

Available online @ www.iaraindia.com
 SELP Journal of Social Science - A Blind Review & Refereed Quarterly Journal
 ISSN: 0975-9999 (P) 2349-1655 (O)
 Impact Factor: 3.655(CIF), 2.78(IRJIF), 2.77(NAAS)
 Volume XI, Issue 46
 October - December 2020
 Formerly UGC Approved Journal (46622), © Author

VALUE CHAIN GOVERNANCE: FORMAL AND INFORMAL RULES WITHIN BLACK PEPPER VALUE CHAIN IN KERALA

HENA.M

Research Scholar,

Department of Rural Marketing Management, College of Cooperation, Banking and Management, Kerala Agricultural University, Thrissur, Kerala

&

Dr. USHADEVI, K.N.

Professor and Head,

Department of Rural Marketing Management, College of Cooperation, Banking and Management, Kerala Agricultural University, Thrissur, Kerala

Abstract

Black pepper apparently called as “Black Gold” internationally, India hold the crown of leading producer and exporter of black pepper, lost to Vietnam in 2014. The value chain of black pepper in Kerala includes different actors such as black pepper farmers, hill produce dealers, wholesalers and exporters and these actors had to comply with certain formal or informal rules and regulations in the value chain. The study has identified the formal and informal rules that influenced the value chain governance within the black pepper value chain in Kerala. Delay in getting permission at Government offices was identified as an important informal rule by the exporters, while down grading of the black pepper to reduce the price purposefully by the dealers was revealed by the farmers. Thus, the farmer had an experience of getting less price than the market price which shows that the black pepper farmers are more affected by the informal rules rather than the formal rules imposed over them

Keywords: *formal and informal rules, value chain, governance, black pepper.*

1. Introduction

Agriculture value chain analysis is a comprehensive analysis to assist small holder producer of less developed and developing countries to stimulate economic growth of poor (Haggblade *et al*, 2012). UNIDO (2009) staff working paper on agro-value chain analysis and development made the concept of value

chains in agriculture more explicit and precise. Accordingly, agro-value chain analysis can reveal “the need for enterprise development, enhancement of product quality and safety, quantitative measurement of value addition along the chain, promotion of coordinated linkages among producers, processors and retailers, and the improvement of

competitive position of individual enterprises in the marketplace". The Global Value Chain (GVC) approach gives emphasis to the concept of 'governance', that is, the value chain operations are performed by the producers in the developing country, where the parameters for the products and processes are specified by the buyers' right through the chain. Government agencies and international organizations are compelled to meet the compliance in quality, labour and environmental standards (Humphrey and Schmitz, 2001).

The value chain governance cannot be limited to the legal and regulatory requirements that influence business operations and market access in a value chain, in real sense, it includes an array of instruments like the contracts between value chain participants, government regulatory frameworks enforced, to even the unwritten "norms" that determines the participants in the market. Gereffi (1994), further elaborated the term in detail with the importance of exchange of information and production activities as, the degree of control to outline the functional division of labour in the chain, determining the allocation of resources and gains and its flow within the chain.

2. Statement of the Problem

Black pepper apparently called as "Black Gold" internationally, was the first oriental spice offered to Western countries like Rome and Greece. Later, this spice has gained high demand and value in Europe and its fame has even made changes in Western cuisine along with the entry of other spices (Ravindran and Kallapurackal, 2012). Since 1999, India, has lost the crown of leading producer and exporter of black pepper to Vietnam (IPC, 2015). It is true that value chain actors must comply with certain rules and regulations in the value chain. Rules and regulations can be either formal or informal. Formal rules are decided and implemented with official and legislative power and decisions, while informal

commercial rules are determined by the powerful parties in the value chain over the weak parties. Rules like voluntary standards are for products with specific standards in agriculture, like organic products. Certain informal rules were also found imposed over the actors in the value chain of black pepper especially, for farmers. There are certain dominant formal and informal rules in relation with selling and buying of black pepper in the market which influences the selling and buying of black pepper between actors in each nodes of the value chain. Hence, the important formal and informal rules that the value chain actors must comply being an actor in the black pepper value chain were identified to understand the relationships among the actors in the black pepper value chain.

