In the light of increasing fragmentation of agricultural land holdings and increasingly competitive and organized retail markets, it is essential to collectivize Indian smallholder farmers and link them to markets where they have better income opportunities through higher price realization. The concept of Farmer Producer Organizations (FPOs) has offered a promising organizational structure in recent years, as compared to agricultural cooperative societies which have a history of failure in India. Building on both insights from desktop research and evidence from Gujarat, where women’s FPOs for wheat and chili are in the starting blocks, this report explores the challenges and opportunities which arise in the formation stage of such organizations. The case study from Gujarat is exceptional in the sense that it shows how FPOs may arise from a structure of successfully run credit cooperatives.
1.1 Recent development of FPOs in a context of increasingly competitive and organized retail markets

FPOs, also referred to as producer companies in some contexts, have been generally considered a promising organizational structure intended to bring together farmers for aggregation and marketing of produce. Farmer organizations structured as cooperatives under the Cooperative Act have a history of failure in India, mainly attributable to various legal obstacles, problems in leadership and member commitment, as well as opportunism and free riding, resulting in low efficiency and lack of performance (Trebbin and Hassler, 2012; ACCESS, 2014). As a result, the number of cooperatives has decreased, while producer companies in line with the new legislation of 2002 are on the rise, combining a regulatory framework similar to that of companies and characteristics of cooperative businesses (ACCESS, 2014; Trebbin, 2014), graph 1).

As of today, the number of farmer organizations in India amounts to a little more than 1,000, of which 433 are registered companies (SFAC, 2015). Of these organizations with corporate structure, only 8 could be identified as women’s FPOs. Deviating from this count, NABARD (National Bank for Agriculture and Rural Development) reports approval of 835 registered FPOs in the financial year 2014-15.

According to a quantitative and qualitative study by Trebbin (2014), there were 263 producer companies in India in 2012, of which 181 worked primarily in agriculture (as compared to animal husbandry, forestry or fisheries). Even though the numbers are incomplete, they provide an idea of the growing number in registrations across producer-led companies. Furthermore, the author highlights that “the possibility to form (producer companies) exists since a decade, (but) their development was rather slow until 2008. This was mainly due to a lack of knowledge of this new type of FPO and a general lack of support and incentive to create producer companies. Most of the producer companies operating today were formed between 2010 and 2012” (Trebbin, 2014).

### SELECTED DIFFERENCES BETWEEN COOPERATIVES AND FPOS.

<table>
<thead>
<tr>
<th>Features</th>
<th>(Primary Agricultural) Cooperatives</th>
<th>Farmer Producer Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration</td>
<td>Cooperative Societies Act</td>
<td>Companies Act; minimum number of founding members is ten individual members, or two institutional members such as self-help groups (SHGs), cooperatives, or any other formal farmer organization.</td>
</tr>
<tr>
<td>Membership</td>
<td>Open only to individuals and cooperatives</td>
<td>Members, i.e. the shareholders of this company, have to be (primary) producers themselves.</td>
</tr>
<tr>
<td>Shares</td>
<td>Not tradable, not transferrable</td>
<td>Cannot be publicly listed and traded; they are only transferable amongst members; with share price ranging from INR 50 to 200 per share.</td>
</tr>
</tbody>
</table>
The reasons for FPOs to have a promising outlook are very much related to the development of the food retail sector in India. The intrinsic objective of these organizations is to link smallholders to larger corporate buyers as investments in the food retail and food processing sectors have increased tremendously (graph 2). This means that farmers come together and leverage the resultant bargaining power to secure better prices in direct cooperation with retail and institutional buyers. The above also ensures that farmers are freed from the vagaries of dealing individually with traders and similar intermediaries across wholesale markets and the potential for losing out on income opportunities on account of poor price realization. This is why research on FPOs has to be placed in a larger picture of value chain integration. Clearly, it is a very recent and understudied development. Thus, evidence on the FPO’s development, performance and linkage to markets in India is scarce, especially for women-led FPOs.

This paper in particular traces the development of the institutional, administrative and trust-based structures that lay the groundwork for successful farmer-led, market-oriented enterprises at the community level. As the article focuses on the early stage of FPO formation, it makes a point for supportive policies and funds to overcome limited shareholding capacities and challenges faced in market development by farmer members. Practical insights are provided in section two which demonstrates how the initial structure of two credit cooperatives serves to build women-led FPOs in Gujarat.

