FARMING AS AN ENTERPRISE - TEN YEARS OF FPO MOVEMENT IN INDIA

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Finance Minister, Nirmala Sitharaman, in her maiden Budget speech for the year 2019–20, mentioned the government's intent to create 10,000 more Farmer Producer Organisations (FPOs) by 2022. While the Budget speech has little details on the methodology or the proposed financial allocation, there have been several deliberations and discussions on the need for newer policy guidelines on FPOs. An expert committee under the Ministry of Agriculture had earlier been constituted to revise the policy guidelines, drafted in 2013, considering the rapid growth of FPOs. State governments of Karnataka, Odisha, Telangana have already announced or are in the process of drafting state-specific FPO policies. The Tamil Nadu government's budget speech talks of 200 FPOs in the financial year 2019–20 with an allocation of INR 100.42 crore.[1]

There are enough reasons to think that there is an FPO movement. From being an obscure word in a few conferences by civil society organisations a decade ago, FPO has become a buzzword that means many things to many people. Two independent award functions have been scheduled in 2019 to recognise FPOs.[2] Even industry barons and entrepreneurs like Ms Kiran Shaw have articulated the need for FPOs as part of a new deal for rural India and recommended the formation of entrepreneurship clusters.[3] FPOs have been an integral part of discussions in several forums on agrarian and rural studies, rain-fed areas, apart from initiatives at the national and state level to deliberate on appropriate policy and ecosystem support for FPOs.[4]

These are reflective of the shift in understanding of farming or agriculture as a 'value-led enterprise', as articulated in the Doubling Farmers' Income (DFI) report, whose last volume was released in early 2019. Accordingly, farmers are to be empowered with improved market linkages and FPOs seem integral to this strategy. There are over 280 references to FPOs in the 14-volume report. The FPOs are to become effective in reaching out to small and marginal farmers, building

1 For Finance Minister's budget speech see https://www.indiabudget.gov.in/doc/bspeech/bs201920.pdf and for the Tamil Nadu budget refer to http://www.tnbudget.tn.gov.in/tnweb_files/budget%20highlights/2019-20/BS%202019-20%20English-highlights.pdf

2 The FPO of the Year and FPO promoting institution of the year is in its second year; https://www.livelihoods-india.org/fpo-impact-awards/categories-and-guidelines.html. Samunnati with *Economic Times* has instituted FPO awards in five categories https://www.et-edge.com/conferences/fpoawards/award-categories/

3 For Ms Shaw's article prior to the budget see https://www.livemint.com/budget/expectations/india-needs-a-new-deal-for-rural-india-1562254473284.html

4 The rain-fed area network discussed FPOs in markets and institutions theme at its national convention http://www.rainfedindia.org/wp-content/uploads/2019/08/A-Summary-of-the-Proceedings-RRA-Convention-2019.pdf in February 2019; the Network of Rural and Agrarian Studies in its policy conference http://www.ruralagrarianstudies.org/conference/nras-policy-conference-2019/ in September 2019. The Institute of Rural Management in collaboration with National Association for Farmer Producer Organisation (NAFPO) held a national conference https://www.iseedirma.in/fpo-workshop in March 2019 and with APMAS a regional consultation of southern states http://apmas.org/nafpo.php. These are but a few of the many forums where FPOs are being discussed across the country.

their capacities in collectively leveraging their production and marketing strength and thereby enhancing their income. The DFI committee has made a simplistic calculation: a minimum of 7000 FPOs & VPOs should be targeted by 2022–23 and double that number in the six years thereafter. At an average of 1000 hectares of cultivated land and minimum 1000 farmers per FPO/VPO, the organised number of farmers would be at least seven million and resulting pooled land be 7 million hectares by 2022–23. This will scale to an additional 14 million farmers and 14 million hectares by 2029–2030 and will to some extent address the structural weakness of small and marginal farm holdings.[5]

The finance minister's speech builds on this optimism and ambition. How have FPOs scaled in the last decade? Are there signs of their effectiveness or are they spreading too thin and too fast? Importantly, beyond the ambitious vision are there sufficient investments to build these new generation institutions? How and where have FPOs spread in the last decade? Can complex institutions of farmers spread in the same manner as infrastructure projects like building roads, constructing power plants and toilets? What does it take to transit from a production and productivity-oriented paradigm to one that looks at the livelihoods and incomes of farmers through an entrepreneurial route? Are we ready for this new thrust?

EVOLUTION AND SPREAD OF FPOS

The inability of small farmers to negotiate with the market has been poignantly captured in a recent film *Mandi*.[6] With declining state support on remunerative prices, extended at best to only a few crops and largely controlled by large farmers, and 'restricted' markets and opportunities for farmers to get a better share of the consumer rupee in most commodities, farmers continue to lose the battle with the market. They have not been witnessing increased incomes and this has been reflected in the large number of farmer agitations across the country from 2017 onwards. Paradoxically, the sector as a whole has witnessed growth with India leading the world in production of many commodities and the increased revenues of agri-business companies or more recently agri-tech and other agriculture start-ups. While cooperatives have succeeded well in Gujarat (milk) and Maharashtra (sugar), their functioning in most states have been less than impressive and farmers' collectives have been embroiled in regional politics and excessive state interference. Following the recommendations of the Alagh Committee (1999), which was set up with a mandate to frame a legislation that would 'accommodate the spirit of a cooperative with the operational flexibility of a private company,' Farmer Producer Companies (FPCs) have emerged as an alternative to state-sponsored or state-led cooperatives since 2003.

