International Initiative for Impact Evaluation

Literature review brief

**Agriculture**

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# Can collectives help overcome challenges facing small and marginal farmers in India?

Since the early twentieth century, collectivisation has been an important policy instrument in India to help small and marginal farmers benefit from aggregating their agricultural inputs and outputs to gain economies of scale. Collectivisation is widely believed to be an effective strategy for addressing a variety of challenges, especially those related to accessing improved agricultural inputs, investment, technology and markets.

## Farmer producer organisations

India is home to more than 1 billion people, and agriculture and its associated activities are the main source of livelihood for more than 50 per cent of the population. Although this establishes the primacy of the sector in the Indian economy, the challenge of low income stems from the fact that small and marginal farmers account for almost 86 per cent of the country's operational holdings. Increasing land fragmentation has led to falling agricultural incomes, which declined by almost 50 per cent between 1971 and 2011.

Support for farmer producer organisations (FPOs) has been a key policy response to address the structural impediments smallholder farmers face in the absence of economies derived from operations at scale.

Although the practice of collectivising farmers to benefit from economies of scale dates to 1904, policy reforms to facilitate market integration are a recent phenomenon that gained momentum in 2003. That year, following the recommendations of Alagh Committee on the formation and conversion of cooperative businesses into companies, FPOs were added to the Companies Act of 1956.

This brief summarises findings from a literature review 3ie commissioned to understand how and whether collectives have achieved their stated aims, and to analyse factors affecting their performance.

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## Main findings

### Policy and institutional framework for FPO promotion and functioning

The policy framework allows farmer collectives to register through one of six legal forms. The literature shows cooperatives and producer companies to be the preferred forms, with the latter gaining momentum following the amendment of the Companies Act.

In 2013, the Small Farmers' Agri-Business Consortium, promoted by the Ministry of Agriculture, issued guidelines laying out the framework for FPO formation and functioning. Implementation of the guidelines has varied extensively across the country, however, given that agriculture policy is determined at the state level.

In 2018, the Indian government exempted FPOs registered as companies from taxation on income derived from agricultural activities for five years. Nevertheless, many compliance-related barriers remain, including legal and regulatory requirements that affect FPO creditworthiness and performance.

Interestingly, the literature review did not find a unified database of FPOs, and different documents, including government documents, quote different numbers of FPOs: The Small Farmers' Agri-Business Consortium puts the total at 1,066, while the National Bank for Agriculture and Rural Development, another key player in the sector, estimates it to be more than 2,000.

Although Andhra Pradesh has led the way as the only state in India to have its own FPO policy, as many as eight states have promoted state-level FPO federations to contribute to effective functioning of farmer organisations through establishing linkages with other stakeholders.

### The FPO mandate

The literature abounds in scholastic debates on what the mandate of FPOs is, and therefore how their performance should be measured, given that they need to function as profit-making business entities while abiding by the principles of cooperation and equity in participation. Although evidence on the participation of small and marginal farmers is scant, the literature refers to the gendered nature of constraints and challenges specific to working with tribal populations in resource-poor settings.

Members' economic welfare, measured in improved agricultural income, is a priority for most FPOs. However, operational challenges in FPOs are a function of both the inefficiencies in the agricultural sector and the constraints imposed by limited resources and capacity available within FPOs. As one stakeholder aptly noted, 'FPOs are by design complex organisations with internally contradictory principles, which don't give [the] biggest stakeholders the largest vote'. To circumvent the problem, FPOs are using voting based on active membership and other innovations to reward patronage and prevent free riding.

# Main findings

## Barriers and enablers affecting FPO performance

The capacity and resources of organisations that promote FPOs has a bearing on the scale of operations. NGO-promoted FPOs operate on a small scale, with limited reach when compared to government-backed FPOs like the National Dairy Development Board. The literature finds that the business model of a majority of FPOs focuses on procuring agricultural inputs, with limited emphasis on establishing market linkages for selling the produce. Lack of business orientation and limited knowledge of agricultural value chains is an important deterrent preventing FPOs from operating as business entities.

Where FPOs have shown an appetite for business, financing has been an obstacle. The Small Farmers' Agri-Business Consortium and the National Bank for Agriculture and Rural Development both have schemes to provide equity and debt financing. FPOs are also eligible for priority lending, according to a Reserve Bank of India mandate that all banks lend a certain percentage of their total portfolios to identified sectors. However, these government initiatives fall short of the sector's credit needs. FPOs' weak capital base means they are unable to attract private funds. Some social investors, such as Friends of Women's World Banking, are experimenting with innovative approaches to funding FPOs in order to minimise default.

