

Agricultural Finance Corporation Ltd

Roundtable Discussion on Role of Farmer Producer Organizations in improving farmers' access to markets

Main Conclusions

1. A Roundtable Discussion (RTD) on the above subject was hosted by Agricultural Finance Corporation (AFC) at New Delhi on 16 April 2010, the first of a series of events on this theme. Dr. Abhijit Sen, Member, Planning Commission of India delivered the Keynote Address, a gist of which is placed at **Annexure A**. Mr. G.C. Pati, Additional Secretary, Ministry of Agriculture, Govt. of India, made brief Opening Remarks, a summary of which is available at **Annexure B**. The Concept Note on RTD is available at **Annexure C**. The list of participants is available at **Annexure D**. The RTD was moderated by Shri Pravesh Sharma.

2. The main conclusions, representing a broad consensus of views of the participants on the subject, are summarized below.
 - i) Learning from the self help group (SHG) experience in the country, farmer producer organizations (FPOs) should be self selecting and not mobilized against any target or predetermined objectives. Felt need and voluntary association are critical ingredients to successful FPOs.
 - ii) The basic unit of any form of FPO (be it a cooperative, informal association, producer company etc.) should be not be more than 20 members to ensure close coordination, ownership and participatory governance. When federating into larger structures, a membership base of between 1000-1500 members appears to be the optimum strength of viable FPOs.
 - iii) FPOs should not take up collective production and marketing efforts immediately. A period of trust building is vital for long term success. Agriculture extension is the most favoured entry-level activity around which a strong FPO can be built. Collective efforts to access inputs in bulk form are also good confidence building moves.
 - iv) Intensive capacity building and training inputs are key to the success of FPOs. These must begin as quickly as possible after the group has formed and must keep pace with growing needs (e.g. marketing, accounts, quality and inventory management etc.).

Over a period of time the asymmetry in the governance capacity of various members of the FPO must be leveled to ensure democratic and transparent functioning.

- v) FPOs should not rush to acquire formal legal status and they can function as informal groups till such time as the need to federate into larger bodies for marketing or input supply arises.
- vi) A small cash contribution as membership charge is desirable to promote a sense of ownership and bonding among FPO members. This can be adjusted against share capital contribution if and when the FPO acquires a legal status as a cooperative or producer company.
- vii) There is a strong felt need for a tier two financial institution that can offer capital and technical support to FPOs. The lesson from India's successful microfinance experiment is that such a second tier institution (which sources its funds in bulk from banks, donors, government sources and international bodies, and on-lends them in turn to a specified category of borrowers) is required to incubate and nurture FPOs on a large scale. Existing financial institutions, especially banks, are unsuited to address the need for capital and other support of FPOs. Legacy institutions such as cooperative financial bodies and regional rural banks lack adequate understanding and human and technical resources to undertake this task. The role of a "champion" for FPOs can be acquired by this institution, mediating not just capital and technology transfer, but addressing the larger policy context as well.
- viii) Professional managerial support is a challenge for FPOs. Current institutional responses (in the form of MBA programmes) are not suited to the needs of these nascent organizations and a local cadre of educated youth may have to be developed to serve as field managers in FPOs. This will call for shorter, diploma level courses to sensitise the potential managers to the special needs of FPOs.
- ix) Mitigating risk is one of the major reasons for mobilizing FPOs, as the limitations of individual resource endowment, entrepreneurial ability and market leverage are overcome through the strength of the collective. Appropriate risk mitigation measures in the form of diversification of resource use (primarily reducing the dependence on crop husbandry and increasing the share of livestock, dairy, poultry, fisheries and horticulture in the product mix) as well as linking up with emerging innovations in risk insurance will be required to increase the attraction of FPOs for cultivators.
- x) Another important risk reduction strategy is entering into partnerships/joint ventures/PPP mode projects with private sector players increasingly looking to source

produce for the fast growing urban retail format. This will require both understanding and expertise, again underscoring the need for a “sector champion”, an institution or body that builds awareness among all players in the sector and helps to develop norms for institutional behaviour.

- xi) A period of handholding may be necessary to bring emerging FPOs to a point where the internal leadership is able to take over critical functions and supervise management. Suitable institutions in civil society and the private sector are best suited for this role. The period and nature of support will vary in the case of each FPO but the danger of dependency should be clearly avoided. In normal circumstances a period of two to three years should suffice to enable a FPO to achieve internal capacity for management, with a gradual shift in responsibilities taking place within the first year itself.
 - xii) The role of government agencies is critical to the success of FPOs. In particular, the government can support capacity building and training, basic infrastructure and knowledge dissemination. The role of government is vital in removing any legal bottlenecks that may exist to enable FPOs to function in an unfettered manner (e.g. mandi laws in several States prohibit direct marketing by farmers to consumers). Venture capital financing and viability gap funding are new areas that require government attention to incubate successful FPOs on a large scale.
 - xiii) A national effort to support FPOs is only possible with a strong leadership role played by the government. This would require a platform or mechanism to be created for civil society and the private sector to be able to join government efforts at FPO promotion. The success of the SHG based microfinance movement suggests that such a coalition is both possible and desirable in the current context.
3. The RTD concluded with a resolution to share the main conclusions agreed upon with a wider audience.