Public policy support for promoting Farmer Producer Organisations (a broader category that could include cooperatives also registered under other acts such as the Mutually Aided Cooperative Societies or MACS in some states) came through bilateral donor schemes such as the District Poverty Initiatives Project (in Madhya Pradesh). The enabling framework did not lead to a spurt of FPOs with the initial spread not extending beyond the state of Madhya Pradesh or a lead taken by few organisations such as PRADAN.[7] Guidelines for the spread of FPOs were formulated in 2013 from a dynamic phase of a nation-wide pilot through the Small Farmers' Agribusiness Consortium (SFAC) under the Ministry of Agriculture. Since 2014, through the NABARD managed Producers' Organisation Development and Upliftment Corpus' (PRODUCE Fund of INR 200 crore), many FPOs have been promoted across the

5 Government of India (GoI), "Report of the Committee on Doubling Farmers' Income – Volume 14: Comprehensive Policy Recommendations" (Ministry of Agriculture & Family Welfare, Government of India, 2019), pp. 17–18.

6 The film by Yashowardhan Mishra released in June 2019 on You Tube has gone viral with over 5 million viewers. See https://www.youtube.com/watch?v=U0IDup33qZw

7 For some of the early discussions on linking small farmers to markets see the 2007 report by PRADAN http://www.pradan.net/images/Media/wpc_report.pdf

country. Another thrust came through other schemes and agencies such as the rural livelihood missions (supported by World Bank) and state-specific policies as well as donor and CSR funds.

The most preferred form of organisational form has been the Farmer Producer Company or FPC. A Microsave study covering a sample from seven states of India (Maharashtra, Madhya Pradesh, Uttar Pradesh, Rajasthan, Gujarat, Karnataka and Telangana) indicates that 84 percent of the FPOs were registered as producer companies.[8] Figure 4.1 shows the dramatic rise of incorporated FPCs in the last six years–a staggering 7582 FPCs. What started as a trickle has reached a significant scale with an estimated cumulative number of close to 8000 FPCs registered or incorporated as Farmer Producer Company Limited until 2019.[9] A large part of this is due to the public policy thrust through SFAC and NABARD.

The distribution of FPCs indicates that over 60 percent FPCs are from the states of Maharashtra, Uttar Pradesh, Tamil Nadu, Madhya Pradesh, Rajasthan and Karnataka (see Figure 4.2). An indication of the competitive policies across states indicates that a few states such as Haryana, West Bengal, and Maharashtra have added nearly 50 percent or more of their FPCs in the last three years. Most of these states, however, do not have a state-specific FPO policy.

The figures are slightly different if one were to look at the SFAC and NABARD databases that use the FPO rather than the FPC category of the Ministry of Corporate Affairs. There are 4235 FPOs in total which have been formed as per the NABARD database as on August 2019 and includes FPOs under PRODUCE fund and NABARD's promotional funds. Out of these, 2082 have been registered under PRODUCE fund, 1405 as companies under Companies Act 1953 or 2013 and 206 under Cooperative Act or State Co-op Acts (the rest registered as societies, trusts, etc.). The NABARD database consists of most FPOs registered in 2014 onward after the PRODUCE Fund, but none before 2010. Figure 4.3 indicates the spread of FPOs (not all FPCs)

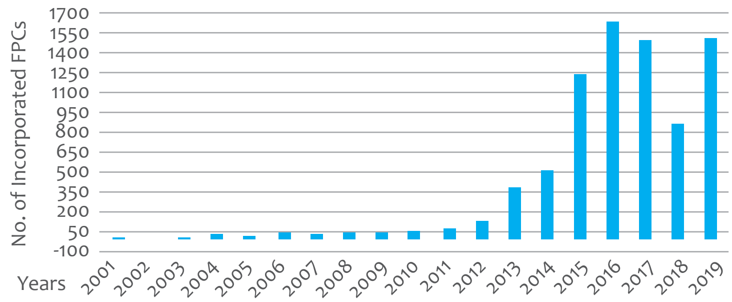

Figure 4.1 Growth of incorporated FPCs (2001–19).

Source: Compiled from Ministry of Corporate Affairs website by authors

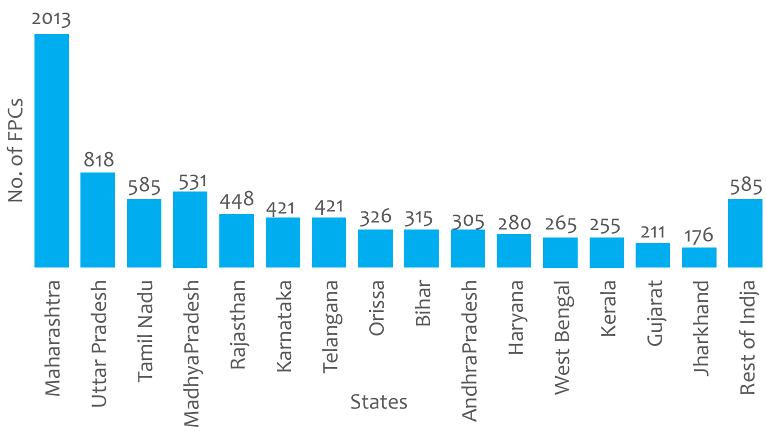

Figure 4.2 FPCs incorporated state-wise.

from the NABARD database. As we can note, the top five states do not include either Maharashtra or Uttar Pradesh, thereby showing their greater presence in the southern states.

In the SFAC database, there are 822 FPOs in total. FPOs under SFAC were registered in two phases depending on the grant. Most of the FPOs, which were registered in SFAC during the 2012–2014 programme (260) had a mix of producer companies and coops. However, those registered under the three-year-programme (562) were largely producer companies. Figure 4.4 indicates the spread of FPOs with SFAC support. Madhya Pradesh tops the list of SFAC supported FPOs followed by Karnataka, Maharashtra and West Bengal.

The multiplicity of databases could reflect the strength (or weakness) of promoting institutions in different parts of India. However, the absence

8 Microsave, "A Qualitative Study of Producer Organisations in Select Geographies in India," https://www.microsave.net/wp-content/uploads/2018/12/A_Qualitative_Study_of_Producer_Organisations_in_Select_Geographies_in_India.pdf

9 The Ministry of Corporate Affairs has consolidated information until 2016 and month-wise data from 2016–19 has been used to collate this data. This information does not include inactive FPCs and that is likely to bring down the numbers. The author would like to thank Tushar Garg and Abhishek Saxena for assistance in compiling and analysis.

