Chapter 1

Poverty in India and Value Chains

INDIA IS POOR

This book is about inclusive value chains, which can be one way of alleviating poverty. They are not the only way, and nor can value chains on their own eliminate poverty. Value chains, the links between producers and consumers, have always been with us, but they have only recently been seen to be a tool for reducing poverty.

Poverty is everywhere, but the examples in the book are all from India; there are good reasons for this.

India is in absolute terms the poorest nation on earth. This statement may appear inconsistent with the popular view of India as one of the world's fastest growing economies, whose software industry is a major global player and whose rapid development is regarded more as a competitive threat than a human tragedy.

The facts, however, speak for themselves. China is the largest country in the world by population, but India achieves far higher numbers of people than any other country by the two main poverty indicators, number of people living under the $1.25 per day income line, corrected for purchasing power, and number of malnourished children (see Table 1).

Table 1: Comparative poverty and malnutrition data.

Country	Numbers living under $1.25 a day	Numbers of malnourished children under five years old
India	456 million	52 million
China	208 million	6 million
Nigeria	88 million	7 million

Source: On-line atlas of millennium development goals, World Bank 2009.

This chapter draws extensively on the author's paper "Emerging Marketing Channels for Small Producers", in *Finding Pathways, Social Inclusion in Rural Development,* Premchander, Dudin, Reid (eds.). Books for Change, Bangalore (2009).

Note: Units of measurement in the Indian numbering system: lakh = 100,000; crore = 10,000,000. Indian Rupees (Rs.) where appropriate are converted into USD at a rate of approximately Rs. 50 = $1.00; Rs. 1 lakh = $2,000; Rs. 1 crore = $200,000.

Table 2: South Asia — Comparative child nutrition data.

Country	% of low birth-weight babies	% of under-five children under-weight
India	28%	43%
Pakistan	19%	31%
Bangladesh	22%	41%
Nepal	21%	39%

Source: State of the World's Children, UNICEF 2009.

The figures given in Table 1 are of course in part a function of India's large population, although the comparison with China is sadly remarkable.

Relative figures, irrespective of absolute numbers, are almost as shocking. The data (Table 2) from UNICEF shows how India compares with its South Asian neighbours on two critical measures relating to the health of children.

A country which has enjoyed rapid economic growth, and aspires to be a world power, but which fails so dramatically to take care of so many of its children, must be suffering from some serious deficiencies.

India is of course made up of many different states. The largest state, Uttar Pradesh, which is one of the poorest, has a population of about 170 million people, the state of Maharashtra has about 100 million, and another seven all have populations of between 50–100 million. Reliable information on their poverty levels is notoriously difficult to find, even more so if it is required to be comparable with international data, but the Indian national averages conceal very wide variations, between North and South, and, even more, between rural and urban areas. If internationally comparable data was available at the state level, a fair number of these nine states would be among the very poorest countries in the world.

WHY IS INDIA POOR?

India's poverty is well-known, although it has in recent years been concealed by the more exciting news of growth, billionaires, Bollywood movies and acquisitive India-based multinationals. Many explanations have been put forward for the persistence of poverty, in spite of so much economic success, and there can of course be no single explanation for such a complex phenomenon, which affects almost a fifth of the world's population.

Some, albeit a declining number as time passes, blame the British, who destroyed or throttled Indian industry and encouraged and exacerbated existing communalist tendencies in order to more effectively divide and rule. Others blame the governments of India since independence in 1947. As far back as 1997, at the 50th anniversary of independence, the Hindu newspaper wrote that "the persistence of poverty in India is the world's greatest public policy failure". It is certainly true that many well-intentioned poverty alleviation programmes have tended to strengthen rather than to break down the social and economic structures which perpetuate poverty.

The shock and dislocation of partition, and the resulting and continuing diversion of resources for military rather than more productive purposes, have also played some part, as have corruption, inefficiency and simple bad management. It can also be claimed that India is too big; although its territory is much smaller than that of many countries, its population is enormous, and, more importantly, desperately fissured by language, caste, race and culture. Many Indians agree that the country is effectively ungovernable, because of its size and variety, but nevertheless few are willing to countenance any reduction in its size, in spite of the fact that there are several groups who are struggling to secede and make the country smaller.

India is certainly a vibrant democracy, and the proportion of its people who play an active part in its government by using their votes, particularly the poor, is much higher than in some better-off societies. This may paradoxically contribute to bad government, since India has persistently failed to invest in effective education for its citizens; an uneducated electorate may be less functional than a benign autocracy.

