ADB

Consultant's Report

JFPR 9147-IND: Improving Small Farmers' Access to Market in Bihar and Maharashtra: Takeaways and Lessons Learnt (Draft Report)

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This consultant's report does not necessarily reflect the views of ADB or the Government concerned, and ADB and the Government cannot be held liable for its contents.

Asian Development Bank

CURRENCY EQUIVALENTS
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Currency Unit – Indian Rupee (INR)
US$1.00 = 70.90

ABBREVIATIONS

ADB	–	Asian Development Bank
AIDIP	–	Agribusiness Infrastructure Development Investment Program
APEDA	–	Agricultural Produce Export Development Authority
BDF	–	Business Development Facilitator
CEO	–	Chief Executive Officer
CSA	–	Center for Sustainable Agriculture
DP	-	Development Partner
FG	–	Farmer Group
FPC	–	Farmer Producer Company
GIU	–	Grant Implementation Unit
GoI	-	Government of India
HQ	–	Headquarters
ICM	–	Implementation Completion Memorandum
INRM	–	India National Resident Mission
IVC	–	Integrated Value Chain
JFPR	–	Japan Fund for Poverty Reduction
MFF	–	Multitranche Financing Facility
MSAMB	–	Maharashtra State Agriculture Marketing Board
MT	–	Metric Tonne
NABARD	–	National Bank for Agriculture and Rural Development
PO	–	Producer Organization
PPP	–	Public Private Partnership
PRADAN	–	Professional Assistance for Development Action
SFAC	–	Small Farmers Agribusiness Consortium
XIM	–	Xavier Institute of Management

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Finally, the visit came about only on account of the vision and foresight of the ADB team including Mio Oka, Sonoko Sunayama and Krishan Rautela and I am eternally grateful to them for providing me the opportunity to undertake the same.

The findings of this report will be presented and discussed in a stakeholder workshop to be planned.

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Executive Summary

Context

Agricultural production in India, as also in Maharashtra, is dominated by smallholders. This leads to a situation where the volume generated at most individual farmers' fields is – on its own - insufficient to be economically sourced, transported, processed, distributed and delivered to consumers. The knowhow and capacity for investment required to consolidate volumes to bring about economies of scale for these activities and / or enhance bargaining power of smallholder farmers vis-à-vis buyers is also typically limited at the smallholder farmers' end.

Recognizing the benefits of collectivizing farmers to bring about economies of scale and scope, and leveraging collective bargaining power, the Government of India (GoI) has traditionally supported collectivization of farmers. While various models for collectivization have been pursued in the past, a model that entails forming commercially oriented Farmer Producer Companies (FPC) that are setup with membership (and shareholding) of large numbers of individual farmers is relatively new.

The Asian Development Bank (ADB) is convinced of the transformational impact that is possible on farmer incomes by setting up and enabling the successful operation of such FPCs. With the intent to demonstrate the concept and, as a long-standing Development Partner (DP) of the GoI, ADB provided Grant support for the development of a few FPCs in the state of Maharashtra by deploying funds from the Japan Fund for Poverty Reduction (JFPR) between 2012 and 2018.

Having just concluded the program, ADB is keen to take lessons for its future endeavors and to disseminate its learnings to the wider community such as to add to the body of knowledge in this fledgling area. This report was therefore commissioned with the following objectives:

- To compile experiences of the FPCs that were setup and provided various kinds of support for commercialization under the Grant
- To derive lessons learnt from these experiences around provision of various kinds of project support (financial and handholding) for FPCs
- To make recommendations for future such exercises designed to support FPC commercialization
- To provide inputs for the Implementation Completion Memorandum (ICM) of the Grant

Background

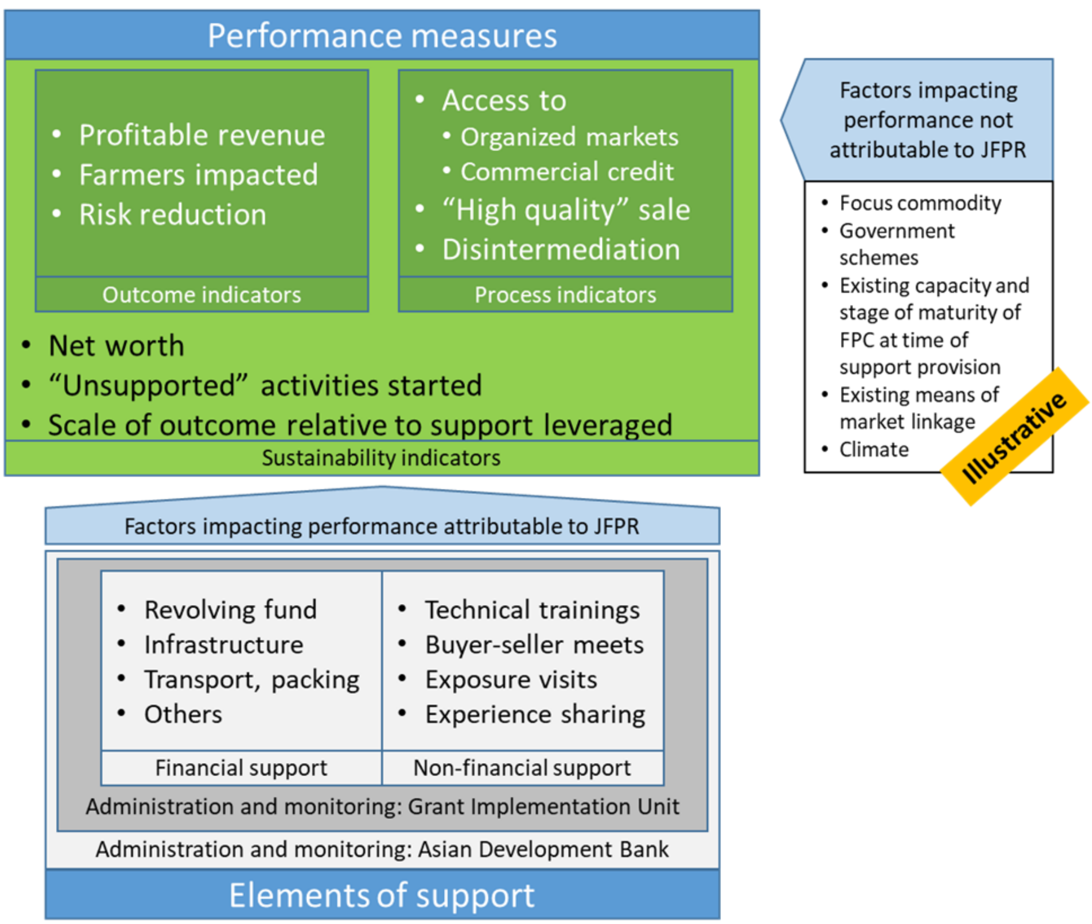
18 FPCs were created, nurtured and supported towards sustainability with Grant support under this program. Once formed, they were provided with support for leveraging the collective strength of their members through a host of capacity development and market / buyer exposure programs. In addition, direct financial support for the development of primary processing infrastructure, access to distant markets, improving quality of produce and working capital finance was provided.