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SELECTED DIFFERENCES BETWEEN COOPERATIVES AND FPOS.

<table>
<thead>
<tr>
<th>Features</th>
<th>(Primary Agricultural) Cooperatives</th>
<th>Farmer Producer Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Voting rights</strong></td>
<td>One person, one vote. Government and Registrar Cooperative Society (monitoring authority) hold veto powers.</td>
<td>One person, one vote. Members not having transactions with the company cannot vote.</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Managing committee elected by the members on the basis of 'one-member-one-vote'.</td>
<td>Employed professionals that run the company: chief executive, selected by the board of directors (minimum of five, not more than fifteen directors coming from farming community).</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>Created if there are profits.</td>
<td>Mandatory to be created every year. This means that every company needs to maintain a general reserve in every financial year. In case funds are not sufficient for such transfer, the shortfall has to be made up by members’ contribution in proportion to their use of services offered by the respective producer company.</td>
</tr>
<tr>
<td><strong>Role of registering authority</strong></td>
<td>Significant</td>
<td>Minimal</td>
</tr>
</tbody>
</table>

Adapted from Yuva Mitra (2012), Introduction on producer companies; Trebbin & Hassler (2012); R&A Associates Legal Services Firm (2011).
Cooperative farming was successful up to the 1970s, or even 80s. After that, many failed, reasons including exploitative attitudes within the organization, legal obstacles, and problems in leadership and member commitment.

Between 2001 and 2010, the food and grocery segment has grown at the fastest rate of all retail segments with growth estimated at 49% annually. In 2010, the food and grocery segment, accounted for 68% of India’s total retail trade.

Modern retailers often need to source from smallholders if they wish to source directly from farmers in India. As Trebbin (2014) concludes, there is a strong incentive for smallholders as well as for retailers to link producers to food value chains through institution-building (such as FPOs) in order to benefit from economies of scale and lower transaction costs. The question is how FPOs can be formed, and how they can set up a sound financial and institutional framework to be resilient agents in the value chain.

1.2 Recent supportive policies and funds

As part of the Union Budget 2014-15, NABARD instituted the ‘Producers’ Organization Development and Upliftment Corpus’ (PRODUCE), a fund of INR 200 crores supported by the Central Government for the establishment of 2000 FPOs in the subsequent two years to supplement NABARD’s Producer Organization Development Fund (PODF). The PRODUCE Fund would address the initial requirements of the emerging FPOs, such as support in awareness creation among potential members, capacity building, technical support, professional management, market access, and regulatory requirements during the formative stage. In addition to the above, a grant assistance of INR 65.54 crore has been budgeted for the promotion and capacity-building of FPOs. A national-level Advisory Committee has resumed work under the Chairmanship of NABARD, uniting government representatives along with spokespeople from the Small Farmers’ Agriculture-Business Consortium (SFAC), corporations, academia, banks and implementing organizations which already work with farmers on FPO formation. These efforts take place in a larger context of NABARD’s agenda to secure on-farm productivity, enhance farm incomes and integrate farmers into backward and forward linkage activities of the value chain against the backdrop of fragmentation of farm-holdings.
2. From credit cooperative to farmer producer organization: case study of MAHITI, Gujarat

2.1 Context: harsh climate, unequal distribution of resources, and usury

'Bhal', the region where the NGO MAHITI is active, refers to "forehead" in the local language. This literally points to the fact that except for shrubs and small trees, nothing else grows in this region where until 60 years ago, 75% of the coastal regions was covered with lush mangroves. Agricultural productivity is low due to salinity, salt-water ingress, wind erosion and lack of fresh water sources. Social conditions are equally harsh. Bhal is highly divided along the lines of different castes. Kolis and dalits (lower caste) together make up about 34 % of the total Bhal population, a majority of which live below the poverty line and live on average family earnings as low as INR 6000 per year. The situation is especially dire for women in female-headed households, who mainly work as agricultural laborers in farms of upper caste communities, such as darbar, kanbi patel, or rajput. These communities happen to own big plots of land and have a lot of influence in community-related activities. As a result, people belonging to lower castes used to have little alternatives to borrowing at extremely high interest rates of 10% per month. Failure to pay back would lead to seizure of land, house, or livestock. Thus, the genesis of women-led FPOs basically originates from the need for community-oriented, equitable financing schemes.

