

Title Incorporating Smallholder Fruit and Vegetable Farmers into Organized Retail Value Chains
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Abstract

The current rapid growth of the organized retail food sector (modern format supermarkets, hypermarkets and specialty stores) is a significant indicator of the economic and cultural revolution that India is currently undergoing. According to a recent FICCI-Ernst and Young study, organized retail will advance from the current five percent of total retail to 30 percent during the next 10 years. Much of the emphasis in the sector is focused on fresh produce. A corollary development is the growth in export demand for Indian vegetables and fruit.

This growth combined with the potential for India to become an important exporter of fruit and vegetables poses significant growth opportunities for small-scale farmers and the Indian rural economy. In 2001, the latest year for which figures are available, there were approximately 25.4 million Indian fruit and vegetable farmers. Some 70 percent of these farmed plots of less than one hectare (2.5 acres). It requires an average of about 150 small-scale farmers to service a supermarket produce department year-round. Given the number of organized fresh produce outlets already on the ground and those on the drawing board, the organized retail food sector could conceivably involve several million small-scale farmers over the next few years.

The two primary requirements for enabling vegetable and fruit farmers to take full advantage of the opportunities posed by the growth of organized retail and export demand for fruit and vegetables are, first, to provide farmers with assured market access and second, to enable farmers to meet market specifications. Both of these requirements can be satisfied by directly linking groups of farmers with organized retail and export buyers through long term partnerships. Such partnerships should include commitments by the buyers to purchase the farmers' produce, to furnish the farmers with technical extension services, to provide essential postharvest infrastructure, to engage with the farmers in crop planning and traceability measures and to establish mutually agreeable pricing formulas. The farmers in turn must commit to sell their produce to the buyer (as long as the agreed upon terms and conditions are met) and to adopt the buyers' technical production and postharvest recommendations.

The primary proponent of this approach in India today is the Growth Oriented Micro-Enterprise Development (GMED) program sponsored by the U.S. Agency for International Development (USAID) and managed by ACDI/VOCA, a Washington D.C. based economic development consultancy. The program, through a pilot project with an Indian firm, ITC Limited, was able to largely overcome the common belief on

the part of Indian organized retailers that small-scale (one to five acre) farmers could not be effectively integrated into organized fresh produce supply chains.

When the current organized retail boom started several years ago, there were no organized supply chains for vegetables and fruit. Farmers were required by the Agricultural Produce Marketing Committee Act (APMC) to sell all of their produce through government mandated auction markets, or mandis. The country had only a handful of supermarkets. Investors in the nascent organized retail sector initially focused on setting up the front end. Sourcing of vegetables and fruit relegated to the mandis; as state governments began to amend the APMC to allow producers to market outside the mandis system, several firms set up country collection centers for fresh produce procurement. There was a universal perception among the players in the organized retail sector that small-scale farmers could not be relied on to meet their vegetable and fruit supply chain needs.

GMED helped ITC organize three vegetable farmer clusters in Punjab, Maharashtra and Andhra Pradesh to supply fresh produce to ITC retail outlets; introduced packages of simple, inexpensive production and postharvest practices to ITC extension workers for transfer to cluster farmers; designed farmer loyalty programs; and helped develop ITC's fresh produce supply chain. The results for the farmers concerned included significant reductions in production costs, sizeable improvements in productivity and product quality, and significant growth in net income.

Based on the success of the pilot program, ITC recently embarked on an expansion program aimed at opening 500 retail fresh produce outlets in 50 Indian cities over the next two to three years. ITC intends to involve at least 100,000 farmers and 1,500 extension agents to support their fresh produce supply chains. The company will continue to utilize the GMED approach to farmer organization, training and loyalty building.

GMED is currently extending this approach to 6,000 small-scale farmers in six Indian states, in partnership with ITC, wholesaler/retailer Radhakrishna Foodland, a farmer cooperative in Maharashtra, and two other large farmer organizations. Assistance in implementing similar small farmer-based supply chain systems is being requested by several additional retail chains, wholesalers, farmer organizations and state governments.

The most important lesson learned from this experience is that small-scale Indian fruit and vegetable farmers can be successfully incorporated into organized retail and export supply chains. GMED has learned that it is possible to foster loyalty among farmers who partner with organized retail and export firms, provided the partnership benefits both parties. The ITC pilot program also showed that the most important single element in building farmer loyalty is the provision of competent technical extension services on an ongoing basis, to improve farmer productivity and product quality, resulting in higher farm family incomes. Other essentials are equitable, transparent pricing arrangements and the adherence of both parties to agree upon commitments.