Religion also plays a part. It is of course divisive, but Hinduism, the dominant religion of India, is generally a tolerant creed. There are some exceptions, particularly in recent years when the religion, like others, has been distorted for political purposes, but people who adhere to an almost infinitely polytheist faith necessarily find it easier to accept other Gods than those such as Christians or Muslims who believe in one God.

Tolerance extends not only to other people's religions but also to one's own and others' economic and social condition. One verse of a well-known 19th century Church of England hymn reads "The rich man in his castle, the poor man at his gate, God made them high and lowly, and ordered their estate". This verse is nowadays regarded with amusement, or horror, and is not included in recent hymn books, but the sentiment may be still be relevant in India today, among both rich and poor.

One major feature of Indian society, which is partly a cause and partly an effect of poverty, is the rural-urban divide. This has been in part perpetuated by the heritage of Mahatma Gandhi's passion to preserve village self-sufficiency. It may, or may not, have been possible in the 1940s for villages to feed and clothe themselves from their own resources, when India's total population was less than a third of what it is today, and expectations were so much lower, but it is abundantly clear that this is not possible in the 21st century. In the year 2000 average annual income per capita was just over Rs. 30,000 in urban areas, and about Rs. 11,500 in rural areas (National Accounts Statistics, CSO, Delhi, 2009). This book is about one way in which this yawning gulf can be bridged.

WHAT CAN BE DONE?

There are probably as many possible solutions for India's poverty as there are causes of it. Some political parties on the left propose a return to the earlier policy of economic isolation; this policy can at least in part be blamed for the so-called "Hindu rate of growth" which allowed China and other countries in South-East Asia to leap ahead of India in the years before liberalisation in 1991. It may also, however, have protected India from some of the glaring inequities which have become evident since 1991. "Globalisation", the process of which India has slowly and hesitantly become a part since that year, has certainly not promoted equity, anywhere, and shared poverty may be less painful than dramatic contrast.

The problem is not usually a matter of adopting the right policies or programmes, so much as that of implementing them effectively. There are comprehensive programmes and laws in place to deal with just about every issue, including abortion of female foetuses, bride burning, the need for old age pensions and the low standards of primary education and health care. But they are incompletely enforced and delivered. Even the well-designed National Rural Employment Guarantee Act (NREGA) is in many places failing to deliver the basic right to 100 days work for every rural household which it provides, because of apathy, mismanagement, state level disinterest and corruption. It might be possible to impose higher taxes on the country's growing middle class and thus to spend more on basic services, but there is little evidence that the taxes would be paid or the programmes would be delivered.

Others promote more drastic solutions. The present situation is surely an emergency, but there seems to be little enthusiasm for repeating Mrs. Gandhi's 1975 attempt to put democracy on a temporary hold. The so-called "Naxalites", quasi-Maoist guerrillas who have for many years been waging a desultory struggle against the establishment, largely in rural areas and among the "tribal" people, the descendants of the original aboriginal inhabitants of what is now India, believe that only a violent revolution can redeem India. They are quite small in number, but they have recently become more visible and active, and the Prime Minister has stated that they constitute "India's most serious internal security problem". The apparent success of their colleagues in neighbouring Nepal has of course added some credibility to their claims.

BRIDGING THE RURAL-URBAN DIVIDE

The rural-urban divide is one of the most abiding features of India's poverty, and many of the possible solutions which have been mentioned above, such as the NREGA, or the Naxalite movement, are intended to address it, albeit in very different way. This book describes some isolated attempts to bridge it which have little or nothing to do with government, and which do not depend on non-government organisations, or on corporate subsidy, for their continuation or success. These attempts are as yet modest in scale, but they do show that Marx need not always be right, that globalisation, growth and the power of capital need not always lead to further inequity and marginalisation of the poor.

About two thirds of India's 1.1 billion people live in rural areas and farming is the mainstay of their livelihoods. There are almost 92 million small farms in India, and the average farm size in 1996 was 1.4 hectares (Nagayets, 2005). This figure is steadily decreasing as the population grows and family land is shared between succeeding generations.

The divide between rural and urban people is not only a division of location, or lifestyle, or wealth. They are also becoming increasingly divided by new types of retailing, such as "modern" supermarkets of the type which have been familiar in wealthier countries for over half a century. These supply goods to urban people through channels, or value chains, in ways which urban consumers are coming to prefer over traditional markets and vendors. They can exclude not only the small traders from whom urban consumers have traditionally bought their supplies; but also the small producers, notably small farmers as well as individual artisans.