Infrastructure bottlenecks are another impediment for FPOs. In the absence of transport and storage facilities, moving up the agricultural value chain and tapping into markets becomes difficult. To overcome this problem, National Commodity and Derivatives Exchange Limited allows farmers to store produce, for a fee, in exchange-approved warehouses immediately after taking a sell position on the exchange platform.

There is near-unanimous agreement in the literature on the capacity deficits of the board members governing FPOs. Nonetheless, although the need for capacity development is well understood, it is difficult to find donors that would fund it. Sector experts are divided on the optimal approach to addressing the human resource gap in the management of FPOs. Whether the focus should be on building the capacity of community members or keeping management in the hands of trained professionals remains an enduring question.

Technology is driving some innovations in the sector. The literature discusses the use of technological solutions to enable efficient transfers of payments to FPO members. In 2018, National Commodity and Derivatives Exchange Limited launched Mandi.com, a mobile app that farmers can use to learn more about the options and commodity markets.

There are also e-learning modules on good agricultural practices for farmers from the Indian Agricultural Research Institute. Electronic National Agriculture Market, known as eNAM, is a pan-India electronic trading portal and an emerging market model for forward integration of FPOs. It networks with the existing Agriculture Produce Market Committee mandis to create a unified national market for agricultural commodities. FPOs are one of the types of agents registered for trading on this portal.

# Main findings

## Evaluating FPO performance

Studies find that FPO performance is mostly reported in terms of members' income and total turnover. Metrics on evaluating performance is an evolving field, and the literature is therefore very limited. Nevertheless, there are at least three tools for rating FPO performance across a range of parameters and indicators.

All three tools are set up to help FPOs monitor performance and thus course correct as needed. Two tools, developed by the Small Farmers' Agri-Business Consortium and the National Bank for Agriculture and Rural Development, are administered by promoting agencies. The third is a self-assessment. Although all of these tools capture FPO performance on efficiency and equity, including contextual dimensions, such as agro-climatic conditions, environmental indicators to rate FPOs on their adoption of sustainable agricultural practices do not find a mention in the tools.

The rating tools are clearly biased toward quantitative indicators, and therefore they depict only a partial picture. For instance, if membership is the only indicator for participation, the tools fail to capture the dynamics of participation, such as voice in decision making, agenda setting and so on.

Although there are external rating agencies that can carry out FPO performance assessment, these are expensive to hire and regularly face the challenge of conducting comprehensive assessments in the absence of adequate administrative and financial information available with the FPOs.

Even though indicators exist, financial ratios suffer from lack of standardisation, thus hindering any useful comparison. This also affects FPOs' ability to raise money from banks and other financial institutions, impeding their efforts toward sustainability.

## Conclusion

This review discusses the policy and institutional framework for FPOs in India. It identifies recurrent themes about the barriers and enablers affecting their functioning, including the absence of agreed metrics to measure FPO performance. However, the findings should not be overstated. The literature on FPOs continues to be thin, and rigorous evaluations are conspicuous by their absence. The review points to important inadequacies in policy and programming that should be subjected to more critical analysis in order to make recommendations for strengthening FPOs.

## About this brief

Stuti Tripathi authored this brief and is solely responsible for all content, errors and omissions. It was designed and produced by Akarsh Gupta.

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## About the literature review

This brief is based on a literature review 3ie commissioned as part of a wider initiative to build and consolidate evidence on group-based livelihood initiatives in India. It is a synthesis of 49 published and 42 unpublished reports on Indian FPOs from 2000 to 2018. Interviews with key stakeholders helped identify new literature and supplemented insights from the document review. To validate the themes emerging from the literature, four FPOs dealing in different commodities and in geographically distinct locations were studied in depth. We acknowledge Vrutti and the Institute of Rural Management Anand for conducting the literature review, supervised by a 3ie team led by Marie Gaarder and comprising Priyanka Dubey, Francis Rathinam, Pooja Sengupta and Stuti Tripathi. The 3ie Rural Livelihoods Evidence Programme is supported by the Bill & Melinda Gates Foundation.




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