2.2 Tracing the initiation stage of women's FPOs

In this context, MAHITI project was set up by a socio-economic household survey team in 1981. Its focus was on empowerment of marginalized rural communities, with a particular emphasis on women’s rights. In its early stages, MAHITI initiated two savings and credit groups of women in Bhangadh and Mingalpur villages, Ahmedabad District, - a first attempt to circumvent moneylenders. In 1994, recognizing the strength of MAHITI project, the original founders decided to establish MAHITI as an autonomous organization and formally registered it under the Bombay Public Charitable Trust Act, 1950, in 1994. Under the leadership of Mrs. Devuben Pandya, two district level savings and credit cooperatives of women were formed in 2001 to curb economic exploitation by moneylenders - “Bhal women’s saving and credit cooperative of Ahmedabad” and "Bhal women’s Jagruti saving and credit cooperative of Bhavnagar”. These cooperatives were registered under the Gujarat Cooperative Act, an important step towards formalizing the former loose structure of SHG level saving and lending and giving its members an official identity. Their first priority was to reacquire the land mortgaged with moneylenders. This process of reacquiring the land, on average 5 to 10 acres per member, took 4 years. In the subsequent 4.5 years, the groups focused on investment in children’s education and family health. In more recent years, demand for loans for economic activities, namely diamond cutting and agriculture, has increased. As of today, about 10,000 women are enrolled as members in these cooperatives, details of which can be seen from the table below.
FINANCIAL SNAPSHOT OF THE TWO CREDIT COOPERATIVES, as of March of the corresponding year.

**Members**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ahmedabad District</th>
<th>Bhavnagar District</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>5,150</td>
<td>1,941</td>
</tr>
<tr>
<td>2009</td>
<td>5,443</td>
<td>2,399</td>
</tr>
<tr>
<td>2012</td>
<td>6,003</td>
<td>3,767</td>
</tr>
<tr>
<td>2013</td>
<td>6,193</td>
<td>4,013</td>
</tr>
<tr>
<td>2014</td>
<td>6,357</td>
<td>3,395</td>
</tr>
<tr>
<td>2015</td>
<td>6,472</td>
<td>3,593</td>
</tr>
</tbody>
</table>

**Number of SHGs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ahmedabad District</th>
<th>Bhavnagar District</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>231</td>
<td>78</td>
</tr>
<tr>
<td>2009</td>
<td>245</td>
<td>96</td>
</tr>
<tr>
<td>2012</td>
<td>272</td>
<td>134</td>
</tr>
<tr>
<td>2013</td>
<td>275</td>
<td>150</td>
</tr>
<tr>
<td>2014</td>
<td>278</td>
<td>175</td>
</tr>
<tr>
<td>2015</td>
<td>281</td>
<td>178</td>
</tr>
</tbody>
</table>

Bhavnaben B Maghrola started her own provision store through the support of the credit cooperative (Gujarat).

Bhanuprasad Mistry, Nitin Macwana, Devuben Pandya, and Raju Deepti with women cooperative representatives Vasantben Dabhi, Raamuben Chauhah, Jasuben Kuvaria, and Devuben Ghansyam, September 2015.
Average share capital per member

Share capital, in lakhs

Savings, in lakhs

1 lakh equals 100,000 rupees.
**WOMEN’S FARMER PRODUCER ORGANIZATIONS – BUILDING STRONG INSTITUTIONS FOR FARMERS’ MARKET INTEGRATION**

**CREDIT, IN LAKHS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ahmedabad District</th>
<th>Bhavnagar District</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>138.86</td>
<td>78.89</td>
</tr>
<tr>
<td>2009</td>
<td>210.51</td>
<td>42.18</td>
</tr>
<tr>
<td>2012</td>
<td>105.91</td>
<td>58.33</td>
</tr>
<tr>
<td>2013</td>
<td>114.08</td>
<td>70.67</td>
</tr>
<tr>
<td>2014</td>
<td>125.35</td>
<td>79.59</td>
</tr>
<tr>
<td>2015</td>
<td>128.62</td>
<td>78.49</td>
</tr>
</tbody>
</table>