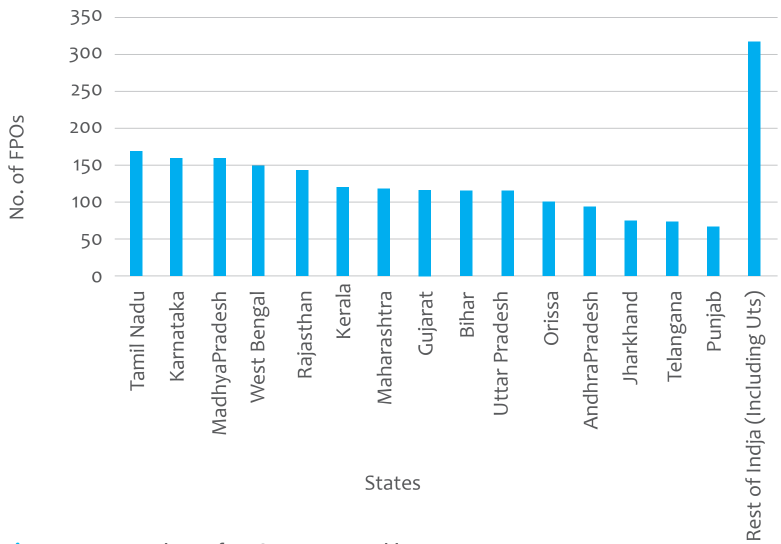

Figure 4.3: Number of FPOs promoted by NABARD

Source: Collated from NABARD website

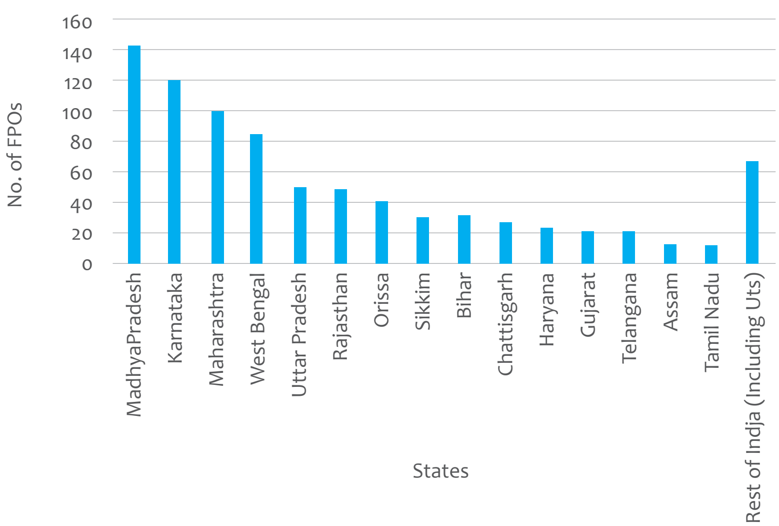

Figure 4.4: Number of FPOs supported by SFAC

Source: Collated from SFAC website

of a common database on FPOs is a concern, as there is a renewed thrust to start more FPOs. Early trends of FPOs had indicated their nation-wide spread and importantly a greater voice of small and marginal farmers, women and tribals too in these new institutions. The Microsave study shows that 92 percent were small and marginal farmers as members in these organisations, of which 16 percent were women and 12 percent tribals. These numbers would be higher if we were to look at states other than the seven covered. Undoubtedly, FPOs in the twenty-first century have been more inclusive than the earlier PACS (Primary Agricultural Cooperative Societies). This inclusiveness, to a large extent, has been possible due to the significant state–civil society collaboration in early years. The process of policy formulation and design have had many prominent CSOs involved such as Action for Social Advancement (ASA) and PRADAN first, and many such as the Aga Khan Rural Support Programme (AKRSP), Indian Grameen Services (IGS), Vrutti, Producer Entrepreneurship Catalyst and Incubation Facility (ProCIF) of IFHD, etc. later. Institutions like the National Dairy Development Board (NDDB) through its arm NDS have created large-scale milk producer companies in five states since 2013.[10]

Beyond the numbers, and the debate on the organisational forms, how have these FPOs been faring? How have researchers' been studying FPOs and what are their findings? What are the dominant trends and gaps in literature?

NEW KNOWLEDGE ON PRODUCER COLLECTIVES

India's tryst with cooperatives is over a century old, with initiatives led by both state and civil society. The celebrated work of Shah on catalysing cooperation and making farmers' cooperatives work has enlisted design principles for better functioning of cooperatives.[11] The external environment has changed significantly with the liberalisation of the Indian economy in the 1990s and the consequent overall decline in the functioning of healthy producer collectives.

Many of the new generation collectives have focused on crop-based agriculture. The newer

10 T. Shah, "Farmer Producer Companies: Fermenting New Wine in New Bottle," Economic & Political Weekly, vol. 51, no. 8: 15–20.

11 *T.* Shah, Catalysing Co-operation: Design of Self-governing Organisations (New Delhi: Sage Publications, 1996).One of the more significant conferences on scholarly literature on cooperatives is the 1992 cooperatives conference that has been captured in IRMA occasional publications 9-12 (This included the three volume of Rediscovering Cooperation volumes OP 10 -12, https://www.irma.ac.in/ipublications/publicationdetail.php?cid=18&pid=1162.

policy environment, due to the modification of the Companies Act, has raised interesting questions for scholars even as development practitioners have been already debating on the following issues:

- how and why are producer collectives succeeding or otherwise
- should they focus on single or multiple commodities
- should issues of sustainability–economic and environmental–precede questions of scale
- is domain centrality possible in agricultural commodities that are increasingly globalised
- how should promoting institutions focus on keeping members' interest in non-dairy producer collectives.

Detailed research studies on many of these questions have been few12 and cover the early period of the FPO movement when these producer companies were nascent.

