



Emergence of Aggregation Models in the Agricultural Sector: Roles, Strengths, and Challenges

Introduction

In 2004, in India, an amendment to the Company's Act of 1955 laid the ground for the emergence of Producer Companies (PCs). A provision in the amendment allowed primary producers in any economic activity to form a company that would facilitate joint production and marketing. Since then, the state and various parastatals have been promoting producer companies in the agricultural sector as Farmer Producer Organizations (FPOs), by aggregating small and marginal agricultural producers. These producers' aggregation units are formed by groups of smallholders, coordinating group activities such as the joint procurement of inputs and the marketing of outputs. The expected advantage of aggregation is that joint activities will help small farms mitigate disadvantages in accessing lumpy inputs, technology, and markets, which usually favor larger farms. FPOs in agriculture are not new to India. Legislation to promote cooperatives, set up by the British, was retained, and cooperatives were promoted in a big way in India since independence in 1947. However, with the exception of milk and sugar cooperatives of Western Maharashtra, these institutions have met with limited success. Despite their poor performance, aggregation models in the agricultural sector remain critical, as they enable commercialization or effectively link small producers to input and output markets.

As FPOs continue to be promoted in India, we need more clarity of their roles, strengths, and challenges to define their potential to address smallholder disadvantages. The larger implementation and policy question is whether aggregation models in the form of cooperatives, with limited success earlier, could succeed now

with increased demand for diverse agricultural goods. In the past decade, other aggregation models, such as the Joint Liability Group (JLG) promoted by the state and contract farming models promoted by the private sector, have attempted to link to farms to markets in ways that FPOs are currently attempting. However, cases of successful farm-market linkages remain few. Since 2012, state-led and parastatal institution-led initiatives, under the Small Farmers' Agribusiness Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD), have been major promoters of FPOs. International organizations, such as the International Fund for Agricultural Development (IFAD), Rabobank, and some private sector enterprises, have also entered the promotional space.

The Tata-Cornell Institute for Agriculture and Nutrition (TCI) and the International Food Policy Research Institute (IFPRI) conducted a policy dialogue on aggregation models in India on August 10, 2018, in New Delhi. The dialogue brought together key stakeholders from government, civil society organizations, funding bodies, the private sector, and parastatal organizations to discuss various topics of FPO promotion and challenges of market access. The main aim of the policy dialogue was to assess the potential of aggregation models such as FPOs in bringing about agricultural growth and development and to identify the topics for research that can enable a better understanding of their functioning in India. This policy brief is based on the panel discussion titled, "Emergence of Aggregation Models: Roles, Strengths, and Challenges." The panel discussed the current model of promoting farmer aggregation in India, assessed the roles and challenges faced by FPOs in emerging and becoming viable, and deliberated

on the policy that is needed to enable better promotion.

Formation and challenges of aggregation models in India

Nongovernmental organizations (NGOs) in India have been some of the main organizations that are helping to set up FPOs and other forms of aggregation, such as farmers' clubs, JLGs, and Self-Help Groups (SHGs). Groups, other than FPOs, are considered informal or semiformal, as they are not registered entities, while FPOs and cooperatives are the dominant forms of formal aggregation models. SFAC and NABARD are the state and parastatal bodies promoting FPOs and cooperatives. While both cooperatives and FPOs are aggregation models, legally their structures are different, as one is registered under the Cooperative Act, and the other under the Companies' Act. The other aggregation models are informal and have largely been promoted by NGOs working on financial inclusion. The important question raised was whether aggregation models need to be registered formally as economic institutions or if informal or semiformal aggregation models fare just as well with good management.

As small and marginal farmers often lack the agency and the guidance to organize themselves as a company, the role of "enabling organizations" in the promotion of FPOs is important. Enabling organizations provide the initial handholding support, bringing together individuals as a group, coordinating various economic and business activities of the groups, and helping to link the FPOs to markets, credit institutions, extension services, and various departments of the agricultural ministry that provide entitlements to smallholders. NGOs have traditionally been promoters and implementers of government programs in different parts of rural India, and they usually take on the role of enabling organizations to aggregation models. Although NGOs, when incubating FPOs, have the capability of mobilizing groups and building capacity to enable cooperation, they are limited in their capacity to build the business side of aggregation models and orienting them to markets. The challenge for FPOs and enabling organizations concern developing

the business end and the discovery of market opportunities. After the initial handholding, making FPOs self-sustaining and economically viable units is time-consuming and challenging. Aggregation models need to be able to govern themselves, as a company adhering to mandates laws; accessing resources needed to produce agricultural goods, especially credit and inputs; and building capabilities to effectively link farms to markets.