3. Materials and Methods

The study was confined to two districts in Kerala, Idukki and Wayanad districts, since these districts accounted for the first and second position under the area of Black Pepper cultivated in Kerala during 2016-17 and had the maximum share of about 51.4 per cent of the total production. The primary data was collected from 120 black pepper farmers (60 farmers each from Idukki and Wayanad districts) and the other important value chain actors were identified using snowball technique which included 70 private traders (including 38 hill produce dealers and 32 wholesalers) and three exporters, Furthermore, open end interviews were conducted with key informants in the value chain like Spices Board Officers, NABARD Officers, Agriculture Officers in Krishi Bhavans, Directors and staffs of NGOs, Managers of exporting companies and other service providers.

4. Scope of the study

Identifying the dominant formal and informal rules in relation with selling and buying of black pepper in the market may help to understand farmer's position in the chain and to help the farmers to

realize the hurdles and to realize better retail prices. Finally, it may lead to improve the livelihood situation of rural population involved in black pepper production in Kerala. The results of the study possibly would expose the role of the actors in the value and how much these actors tied up under the formal and informal rules prevailing in the value chain.

5. Objective

The objective of the study is to identify the formal and informal rules that influence the value chain governance within the black pepper value chain in Kerala.

6. Review of Literature

Raju and Singh (2014) pinpointed the significance of pro-producer agriculture value chain and further, it can be a way for poverty reduction and social development. They also highlighted the necessity of small farmer integration, small holder agriculture viability, and collaboration across chain actors and importance of rural advisory and support services to farmers especially, in case of market information and innovative production and processing techniques. Likewise, it is equally important to strengthen the value chain relationship between small holder producers and other actors in the chain through mutual benefit and cooperation. While in the view of Kaplin sky *et al* (2001), "Governance" is the authority to decide who should participate and who should not participate, as an actor in the value chain. He added the authority to fix rules; render help to chain participants to achieve the pre fixed standards and to check the chain performance are also included in governance thought. Situations are not always easy, certain firms or actors in the value chain structure generate their own restrictions and made it oblige on other actors to abide by these parameters. That is the reason why, Humphrey and Schmitz (2001) doubted that the question of governance arises when some firms in the

chain works according to parameters set by others. For the compliance of such parameters, essential support is needed from governance structures to transmit information about parameters and to apply compliance.

7. Results and Discussion

As revealed by the value chain actors that there are certain dominant formal and informal rules in the market. The important formal rules that the value chain actors must comply being an actor in the black pepper value chain were identified from the black pepper farmers, exporters, wholesalers and hill produce dealers. Compliance with the formal set of parameters is compulsory for the value chain actors, which were properly monitored and enforced through inspection and testing by the officials, while the informal rules created by the strong parties in the value chain and impose it over the weak parties. The present study identified the important formal and informal rules that influenced the value chain governance under the following heads;

- 7.1 Formal rules for Exporters
- 7.2 Formal rules for Wholesalers/Hill Produce Dealers
- 7.3 Formal rules for Black pepper farmers
- 7.4 Informal rules for Exporters
- 7.5 Informal rules for Black pepper farmers
- 7.6 Informal rules for Wholesalers/Hill Produce Dealers

7.1 Formal rules for Exporters

The formal rules and regulations were enforced over the exporters by the Central and State Governments in India and the Governments of importing countries, international agencies etc. and these rules were implemented and monitored through different government agencies.