The spread of FPOs, both across space and time since has necessitated more detailed research and consolidation and there is no single location where researchers could access the existing research. A literature review of interventions facilitating smallholder farmers' access to markets in India by Vrutti and the Institute of Rural Management Anand (IRMA) has through a systematic research review put together some of the key research on FPOs. An annotated bibliography that followed has combined the material from peer-reviewed literature with those available in forums such as Livelihoods India reports and several round table and conferences on FPOs.[13] The set of 72 articles reviewed until March 2018 show that the literature has a mix of case studies (28), conceptual reviews (23), empirical analysis (10), policy briefs/guidelines (4), research reports and round table discussion reports (7).

There has been newer knowledge and an increasing need for both practitioners and researchers to make sense of the sheer diversity of FPOs in terms of organisational forms, regions, crops or commodities and purpose, which makes it difficult to place them in the same basket. There is also need for a better typology of FPOs that can separate the larger ones such as Sahyadri or the dairy producer companies that have turnover in excess of tens of crores with the large number of FPOs aiming to reach a turnover of a crore or more or those that hover around INR 1–10 lakh. Detailed case studies on FPOs, such as Hasnabad in pulses or Satpura Self-Reliant Farmer's Producer Company that deals with multiple commodities of tribals, are now available, albeit unpublished. They present more information and insights on managerial dilemmas in growth and governance of an FPO and seek to answer questions on the nature of investments required for an FPO. However, overall there is a requirement for more case studies that can give significant insights to create newer theories or models for both researchers and practitioners. There is a significant potential to revisit some of the earlier studies on scale, scope and optimality of producer companies given the questions emerging from the field.[14] For instance, there are several examples of FPOs that have been profitable in the organic space on a diversified cropping system serving less than 500 farmers while norms for equity grant are based on commodities like milk and sugar often, and argue for greater numbers of aggregation.

In addition to the published literature there are newer insights emerging on lending to FPOs and a new training manual on FPOs which have sought to bring together more contemporary insights drawn from innovations in the space. Future research would be better advised on drawing from these leads and field visits and stakeholder consultations and participation that could help both reduce the gap between academic institutions and practitioners and work towards common frameworks and understanding for newer actionable knowledge. The diversity of India and that of FPOs is too vast to be

12 S. Singh and T. Singh, Producer Companies in India: Organization and Performance (New Delhi: Allied Publishers, 2014); A. Trebbin, "Linking Small Farmers to Modern Retail through Producer Organizations: Experiences with Producer Companies in India," Food Policy, vol. 45, no. 35–44, 2014.

13 C. Shambu Prasad and G. Prateek, "Farming Futures: An Annotated Bibliography on Farmer Producer Organisations in India", Working Paper 290 (Anand: Institute of Rural Management, 2019).

14 A.K. Nayak, "Farmer Producer Organizations in India: Policy, Performance, and Design Issues", in N.C. Rao, R. Radhakrishna, R.K. Mishra and V.R. Kata (eds), Organised Retailing and Agri-Business (New Delhi: Springer India, 2016); Singh and Singh, Producer Companies in India.

covered by a single policy or framework. What the new knowledge demonstrates rather clearly is a reiteration of what has been understood earlier in rural and agrarian studies, namely, that there is no "*the* farmer" and as a corollary there is no "*the* FPO". Future frameworks and research need to better incorporate this diversity and complexity of FPOs.

ARE FPOS READY TO SCALE? INVESTMENT DEFICIT AND UNCLEAR BUSINESS MODELS

The DFI report and many statements of ministers and NABARD officials reflect a faith on FPO as *the* mechanism of all of farmers' ills and agricultural growth. Thus, FPOs are linked to contract farming; play an efficient role in establishing district-level nutrition clusters around millets and the development of Special Agribusiness Zones (SABZ) for millets; undertake HYVs and hybrid seed production on cluster basis; incorporate other rain-fed crops like pulses to the nutrition plate; promote efficiency in input and output management and many others. Is the faith in an ideal of FPO, as estimated in the DFI report comprising 1000 farmers, justified? As the literature review has revealed, there is no single FPO and the ecosystem needs to work with the vast typologies of FPOs.

Amidst all these raised expectations how robust are these institutions? Has all this hype led to increased investments? Would FPOs be a more effective mechanism to route investments in collective enterprises instead of individual loan waivers? Answers to these questions are difficult yet indications are that FPOs have been under-invested. Earlier the State of India Livelihood Reports on FPOs has raised issues on the need for both capital and capability to capture the value creation for farmers.[15] There does not seem to have been any significant improvement in access to working capital for FPOs and they continue to be 'born weak'.[16]

NABARD's estimate of the average number of farmers/FPO is around 300 much less than the desired 1000. The Microsave study shows that nearly 48 percent of the FPOs had membership below 500.[17] Interestingly, POs with a membership base of 500 or less seem to have a higher proportion of active members. It does appear that FPOs have compromised both on their governance and business models in search for the equity grant which is based on a membership of 1000. While it was good to start with some numbers for optimality, there is a case to empirically verify some of the key assumptions as we look at the scaling up of FPOs.

The funding support for setting up an FPO varies widely between NABARD's INR 9 lakh over three years (revised upwards since) and SFAC and District Poverty Initiatives Project (DPIP) models of a minimum of INR 25 lakh over three years. The DPIP FPOs also had special provision for working capital too, that is, often missing in NABARD policies making most of the FPOs to be born weak. This is, particularly, so as many projects that began with the PRODUCE Fund and SFAC support have ended and many Resource Institutions (RIs) and Producer Organisation Promoting Institutions (POPIs) are fund-starved and have had to abandon the FPOs created. This can lead to a serious mistrust, with increasing compliance pressures on the Board of Directors (BoDs) of FPOs in recent times yet having little help to look forward. Hapless BoDs of FPCs are unable to deal with the lack of ease of doing business for them. Filling and filing online forms from remote rural areas is indeed difficult and only the better-resourced institutions can manoeuvre these diverse and complex activities.

