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Consultation or consultants?

C. SHAMBU PRASAD

THE year-long protests against the government's new farm bills reflects a significant shift in policymaking in agriculture in India. The bills, even if well intentioned, were rushed through without consultations in the Parliament, with state governments or farmers' representatives. While the protests have evoked much discussion and debate, a less discussed aspect is the dimension of how many supporters of the farm bills would often invoke the new opportunities provided to Farmer Producer Organizations (or FPOs) through the farm bills.

Between the extreme views of the '1991 moment for reforms in agriculture' supporting the farm bills and the corporate takeover of agriculture by the opponents, are there spaces for investments in newer, and more modern, institutions that could enable the large number of small and marginal farmers to better negotiate with markets to enhance or double their incomes?

The operational guidelines for the 10,000 FPO policy were also released in July 2020 and, unlike the farm bills, received less attention. A closer look at the mechanisms of policy, such as the FPO guidelines, reflects the everydayness of policymaking in India today and the inability of the increasingly centralized state to augment its own capacity to meet the needs of farmers.

The FPO movement in India is a 21st century phenomenon. With the opening up of Indian markets due to globalization and liberalization of the economy, the government was also exploring avenues to enable rural producers to be 'equal partners' in the new economy. A High-Powered Committee, under the leadership of Y.K. Alagh, was set up in 2000 for transforming cooperative businesses into companies. It included members from the National Dairy Development Board (NDDB) that explored creating new generation cooperatives. It was hoped that they would be more business focused and potentially free of the political and elite capture of Indian cooperatives. These institutions would market produce in a modern and professional manner and yet retain the cooperative ideals as found in many countries like Denmark, Zimbabwe, or even the United States.

The subsequent bill and changes in the Companies Act has gradually led to the formation of Farmer Producer

Companies, or FPCs. The last decade saw a spurt in public policy support through the Small Farmers Agribusiness Consortium (SFAC). Though this institution was set up in 1991, it remained dormant for two decades till 2011, and later through the National Bank for Agriculture and Rural Development (NABARD) from 2013-14 onwards.

These new institutions had many positive features. They involved Civil Society Organizations (CSOs) with good grassroots presence to mobilize farmers into collectives.Unlike the earlier Primary Agricultural Co-operative Societies (PACS) that operated in a few states, and were largely represented by large farmers, the newer FPOs have engaged with small and marginal farmers, spread across the country and with institutions where tribal and women farmers had potentially more voice.[1]

Even as the FPO ecosystem was being built through farmers being mobilized across the country, early indications were that unlike the SHG (Self Help Group) movement of the late 1980s and early 1990s, FPOs were more complex entities. Farmers, even if collectivized, had little say in influencing established input and output markets and these nascent institutions faced significant capital and capacity constraints. Getting village leaders to become Boards of Directors of a business organization required significant capacity building over time and mainstream banks were unwilling to lend to these institutions.

While some Milk Producer Companies supported by NDDB, managed to provide significant funds to these institutions,with memberships running into a few lakhs, a majority had less than 1000 members (a number that SFAC recommended) – with average membership of the first 2072 NABARD supported FPOs at 445. Unlike the FPOs promoted through the earlier Madhya Pradesh District Poverty Initiative Programme (MP-DPIP) that invested in these nascent institutions up to Rs 49.5 lakhs over five years with provision for working capital, the NABARD schemes, and the predominant design of FPO promotion has been with an underinvestment of Rs 10 lakhs over three years and with little provision for working capital support.

The Ministry of Corporate Affairs database indicates that there were a total of 14213 FPCs in the country by March 2021. Producer companies comprised 11,715 of these and were registered since 2016-2017 (data on FPOs registered as cooperatives are scattered across states and different programmes and estimated to be around 500 in the last few years). NABARD's database indicates over 768 promoting institutions across the 485 districts. In 2020-2021, even as the country faced an unprecedented pandemic and many companies were closing down, a whopping 6000 FPCs were registered. The geographical spread of FPCs in the country indicate that 82% of the FPCs registered were from 10 Indian states with Maharashtra alone accounting for 34% of all FPCs.

Are these FPCs financially sound enough to yield returns to double farm incomes and benefit from some provisions in the new farm bills? While this requires more detailed analysis over the years, a quick look at the FPCs registered in 2020-2021 shows that 79% of them had a paid-up capital of Rs. 1 lakh or less, far too meagre to survive in the long run, let alone make a dent in agricultural markets. While there is potential for some of these FPOs to grow, indications from the ground show that few FPOs survive beyond the project period. With such a low internal equity capital base, FPOs of small farmers require significant external support from the ecosystem. In the proverbial 'ease of doing business' or 'single window clearance' welcomed by many states, the central government is conspicuous by its absence in most states for basic agri-input and mandi licenses.

Farmer Producer Organizations are repeatedly referred to in the multi-volume Doubling Farm Incomes (DFI) report and seen by the government as an important institution in the shift from subsistence farming to one that is enterprise driven.[2] The new policy guidelines for creating 10,000 FPOs, released during the Covid 19 pandemic in July 2020, lays out several technical and pragmatic operational guidelines.[3] These guidelines were in the making for over a year and an expert committee was constituted in February 2018 to recommend changes. The final guidelines though contain many recommendations that areat variance with the new guidelines.