**NUMBER OF LOANEES**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ahmedabad District</th>
<th>Bhavnagar District</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>6,285</td>
<td>1,105</td>
</tr>
<tr>
<td>2009</td>
<td>7,738</td>
<td>1,599</td>
</tr>
<tr>
<td>2012</td>
<td>9,821</td>
<td>4,270</td>
</tr>
<tr>
<td>2013</td>
<td>10,284</td>
<td>4,797</td>
</tr>
<tr>
<td>2014</td>
<td>10,720</td>
<td>5,280</td>
</tr>
<tr>
<td>2015</td>
<td>10,991</td>
<td>5,617</td>
</tr>
</tbody>
</table>

Annual Convention of the Bhal women’s cooperatives in Gujarat.

Dhiruben N Kaliya stacking pots she produced using loans of the cooperatives (Gujarat).
As of 2015, agriculture, household expenses, income-generating activities and expenditures on health-related issues account for the highest utilization across credit disbursed by these institutions, as can be seen from graph 3.

Some of the achievements attributable to the work of the women’s cooperatives are presented in the following paragraphs. Nearly all their members are free from indebtedness and exploitation by moneylenders. Women members have considerably improved their financial and administrative management skills, thereby augmenting their respect in society. One of the current leading members of the credit cooperatives, Laxmi Ben, was intensively trained by MAHITI trustee and CEO of Janvikas, Mr. Vijay Parmar. Afterwards, she has put in great efforts to shape up credit and business development for the cooperatives. The other cooperative executive members developed their skill set mostly through a series of training exposures for village leaders.

As Vasantben Dabhi, member of the executive committee, points out, “previously, budgeting family expenses, all was done by men. Our status within the family only changed when we had some finances on our own. In fact, when families realized that through our engagement, the men’s debt cycle was broken and income situation improved, many felt that women came to the rescue of the community. As a result, status improved both within our families and in communities”.

The women’s success is also reflected by the fact that both cooperatives cover their administrative costs completely, making them self-sufficient. This makes them the largest organization managed and owned by women in the area. Some of the women also participated in and successfully sourced about 20 tons of mango from different parts of Gujarat during the pilot Mango Marketing Initiative implemented in 2014 by GIZ RISP.

In line with this venture and similar developments in the production of the renowned Bhal wheat, it seemed obvious to consider the formation of women’s FPOs which would help in institutionalizing the agricultural sourcing and marketing activities while making sure that business ownership stays with the community. According to Deepti Bhen from Jeevantirth, another NGO participating in the above mentioned Mango Marketing Initiative, “FPO membership will make it easier for women to register themselves in the local land record system”, demonstrating the potential for women to establish themselves as farmers with access and control over local resources. The women running the current structure (refer to graph 4) will form a parallel structure based on the existing social network and positions.
Following the procedural requirements laid out by NABARD, the envisaged FPOs will build upon the SHGs that are already existent. Those will be converted to Joint Liability Groups (JLGs) in all participating 70 villages, which work as peer groups to share expertise and aggregate their produce, and form the groundwork of FPOs. In order to make sure that organizations are manageable, clusters of 10 villages will form one FPO, amounting to about 500 to 1000 women per FPO. Typically, one spokeswoman per JLG communicates with the next level entity, a village level committee, made up of one woman representative from each village. This governing body will elect the 11 members of the executive committee. These in turn will choose the FPO’s president, vice-president and secretary.

Apart from that, SANG (Sustainable Agriculture Network of Gujarat), which MAHITI is part of, would handle the responsibilities (through its partner NGOs) for institutional development of FPOs, promotion of sustainable agricultural practices and other forms of support for crop production.

Institutional development, as mentioned earlier, covers support for mobilization of women JLGs, development of governance systems for JLGs and FPOs and capacity development of FPO members, board members and management team. DISHA (Dedicated Initiative for Sustainable Agriculture Gujarat), a farmer-oriented multi-stakeholder agricultural enterprise, would handle the responsibilities for quality assurance of production, access to financial services including working capital mobilization, risk management and crop insurance, alongside aggregation, value addition and marketing of produce in collaboration with FPOs. The focus of DISHA would therefore be to provide post-harvest and marketing support to the FPOs.

