

Community Models in Agriculture for Food, Resource and Livelihood Security

21st September 2016



Proceedings Document

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Introduction

A one day consultation was organised by Development Alternatives in partnership with Centre for Sustainable Agriculture (CSA), Hyderabad on 21st of September 2016, in Medak District, Telangana. The event was supported by Heinrich Böll Foundation and NABARD, Regional Office Telangana.

It included a one day field visit and focus group discussions with member farmers of the Farmer Producer Organisation – Sahaja Aharam Producer Company Limited supported by CSA in Hyderabad, Telangana. This was followed by an on-site round table discussion on analysing the learnings in the context of the national policies on food, livelihood of small farmers and resources.

The discussion aimed to generate insights and lessons to inform the current policies for small farmers and specifically the policy on Farmer Producer Organisations, on the principles that can support development and operations of FPOs in a manner that helps maintain environmental quality, farmers' well-being and food production in agriculture.

TARAGram Yatra 2016 witnessed diverse participation – decision makers, practitioners, academicians and businesses working in areas of farmers' livelihoods and food security. Mr G Ramesh Kumar and Mr D P Dash from NABARD Regional Offices of Telangana and Andhra Pradesh respectively participated in the event. Some of the eminent civil society participants included Ms Aruna Pohl from IFHD; Mr Rabindranath from Pradan and Mr Giridhar from Vrutti Livelihoods. Prof. Rakesh Saxena from IRMA represented academia in the conference. Mr Sudarshan Suchi represented Reliance Foundation and provided insights from the business perspective. NCDEX, an online selling portal for small farmers, was represented by its Assistant Vice President, Tarun Katoch.

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Key points discussed in the focussed groups



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The TGY 2016 participants interacted with the Sahaja Aharam Managing Board, member farmers and the management team of CSA that has supported Sahaja Aharam through its establishment, development and operations. Key observations made by TARAGram Yatra 2016 participants based on their interaction with various stakeholders of the FPO have been compiled and is reproduced below:

What is working?

- Production-end interventions for building strong foundation for FPOs***

Centre for Sustainable Agriculture had engaged with identified farmers in Medak district for around a decade on production technologies and methods for better productivity and ensuring soil and water balance, before they initiated the organisation of the farmers in the form of Suraksha Farmer Producer Company Limited. CSA identified high input prices as one of the major barriers resulting in low profits and explored natural, locally available inputs such as bio-manures and bio-fertilisers and promoted their adoption by the farmers.
- Distinct positive relation with FPO-NGO institutions vis-à-vis other institutions***

Sustained engagement of NGOs with the beneficiary communities represented by the FPOs nurtured by them result in trust and positive relation between them, building an enabling environment for learning and development initiatives. The Self Help Groups and Micro-Finance Institutions which basic ideology in collective savings by a community and may or may not follow investment of this savings in any productive economic activity. The business driven entrepreneurial model rooted in an FPO, was found to be more attractive, as pointed out by some of the farmer members during the discussion.
- Identified market for organic products that ensures optimum price for food produce***

Support at the production end of the value chain needs to be complemented with a parallel development of market for organic products. The market support to reach out to urban markets to secure premium prices was taken by Suraksha Farmer Producer Company and the Sahaja Aharam Producer Company Limited. The FPO, as the primary function of market connect to the farmers for getting optimum prices for their produce was felt to be successfully working, according to the farmer member interactions of the field.

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What is inhibiting?

- **The trade-offs inherent in organic systems of farming**

Organic systems of farming are understood by farmers as being good for the environment as well as the health of both farmers and consumers of food. However, organic farming is also perceived to be associated with comparatively lower productivities and higher labour intensiveness as compared to general production systems. The barrier of low productivity can be overcome through market linkages that provide improved price support and the barrier itself becomes redundant in the long run. The choice that a farmer makes depends on perceived potential of achieving higher margins on organic produce as well as the availability of affordable labour.