To elicit views on policy, an elaborate, descriptive electronic-survey (e-survey) was designed to capture a spectrum of perspectives between 8-21 July 2020 (when the country was under lockdown), shortly after the release of the guidelines. The

1. Shambu Prasad, Deborah Dutta and V. Ravichandran, 'Issues in Policy Implementation: Insights from an E-survey on Operational Guidelines on 10000 FPOs'. IRMA Working Paper 317, 2020. https://www.irma.ac.in/uploads/randp/pdf/WP-317-web-20201223153615.pdf

2. C.S. Prasad, 'Farming as an Enterprise: Ten Years of FPO Movement in India', in State of India's Livelihood Report. Access Development Services, New Delhi, pp. 37-48.

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

Operational Guidelines[4] contain 17 sections and the respondents were encouraged to reply only after reading them closely. The survey form was widely shared among agricultural networks (organizations working with or promoting farmer collectives and networks such as the Revitalizing Rainfed Areas Network (RRAN), National Rural Agrarian Society (NRAS), Rural Livelihoods and the National Association of Farmer Producer Organization (NAFPO).

A network of trust prevailed in which the participants could share their views without inhibition. The 54 respondents included the FPO and federation of FPO representatives, promoting and training institutions, donors, and other ecosystem players with extensive experience working with FPOs. The online medium helped overcome the constraints imposed by the Covid pandemic, allowed a rapid assessment of responses through documentation, and paved the way for some evidence-based policy dialogue on possible implications of the guidelines with key implementing agencies such as NABARD and SFAC.[5]

The diversity of responses with insights from the field indicate that while there was some buy-in on the programme rollout with a longer-term support, there were significant concerns about the programme design that went counter to some of the successful experiences of FPOs until then. The guidelines indicated an impatience with NGOs and the long period of social mobilization while policymakers were keen to see significant business impacts.

Policies had, and continue to, underestimate the incubation period of an FPO, especially ones where commodity prices fluctuate and there is significant uncertainty in the output markets. Curiously, the nearly 7500 FPOs that already exist find no support in the new policy. The policy has also veered away from grassroot organizations to consulting firms that had undertaken World Bank supported programmes in some states. The new guidelines for selection of Cluster Based Business Organizations (CBBOs) were such that only those with an annual turnover of Rs. 2.5 crore and above could bid. Thus, most FPOs that had been instrumental in creating the FPO movement, were excluded from the new rollout, even though the norms for inclusion of agricultural establishment institutions were not as rigid.

Simultaneously, the government proactively pushed an untested concept of One District One Product (ODOP) that a priori fixes the kind of commodity that an FPO should work with. FPOs, especially in rainfed areas, require diverse produce to better negotiate risks, and cooperative principles suggest that these choices should be democratically made by members. The hasty rollout could potentially lead to a turf war with members from existing FPOs likely to crossover or included in the newer FPO, thereby weakening both institutions.

There are high expectations from the Board of Directors and the CEO (Chief Executive Officer) of these institutions but low investments. Member education and training is the cornerstone of good collective enterprises and while there have been some significant innovations in capacity building through self-learning modules and participatory training manuals that have been effective in empowering members to build greater ownership, the capacity building component of the new guidelines is low. If FPOs are seen as start-ups, they need to be provided with the right kind of exposure, flexibility and learning orientation until they develop a suitable business model. Business plans written for five years for an FPO rarely work as the BODs and CEO need to make course corrections depending on local production cycles and market responses.

The more successful FPOs are ones that have been able to raise significant resources outside government schemes even as many FPOs face challenges of timely release of funds. Compliance with company acts adds to capital and capacity constraints. The Directors of FPOs from remote locations need to pay heavy fines in case returns are not filed on time. With a low capital base and turnover, ensuring compliance for many FPOs continues to be a challenge and it's not clear how many of the FPOs, old and new, would survive. The policy has little scope for state governments to innovate, nor does it envisage the creation of platforms for cross learning of better and enabling practices from the ground up where there is evidence of ease of doing business.

There are no easy solutions to the FPO, and Doubling Farm Income puzzle. A better way for the state would have been to support or invest in platforms with a greater focus on learning rather than chasing targets. The electronic survey during the pandemic showed that with a consultative and open mindset, it is indeed possible to evolve better solutions if policymakers are more open to listening – a message not very

4. Government of India (GoI), Formation and Promotion of 10,000 Farmer Producer Organizations (FPOs) Operational Guidelines, 2020. Retrieved from http://agricoop.nic.in/agriculturereforms/operational-guidelines-formation-andpromotion-farmer-producer-organizations-fpos

5. For details of the report, see Prasad, Dutta and Ravindran, 2019.

different from what the farm law protests indicate.