These FPCs covered a total farmer base of about 3,700 as members and enabled almost 4,700 MT of collective produce marketing, amounting to a value of almost INR 7 crores. Further, cost savings were achieved by member farmers in collective purchase of inputs in several FPCs and the infrastructure created through JFPR support provided a strong foundation for increased value realization. At the same time, delivery of these results took 6 years and the number of farmers whose produce was actually transacted amounted to only around 500-600, though many more benefitted from other activities of the FPCs like input sales and infrastructure provision. The FPC's absorbed a total of INR 2.7 crores in direct financial support, generated total revenues of INR 5.7 crores and a cumulative operating loss of INR 2.6 lacs across all FPCs over an active operating period of about 4 years. Experiences from the Grant implementation have created a base of knowledge and experience that adds to the currently limited knowledge base in the area of FPC performance.

Analysis

Performance of FPCs was assessed around three dimensions viz. impact (both economic/financial and developmental/inclusion), process and sustainability. Outcomes achieved on these dimensions were measured and underlying factors that drove achievement of these outcomes were identified. Since there were wide differences between the performance of individual FPCs even while they had access to exactly the same level and type of support, the attempt was to understand not only the drivers related to the JFPR support but also those that were not influenced by the Grant. For this, the broad conceptual frame outlined in Figure 1 was used.

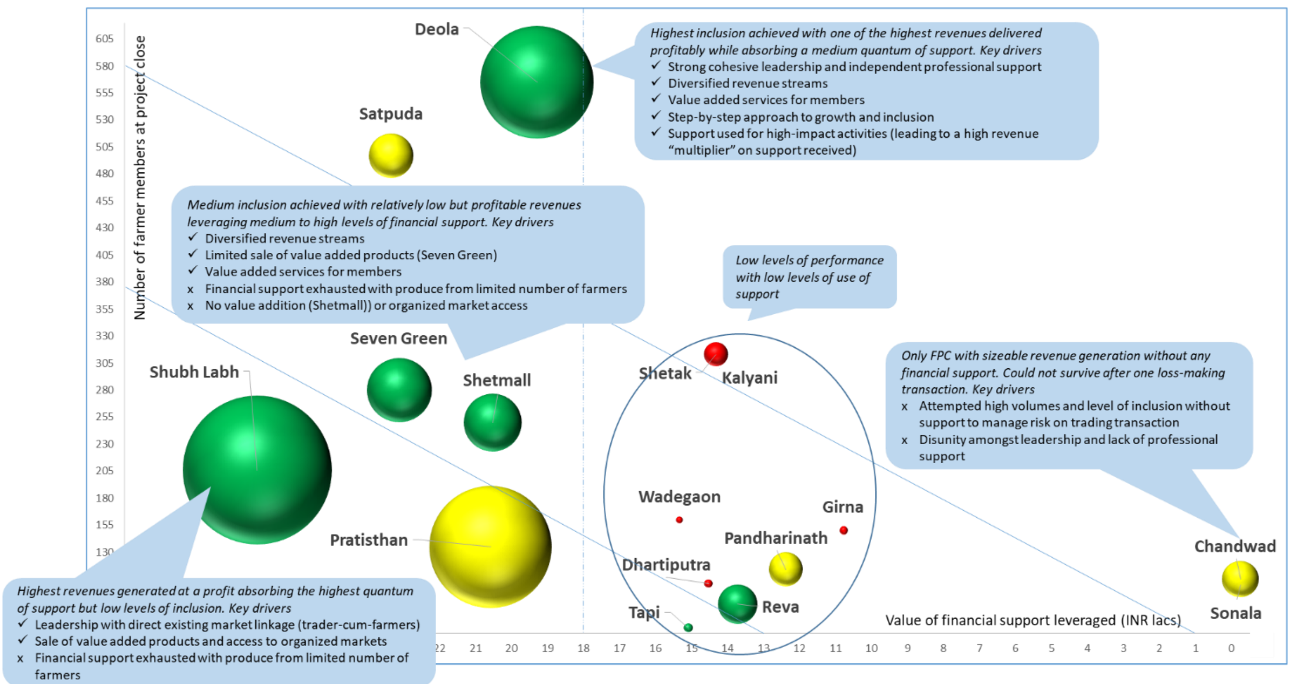
Figure 1: Framework for analysis



FPC performance was found to be correlated with the following factors

a) presence of individuals with influence networks and marketing / trading experience on the Board of Directors
b) level of external professional support sought / received / developed
c) focus on value addition or servicing of organized markets vis-à-vis only trading
d) level of diversity in sources of income developed
e) following an incremental approach to growth (in both revenues and member involvement) starting with small transactions and building up incrementally
f) value of the focus commodity
g) quantum of financial support absorbed

