puts CB ratios for tomato and brinjal farming in Karnataka and AP respectively as being between 2 and 1.9. Costs such as transportation are excluded from this because ITC picks up produce right at the farm gate.

The figure on the following page gives the distribution of farmers by categories of increment in net profit.

¹² While Grade B produce is bought at local market rates.

¹³ Here Cost Benefit Ratio = Gross returns/Cost of cultivation

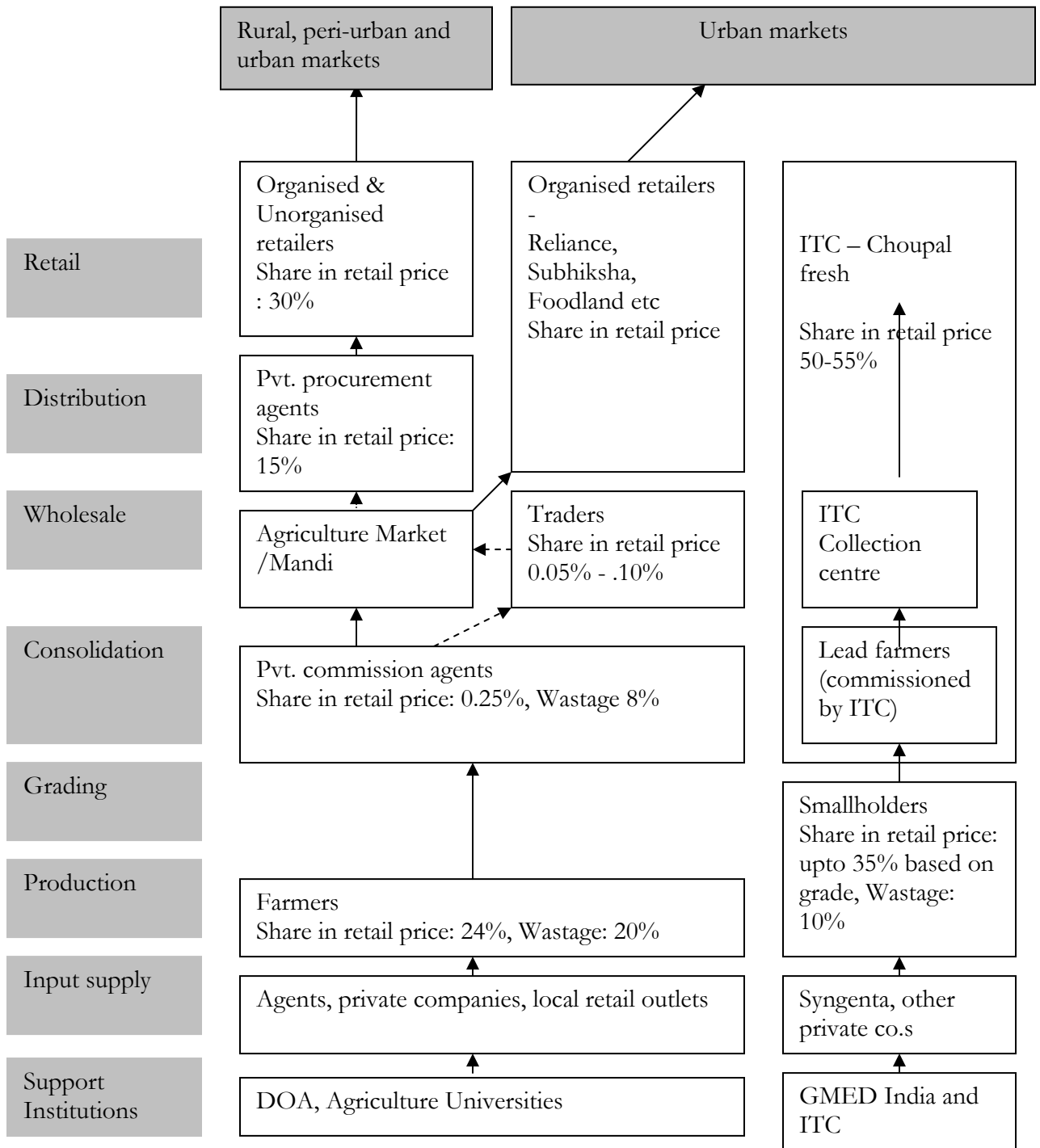
Figure 3: Increment in net profit



The following value chain map showing three key channels in domestic retail of FFVs. The map shows that returns to farmers are enhanced due to relative decreases in investments (an average of nearly 16%). It also shows how ITC creates value through taking over key functions like consolidation, wholesale, distribution and retail. While ITC's cost benefit ratio based on gross sales and operating expenses¹⁴ is currently 1, this will likely improve as the program scales up and its retail end is better organized.