Amidst this gloom, are there lessons to be learnt from the field? A few suggestions that might enable the building of FPOs as resilient institutions are: Amul, often referred to as a model, was not built in a day or as a three-year project. As we remember Verghese Kurien on his birth centenary, it might be worthwhile recalling a few design principles that helped build Amul. These include building on people's institutions.The then co-operative movement, inspired by Tribhuvandas and Vallabhbhai Patel, existed much before Kurien joined. Kurien's genius was to give shape to it through professional, technical and management support with the right kind of institutions (NDDB, Institute of Rural Management Anand – IRMA) and investments too (Operation Flood was smartly designed).

FPOs today may not reach the scale of Amul but building a good FPO requires repeated tranches of investments that would, like every start-up, be in the range of Rs one crore with a mix of grant and loans over a period of 5-8 years or so.

In the absence of an NDDB type institution, incubating FPOs requires that many organizations with both the capacity and vision, help them survive. These new incubators of grounded knowledge are important not just for their survival but as a much-needed counter to the increasing control over farmers lives by external agents of different kinds. Building strong collective local institutions needs to be seen as a good public investment that could lead to greaterdemand for agricultural infrastructure for farmers at the farm-gate level. Investing in this new collective and demand driven model could be a good counter to the supply push of individual farm loans and subsequent waivers, or fancy targets like 10,000 FPOs.

Recent reports indicate that the availability of such infrastructure closer to the farmers and even in joint ownership modes, like the recent tie-up of NAFED with MahaFPC to create Mahaonion, translates into immediate returns and incomes for farmers. With greater hope, farmers invest more in better production practices and grading of their produce that over time, could enable them to deal with larger players on their own terms. Instead of investing more on rural markets, the original intent of the GRAMIN scheme, we have gone the other way of dismantling our infrastructure. While not all mandis are FPO friendly, a better reform would have been through state level interventions like Madhya Pradesh and Rajasthan seem to have done.

FPOs could be nurtured to become the institutions for better convergence of many government schemes. The Bhangar FPO in West Bengal has shown consistent profitability by making good use of government schemes to diversify production processes and is now able to establish its own brand. The Diwak Mata FPO in Pratapgarh, Rajasthan has in a short span of two years successfully set up a processing unit and established good relations with other players in the ecosystem. The M tomato federation had acted remarkably during the pandemic to support its members of 11 FPOs by leveraging its assets, vehicles supported through the horticulture department and working capital through donor support to serve a local agro-processing industry.

The Ram Rahim producer company in Dewas was the first FPC to trade with NCDEX, the electronic market for soybean, but was also smart enough to exit early as soybean rates were on a downslide and is now enabling its non-pesticidal produce being sold to conscious consumers across the country with local processing and grading from its location in a food park with other established players.[6]

The few examples of FPOs cited above operate across different commodities and regions with different institutional arrangements. They, however, highlight a few common features: They are all efforts that have taken their time to experiment, innovate and build business models. Second, while they have been aided by the government, they worked hard to create an enabling ecosystem of other players where farmers voices, expressed through their institutions, are heard and market mechanisms built through negotiation and dialogue over a few cycles. Third, they have built, and continue to invest in building capacities of their Boards, CEOs and are well governed.

Some FPOs have been profitable from year one and like many start-ups and enterprises, seen profits as well as losses. The key is whether they have the resilience to tide over a bad year and continue to provide value to their members. The pandemic has significantly disrupted food systems and amidst an overall economic gloom many of these FPOs have experimented with newer markets and demonstrated the potential for safe food value chains. These institutions have empowered their members to take on activities they would have deemed impossible a few years back. They have, to use the UN Food Systems three fold action plan, built their agency and are working towards changing relations

6. For more details on these ground stories on collective enterprises, see https://www.smallfarmincomes.in/blog/categories/collective-enterprises.

in the markets and hopefully this will transform structures too.

FPOs are not a panacea for much of the ills in the agricultural system. Through the FPO lens we have tried showing that there are many spaces beyond the binaries of 'the best reform ever' to the image of complete corporate takeover. Beyond these polarized spaces, FPOs can be shaped as institutions for converging of ideas, a space for better dialogue between actors in the market, and a move towards more equitable livelihoods. From a public policy point though there is a danger of looking at FPOs as a silver bullet for all the ills in the agricultural system. The unfortunate withering of state capacity where the government, in the FPO policy case, has subcontracted policymaking to consultants, is a sad reflection of the current situation.

There are models, even within the government, where the state has created capacities to govern and manage large-scale projects of public systems. The National Rural Livelihood Mission (NRLM) and its National Mission Monitoring Unit (NMMU) is one such example. There is much that the agriculture department can learn from its rural development counterpart in terms of creating capacity at the grassroots, mechanisms for monitoring and evaluation that provides for state governments to express themselves and creating avenues for consultation and engagement with civil society actors.

It is likely that in 2021-22 there might be another 5-6000 FPOs registered and a few more awards and events celebrating the FPO story. However, can state capacity be improved post-pandemic with newer challenges, or will policy continue to be made without consultation, chasing the mirage that consulting firms can transform Indian agriculture?