Although many FPOs have effectively linked to inputs markets to access seeds, fertilizer, and pesticides, the biggest challenge has been accessing credit. Even though FPOs are classified as within the priority sector, lending to these initiatives has been limited. Bank-FPO linkages are poor, and therefore, access to credit from the banking sector is low, resulting in a limited capacity to scale up and transform production to meet the requirements of the market. The major lender in this sector has been the Non-Banking Financial Companies (NBFCs), which provide short-term advances and loans at high-interest rates to more established FPOs. NBFCs, therefore, provide an essential service in the absence of Bank-FPO linkages. However, for new FPOs, improving access to credit will prove crucial to launching them.

For effective functioning of the aggregation model, two types of capacity building are required: one, building institutional capacity of FPOs to effectively govern themselves to increase organizational sustainability; and two, building management and marketing capacity to increase market participation.

Major discussion and action points

Different motivations have been used to set up aggregation models in the past. NABARD's approach was a target-based model; they set a target number of FPOs to promote within a given period. SFAC identifies intermediaries (such as NGOs) and funds FPOs through them. International organizations, such as Rabobank and Solidaridad, promote aggregation models—with strong financial inclusion or sustainable development motives. In this regard, they are more selective and can support the formation and assure the viability of these organizations. Focus

on business motive and market orientation, rather than meeting a target number is essential for effective FPO promotion for the future.

Mobilization of members and capacity building:

- Mobilization of individuals to cooperate and building of their capacity to self-govern is essential to building strong organizations. Some of the problems that aggregation models face are similar to the earlier cooperatives. We need to identify similarities and differences to construct strategies for building stronger aggregation models.
- Some cooperatives, such as milk and sugar cooperatives, have had more success in organizing, compared to other agricultural commodities. The perishability of agricultural produce has played an important role in increasing the willingness to cooperate in such models. Identifying ways to promote community-based cooperation for other agricultural commodities needs to be researched.
- The National Dairy Development Board (NDDB) was set up to support and enable the emergence of dairy cooperatives. It played an important role in capacity building, technology transfer, and market linkages in milk, and in some cases also helped diversify production to fruits and vegetables. An organization similar to this may play a pivotal role in the sustainability of aggregation models, and this needs to be explored. Lessons from the NDDB will be important in championing other FPOs.

Governance issues of formalization and social inclusion:

- A dominant opinion among members of the panel was that aggregation could be achieved through any organizational structure, whether as a company, cooperative, or SHG, as long as there is a will to cooperate and the organizations are governed effectively. It will be important to understand how formal aggregation and informal aggregation models fare in governance.
- Formalization is essential to enforce contracts and raise institutional (formal sector) credit. FPOs, although formal, still may not have

access to credit if there are no formal bank linkages. SHGs, although informal, have linkages with credit organizations. However, is that credit is often available as microloans, and may not be sufficient for capital creation for FPOs. Formalization allows for the formation of legal contracts and linkages with financial organizations to access resources for capital formation.

- Ensuring that marginal groups are represented and not excluded from the benefits of the groups is essential. The lack of percolation of benefits to participants and dormant memberships were among the major challenges of the earlier cooperatives, and these need to be addressed in FPOs, to improve member participation.

Emerging as a company: Linkages to financial institutions and market literacy:

- The most pressing issues discussed with regard to the emergence and sustenance of aggregation models was the question of financial linkages for FPOs. There is a need to increase the availability of financial products, which are suited for community-based organizations, to emerge as commercial entities. Aggregation models need to develop their profile as profit-oriented organizations with the financial discipline to make them viable borrowers. Interventions are needed at the financial institution and aggregation model sides. The reason NBFCs have been well able to serve this sector is that they have flexible financial packages, which are often tailored to fit the specific need of their borrowers. They are flexible on terms and interest rates, depending on levels of risk and repayment strategies. NBFCs, therefore, are sought by more established, yet credit-crunched FPOs. Linking banks to aggregation models is essential, and flexibility of financial packages to meet the needs of the organization, similar to that of the business loans, is essential. Capacity to do this in the banking sector is essential.
- When working with small farmers with no prior experience in business initiatives,

support and handholding are essential. The state needs to play a more active role in championing the cause of FPOs. Rules and regulations of consolidation as a business entity, taxation, and governance need to be simplified to help these organizations adapt. The SHG movement in India, in the

late 1990s, received a boost only after the government lent its support and took up the task of promoting them. A similar push might be needed for aggregation models, aligning policies and institutions to support them and work in their favor.

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