¹⁴ Source: GMED India

Figure 4: Value Chain Map Domestic - Fresh Vegetables¹⁵



Finding the Right Service Delivery Model

Embedded Services: Right from the beginning project staff found that extension services were a key rallying point in discussions with farmers. GMED trained ITC extension staff so

x¹⁵

that technical support could be provided directly by the lead firm in the value chain. This was to make sure that farmers had access to good quality services from a source that had a stake in their performance. GMED used minimal grants¹⁶ to supply extension services and actually facilitated ITC the lead firm to provide these services. The provision of these services through a firm embedded in the value chain ensured that private sector actors (such as ITC extension agents) were not being displaced through a subsidized project.

ITC and GMED also experimented with training school and college drop outs to foster a new cadre of extension workers – however many trainees either got jobs with other companies or went on to complete studies. Four joined ITC as sub extension staff. At one stage ITC merged the procurement and extension services. However again as the program grew, these were bifurcated.

Currently ITC's focus is on developing lead farmers, who serve both as a sub collection point for produce and as mentors for local farmers. Approximately 50 farmers are organised under one lead farmer. From the lead farmer the produce is transported to ITC collection centers where it is re-sorted and tagged for further transportation to Choupal fresh stores.

Costs of ITC extension services: The cost of providing extension services is approximately \$1500¹⁷ per annum for every 50 farmers. A similar amount is expended in procurement from the farm, which gives a sense of how expensive provision of extension services is at the initial stages. ITC's current operational profit is 12% and not until the program scales up can it really think of recovering initial investments made in developing this value chain and its retail chain which is approximately \$500,000¹⁸. However the fact that this has been the most valued service for farmers may mean that in the absence of contracts, extension services provided through the lead firm are a key way of ensuring supply. Also ITC has through lead farmers and other methods, been actively trying to find a way to provide these services in a way that is increasingly sustainable, high quality, cost effective and scaleable at the level at which the outreach itself is expected to grow. ITCs current focus is on rationalizing costs and growing the retail chain, while expanding coverage of farmers in current clusters.

Box 2

Mohd. Rafiq from village Himmatana, Malerkotla in district Sangrur has always grown vegetables like cabbage, cauliflower and eggplant on his 2 acre plot of land. When he first attended a meeting in the village in February 2006 where GMED was explaining the ITC model, farmers were reluctant to get involved. However, he decided to take the risk of participating in the GMED project, took a loan from the local cooperative bank and started growing carrots, okra, tomato, bitter gourd, and cucumber. He also received interest free input support from ITC. His profits from vegetable cultivation have been gradually growing mostly attributable to cost savings. He feels the ITC linkage has definitely brought better market linkages and more transparent terms of doing business unlike the commission agents he had to work with earlier. However he is keen for ITC to procure larger amounts of vegetables, a current constraint as ITC has only a few outlets that retail fresh vegetables.

¹⁶ A total of \$3000 for four extension agents working with ITC staff over 6 months

¹⁷ Excludes supervisory costs and costs of specialized services, and technology.

¹⁸ Source: GMED India



Rafiq Mohd. – Himmtana, Dalelgarh

Box 3

By the middle of 2006 word had spread and in the nearby village of Jamalpur Mohammad Ashraf found most farmers interested in getting involved in the GMED project. Raising initial investments was not easy and he depended on a loan from his relatives for the same. Now he has leased in an additional acre of land taking it to a total of 2.2 acres and sunk a borewell. Mohammad Ashraf feels motivated and confident about the ITC linkage and states that he is keen to be a loyal supplier to that company on account of the extensions services it regularly provides.



Mohd. Ashraf – Himmtana, Dalelgarh

Chain governance

The relationships between actors in the value chain influence the sustainability of that chain.

Malerkotla farmers were wary of arrangements involving the private sector when GMED first approached them. In particular bad experiences with contract farming where a private sector company did not procure as promised, made it virtually impossible for ITC to explore this as a way to ensure predictability of supplies and costs. Contract farming is a system for the production and supply of agricultural produce under forward contracts between growers and buyers. The key of such an arrangement is the commitment of the producer to provide a commodity of a certain type, at a time and a price and quantity required by a known and committed buyer. One major reason why this was not the relationship of choice in the Indian context is the high risk relating to non enforceability of contracts for both the farmers and the company.

Ultimately a purely market based 'arms length' relationship has worked well for Malerkotla farmers, where they have to a very great extent assured returns, but also the option to revert to the traditional mandi, or any other procurer if they so choose. This highlights critical lessons that can be compared with those emerging from elsewhere in the world. Research on the UK-Africa horticulture chain for example, suggests that small growers¹⁹ are marginalized where there is a contractual relationship. The reason, being the lead firms' sourcing strategies, which are influenced by the expectations of consumers, NGOs and government agencies with regard to safety and environmental and labour standards (Dolan, Humphrey & Harris-Pascal, 1999).