The nature of support for FPOs should be better matched with the age and maturity of the institution. In the absence of a sensitive support

15 V. Mahajan, "Farmers' Producer Companies: Need for Capital and Capability to Capture the Value Added," in S. Datta, V. Mahajan, Ratha et al. (eds), *State of India's Livelihoods Report 2014* (New Delhi: Oxford University Press, pp. 87–108); N. Srinivasan, "Farmer Producer Organizations," in N. Srinivasan and G. Srinivasan (eds), *State of India's Livelihoods 2017,* (New Delhi: Sage Publications, 2018), pp. 141–76.

16 Kanitkar, 2016. The Logic of Farmer Enterprise. Occasional Publication 17. Institute of Rural Management Anand. https://irma.ac.in/pdf/randp/1518_28072.pdf

17 Microsave, "A Qualitative Study of Producer Organisations."

structure, as it exists in the institutional design of NRLM, the fledgling and nascent institution of farmers are burdened with enormous expectations. Further, as start-ups, FPOs should be incubated, mentored and networked suitably for them to move along a higher value chain. Unfortunately, most FPOs are either too involved in input supply or busy aggregating produce for public procurement or sale to a buyer. According to Murray (2019)[18], 90 percent of the FPOs operate in the sub–INR 10 lakh turnover level. While agricultural produce marketing can be the growth engine for an FPO, access to capital has been a key constraint for growth of FPOs. Even large federations of producer companies such as Madhya Bharat Consortium of Farmer Producers Company Limited (MBCFPCL) are struggling to provide the value chain benefit for its members as market negotiations continue to be tough on the output side due to depressed commodity prices.

Currently, less than 2 percent of the working capital requirements and 10 percent of the term loan requirements of POs are being met. Bank credit is almost non-existent, and the challenges faced in accessing credit from banks and subsidy or grants from RIs include lack of collateral and credit-history and tedious compliance and documentation requirements. Unlike self-help groups (SHGs), the financial support by FPOs to members is also limited.[19] In the absence of an equivalent to a SHG-Bank linkage for FPOs, only a few NBFCs such as Nabkisan, Ananya Finance and Samunnati have been able to lend without collateral. They have demonstrated that FPOs are bankable and together their lending could be close to 90 percent of FPO finance.[20] Treating FPO support akin to a one-time loan waiver instead of creating the ecosystem for FPOs as rural start-ups in India is a much-needed shift. However, the emphasis on targets without an appreciation of operational challenges can weaken the FPO movement.

FPO POLICIES: NEITHER ENABLING NOR COHERENT

The experiences on FPOs today cover a much wider set than when the guidelines were proposed in 2013. There are newer actors such as NABARD, even as the National Rural Livelihood Mission (NRLM) has its own policies for FPOs. Some overarching questions on a policy for FPO include the key question on what should be the quantum and nature of investment and support for FPOs. Will the scale-up model follow NABARD's under-invested nature of INR 9 lakh over three years or should the government look more closely at the literature and glean insights on what does it take to invest in FPOs? It is not clear to many as to what is driving a greater number of FPOs to be formed when the health of many are suspect. How many years does it take to support an FPO through its journey of social mobilisation, incubation, market linkage and better integration with a value chain? Can FPOs become financially viable in three years' time without assured flows of capital that any enterprise needs? Who should lead the FPO movement in India–NABARD with the wide spread of its branches and connect with civil society organisations or SFAC that is more aligned with the Ministry of Agriculture, or a combination of both including Civil Society Organisations (CSOs) and Corporate Social Responsibility (CSR) foundations? Or, should there be an NDDB kind of institution for FPOs as has often been requested by many practitioners? This idea also finds mention in the DFI report that says in its final volume:

'Farmer Producer Organisations (FPOs) could emerge as one of the most effective pathways to address agricultural challenges…. Through adequate policy and infrastructure support, these aggregators can become the 'connective tissue', linking supply and demand, bridging a major missing link. Policy support in the form of

18 Murray, E. 2019. 'Building an Enabling Ecosystem for Farmers Producer Organisations'. Transcript of talk at Partnership Exchange, August 30, New Delhi. https://www.researchgate.net/publication/335684188_Building_an_Enabling_Ecosystem_for_Farmers_Producer_Organisations

19 Ibid.

20 An ongoing study for providing guidelines to lending agencies indicates that these three institutions have been able to recover their loans to FPOs and agri-value chain players through working capital and term loans at rates higher than the prescribed Priority Sector Lending of banks (that they are unable to access). The estimates are over 650 crores lent to over 600 FPOs.

establishing multi-tier federations to form a National Farmers Development Board (NFDB) on the lines of NDDB could be necessary. It may be examined whether SFAC can be restructured & re-mandated to play this crucial role.' [21]

Even as an expert committee constituted by the SFAC was examining proposals and had submitted its recommendations to the Ministry, a parallel process seem to have been initiated to work out another national policy guideline for promotion of FPOs. The two-policy guidelines were different in many ways including a turf-war on who is to lead the FPO movement. The latter has been more prescriptive about NABARD taking the lead and prescribed the number of shareholders at every level (minimum of 100 at the 'primary FPO' and a maximum of 1500 at the Gram Panchayat level). An even more contentious clause has been the attempt to include the PACS as part of the FPO architecture. While the need to explore alternate forms of organisation is desirable, the very purpose of the FPO movement has been to establish farming as an enterprise and provide more voice to small and marginal farmers whose exclusion from PACS is legion in many parts of India. This could be a case of throwing the baby along with the bath water. There are indeed regulatory issues, including those related to compliance and a more pro-active policy could create an entrepreneurial ecosystem for FPOs that makes it easy for FPOs to do business. Currently, the struggle for most FPOs to get multiple licenses and later be enabled to be part of public procurement comes with significant transaction costs borne by the board members and POPIs. Policies, like in the manufacturing or services sector, can be designed to enable farmers, who are the greatest contributors to "Make in (rural) India".