Figure 2: FPC performance key drivers - Summary



Source: JFPR FPC Annual Reports, Grant Implementation Unit, Interviews with all FPCs

The chart in Figure 2 summarizes takeaways from the correlation that was revealed between the different dimensions of FPC performance and the level of financial support each was able to leverage. That financial support is indispensable for FPCs is most strongly evidenced in the experience of one of the FPCs (Chandwad) that attempted large trading transactions without waiting for any financial support. The FPC suffered heavy losses which impacted many members quelling their motivation to attempt any more transactions even when a cushion from financial support became available later. At the other end, some other FPCs (like Shubh Labh and Pratishthan FPCs) that leveraged high levels of financial support to deliver appreciable financial performance could not include large numbers of farmers as financial support was exhausted in consummating transactions of a limited number of farmer members. While those FPCs that did not leverage financial support beyond a threshold of INR 20 lacs mostly underperformed, there were at least four FPCs (Deola, Satpuda, Seven Green and Shetmall FPCs) that were able to achieve a strong combination of financial performance and inclusion by doing some or all of the following - engaging in activities beyond enabling market linkage and including value addition and / or access to organized markets, consciously pursuing a more holistic, yet step-wise approach to be a "service provider" to members, recognizing and onboarding dedicated independent management support, proactively identifying and collectively leveraging opportunities within and outside the networks of their Directors and members.

The results discussed above were achieved by the 18 FPCs in their initial operating period of 4.5 years after registration. Since a maximum of only 2 years out of this was that of active operations while the investment in establishment and provision of support was fully incurred in this period, the results attributable to such support will continue to accrue over an extended period of time, to the extent that these FPCs continue to operate.

Lessons learnt

Based on the cumulative experiences of FPCs, it was found that the following key lessons can be learnt and onboarded in other exercises targeted at supporting FPCs for sustainable performance:

A step by step approach to building membership works better than starting with a large membership base. It was clear from the JFPR experience that gain in membership was driven by performance achieved rather than vice versa. Aside from the physical and logistical challenges of garnering a very large number of farmers before undertaking any transactions, only modest levels of membership is possible on the back of purely the vision and intent behind an FPC. Raising membership levels (in other words, raising inclusion) significantly requires a visible demonstration of the value of collectivization which can allay fears amongst more prospective members that are otherwise either not willing, capable (or both) to undertake a mode of transactions that they are not familiar with.

Capacity building and financial support should be closely coordinated and provided in tandem. Farmers have been used to the existing means of operation as independent individuals for decades. Moving to collective means of operations is thus a quantum leap in terms of not only skills and experience but also mindset. Incremental demonstration based on, and linked to, specific training and exposure provided thus works better than an approach where all capacity building and financial support are bundled together or spread far apart. An unfortunate mismatch due to delay in a lending project that was linked to the JFPR Grant prevented this from happening and impacted FPC performance adversely.

Dedicated professional management support to FPCs that is independent of ownership is critical to plug key capacity gaps amongst FPC members and avoid conflict of interest. While capacity building support can plug many of the gaps that limit FPC performance, multiple aspects of specific professional expertise including, but not limited to, commercial aspects of large transactions, exposure to a wide range of markets where the FPC's produce might be able to fetch high realizations, business development, financial management etc. are often best brought in from the outside. Not only does this provide for dedicated bandwidth that can focus on company performance as against an "add-on" activity for Directors (whose primary profession is cultivation), it also prevent conflicts of interest that arise from vesting ownership and management responsibilities in the same individuals.

Support for FPCs should be closely customized to individual FPC needs arising from their unique characteristics as against "blanket" schemes. The different levels at which each JFPR FPC utilized the same package of financial support available and, at the same time, the varying levels of impact some of them achieved from leveraging the same or similar quantum of support bears testimony to the validity of this lesson learnt. For example, the packaging subsidy was only useful for FPCs that could access higher realizations from better packaging (primarily the FPCs focused on citrus). Similarly, while the transport subsidy enabled access to distant markets, those FPCs that primarily serviced nearby urban retail markets (eg. Shetmall FPC) were unable to utilize it materially. Further, the higher value of produce for some FPCs meant that a lower level of volumes could be dispatched using the same quantum of revolving fund vis-à-vis other FPCs with low value produce.

Criteria for selection (and release) of FPC Directors should be clear and consistent. Some FPCs were unable to operate effectively purely because of lack of cohesion and persistent disagreements between their Directors. With no easy way to make changes in the Board of Directors, these FPCs stalled or moved slowly.

FPC support programs should have a bias towards provision of support for diversification of revenue streams, value addition and capacity to cater to organized large scale buyers. Trading of fresh produce is inherently risky. This is because of low shelf life and high price variability of fresh produce in addition to the increasingly nuanced consumer requirements with respect to variety, quality, availability and price of such produce. With farmers already exposed to high risks from unpredictable weather and the effects of climate change overall, adding to this risk by undertaking pure trading transactions can make achievement of sustained performance more challenging. Value addition, which may be in the form of processing, packaging, grading/sorting etc., limits this risk by raising the margins (and hence the capacity to absorb price variations, which are anyway typically lower for value added produce). Long term contracts / arrangements with organized buyers limits this risk by tying in a specific price or price range. Diversification of revenue streams enables risk reduction through the portfolio effect.

Recommendations

Putting the above lessons into practice means different things for different stakeholders.