Even as pricing and procurement has been decided within the framework of an arms length relationship, the lead firm has gone one step further and actually supported producers with technical services. This is atypical of arms length purely market based relationships and opens an area of future study as to whether extension services can, in the absence of contracts, prove to be an effective way of incentivising supplier loyalty.

What can further facilitate greater transparency within the value chain and improve the bargaining power of farmers are initiatives such as using information technology to develop a platform for exchange of information and data. ITC has been particularly progressive on this front with earlier initiative like e-choupal. Infosys and GMED have now started the first phase of a design program for an ICT-enabled technical horticulture farmer information and supply chain management service program.

Conclusion

From the three original Choupal Fresh stores in Pune, Hyderabad and Chandigarh, the company now plans to roll out 500 new fresh produce retail shops and 100 cash and carry

¹⁹ Vegetables included asparagus, artichoke, snap peas, beans etc. While the study related to export chains, its understanding of chain governance is critical even where the lead firms and suppliers are local or domestic. In the Indian context for example, initiatives like grading, sorting are still new to farmers and are essentially up front an impetus from the lead firm.

outlets in 50 Indian cities over the next two years. ITC is also entering into partnerships with other retailers to supply their fresh produce needs, such as Food Bazaar and QMART.

As the GMED India project ends in September 2008 it can claim to have:

- Potentially created a business model which integrates micro and small producers in FFV value chains,
- identified technical services, which can, even in the absence of contracts, incentivise and possibly sustain relationships in the value chain,
- successfully created a market for its own technical services which are essentially catalytic in nature

GMED India and ITC's experience in the FFV sub sector is critical from the perspective of understanding how smallholders can potentially benefit from organised retail. ITC has created value through integration and GMED facilitated its strategy in this direction. Other retailers such as Reliance Fresh are also beginning to see the importance of this approach and there is a strong possibility that GMED itself be privatized to meet the need for developing relevant strategies and embedded services models.

While the most challenging aspect has been organising the delivery of extension services cost effectively and sustainably, the ITC and GMED pilot is showing what forms of services and market relationships provide a level playing field and increased returns for smallholders. GMED projects that over the next three years in the current program areas of Punjab, Andhra Pradesh and Maharashtra over 125,000 smallholder farmers can be integrated with ITC's initiative alone. In a situation where India is increasingly integrating with global markets this is the very narrow window of opportunity to ensure that smallholders have a foot in the door.

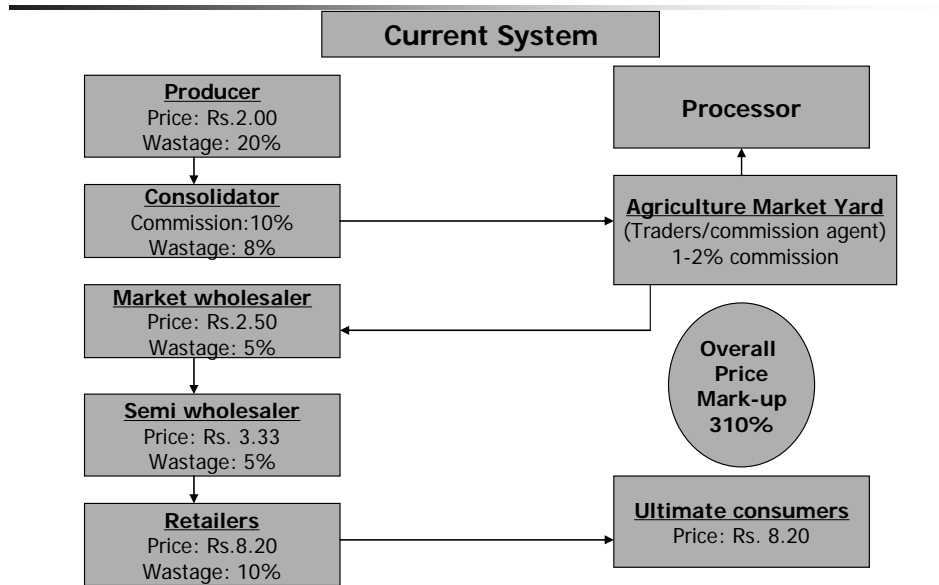
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ANNEX 1:

Market System

Source: S.Raghunath, Delivering Simultaneous Benefits to the Farmer and the common man: Time to unshackle the agricultural produce distribution system – June 2004.



Modern Market System