Even as farmers and other stakeholders are unclear about the alignment between different policies from multiple institutions (SFAC-NABARD, Department of Agriculture and Department of Horticulture, NRLM or World Bank supported projects) an interesting development in recent times is the FPO policy of different states. Three policies at draft or advanced stages are those of Karnataka, Telangana and Odisha. Some of the larger concerns on FPOs find resonance here too. Thus, while Karnataka has chosen a largely crop or commodity-specific value chain, the Telangana policy looks at FPO as an institution that provides support for multiple commodities that the members produce mentioning its intent to be flexible about the actual structure of the FPO, leaving the decision to the members and Board of Directors. Within Odisha there is a policy that is being sought to be followed in the Odisha Millet Mission that sees the FPO as an Agribusiness Support Centre (ASC). The policy encourages Community Based Organisations (CBOs) to register as FPOs and operate in the low-risk low-reward model by linking member farmers to small-scale service delivery and to government schemes related to credit, insurance, MGNREGA, direct benefit transfer, etc. The Odisha draft policy is prescriptive on the institutional structure. Karnataka has created an independent Centre for Excellence in FPOs (CoE-FPO) under the State Agricultural Department to play the role of the expert organisation responsible for evaluating and monitoring the FPOs in the state. The policy interestingly articulates financial support at various stages of development of the FPO that include formation, business incubation and growth phase, and maturity and business expansion phase, and even talks of support to private companies and corporations to provide CSR funds towards supporting FPOs. Karnataka is more explicit in its investment support with a plan to invest INR 30 lakh to a resource institution for the first three years.

While discussing FPO policy, it is important to reiterate the lack of ease of doing business, some of which is due to government policies too. Some of the government policies are not conducive to PO operations. These include policies related to procurement (FPOs not treated on par with state-owned seed companies and cooperatives); policies related to pricing (lack of consistency in public procurement and prices that affect operations and member loyalty) and difficulty in accessing subsidies (they are meant often for small farmers but many FPOs forgo due to high transaction costs).

There is a need for a closer look at the state FPO policies as it is likely that states would

21 Government of India (GoI), "Report of the Committee on Doubling Farmers' Income," p. [143].

be drivers of FPOs in future. The DFI report does foresee this when it suggests: "all state governments may come out with a scheme, to extend equity support of at least up to INR 10 lakh to all those FPOs/FPCs which are registered and plan to take up business activity".[22] However, there is still lack of clarity on what does it take to establish an FPO. A key element of an FPO is the quality of incubation and the mentoring and networking support it can get. Overall, the lofty intentions of treating farming as an enterprise and pronouncements of setting up 10,000 FPOs do not seem to be backed with investment support. Policies framed lack coherence and do not match ground-level realities of existing state and health of FPOs, nor are they able to provide a clear framework that creates an ecosystem of support that can enable this transformatory change of farming as an enterprise.

INSTITUTION BUILDING AND STRENGTHENING FPO CAPACITIES

Governance of producer collectives is often a key challenge. Unlike other forms like Investor Owned Firms (IOFs), collectives have members with multiple roles and ownership of the institution by members having different views, is a key feature. It has been observed in a few detailed cases, such as Hasnabad producer company, that often even after five–seven years there is a high dependence of the FPO on the promoting institution. The expectation though, in the policy, is that FPOs could become independent of external support in three years' time. Managing this expectation with constantly encouraging BODs to increase their capacities and member ownership is not easy, especially for agricultural cooperatives that are seasonal. There is no constant interface with members daily unlike dairy producer collectives. Constituting empowered and well-governed Boards thus is critical for FPOs.

A majority of the FPOs are yet to reach a stage where they could avail the expertise, knowledge, and counsel that independent directors and experts can provide. Over 52 percent of FPO Boards had no external experts or independent directors and 68 percent had no female directors. While the number of women directors could he higher than the overall company boards, there is scope for greater participation, though this must emerge from many of the structures below. Other than CEOs, most FPOs face a severe lack of qualified and knowledgeable directors that reemphasises the capacity building needs. On the positive side, most POs seem to maintain digital records and books using MS Excel and Tally.[23]

Capacity building and training were rated as the highest requirements by producer organisations, even higher than finance, in the Microsave study. These aspects have not received the kind of attention in FPO discussions that it requires. A few state institutions such as Bankers Institute of Rural Development (BIRD), Lucknow and National Institute of Rural Development and Panchayati Raj (NIRD), Hyderabad have been at the forefront of the capacity building efforts. However, this is less than adequate for the kind of scale and the complex nature of the institutions that is discussed. Figure 4.5 summarises the need for high quality and even certified trainers as the FPO ecosystem becomes more complex.

There is a need for high quality trained manpower that can deliver emerging knowledge on FPOs through distinct and phased modules. A significant addition to the FPO ecosystem has been the presence of a new capacity building training manual brought out through a collaborative effort of the Green Innovation Centre, Welthungerhilfe and Skill Green.[24] The Manual released in March 2019 at Anand follows an inclusive approach drawing from existing manuals. But it is different significantly in the delivery with a greater focus on participatory methods and the need for trainers to be adept

22 Government of India (GoI), 2019. Pg 144

23 Microsave, "A Qualitative Study of Producer Organisations."

24 Mascarenhas, M. Karthikeyan K. and Bhat R. 2019. Capacity Building of Board of Directors of FPOs - A Trainers' Guide. Bengaluru: Green Innovation Centre, GIZ. https://www.nafpo.in/wp-content/uploads/2019/05/Capacity-Building-of-BoDs-of-FPOs.pdf