Keynote Address
by Dr. Abhijit Sen,
Member, Planning Commission of India
at Roundtable Discussion on Farmer Producer Organizations
16 April 2010

1. Uneven growth in agriculture GDP has been a source of concern for Govt. for at least the last decade. Hence XI Plan strategy of 'inclusive growth' is at its core an attempt to boost investment and growth in agriculture, thereby boosting employment and incomes in the sector.
2. Significant increases in Plan allocations for agriculture at the Central and State level have been achieved during the past three years. However, commensurate results in the form of sustained growth in agri GDP are yet to materialize, as the impact of weather and volatile markets continues to affect the overall performance of the sector.
3. While the focus of government interventions to date has largely been on increasing farmers' access to capital, technology and markets, building institutions has perhaps not received adequate attention. The current roundtable discussion on this subject and similar efforts in the recent past by several official and civil society bodies is therefore most timely and welcome.
4. Producer organizations in any form, be they cooperatives, producer associations, informal farmer networks, producer companies etc. ultimately serve to address a core set of objectives: they mitigate risk in agriculture through collective production and marketing decisions; they reduce transaction costs, especially for small producers; they help to access capital and technology and, perhaps most importantly, they allow producers to deal with markets on more balanced and equitable terms.
5. While all this is fairly clear and uncontested, unclear are answers the following set of questions: what is the most appropriate form of producer organization in agriculture? Is it cooperatives, producer companies, federations or some other institutional structure that needs to be imagined specifically to address the unique challenges of our agriculture situation? Who should promote such organizations? Should the government take a lead role or leave it to civil society to act as promoters? What should be the role of private sector players in this initiative? Should they concentrate only on the front end of retail trade or should we also expect them to invest in backend facilities from the farmgate onwards? How do we ensure that small

producers benefit from such interventions? Will women have a role to play in these institutions?

6. These and several other related questions will have to be debated upon and a menu of solutions offered if there is to be any forward movement on this idea. I am happy to see that AFC has invited a rich cross sections of potential stakeholders, including civil society and private sector players, to the discussion today. It is perhaps stating the obvious that no one player can achieve success in addressing the challenge of building member based farmer producer institutions on their own. Government will have to create an enabling environment to attract both civil society and private sector agents, besides of course the farming community itself, to lay the foundations of a successful strategy of institutional development.
7. At the same time there will also be a need to identify the roadblocks that prevent the growth of producer organizations and move rapidly towards removing them. Agriculture marketing laws come readily to mind as one such potential hurdle and I expect that at some point State Governments will have to be engaged seriously to enlist their support to an institution building approach. The fact that they are not represented here today in sizable numbers is not, I hope, a sign of their disinterest but only a scheduling mismatch.
8. Finally, as I wish this discussion all success, I look forward to receiving a gist of the major conclusions and suggestions made during the course of the day and in particular hope to see an actionable strategy to seed, nurture and strengthen farmer owned producer institutions in the near term. I have gone through the documentation prepared for this meeting and found it highly focused on the theme. I expect to see similar quality of documentation summarizing the day's deliberations. Thank you.

Opening Remarks by
Mr. G.C. Pati, Additional Secretary, Ministry of Agriculture
at Roundtable Discussion on Farmer Producer Organizations
New Delhi 16 April, 2010

1. Ministry of Agriculture has been focused on implementing the XI Plan strategy of boosting investments and incomes in the agriculture sector through a large number of Centrally sponsored schemes, which provide the tactical intervention to realize the overall growth strategy articulated by Planning Commission.
2. Besides earlier CSS carried forward from the X Plan, two major, 100% central grant based schemes launched during the XI Plan aim to address the core challenges of enhancing productivity in lagging regions as well as stimulate investments in core agricultural infrastructure and support systems. These two schemes, the National Food Security Mission and the Rashtriya Krishi Vikas Yojana, between them have significantly enhanced both central and state outlays in agriculture.
3. Since the X Plan, the Ministry has recognized the role of leveraging the collective power of the farming community in grounding its schemes effectively. One example of this is found in the ATMA scheme, which seeks to promote technology extension efforts using the agency of farmers themselves.
4. The concept of the 'farm school' under ATMA has been received enthusiastically by the farming community and several states have mobilized thousands of farm schools, either in collaboration with NGOs and other non-official bodies or through departmental efforts.
5. This has resulted in the penetration and anchoring of frontline agricultural technologies in the farming community itself, reducing their dependence on visiting field extension workers. Farm schools are also being promoted under NFSM in several states.
6. The experience convinces us that a broader effort to mobilize farmers beyond extension objectives is both necessary and timely. We are open to ideas to develop a strategy to support member based farmer producer organizations and feel that there is enough flexibility and space within existing schemes, especially RKVY, NFSM and ATMA, to achieve this objective without the need to earmark separate funds for the same.