<u>For Development Partners</u>

FPC formation and capacity building

- Start with registration of FPCs with a small membership base and provide targeted support to enable demonstration of success, even if it is limited in scale, early on. While this may not be applicable across contexts, provision of working capital support either for a direct transaction with a distant buyer or for collective purchase of inputs for sale on credit to members (associated with capacity building support relevant to such transaction) could provide for such initial demonstration. Publicizing success achieved amongst other prospective members to create a pull for them to join followed by another demonstration, with a larger membership base and so on, can create a virtuous cycle of success that grows on the back of membership which, in turn, drives greater membership.

- Define a selection process for Directors that provides clear incentives and disincentives aligned with FPC performance. Ensure selection accounts for, and gives high weightage for, (a) personal dedication to the cause of collective commercial transactions involving the larger community (b) representation of smallholders and women. At the same time, establish rules for retrenchment of Directors based on level of activity and performance.
- Identify training and capacity building needs specific to each FPC's context accounting for, inter alia,
    - Focus (and other) commodities grown by members.
    - Specific nature of existing and evolving market (eg. large volume low margin informal trade or low volume high margin organized trade)
    - Profile and existing capacity of farmer members
- At the same time, expose members to a broad spectrum of revenue opportunities including, inter alia,
    - fee revenue from provision of services
    - support for services not related to market linkage, like setup of an input shop or provision of mechanization services
    - undertaking activities around non-focus commodities opportunistically
    - developing the capacity to cater to large scale organized buyers
    - engaging in value addition activities
- Ensure liaison between local extension bodies and organized buyers to ensure that cultivation and harvesting practices can also align with quality needs of organized buyers
- Provide for independent professional management support to the FPC on a sustained basis with direct reporting of such management to self through the government implementing agency. Develop a governance mechanism that ensures a close and continuous level of coordination between such provider of professional management services, self (Development Partner) and the government implementing agency. To begin with, the cost of such professional support should be provided from Grant funds with a provision for reducing the same and replacing with FPC's reserves as these rise.

Financial support

- Release Grant support in tranches linked, and in tandem with, relevant aspects of capacity building support being provided. After demonstration of initial success, also create a link between the release of support and achievement of financial and development results (eg, inclusion of smallholders, women and / or underprivileged groups)
- Provide case based support within a larger defined set based on submission of specific proposals keeping enough flexibility and customization for release of Grants based on the specific needs of each FPC. To enable this, capacity building and professional management support could include the development of an overall business plan for the FPC once it reaches a defined minimum threshold in terms revenues and / or reserves.
- Some suggestions on likely elements of financial support are outlined below (the order, extent and specific nature of such support can vary based on the specific context and need of FPCs being supported)
    - Provide working capital support in the form of a revolving fund upfront
        - Align disbursal and recovery to the cropping cycle of FPC's core crops
        - Keep the share of FPC's contribution to the fund limited to 25%

        - Build in incentives linked to
            - the participation of larger numbers of farmer members in the transaction for which the fund would be utilized
            - external finance mobilized
        - Limit number of times a particular FPC can access the fund (to ensure it is not creating dependency) or alternatively, start / increase charging interest on subsequent withdrawals in a stepwise manner (eg. no interest for use twice, 4% interest for another two uses, 6% interest for the next two and so on)
        - Provide for the sustainability of the fund by charging a management fees on the corpus managed as the fund; the corpus pool itself could be made up from interest charges
    - Provide support for infrastructure that is most critically needed and only to the extent of bridging the viability gap. In other words, provide infrastructure support on a case to case basis based on proposals submitted by FPCs, contingent upon
        - Commencement of some activity as FPC prior to application for infrastructure support
        - Quantum of support being only as much as would make the project viable
        - Preference for infrastructure for value addition as against for enabling "plain-vanilla" trade
    - Provide for a pool of capital for other means of support that may be proposed by FPCs for their specific needs. This will enable FPCs at different levels of maturity to leverage support for their most compelling needs. For example, an FPCs that has the capacity to invest in a collection center on its own, might prefer to leverage support for a processing plant or sophisticated grading machinery that would require greater financial commitment. Prioritize support requests with a bias towards value addition and access to organized markets
    - Develop a price support pool (with a nominal fees to sustain corpus) with an intent to absorb
        - price fluctuations between the time of dispatch and actual sale
        - payment defaults by buyers

Ecosystem

Besides specific support for FPCs through time-bound development programs, it would make sense for Development Partners to work in coordination with the Government to

- develop existing and upcoming platforms for limiting payment defaults by buyers or any breach of contract by either party
- design pilots for offtake from FPCs in consultation with organized buyers and buyers of value added products
- institute quality grading systems onboarding learnings from similar contexts globally
- identify specific reform opportunities in FPC regulation

Overall, Development Partners would be well positioned to provide support to FPCs to prepare themselves for reaching the minimum threshold requirements of the GoI for support under its schemes. While GoI schemes have a strong and well-informed program for FPC support that can enable sustainability over a period of time, a vast majority of existing FPCs in the country struggle to reach the level that is considered minimally necessary for direct financial support by the Government. Plugging this gap can ensure complementarity and mutual reinforcement of development partner and GoI initiatives in FPC development.

Finally, it is extremely important for Development Partners to maintain a razor sharp focus on the market failure that is sought to be addressed by FPC support programs i.e. (a) the lack of commercial viability for sourcing, transportation, processing, distribution and delivery to consumers of the volumes generated at the level of smallholders (b) the limited capacity at the smallholder level for investment required to align with quality requirements of buyers, to consolidate volumes that can bring about economies of scale for these activities and / or enhance bargaining power of smallholder farmers vis-à-vis buyers. Any support extended to FPCs must be continuously cognizant of this as the barrier to be overcome only until, like in the case of any public intervention, the viability for private investment can come about. Loss of focus on this aspect can tilt the balance towards financial support that is damaging to private sector incentives and can lead to crowding out of private investment. For example, provision of a revolving fund needs to ensure that while it enables transactions that are not achievable with commercially available finance, it delivers clear development benefits for smallholders and the underpriviledged while building in incentives that discourage dependence on continued provision of the fund at terms concessional to commercial finance.