Table 1
Formal rules for Exporters

Sl No.	Formal Rules and Regulations	Rule Setting Authority
1	Import Export Code (IEC)	Directorate General of Foreign Trade
2	Certificate of Registration as Exporter of Spices (CRES)	Spices Board of India
3	Factory Registration (under Factories Act, 1948)	District Governing Authority
4	Guidelines for Quality Improvement (2014),	Spices Board of India
5	Quality Testing through Quality Evaluation Laboratory (QEL)	Spices Board of India
6	Spice House Certification to Spice Processing Establishments	Spices Board of India
7	Food Safety and Standards Act 2006	Government of India
8	Quality Standards required for black pepper export <ol style="list-style-type: none"> 1. Japanese Agricultural and Organic Standards 2. Korea Organic 3. BIOSUISSE-Switzerland 4. EU Regulations 5. National Programme for Organic Production India(NPOP) 6. United States Department of Agriculture National Organic Programme (USDA NOP) 7. Demeter standards for bio-dynamic farming 8. Naturland standards, Germany 9. Naturland Fair, Germany 10. Fairtrade (FLO ID-21286) 11. ISO 22000:2005 by Bureau Veritas 12. ISO 9001:2008 14001 :2004 13. BRC Grade AA by Bureau Veritas 	Standards set by different Countries and Organizations

The formal rules and regulations to be complied by the exporters are presented in Table.1. Import Export Code (IEC), is a mandatory license and a prerequisite for importing or exporting commodities from India. It is a ten digit identification number issued by the Directorate General of Foreign Trade to start business that deals with export or import. Certificate of Registration as Exporter of Spices (CRES) is issued by Spices Board of India, under Section II of the Spices Board Act. Application should be submitted to Spices Board, with registration fee, GST

registration certificate, bank certificate, PAN Card etc. In Kerala, factory registration is mandatory as per the provision of the Factory Act 1948, to ensure that a factory complies with the stipulated rules and safety guidelines. Spices Board's guidelines for the quality improvement of spices (especially for black pepper) includes limit of contaminants stipulated by importing countries, permitted level of pesticides residue, steps to be taken in harvesting, processing and storage of black pepper, the control of moisture content, hygiene-

environmental and personal etc. Quality Evaluation Laboratory (QEL) was established by Spices Board in 1989, provides analytical services to the spice industry, monitors the quality of spices produced and processed in the country. The Laboratory in Kochi is certified by British Standards Institution, UK, accredited under NABL (National Accreditation Board for Testing & Calibration of Laboratories). Processing Units of Spices should obtain Spice House Certification also from Spices Board. Food Safety and Standard Authority of India (FSSAI) regulates the food sector by laid down the guidelines and standards to be followed by the food producers, under Food Safety and Standard Act 2006. Good Agricultural Practices (GAP) are approved by American Spice Trade Association (ASTA) and recommended by Spices Board of India suggests various standards to achieve food safety. Sanitary and Phyto sanitary measures are World Trade Organisation (WTO) standards set by three organisations: i) Codex Alimentarius Commission (Codex) ii) World Organisation for Animal Health (OIE) and iii) International Plant Protection Convention (IPPC). In addition to the above explained regulations, certifications and standards, each importing country has

their own standards separate for organic and inorganic products.

The formal rules from 1 to 7 (Table.1) were compulsory rules, therefore, complied by all the three exporters, while the exporters were not registered or certified for all quality standards required by various agencies in different countries. They have obtained the certifications of different countries according to their export requirement. Certificate of National Programme for Organic Production (NPOP) in India, United States Department of Agriculture National Organic Programme (USDA NOP) and Fair trade (FLO ID-21286) were the quality Standards certified by all exporters included in the value chain.

7.2 Formal rules for Wholesalers/Hill Produce Dealers

The buying and selling of agriculture produces including allspices producing in the districts of Idukki and Wayanad were carried out by the wholesalers and hill produce dealers. They were liable to obey the following formal rules to start the business and to run their business in the locality. Table 2 gives an idea about the formal rules under which wholesalers and hill produce dealers were running their business.

**Table 2
Formal rules for Wholesalers/Hill Produce Dealers**

Sl No.	Formal Rules	Rule Setting Authority	Hill Produce Dealers (N=38)	Wholesalers (N=32)
1	Certificate of Registration (Kerala Shops and Establishments Act, 1960)	Government of Kerala	38 (100)	13(40.62)
2	Trade License Registration from Municipal Corporations, (Kerala Municipality Amendment Act 1996)	Government of Kerala	-	19(59.38)
3	GST Registration	Government of India	38(100)	32(100)
4	Lease Agreement under Kerala Buildings (Lease and Rent Control) Act, 1965	Government of Kerala	33(86.84)	31(96.88)