7. In addition, I may also state that we welcome the involvement of civil society and the private sector, besides the government and other institutions associated with agriculture, in promoting these institutions. I hope that today's discussions will lead to some sort of a roadmap to help us reach this goal. The issues that I think are important in this regard include the agreed form of institutions to be supported, the level of assistance, its duration and scope, and most importantly, how the intervention will be sustained after the initial funding support is withdrawn.
8. I congratulate AFC and the team which has made this meeting possible today. A wealth of experience and talent is present in this room today and I am sure that the rich discussions to follow will shed more light on this critical subject to enable a concrete set of recommendations to emerge. I wish the conference all success.

**Concept note on
Roundtable Series on
Role of Farmer Producer Organizations
in improving farmers' access to markets**

1. Background and Rationale

Globalization is changing the way agriculture marketing is organized, even within relatively sheltered produce markets such as India. National, regional and local marketing systems are increasingly adopting global best practices in procurement, storage, transport, packing and processing of food products. Food supermarkets are a reality and even if their present market share is tiny, they are likely to become major players in the coming decades to cater to the growing demand for quality farm produce delivered in modern formats. This in turn will create demands for higher food quality standards and usher in new procurement systems. The pressure to loosen the tight hold of the APMC inspired *mandi* system over agriculture marketing will intensify in the near future, leading to the entry of new players bringing cutting edge technology and unfamiliar processes. Indian companies are also increasingly likely to try to capture larger market shares of the expanding international trade in primary commodities and processed foods and hence seek quality produce in large volumes from domestic producers.

At the same time we have a production base characterized by millions of small producers who are finding it increasingly difficult to manage the high risk of farming, evidenced by growing weather uncertainties, unreliable input supplies, stressed infrastructure in the power and irrigation sectors and iniquitous marketing arrangements. The trends outlined in the preceding paragraph will further weaken the bargaining power of the vast majority of these producers and it is unlikely, given present conditions, that they will benefit from opportunities at the national or international level in any meaningful way. If anything, their situation is only likely to worsen without the urgent introduction of new and innovative institutional solutions.

The largely supply-driven official agricultural growth strategies are unable to target vast sections of the peasantry, and rainfed regions in particular continue to witness both the volatility and distress associated with the vagaries of nature, as well as imperfections in factor and commodity markets.

FPOs offer a possible new pathway to successfully deal with a range of these challenges, especially that of accessing wider markets. Overcoming the constraints imposed by the small size of their individual farms, FPO members are able to leverage collective strength to access credit and technology, reduce transaction costs, tap high value markets and enter into partnerships with private entities on more equitable terms. International and limited national experience in the performance of FPOs gives rise to fresh hope and makes a strong case for supporting member based farmer bodies to significantly reduce risks and improve access to markets.

However, a host of unanswered questions need to be addressed before a successful strategy to promote FPOs can be devised. What has been the experience of developing FPOs so far? Who should promote FPOs? What kind of policy environment is required for them to flourish? What should be the role of government in promoting FPOs? How does the private sector fit into this scheme of things? What institutional form is more successful than others? These and several related issues require greater understanding and illumination before there can be any forward movement on this subject.

2. Output and outcome of roundtable discussions

With the objective of achieving greater clarity on all aspects of this subject and eventually contributing to the knowledge pool in this area, Agriculture Finance Corporation (AFC) proposed to take the lead to host a series of Roundtable Discussions (RTD) on the role that FPOs can play in helping producers to access markets. At present, it is tentatively planned to host three RTD events in the next two months, culminating in a national level workshop to share the learning with a wider audience.

The expected output of this exercise is a series of papers and presentations on the theme of FPOs, together with the release of a special issue of 'Financing Agriculture' (the monthly journal published by AFC) carrying special articles on the subject.

The outcome of the RTD is likely to be enhanced understanding of policy and operational issues related to FPOs among policy makers, administrators, donors, national and international financial institutions, civil society organizations, the private sector and representatives of FPOs regarding policy and operational issues affecting these institutions.

The RTD output and deliberations will also provide AFC with a set of options regarding its role in supporting these bodies in the coming years. In particular, AFC proposes to develop a comprehensive field manual for use of a range of stakeholders which promote, support, assist and are otherwise working with FPOs.

Annexure D

Round Table Discussion on
“Role of Farmer Producer Organisations (FPOs)
in improving farmers’ access to markets

16th April, 2010, New Delhi

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