<u>For Farmer Producer Companies</u>

- Use the support provided by Development Partners and Government to undertake transactions that provide a demonstration effect. In other words, using financial support to undertake transactions that are fundamentally unviable commercially should be avoided. Instead, viable transactions that underprivileged farmers are unable to undertake on account of their constrained access to capacity and capital that is otherwise available to those farmers who are not similarly underprivileged, should be prioritized. Achievement of success in such transactions should be publicized to attract greater membership.
- Once demonstration has been achieved and FPC reserves start building up, such reserves (or commercially available institutional finance, if available / accessible) should be used for transactions in preference to external Development Partner or GoI support
- While trading activity cannot be avoided for achievement of scale, the attempt should be to undertake more and more transactions with organized buyers and / or those that require value added products,
- All transactions that leverage the collective strength of members should be undertaken on the FPC’s account
- Actively identify specific capacity building needs (including professional support) and seek the same from Development Partners in preference to direct financial support
- Develop a long term vision and strategy as soon as some successful transactions have been demonstrated

<u>For the government</u>

While development programs can provide essential support for FPCs, since these programs are time bound and intermittent, it would be prudent for the Government of Maharashtra to create dedicated institutional support for FPC development. Since MSAMB already provides such support intermittently and has been a key counterpart for development projects oriented towards FPCs, it may be useful to setup a dedicated FPC support unit within MSAMB. Alternatively, since MSAMB's core mandate is limited to marketing and that too, specifically around aspects of the Agriculture Produce Marketing Committee (APMC) markets while FPC development requires a more holistic approach covering all aspects of farming that can benefit from collectivization (including, inter alia, inputs like seeds, fertilizers, pesticides, mechanization, extension services like cultivation and harvesting practices, provision of credit etc), a cross-departmental body that draws members from departments covering all these functions would be worth considering for sustained provision and management of FPC support programs.

It would also be imperative for the government to coordinate with Development Partners and other stakeholders to address key systemic issues that limit FPC performance. At least two such issues encountered in the JFPR Grant project viz. (a) the lack of universally accepted quality standards / grades and, more importantly, limited understanding of the varied quality requirements of different buyers at the FPC level that led to disputes around quality in the attempts made by some JFPR FPCs to address organized markets (b) high level of payment defaults from market operators (or, in other words, the lack of a mechanism to establish creditworthiness of buyers and sellers/farmers). For the former, the government extension machinery can constructively work in tandem with Development Partners and organized buyers bridge the gap in quality required and what is available from farmers / FPCs. For the latter, again, the government can constructively work in tandem with Development Partners and platforms that are already operating and attempting to bridge the credibility gap between buyers and farmers / FPCs.

Chapter 1: Background and Context

The imperative to collectivize

Agriculture in India, as also in Maharashtra, is dominated by smallholder production (Figure 3). The volume generated at most individual farmers' fields is – on its own - insufficient to be economically sourced, transported, processed, distributed and delivered to consumers. This enhances the role of intermediaries who undertake a host of activities between the farm and consumer around the product flow (consolidation / de-consolidation, logistics), cash flow (finance requirement for inventories, payment cycles etc.) and information flow (price and availability information). Segregation of produce (sorting, grading) and customization of the product (value addition, packaging, processing) in accordance with the needs of specific consumer segments are other activities that get left to intermediaries.

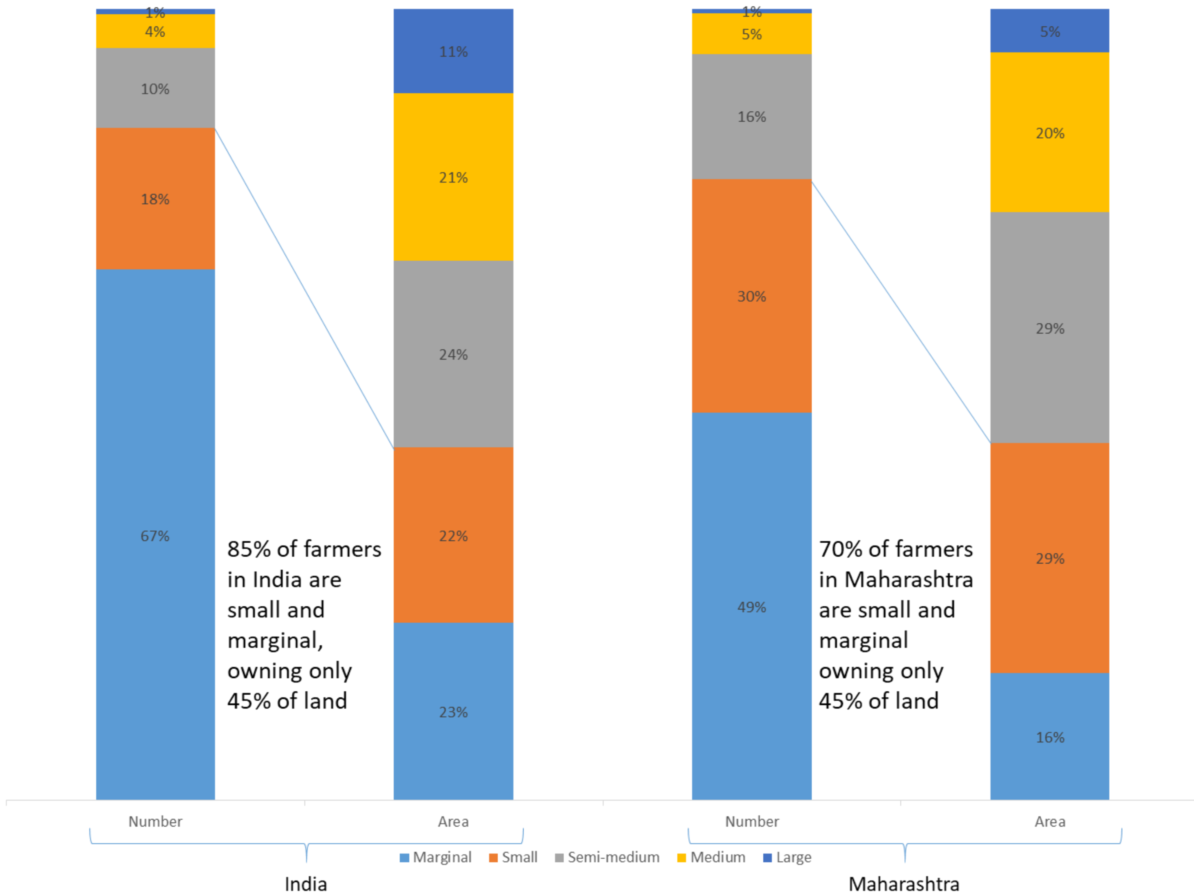
While this reduces the burden on farmers beyond cultivation, the multiple layers of intermediaries that exist in the chain also leads to more handling, losses and margin buildup, leaving only a small share of the final value to the farmer. It follows therefore that ownership of the product up to as close to the consumer as possible and / or adding a large share of the value at / near farm itself can theoretically enable a greater share of final value to be ploughed back to the farmer. Even to the extent that the farmer is not able to do either, having access to multiple options for sale of their produce that is as close to their farm as possible can ensure improved price realizations.