- **Difficulty to balance high taxes and poor availability of credit at the same time**

The Sahaja Aharam Producer Company Limited identified high taxes as one of the biggest barriers to stability in business performance of the Company. High incomes attract high income tax rates, even as high as 20 per cent. The irony here is that if the Company shows lower income on the balance sheet, it indicates poor business performance and makes it difficult to access credit from banks for operations. It seems that a producer company does not have provision of patronage refund (price difference/ bonus) like the cooperatives have. It allows the cooperatives to reduce taxable profit by giving patronage refund to the members. The purpose of a cooperative is to provide the maximum possible return per unit of their produce (initial price received plus patronage refund) or to charge the lowest possible price for their purchase of inputs (initial price paid minus the refund). A cooperative is not interested in maximising profit. If the provision of patronage refund is available for a producer company, it may reduce its profits and serve its owner members better. The financial institutions need to understand this and not make profit as the basis for advancing credit to a cooperative.

- **Inadequacy of managerial skills as are required to successfully operate FPOs in their Governing Boards**

The skills set of most Governing Boards of Producer Companies substantively lack in managerial, technical and business skills that are required for running a Farmer Producer Company. The huge skill gap here is a major concern for long term sustainability of Producer Companies. For the Producer Company to operate in the best interests of its members and the larger community, with full ownership, skilling of the governing board emerges as an essential prerequisite for the long term sustainability of the FPO.

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Challenges identified with programmes for development of FPOs in India



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CONCEPTUAL

- **Lack of clarity amongst stakeholders on mandate of Farmer Producer Organisation vis-a-vis that of Farmer Producer Company**

It was observed by some participants that the two terms – Farmer Producer Organisation (FPO) and Farmer Producer Company (FPC) are sometimes used interchangeably even though they are distinct in their mandate and institutional and legal framework. This points to a lack of clarity amongst stakeholders on the specific mandate and foundational principles of each of these two types of institutions and thereby a dilution in the effective realisation of the same. Farmer Producer Company is generally the more popular of the two terms, and this inadvertently leads to an emphasis on business performance of the entity, often at the cost of its institutional strengthening, which forms the core of a robust Farmer Producer Organisation. A Farmer Producer Company (FPC) is a sub-category of Farmer Producer organisations (FPO). A cooperative of farmers is also an FPO.

- **Haste in effort to scale without prior investment in market research and establishment of institutional systems**

The policies and programmes of NABARD and SFAC pertaining to FPOs are perceived by some as leading to the imposition of a pre-designed model on farming communities and as being driven by annual targets for the establishment of FPOs at scale. Such 'mission mode' establishment of FPOs, without parallel investments in market research, feasibility studies and institutional strengthening that build the foundation for long term sustainability makes it difficult for the FPOs to grow organically beyond crossing the threshold of successful registration. A bottom up approach is needed rather than the top down approach that is presently followed.

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OPERATIONAL

- **Restricted ownership amongst members owing to persistence of the beneficiary mind set**

The farmers identify themselves as beneficiaries and customers of the services provided by the Farmer Producer Organisation but not necessarily as owners of the FPO. They transact with the FPO for the purpose of agri-inputs purchase and linking with markets for sale of produce. Ownership of members in operations and business management however is mostly absent. Inadequacy in skill sets amongst the Board of Directors as required for effective operations of FPO, including organisational, managerial and business skills, also contribute to this restricted ownership.

- **Narrow focus on financial turnover as sole performance indicator**

Emphasis on tracking of financial turnover as the key performance indicator undermines the various other potential impacts of an FPO and may thus be misleading with respect to an assessment on overall or triple bottom line outcomes. Some of these outcomes include the impact on natural resource management, farmer incomes and community participation and ownership in the institution. It is also important to evaluate incremental improvements in institutional strength and not just against ambitious and often arbitrary turnover targets.