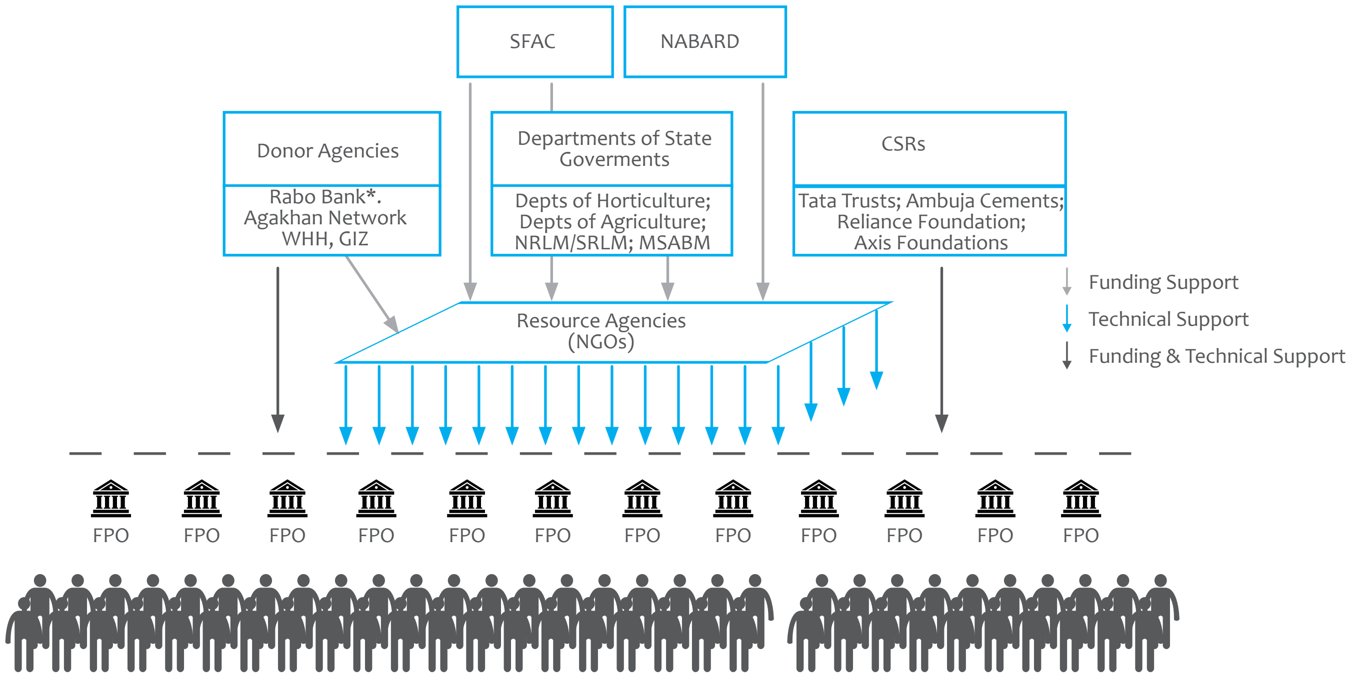

Figure 4.5: Graphical representation of need for an FPO cadre of trainers

Source: SkillGreen

at facilitating skills that are often required by BOD members and CEOs of an FPO during negotiations with other stakeholders including their own members.[25] Unlike other programmes that require CEOs and BoDs to travel long distances with content largely in a few languages (English and Hindi), there is a need for more regional trainings focused on RIs and developing a cadre of trainers who can communicate the ideas of good governance of an FPO, work out a business plan etc.. The response of facilitated training using the manual has been very good with both trainers as well as BODs and CEOs participating actively and feeling empowered to lead these institutions. In the last year over 100-200 people have been trained in Karnataka, and in the western and eastern regions of the country with local host institutions providing a space for organisations in the region to participate.

Apart from the FPO manual there have been many manuals and self-development modules that have been brought out by organisations such as Centre for Indian Knowledge Systems (CIKS) or AP Mahila Abhivrudhi Samiti (APMAS) both in English and in Tamil/Telugu.[26] Unlike the policy support that has been provided for building human resource capacities for the SHG movement, the capacity building budgets of most policies for FPOs is considerably low. The future of the institutions is largely dependent on the availability of excellent manpower locally. This needs a structure different from existing agricultural schemes and a more coordinated effort on what capacities to build, how to build and sequencing these modules attuned to the growth stage of the FPOs.

25 The idea behind the FPO manual is articulated by Parthasarathy at https://www.youtube.com/watch?v=GuoEhLlsDv8&feature=youtu.be and the manual is available at https://welthungerhilfeindia.org/wp-content/uploads/2019/04/FPOs_GIC-compressed-1.pdf . For more information on other institutions and their capacity building initiatives visit https://www.iseedirma.in/fpo-workshop .

26 See http://ciks.org/our-publications/producer-companies/ and http://www.apmas.org/pdf/flyer-on-modules.jpg for more details. A manual specific to Maharashtra's agricultural competitiveness project is available at http://gtw3.grantthornton.in/assets/i/Intrapreneurship_and_Management_for_Farmer_Producer_Companies.pdf

WAY FORWARD

The FPO movement is at the cusp of a significant shift not just in numbers but also in its structure. Do we want to scale up the existing institutions that have been under-invested and with an unclear future or does the ecosystem have the maturity to reinvent itself based on the plethora of experiments across the country? In other words, will the new FPOs to be formed be based on existing ecosystem limitations or would the government explore creating a new enabling ecosystem of support that can herald an FPO 2.0. FPOs have come to stay but if they have to deliver the tall promises and expectations, there are few ideas that need to be explored pro-actively. A few are listed for discussions here.