Since the formation and management of women FPOs entails a double top line approach (developmental and business), SANG and DISHA would work together to develop handholding mechanisms (governance, monitoring and process controls) to support the FPOs during and after their formation. In the long run, a sustainable financing model needs to be developed. The current institutional share capital may not be sufficient to sustain all necessary investments in transport, storage infrastructure, and other marketing-related expenses (see financial snapshot). This is why, even though the women currently run a robust financial business, necessary steps include the formation of a long-term business plan to raise additional funds, build in adequate liability mechanisms, and make long-term arrangements with marketers.

As of now, the women’s cooperatives are ready to source around 50 tons of wheat as part of a procurement pilot encompassing five villages around the town of Dholera, Gujarat. 300 women farmers will participate in the initiative starting in March 2016, thereby kicking off their engagement as agricultural marketers. Meanwhile, collection of documents necessary for FPO registration at Ahmedabad’s Registrar of Companies is under way. By the end of March 2016, the women leaders in cooperation with DISHA will come up with a business plan for procurement of wheat and chili.
3. The road ahead

The research and case study presented here demonstrate the need for more evidence on development and performance of FPOs in general, and women-led organizations in particular. Insights are mostly case study-based and not generalizable, making it difficult to derive good practices. Based on the observations from Gujarat, it can be said that in order to build resilient and long-term institutions that compete in an increasingly organized and integrated food processing and retail market, policy makers need to clearly emphasize two focus areas.

Firstly, it is financing schemes that complement the existing structure of farmer-run credit and savings institutions, such as the women’s credit cooperatives which are about to converted to FPOs in Gujarat. This is especially important in the early stage, as concluded by most promoting institutions which find that FPOs need handholding support for 3 to 5 years so as to initiate their business operations (according to a study by Khanna and Ghatak, 2014, donor support is limited to 24 to 36 months on average). In order to strengthen the long-term equity base of FPOs, the funding support commitment as per the current Union Budget is promising, but a more sustainable orientation for schemes dedicated to the specific needs of FPOs is needed. A big challenge revolves around the issue of accessing working capital, which is a major challenge faced by most FPOs-to-be and their supporting institutions. And the challenge does not end there – working capital needs about 4 to 5 years to grow to an extent so operational expenses by FPOs can be met. In this transition phase, programs such as those run by FWWB, Maanviya Holding (Oikocredit), NABFINS, or Ananya Finance, or customized financial assistance offered by commercial banks (such as by ICICI Bank, Union Bank of India, Canara Bank, Vijaya Bank) play a crucial role. Eventually, a transition needs to happen so that FPOs can attract finance from formal financial institutions and commercial banks.

In order to understand the challenges FPOs face at a larger scale, there is a need to promote and support research and studies with regard to their operations, market access and finance. The concept of FPOs in the agricultural sector is still in its early development in the agricultural sector and is yet to attract attention in the literature available, in- and outside India.

Secondly, the recent FPO movement should be promoted on a scale like the SHG movement as it has the potential for success, and may be closely related, as the women’s movement in Gujarat clearly shows. SHGs have become eminent because NABARD’s continuously promoted them, coordinated with the Government, and thus shaped a favorable policy environment. Khanna and Ghatak (2014) conclude that the work with the banking sector needs to intensify in that respect, while SFAC and NABARD already cooperate with state governments. Khanna and Ghatak (2014) highlight the necessity for ratings of FPOs on the lines of SHG rating which could help to improve creditworthiness of the FPOs. In that, special attention should be paid to the identification of barriers faced by women entrepreneurs and women-led FPOs, especially when it comes to access to finance and capacity development needs of the FPO’s executive staff.

4. Glossary

FPO Farmer Producer Organization
NABARD National Bank for Agriculture and Rural Development
SHG Self-help group
PODF Producer Organisation Development Fund
5. Reference

- Interviews with Sunil Pote (Yuva Mitra), Devuben Pandya (MAHITI), Nitin Macwana (DISHA), Raju Deepti (Jeevantirth), and other representatives of MAHITI, Jeevantirth, Cohesion Foundation, and the women’s credit cooperatives, Maharashtra and Gujarat, August and September 2015.

6. Disclaimer

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