However, doing any of the above as a small individual farmer is not practical. The knowhow and capacity for investment required to consolidate volumes to bring about economies of scale for these activities and / or enhance bargaining power of smallholder farmers vis-à-vis buyers is typically limited at the smallholder farmers' end[1]. While coming together and consolidating volumes and financial resources can set-off this disadvantage, several individual smallholders have neither the means nor the convening power or information to come together organically by themselves. At the same time, models for private sector driven collectivization of farmers and / or consolidation of produce like contract farming, direct purchase and cultivation by corporates that

[1] As an illustration, consider a farmer with a landholding of under 1ha (comprising almost 70% of all Indian and 50% of all Maharashtrian farmers) cultivating onion. With a yield of 16MT/ha (Source: FAOSTAT) and average price realization of ~INR 15/kg at wholesale level (Source: National Horticulture Board, India http://nhb.gov.in/; price in Mumbai wholesale market in December 2018), the total revenue of the farmer from onion cultivation amounts to a maximum of INR 150,000. With estimated operational expenses of INR 114,000 (Source: Directorate of Economics and Statistics, India https://eands.dacnet.nic.in), the farmer's income from onion cultivation amounts to ~INR 36,000 (USD 514) only as against average per capita income in India of USD 1,600 (https://timesofindia.indiatimes.com/business/india-business/indias-per-capita-income-grows-by-8-6-to-rs-1-13-lakh-in-fy18/articleshow/64403580.cms). Note: This is a simplistic illustration and does not account for a typical farmers' income from other crops that may be grown outside of the onion season and intercropping and their non-farm income. However, since onion cultivation is a primary source of livelihood for many farmers it is expected to account for a lion's share of their income. This illustration is meant to highlight the lack of capacity of most individual farmers to initiate and undertake investments and expense required to consolidate volumes for scale and / or undertake activities for value addition beyond the farm.

have been tried in other emerging markets like Mexico, Costa Rica, Philippines among others have traditionally been prevented by regulation[2] in India.

Figure 3: Share of number of farmers and landholding by size of holding



Source: Agriculture Census of India, 2011-12; Note: Marginal farmers are defined as those with a landholding of 1 hectare (ha) or lesser, small farmers are defined as those with a landholding of between 1 and 2 ha, small-medium are defined as those with a landholding of between 2 – 4 ha, medium farmers are defined as those with a landholding of between 4 – 10 ha with all others being large farmers.

Evolution in public policy support for collectivization

To address this challenge and meet its development objectives, the Government of India has for long followed a policy of enabling and incentivizing collectivization of farmers in various forms of Producer Organisations (PO). Though farmers can be organised into informal groups, formal

[2] While a detailed discussion on the regulatory aspects that prevent corporate farming and direct purchase by corporates by farmers is beyond the scope of this report, it is pertinent to point of that until recently, regulation in most states in India (including Maharashtra) specifically barred direct purchase of produce from farmers. All farmer produce was mandated to be sold through government recognized agriculture wholesale markets (*"mandis"*). While this regulation has been reformed over the years, several impediments make the cost and ease of direct purchase by companies from farmers prohibitive. For a more detailed assessment of the subject please refer http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/CA(2018)4/FINAL&docLanguage=En

associations, cooperative societies, producer companies and unions, in general, a PO is defined as a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits amongst its members. In India, even though cooperative society format has been the primary modality of organising farmers, the participation of cooperatives in marketing remains extremely limited[3]. The lack of a commercial (profit) orientation, high levels of political interference and "elite capture" are some of the key reasons that are cited for the poor performance of cooperatives in India, especially on marketing[4].

Recognizing the need for a new model to ensure that the benefits of collectivization can be expanded in an increasingly competitive scenario and to expand its influence across the value chain, the Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India identified Farmer POs (FPOs) registered under the special provisions of the Companies Act, 1956 as the most appropriate institutional form around which to mobilize farmers and build their capacity to collectively leverage their production and marketing strength[5]. Such a producer organization is a business enterprise registered under the provisions of Part IX A of the Companies Act, 1956 and is run on the basis of Mutual Assistance Principles (Section 581G(2)), namely

- Voluntary membership
- Voting right independent of share holding
- Elected board from amongst members
- Limited return on share capital
- Distribution of surplus on patronage base

Any ten or more individual producers or two or more producer institutions or a combination of both may form a producer company. A producer company can also be formed by conversion of a co-operative having its objects/activities (directly or indirectly) beyond a state.