"Modern" retailing, self-service supermarkets and superstores, have come late to India. This is mainly because governments have tried to preserve employment and have resisted change in retailing for longer than in any other country. These barriers have now been lowered, and it is estimated that modern retailing is growing at 40% annually in India. (Reardon and Gulati, 2008).

Similar changes have long since happened in China, Thailand, Latin America, and in Eastern Europe (Dries *et al.*, 2004) but at a somewhat slower pace. The rate of change in India is unprecedented.

How does modern retailing affect India's small producers? Modern retail chains, and importers, require large quantities of standardised products, delivered at precise times and to closely specified standards. There is a widening mismatch between traditional small producers and the new large multi-branch retailers. As Gulati and Reardon stated in the IFPRI report (ibid.), India's farmers are in for a "painful shock". Modern retailers demand standardised specifications, high-quality, and large quantities, delivered at stated times. They also tend to pay slowly.

Shepherd (2005) writes of the impact of modern retailing in Thailand and Malaysia, where the changes have taken place earlier than in India. One supermarket chain in Malaysia cut the number of its fresh produce suppliers from 200 to 30 in two years. In Thailand, individual supermarkets initially procured produce on a local basis, from 250 suppliers. Within a few years the company switched to centralised buying for all its outlets, using fewer suppliers in total than each branch had used before.

In India such changes have already caused serious tensions; rioters have attacked and burned modern supermarkets, and in the state of Uttar Pradesh, which is home to about 170 million people, including many of India's poorest small farmers, supermarkets have been forbidden by the state governments to carry fresh produce. The protesters often march under the hammer and sickle, which is still a powerful political symbol in

India. Marx seems to have been right: progress seems inevitably to be associated with increasing inequity.

India cannot retreat, however, to the economic isolation which characterised its first 54 years of independence. There is an urgent need to establish "value chains", which can include rather than exclude the smallest producers. The term is used to describe the set of institutions through which a product passes from the initial producer (or producers) to the final consumer. For edible agricultural products, the phrase "farm to fork" is used to encapsulate what the chain does.

Traditional value chains were, and in India still are, made up of large numbers of small-scale actors. Small farmers and artisans sell through networks of local traders and other middlemen who in turn supply to local grocery shops, market traders and mobile vendors. Now this equilibrium of scale is being upset, as large multi-outlet retailers begin to take over from small traders whose buying power more nearly matches the production capacity of the small producers who supply them.

The "natural" tendency, as has happened in Europe and elsewhere, is for small producers to be consolidated into larger units which can more nearly match the requirements of the traders to whom they sell. In India, this is not socially or politically possible, because of the predominance of small farmers and their lack of alternative opportunities. Ways have to be found to include small producers without preventing the development of new forms of retailing which customers prefer. In fact, inclusive value chains.

International trade has also become far more important in the Indian economy. The following table (Table 3) shows the dramatic rate of this change:

Table 3: India's international trade data, 1987–1997–2007.

	1987	1997	2007
% of GDP from exports of goods and services	5.7%	10.8%	21.3%
% of GDP from imports of goods and services	7.1%	12.1%	24.4%

Source: World Bank Development Indicators, 2009.

Farmers and other small-scale producers in India thus have to cope not just with a totally new and unfamiliar type of domestic buyer. They face increasing competition from foreign producers, which usually operate at a far larger scale, and they must also adjust to the demands of export markets, which require the same kind of consolidation as domestic modern retailers.

The majority of India's poor, particularly those in rural areas, are generally not employed, or un-employed. They are self-employed, as small and marginal farmers or independent artisans. It might or might not be possible to create jobs for them, but this is not the solution. If they are not to be left even further behind, millions of very small independent producers must be included in value chains which will enable them to increase or at least to maintain their incomes. The examples in this book show that this can be done.

There are many obvious reasons why small and marginal producers, like marginal communities, districts, states and even nations, are often excluded from the benefits of economic and social development. These barriers are more difficult to overcome in rural India, than perhaps anywhere else in the world.

The physical distances are not great, except in a very few mountain or desert regions, and the word "remote" is often used in India to describe communities which may only be a few miles or even a few minutes drive or walk from more "mainstream" areas. The boundaries of caste and tribe are more powerful than miles or mountains, and small producers are often still defined by caste. A weaver whose hut is a few yards from a Brahmin's house is far further away from his neighbour than a nomadic shepherd or farmer who measures the distance from his neighbours in days of walking.

Such people also lack the means to find out about new opportunities; they cannot access effective means of communication. They may speak minority languages, many if not most of their adult population, particularly women, are illiterate in any language, and they lack the skills and the equipment which might enable them to communicate at a distance through technology, such as radio or television, telephones or computers.