The establishment which is not registered under the Factories Act should be register under Certificate of Registration (Kerala Shops and Establishments Act, 1960) irrespective of the number of workers. The fees has to be remitted to the nearest Office of Assistant Labour Officer, that is, 60 days before the date of commencement of business and the application for renewal of registration should be submitted 30 days before the expiry of the registration. Trade License Registration under Kerala Municipality Amendment Act 1996, became mandatory for doing dealer or wholesaler business by the amendment of the same act in 2014, where the Kerala trade license is a document of authorization issued by the state government for granting permission to regulate and carry out any form of business from a particular locality. Goods and Services Tax (GST) Registration started in July 1st 2017, gives all business a unique Goods and Services Tax Identification Number (GSTIN) after registration which aimed to replaced many indirect taxes and changed into a comprehensive, multistage, destination based tax that is levied on every value addition.

All the hill produce dealers were having certificate of registration from the Panchayat and forty one percent of the wholesalers were also registered under the Panchayat, while a remaining fifty nine percent of wholesalers were having trade license from the concerned municipality in the locality. It should be noted that all the wholesalers and hill produce dealers had

GST registration for the payment of goods and services tax. Lease or rent agreement was signed by 86.84 percent of hill produce dealers and 96.88 percent of wholesalers as majority of the dealers and wholesalers were on rented shops, and the lease agreement was prepared under Kerala Buildings (Lease and Rent Control) Act, 1965.

7.3 Formal rules for Black pepper farmers

The formal rules applicable to certified organic farmers and conventional farmers were listed in Table 3. The black pepper farmers (120 farmers from Idukki and Wayanad Districts) were classified into 55 certified organic farmers (45.83 percent) and 65 conventional farmers (54.17 percent). For this reason, the formal rules which were liable to comply by both type of farmers were different. Out of the 120 farmers, 45.83 percent of the total farmers (55 certified organic farmers) has complied with the rules set by the organic certifying agencies and the NGOs. The NGOs and the organic certifying agencies checks and assures the compliance of organic farmers in the study area. The conventional farmers (54.17 per cent) got advice and recommendations from Krishi Bhavan and other research institutes.

Prohibition of cultivation in the forest land, eligibility to receive subsidy (under agriculture schemes and packages) and credit availability and the rate of interest were the other formal rules that the all the black pepper farmers are agreed to.

Table 3

Formal rules for Black pepper farmers

Type of Farmers	Formal Rules	Rule Setting Authority
Organic Farmers	Crop management in the farm according to certifying agency (permitted organic pest control and organic manures only) Post-harvest handling of black pepper Maintain organic quality (to avoid rejection of produce after quality testing)	Organic Certifying Agency NGO (Promotes organic)

		farming)
Conventional Farmers	Crop management in the farm (advice from Krishi Bhavan) Post-harvest handling of black pepper Maintain quality (to avoid rejection of produce after quality testing)	State Department of Agriculture Kerala Agricultural University
Organic and Conventional Farmers	Phytosanitary measures a. tolerance limit for residues, b. restricted use of substances, c. labeling requirements related to food safety, d. hygienic requirements	World Trade Organization
	Prohibition of cultivation in forest land (under Forest Conservation Act, 1980) Right of ownership and self-cultivation of forest land, access to collect, use and dispose of minor forest produce - under The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006. Credit availability & rate of interest Eligibility to receive subsidy (Under Agriculture schemes and Packages)	Government of India Government of India Reserve Bank of India, Public and Private sector Banks State Department of Agriculture

The tribal farmers (5 per cent) has the right of ownership and self-cultivation of forest land, access to collect, use and dispose of minor forest produce under The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006. The phyto sanitary measures adopted by WTO such as tolerance limit for residues, restricted use of substances, labeling requirements related to food safety and hygienic requirements does not have any influence over the farmers directly.

7.4 Informal rules for Exporters

The exporters included in the study mentioned about the unnecessary delay at Government offices as an important informal rule that affects their exporting business. Due to the high competition

among the spice exporters in the country the exporters in the value chain keep secrecy of their export businesses and contacts abroad, to avoid losing business with foreign clients.