- Nurturing innovative spaces for negotiating complexity. The potential of multi-stakeholder dialogues on FPOs to openly share difficulties, challenges and think together ways forward has empowered many stakeholders. Academic institutions as knowledge brokers and networks such as NAFPO can provide innovative spaces for collaborative learning and co-creating solutions. While the government has provided a supply thrust to the FPO movement, it is time now for other stakeholders to work from the perspectives from below from the BODs, CEOs, RI/POPI perspectives to build a newer FPO ecosystem. Facilitated networks are emerging in different parts of the country that are providing spaces for sharing best practices and learning together.[27]
- Recognising diversity and complexity: There is a need to appreciate that FPOs have dynamic relations to both its members and the markets. Policies should desist from prescribing 'ideal' or 'optimal' numbers and work to create resilient business models, not just business plans, for FPOs. This requires analytically working on possible typologies of FPOs. While there are calls for greater integration with commodity markets with organisations like NCDEX who play an important role in connecting 246 FPOs to commodity markets, there is also a need for a different model for rain-fed farmers who are being experimented in programmes like the Odisha Millet Mission or AP drought mitigation programmes that build on an Agribusiness Service Centre (ASC) model (see Box 4.1 for articulation of this difference).
- Collaborating and co-creating best processes: While newer FPO awards have begun to recognise the importance of FPOs, there is scope for changing the nature of institutions and delivery modes that can use the best of human and technical networks. The FPO manual is one such example of drawing from existing resources and creating an open-source model for local innovation rather than creating a few best practices that cannot often be replicated in other and more complex contexts.
- Rethinking investments and ecosystems: There is a need to rethink the investments required if these institutions are to be fully supported. Collective enterprises today need the same, if not more, investments and creation of ecosystem support that start-ups are getting. Mature entrepreneurial ecosystems value failure and enable start-ups to grow despite initial setbacks. FPOs, and their promoting institutions, though are blamed for their inability to scale without the back-up ecosystem support.[28] Despite the buzz very few incubators in the country work with FPOs and provide incubation

27 One such network based in Andhra Pradesh is the FEN (FPO ecosystem network) that began in June 2018 and has grown to 87 members. The network is heterogenous in that it has not only member FPOs in the region but also 'expert' advisors as part of the ecosystem tracking developments in other states and sharing them widely. Often in these discussions different and difficult questions are raised such as newer thinking and strategy by Resource Support Agencies (RSAs) or POPIs in not going for numbers but strengthening existing institutions created in a longer time frame.

28 The Invent programme that has enabled 160 start-ups in five years has had a support of close to five million pounds with some of the leading institutions of the country and incubators such as Villgro creating ecosystem support in eight low-income states. The modest employment figures of 1930 direct and 27195 indirect jobs, or 12 jobs per start-up would pale in comparison to many of the highly underinvested FPOs that are providing jobs in rural areas and making in India. In contrast, the investments / start-up or FPO just does not match! For details see http://tdb.gov.in/invent-program/ and https://www.indianweb2.com/2019/10/14/govt-affiliated-incubators-enables-160-startups-impact-1-5-million-across-country/

Table 4.1: Farmer Producer Organisations – An alternative model

Variable	NABARD/ SFAC	ASC Model
1. Purpose	To create commercially oriented institutions to benefit farmers	To create institutions that will provide commercial as well as other material benefits to improve members' livelihoods
2. Assumption about business	FPOs can make agriculture a profitable business	FPOs cannot help in intrinsic volatility and cyclical elements of agriculture Can help in minimising structural dimensions
3. Source of profitability	Capturing a larger share of the value chain	Reducing exploitation arising out of asymmetry of information, lack of network, primary processing
4. Basis of business planning	Analysis of commodities market/ input market etc	Study current 12 month livelihood pattern of members and identify opportunities through collectivisation
5. Success looks like	Strong FPO / strong farmers	Resilient farmers / relatively fragile FPO
6. Resilient farmers / relatively fragile FPO	An entity in itself and needs to look after its growth and profitability	ASC is just an instrument of expressing aggregated will of the members
7. Business model	To straddle deep in the value chain going up to B2C, if necessary	Focus on comparative advantage of the farmer and ensure price maximisation at the ASC gate. B2C for local market B2B for distant market
8. Risk management in commercial issues	Risk management in commercial issues	Low risk low reward Last mile connectivity for inputs and first mile connectivity for outputs
9. Expertise	Deep expertise in one or many commodities in the entire value chain	Shallow expertise in all aspects of farmers life which can benefit from aggregation
10. Managerial expertise	External managerial talent to manage the deep expertise in various parts of the value chain.	Local graduate empowered with tools to think and plan.

Source: Abridged version from Joshi (2019)[29]

and growth support. If FPOs are business enterprises, then, why are they not linked with the start-up and entrepreneurial ecosystem adequately? Why is there no scope for failure whereas failure in start-ups is acceptable?

Ease of doing business: Most FPOs today complain of multiple licenses for them to operate and the absence of a level playing field in agricultural markets. Treating FPOs on par with cooperatives (and not the other way around) can enable better market linkage and can be incorporated better in state and central policies. If agriculture needs to transform, there needs to be provisions for the equivalent of a single-window clearance and enabling public procurement mechanisms.

Some low-hanging fruits: Enabling ecosystems for finance can be created through simple and doable switches in rethinking agricultural credit. Two such long-standing demands would be: *a)* get the RBI to issue a directive requesting banks to report their lending to FPOs (a similar game-changer occurred with SHGs for bank linkages); *b)* get NBFCs, who have shown that FPOs are bankable to get priority sector lending status, thereby enabling them to scale and provide their innovative financial products to more FPOs. Similarly, clearer directives on CSR funding to incubators and institutions supporting FPOs can go a long way in addressing some of the capital inadequacies of the FPO model.

The brief overview does not seek to provide all answers (we have not covered discussions on ratings of FPOs and finance adequately for instance) but to suggest that the real potential of making farms as enterprises and farmers as entrepreneurs is indeed possible if FPOs are nurtured and nourished suitably. This requires rethinking both scope and scale and making sense of the diverse possibilities where farmers, with their friends, are reshaping their and our lives.

29 Shirish Joshi, "Farmers' Producer Organizations (FPOs) in Rainfed Areas—an Alternative," 2019; Note prepared for the Revitalising Rainfed Areas Convention, February, 13–14 (New Delhi: India International Centre, 2019). Shirish Joshi's paper (2019) at the RRA convention has been followed with discussions in smaller groups on the ASC model. An abridged version has been reproduced here.