They also have low-quality physical communication; they are often only linked to mainstream markets by low-quality roads, which may be totally impassable during floods, and even the better roads are poorly maintained and are often blocked.

Even if these people can establish physical contact, or if they can use equipment for communication at a distance, and if they can find a common language, such groups are often socially excluded. They dare not even go into a bank or clinic or government office, still less the office of a large formal business which might be a buyer for what they produce, or to telephone them; if they do summon up the courage to make the initial contact, the staff may be uncomprehending, unwelcoming, or downright rude.

Such exclusion also reinforces itself. If someone believes that he or she is unlikely to be welcomed or given a fair hearing, this will be transferred through body language, voice or even written words, to whoever is the intended recipient of the communication, and will be reinforced by their reaction.

The Indian Government's policies since independence have unwittingly but strongly reinforced such people's lack of self-esteem. All manner of preferences and reservations are in force to ensure positive discrimination in favour of lower caste people and the so-called tribals, and these have become powerful tools of political patronage. These have nurtured the belief that lower caste and tribal people must have preferential treatment to succeed. There is no better way of creating and perpetuating a sense of personal and community inadequacy than the use of the very common Indian official label "the weaker sections".

These barriers lead to low expectations by those who are the "gatekeepers" to the formal and informal institutions through which mainstream resources can be accessed, and low aspirations on the part of the excluded. The problems are compounded by ill-health, by people's lack of "modern" marketable skills, and by wide-ranging family and community responsibilities which make long-term planning very difficult.

In India, the rural poor, most of whom are very small-scale farmers or artisans, have been excluded for thousands of years. They have always been isolated from mainstream activities, within their own villages and local areas — except for paying taxes, whether to local rulers, the British Raj or post-independence authorities — but the impact of this isolation has been partly mitigated by the narrow compass of the activities within which rural communities have traditionally moved.

When individual households and villages are nearly self-sufficient, for goods and for services, exclusion is less damaging than when information, services, markets and physical supplies have to be accessed from much further away, and even globally. Progress and change were always difficult, but the *status quo* could be more or less maintained. In a globalised world, those who are excluded and cannot be linked to wider networks rapidly become worse off, both relatively and absolutely.

Small and marginal producers in India do have some advantages, even or perhaps particularly in the contemporary globalised world to which they are forced to belong. These may be very modest, and may even seem insignificant by comparison with their weaknesses, but if they are not recognised there are only two alternatives: to ignore the excluded people and their poverty, or to increase and perpetuate their dependence on ineffective and pauperising policies such as reservations and subsidy.

The first and most obvious strength is that they are cheap. Women and men who are used to working for long hours, for Rs. 50 a day or less, clearly have an enormous price advantage when compared with their better-paid competitors, even in India. The long-term aim should of course be to enable small producers to increase their earnings, not merely to maintain them. Poverty is as much a matter of uncertainty and vulnerability as it is of low income, however, and regular income, even at a very low level, is better than the same amount or more, which is unreliable.

Poor producers are cheap; they are also flexible. They are willing to work whenever and wherever work is available. They will travel large distances, even at short notice, to work, and they will work at unsocial hours, in difficult conditions, as the task demands. They are also able to fit several activities into the same day, in ways which help them to be competitive with more formal producers. This is of course the result of their poverty, but it also confers advantages over more fortunate workers, which can be exploited for their benefit as well as their employers.

Small farmers and artisans can also mobilize even lower cost workers to assist and supplement their own work. It is easy to dismiss all underage labour as illegal and immoral, but small-scale producers can work effectively as family units, for very low wages per person, which when aggregated may be well over what an individual worker would earn if he traveled to a job and left his family behind.

The increasing importance of the English language, more demanding phyto-sanitary and other regulations, the increasing scale of demand and the need for larger quantities of standardised varieties, shapes, qualities and sizes, are all factors that threaten to exclude small producers from local, national and international markets.

Self-service retail chains, as well as exporters, find it easier to deal with similarly large formal producers than with small informal ones. The scale of an individual Indian farmer's crop, or of an individual weaver's output, is well-matched to the scale of demand of traders and customers in a local village market or of vendors and "mom and pop stores" in a small town marketplace, and to the capacity of the intervening intermediaries in the value chain which connects them, if there are any.