7.5 Informal rules for Black pepper farmers

It has been noticed that farmers were highly affected by the informal rules in the value chain as the black pepper value chain is a buyer driven value chain. The identified informal rules for the black pepper farmers were downgrading of the product by the buyers and buyers offer price less than the market price, are presented in Table 4.

Table 4

Informal rules for Black pepper farmers

Sl No.	Informal Rules	Rule Setting Agency/Firm	Organic Farmers (55)	Conventional Farmers(65)
1	Downgrading of the product by the buyer	NGOs/Hill Produce Dealers	10(18.18)	65 (100)
2	Price offered less than the market price	NGOs/Hill Produce Dealers	-	65 (100)

Cent per cent of the conventional farmers felt that down grading of the black pepper to reduce the price purposefully by the dealers and they revealed that were mostly offering price less than the market price, so that they can ensure a better margin for their business. Further, they added that not all the buyers makes spot payment for the purchase, but they delay the payment to the farmers due to different reasons. Certain buyers encourage the farmers for advance payment from the traders, for their marketable surplus even before the harvest season, while the farmers in the study area denied such a practice.

7.6 Informal rules for Wholesalers/Hill Produce Dealers

Wholesalers and hill produce dealers informed that the important informal rule they compelled to follow were compromise over the price and the profit in order to keep relationship between the parties engaged in pepper trade. Though they deal in different hill produce everybody play safe to avoid loss in the business. When price of the black pepper was high the profits for the traders were high and when the price decreases, their profit also gets reduced. Further, that it's not possible to pinpoint the informal rules exists in other areas, but they agreed that there exist certain practices like engaging the same labourers for cleaning and drying and loading and unloading of black pepper.

8) Conclusion

Value chain governance comprises of government regulatory frameworks enforced, contracts between value chain participants to even the unwritten “norms” that determines the participants in the market. It is noticed that the participants in black pepper value chain also have to follow certain informal rules other than the formal rules enacted by the rule setting authorities. Delay in getting permission at Government offices as an important informal rule that affected the exporters, while down grading of the black pepper to reduce the price purposefully by the dealers was revealed by the farmers. Thus the farmers get less price than the market price which shows that the black pepper farmers are more affected by the informal rather than the formal rules imposed over them.

9) References

1. UNIDO [United Nations Industrial Development Organization]. 2009. Agro-value chain analysis and development: a staff working paper, Vienna.
2. Humphrey, J and Schmitz, H. 2001. Governance in global value chains. In: Institute of Development Studies. *IDS Bulletin*, Vol. 32, No.3. Available:<http://www.ids.ac.uk/globalvaluechains/publications/HumphreySchmitz.pdf> Accessed: 23.6.2017.

3. Haggblade,S.,Theriault, V., Staatz,J., Dembele,N and Diallo,B.2012. A Conceptual Framework for Promoting Inclusive Agricultural Value Chains, International Fund for Agricultural Development (IFAD), Michigan State University.
4. Gereffi, G. (1994): The organization of buyer driver global commodity chains: How U.S retailers shape overseas production networks, 95-122 In: Gereffi ,G and Korzeniewicz.M (eds.): Commodity Chains. and Global Capitalism, Praeger Publishers, Westport.
http://dukespace.lib.duke.edu/dspace/bitstream/handle/10161/11457/1994_Gereffi_RGC.pdf?sequence=1
Accessed 04.10.2018.
5. Ravindran and Kallapurackal, 2012. Hand Book of Herbs and Spices, Woodhead Publishing India Ltd, New Delhi.
6. IPC [International Pepper Community]. 2015. www.ipcnet.org
7. Raju, K.V and Singh, P.K. 2014. Producers' collectives in sustainable agri-value chain. 3rd National Rural Management Symposium, KIIT University, Bhubaneswar. Gereffi,G., Humphrey,J., Kaplinsky,R and Sturgeon,T.J.2001. Introduction: Globalisation, Value Chain and Development. *IDS Bulletin*, Vol. 32, No. 3, 2001, pp. 1-12. doi:10.1111/j.1759-5436.2001.mp32003001.x Accessed 04.10.2017.