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[3] Despite several decades of state support to farmers' cooperatives, only one in five farmer households avail of any service from a cooperative. A majority of these user households got just a part of their crop credit needs and fertilisers from the cooperative they belonged to. In contrast to this, in developed countries, farmers' collectives are very significant players in value chains. In the European Union, cooperatives account for 50% of the input supply and 60% of processing and marketing. The numbers for the US are 25% and 30%; for Australia 30% and 40% and for New Zealand 70 % and 90% respectively. In India however, except for the segments of dairy and sugarcane, very few cooperatives exist in the processing and value addition end of the chain. For example, even in the case of milk, processing cooperatives, only about 16% of the marketable surplus milk was procured and processed by dairy cooperatives in 2013. The share of credit cooperatives in agricultural credit has also come down from over 50 % in 1970s to 16% in 2012.

[4] http://agricoop.gov.in/sites/default/files/DFI%20Volume%204.pdf; https://www.ijip.in/Archive/v3i4/18.01.073.20160304.pdf

[5] The Government of India to constituted a High Powered Committee under a noted economist, Dr Yogendra Alagh to examine and make recommendations with regard to framing legislation which would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies; and ensure that the proposed legislation accommodates the unique elements of co-operative businesses within a regulatory framework similar to that of a private limited company. Recommendations of the Alagh Committee led to the Producer Companies legislation coming into force on 6th February 2003 as Chapter IX A of the Companies Act, 1956. Earlier to this, the Companies Act, 1956, recognised only three types of companies, namely, companies limited by shares (sub-divided into public limited and private limited companies), companies limited by guarantees and unlimited companies.

By providing the legal and regulatory framework for collectivization of numerous farmers with uniform characteristics (location, crop cultivated etc.), having this collective registered as a for-profit Farmer Producer Company (FPC) and provision of financial and capacity building support in the startup phase, the intent is to (a) enable leverage of the benefits of scale economies by consolidating requirements of individual members, be it the requirement for inputs or the requirement for access to market for their produce or even the requirement of access to other services like finance and equipment (b) enhance financial resources available – both from contribution of members and government support – for needed investments mentioned in the last paragraph to enhance farmer income realizations (c) create more bargaining power vis-à-vis buyers and suppliers (d) bring about the incentives for maximization of shareholder value inherent in a for-profit company by providing for each farmer to be a shareholder in the company. Various Government and non-government schemes and entities provide support for the setup and growth of FPCs, including though not limited to the Small Farmers Agribusiness Consortium (SFAC)[6], National Bank for Agriculture and Rural Development (NABARD)[7], Government Departments, Corporates and Domestic & International Aid Agencies. Support is provided in various forms including financial and/or technical support. As of end-2018, at least 5,000 POs have been setup country-wide with many coming about on the back of this support. Of this about 3,200 are registered as FPCs[8,9].

The need and opportunity for this study

A vast majority of existing FPCs in India struggle to thrive without sustained support[10]. While a key reason for this is that most of these FPCs are nascent – a majority having been setup in the last

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[6] Mainly two types of support is available to the POs from the Small Farmers Agribusiness Consortium (SFAC) – (a) SFAC operates a Credit Guarantee Fund to mitigate credit risks of financial institutions which lend to the Farmers Producer Companies (registered as Producer Company under Part IX-A of Companies Act) without collateral. This helps the FPCs to access credit from mainstream financial institutions for establishing and operating businesses (b) SFAC provides matching equity grant up to Rs. 10 lakh (revised to Rs. 15 lacs in August 2018) to the FPCs to enhance borrowing power, and thus enables the entities to access bank finance.

[7] Besides promoting new FPOs deploying grants from the central government, NABARD provides financial support to the POs through project mode through two financial products. A fund titled "Producers Organization Development Fund" has been created by NABARD towards this end - (a) Lending to POs for contribution towards share capital on matching basis (1:1 ratio) to enable the PO to access higher credit from banks. This is a loan without collateral which will have to be repaid by the PO after specified time. The maximum amount of such assistance is Rs. 25 lakh per PO with a cap of Rs. 25,000 per member (b) Credit support against collateral security for business operations. Also, credit support without collateral security for business operations to FPCs which are eligible under Credit Guarantee scheme of SFAC. The credit product can be customised as per requirement of the business. In general, credit support is available for business activities and creation of assets like building, machinery, equipment, specially designed vehicles for transportation etc. and/or working capital requirements including administrative and other recurring costs connected with the project as composite loan. Capital expenditures like purchase of land, vehicles for general transportation & personal use, etc., will not be considered for support.