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Key Policy Recommendations



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FPO Programme Design

- Institutional strengthening is a long term process which needs to allow for scope and time for the organic evolution of the institution. A hasty approach akin to that of an 'injection of steroids', as in the case of annual targets of government programmes in terms of setting up more FPOs, SHGs, MFIs is designed for failure.
- Tax relaxations and fiscal incentives can support the nurturing of FPOs when these are at a nascent stage. However it needs to be noted that the nature of support represented by subsidies and grants generally tends to lead to dependence and hinders the organic growth and development of the institution. Therefore incentives and relaxation policies should incentivise FPOs that demonstrate organic growth.
- A strong agricultural production system that is also sustainable and climate adaptive should be a pre-condition for the initiation and development of a FPO. Invest in the development of such agricultural systems could also be made an integral part of FPO development programmes in any region.
- Commitment of NGOs and other civil society entities towards providing nurturing and handholding support to FPOs during their establishment and maturation phase is considered critical to their development and long term sustainability. Engagement of organisations with local ground presence in such roles enables the support services to be contextualised and responsive to emerging needs of the FPO and also facilitates the mobilisation processes. Already successful FPOs like dairy cooperatives in Gujarat and others should be involved in forming viable FPCs.
- The choice of production systems, in areas where FPOs are promoted should take into account market demands, nutritional demands of the farmers' households and the environmental conditions in the region.
- FPO development initiatives should adopt an integrated approach that invests in building a supportive ecosystem that includes availability of credit support, human resources and skills support and technology support. It should look at scaling up the idea of the FPO for support and participation by large proportion of the community at the local level.
- Main purpose of forming FPOs is to increase income of Farmers and reduce their risks. Income can be increased either by increasing productivity or by getting higher market prices. Increasing productivity has limited scope so focus should be laid on connecting them to penultimate buyers and which in-turn will give better prices. For that awareness and training should be imparted to FPOs regarding aggregation, grading, and proper packaging. Infrastructure should be developed for the same. They should also be encouraged to use electronic markets which results in reducing price fluctuation risks, brings in more buyers, efficient price discovery and also provide proper storage facility.

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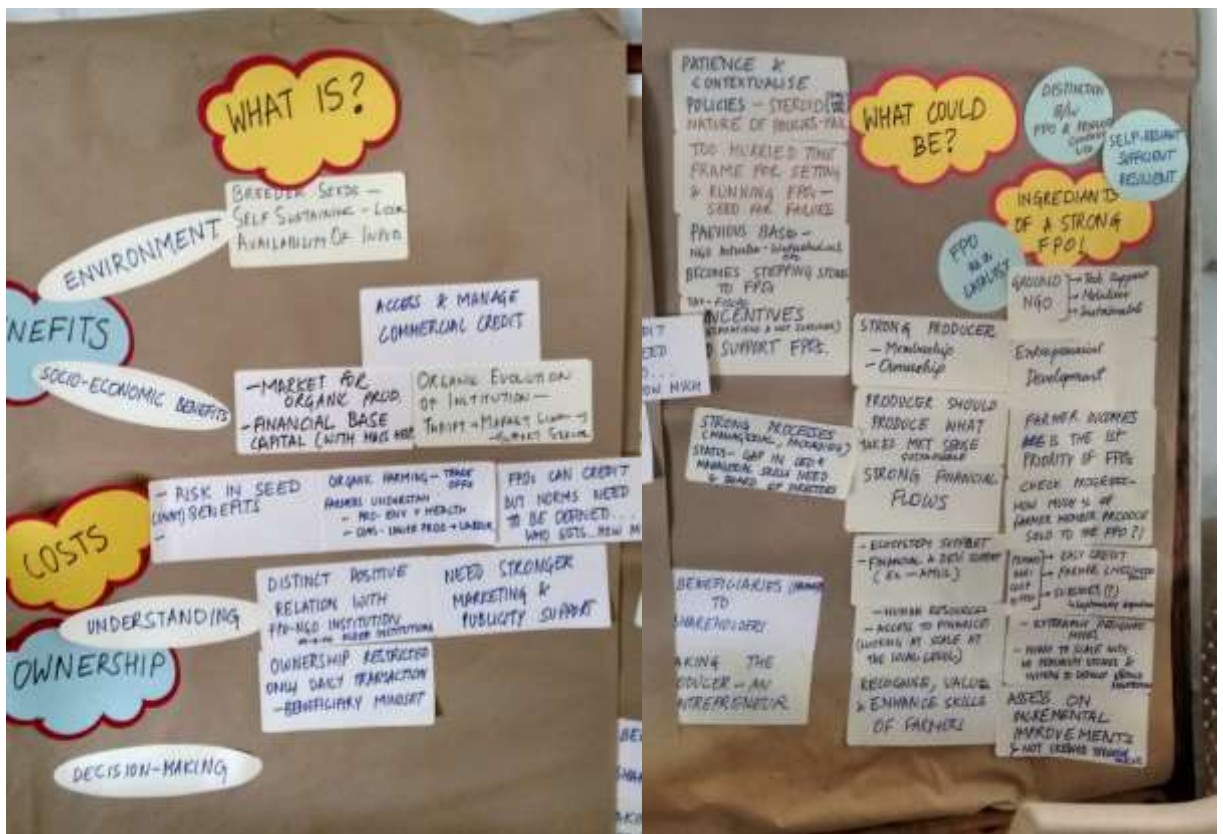