Just one self-service outlet, even a small-scale "mini-market", which is becoming common in urban India, needs much larger quantities than what an individual producer can provide. They must be delivered to a strict schedule and of a standard quality. Chains of many such outlets, widely spread in cities throughout a whole region or even the whole of India, clearly place greater demands on their producers, particularly for fresh produce. There are increasing number of such chains in India, operating at the level of individual cities, states or nationally. In Bhubaneswar, for instance, the relatively small capital of the State of Orissa that has under one million inhabitants, there were no such retailers in the year 2003. By 2008, there were 21 of them.

Value chains, like any other relationships, are more likely to be efficient and beneficial to all parties if each institution in the link is reasonably similar to the others in scale, and power. If one stage in the chain is undertaken by a large number of small independent entities, which together have to deal with one large individual institution, either as a supplier, a customer, or both, the mismatch may be dysfunctional for the whole chain.

There are nevertheless some trends in global markets, some of which are local, others which are India-wide and others which may be outside India and way beyond the normal knowledge of traditional producers. These can allow some small producers to improve their livelihoods and even to attain some relative prosperity.

The threats are powerful, immediate and visible, and are a part of the "normal" marginalising impact of economic progress which has been gradually excluding India's small producers for many generations. The opportunities are mainly new, and sometimes counter-intuitive, and it is not easy to grasp them. They do however hold out hope for some of India's excluded millions.

Many of these new developments are at the forefront of progress, and have arisen because of the greater incomes and more sophisticated taste of better-off communities, which have moved beyond basic needs. The modern communication technologies that bring those who are "connected" closer together, and exclude those who are not, can also make it easier for small producers to learn about what sophisticated urban and foreign consumers want, and what is required to satisfy them. Organic crops are perhaps the best example of this.

Small producers may lack formal education and "modern" skills, but they do have traditional knowledge and skills in crafts, and farming, which can confer special advantages. They are in a good position to exploit the growing demand for organic foodstuff, mainly from higher income consumers, initially abroad and now also within India. Organic farming usually substitutes labour for purchased inputs. Hand weeding replaces herbicides, integrated pest management replaces pesticides, composting replaces purchased chemical fertilizers, and "micro-drip" irrigation replaces more capital- and water-intensive techniques. All these practices require more sustained labour inputs than the "modern" inputs they replace, and small producers' labour is cheap.

Organic farming also requires local knowledge of soil conditions, pests and weather. Marginal farmers know their small plots intimately, and they are better able to grow organic crops than large-scale farmers who in effect standardise their land by the application of chemicals.

Over a quarter of a million farmers have committed suicide in India in the last 10 years, in large part because of unsustainable levels of debt, from banks and from moneylenders. This massive tragedy graphically demonstrates the dangers of heavy farm inputs, and the credit which is needed to finance them. Organic farming reduces the need for credit, and it is particularly suitable for small-scale producers who are often excluded from formal bank loans.

"Fair-trade" products can further improve the position of small producers, as wealthier consumers are willing to pay higher prices for products which are certified as having been bought at "fair" prices, often through producer-owned co-operatives or other forms of community institutions. These institutions have always been prone to failure, often because of government or political interference, but there are now the beginnings of some customer preference for their products.

In some wealthy and sophisticated markets, there is a reaction against over-standardised products and designs. This often applies to non-food items, such as garments, home furnishings, furniture and decorative items, but it is also used in some markets for custom-packaged foodstuffs. Modern communication can even make it possible for customers to send their individual requirements direct to producers, and more flexible and secure small-unit transport services which enable small producers to send custom-made products direct to the final customers. There has thus far been very little use of this form of direct marketing by Indian producers, perhaps because of inadequate infrastructure and unreliable transport, but the potential is there.

Small-scale producers are already excluded from some mainstream markets, and globalisation, integrated value chains and new technologies can make this worse. There are also many opportunities which such producers can exploit. The following table (Table 4) briefly summarises the position, following the traditional SWOT approach of strengths, weaknesses, opportunities and threats.

Table 4: Small producers in emerging markets: A simplified SWOT analysis.

Strengths	Weaknesses
Low cost	Socially and physically "remote"
Family labour	Illiteracy
Traditional knowledge and skills	Lack of language skills
Flexibility	Ill-health
	Low aspirations and self-esteem
	Digitally divided from mainstream
	"Weaker sections"
Opportunities	Threats
Low input organic farming	Standardisation
Custom-designed individual products	Bulk requirements
Fair trade preferences	Inexorable growing world-wide inequity
Resurgence of co-operatives	Government subsidies and preferences

These strengths and opportunities are not merely optimistic visions of what might be. There are many examples of totally modern inclusive value chains which have been developed in recent years. Fourteen examples are described in the pages that follow. They demonstrate that even the smallest producers can be linked to modern markets in ways which are profitable for all parties.

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