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FPO Programme Evaluation

- An interesting indicator for assessing the value of an FPO to its member farmers may be the percentage of farmers' total produce that they sell through the FPO. In case of complete ownership and usefulness, this percentage should come close to 90-100%
- Indicators to assess the organisational strength and resilience of FPOs are critical for their true evaluation.
- The policy document on FPOs/ FPCs (Ministry of Agriculture) lists many useful indicators for evaluation of FPCs which are not being followed in practice
- Assessment framework for FPOs must include indicators to track incremental improvements and not just arbitrary turnover targets.
- A successful FPO is the one that acts as a catalyst for improving farmers' income while also resulting in environmental outcomes. An FPO should not be considered to be an end in itself. Empowered and satisfied producers taking full ownership of the institution is a ultimate indicator for assessing the health of an FPO.



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TARagram Yatra 2016 - List of Participants

Name	Designation	Organization
Smt Ramalakshi	PD Horticulture	Department of Horticulture, Medak District, Govt. of TS
Aruna rangachar Pohl	Executive Director	India Foundation for Humanistic Development
B Manohar Rao	Executive Director	Nava Jyothi Rural Development Society
Dr A Srinivas	Coordinator, Medak	Prof Jayashanker Agriculture University- Govt. of TS
Dr D Ramesh Kumar	District Manager	NABARD, Telangana Office
Dr J Lakshma Reddy	Joint Director	Department of Animal Husbandry, Medak District, Govt. of TS
Dr. Satendra Arya	CEO	Agriculture Sector Skill Council of India
G Satyadev	Director	ALC Hyderabad
Giridhar Mogli	Manager (AP, TS)	Vrutti livelihood Resource Centre
Jayaram mullu	Secretary	AP UN association
K Suresh	AD Horticulture	Department of Horticulture, Medak District, Govt. of TS
Mahesh Bg		Reliance Foundation
Mr D.P Das	AGM	NABARD Telangana
Mr Nimmaiah	Executive Director	PEACE
Mr sudarshan	Programme Head	Reliance foundation
O.N Sharma	CEO	Ajaymeru Samruddhi PCL
Rabindranath	Program Director	Pradan
Dr. Rakesh Saxena	Professor	IRMA
S V Nefa	Project Director	Poverty Learning Foundation
Sri Chandra Shekhar	Director	Eco Club
Tarun Katoch	Ass. Vice president	NCDEX
V Kailash	Executive Director	VISION

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