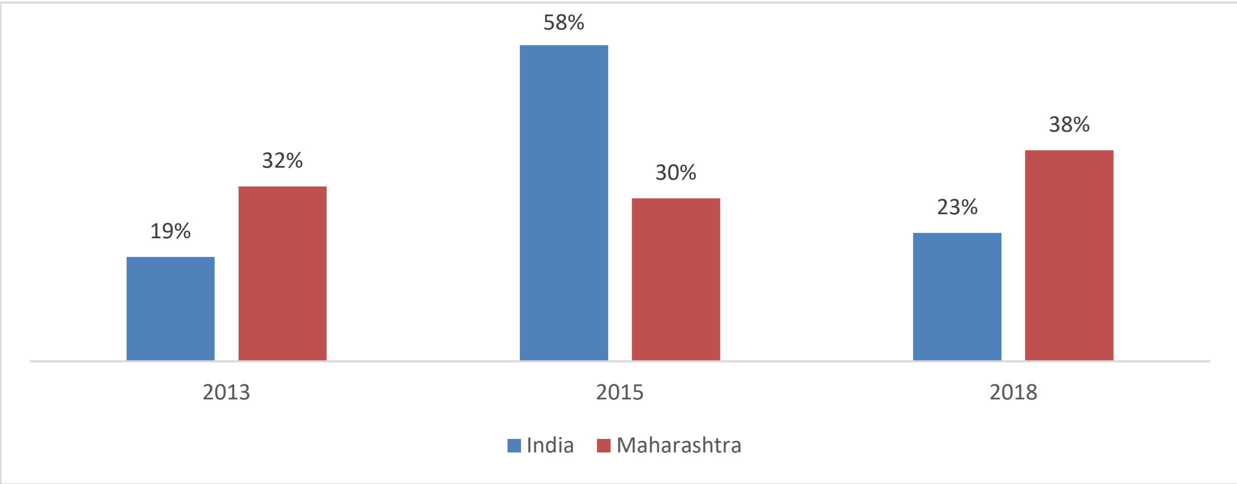
[8] https://www.nabard.org/auth/writereaddata/CareerNotices/2708183505Paper%20on%20FPOs%20-%20Status%20&%20%20Issues.pdf

[9] According to a recent study by consulting firm Deloitte, in Maharashtra, about 1053 FPOs are estimated to have been promoted under different agencies and projects including – besides SFAC and NABARD – Maharashtra State Agriculture Marketing Board (MSAMB) (under the World Bank MACP project), and 18 Asian Development Bank (ADB)-supported FPCs under the Japan Fund for Poverty Reduction (JFPR) Grant.

[10] For example, of the 91 FPCs registered by SFAC in Maharashtra, revenues of only 10 FPCs are available. In this author's field visits to various other states in India only a minority of the FPCs listed as registered by SFAC have been found to be active on the ground.

3-5 years (Figure 4) - the very concept of FPCs itself is new. Existing literature on the experiences of setting up and supporting FPCs and the overall body of knowledge around what drives success and failure of an FPC is therefore relatively limited.

Figure 4: Percentage of total FPCs as of Dec 2018 that were registered in respective year



Source: Small Farmers' Agribusiness Consortium (SFAC); Note: Includes only those FPCs that were registered by Small Farmers Agribusiness Consortium, the nodal agency of the Government of India promoting FPCs.

Notwithstanding the fact that a few notable studies documenting experiences and investigating the reasons for the success or failure of FPCs have been carried out in the recent past[11], as an active Development Partner in India, ADB is keen to contribute to enhancing the knowledge base on FPC development in India.

By drawing upon its experiences from a recent Grant[12] project that was mandated with mobilizing farmer organizations and supporting them to connect with market opportunities, this report seeks to make this contribution. With this intent, the specific objectives of this report include

- To compile experiences of the FPCs that were setup and provided various kinds of support for commercialization under the Grant
- To derive lessons learnt from these experiences around provision of various kinds of project support (financial and handholding) for FPCs
- To make recommendations for future such exercises designed to support FPC commercialization
- To provide inputs for the Implementation Completion Memorandum (ICM) of the Grant

The rest of this report is laid out as follows. Chapter 2 explains the contours of the Grant project and key relevant milestones in its implementation. This provides context for the documentation and analysis of experiences of the FPCs that follow in Chapter 4 after a description of the approach and conceptual framework that was used to derive learnings in Chapter 3. Chapter 5 synthesizes the analyses across the 18 FPCs into overall lessons that can provide broad guidance cutting across all stakeholders interested in the development of FPCs. This chapter also derives specific

[11] See Annexure 3: Short review of literature on FPC performance.

[12] JFPR 9147-IND: Improving Small Farmer's Access to Market in Bihar and Maharashtra.

recommendations for Development Partners and FPCs in addition to providing directional inputs for government / policy support for FPCs and suggesting specific next steps after closure of the Grant project.

Chapter 2: The JFPR Grant Project

Genesis and evolution of design

ADB approved on 30 July 2010 the JFPR Grant for $3 million, which became effective on 21 November 2011. The objective of the JFPR was the enhanced integration of small-scale fresh fruit and vegetable farmers, including female and scheduled caste and scheduled tribe farmers, into the horticulture value chains in Bihar and Maharashtra. The Grant was originally approved to be implemented alongside a Multitranche Financing Facility (MFF) worth USD 212.2 million aimed at increasing private sector investment in integrated agriculture value chain infrastructure and producer returns in high-value crops in Maharashtra and Bihar[13]. The MFF, termed "Agribusiness Infrastructure Development Investment Program" (AIDIP) was approved in 2010.

It was expected that significant private sector investment under Public-Private-Partnership (PPP) mode would be leveraged under AIDIP along two Integrated Value Chains (IVC) – one each in the Nashik and Aurangabad–Amravati regions in Maharashtra – leading to better integration of small-scale farmers in these regions with commercial organized value chains. With this expectation, the Grant was envisioned to strengthen the small farmers' capacity to ease their integration into the value chains that were to be developed under AIDIP.

In line with the Grant Implementation Plan, 18 Farmer Producer Companies (FPC) were established in Maharashtra in the abovementioned areas and various capacity building and exposure programs were carried out to prepare these companies for such integration. The project design for both the AIDIP and JFPR Grant was built on the assumption that once the AIDIP financed infrastructure would come about, these companies would be equipped to cater to the demand from private investors in the envisaged PPP arrangements under the project.

Putting JFPR Grant and AIDIP into context

Experience in linking smallholders to markets globally has demonstrated that investments to bring about scale economies, bargaining power and improved margins for smallholders are not limited to hard infrastructure alone but also involve, inter alia, investment in financing working capital and, in cases where markets are more demanding, investment in upgrading the quality of production. Upgrading the quality of production, in turn, can imply a host of complex and inter-related activities including but not limited to inputs, cultivation and harvesting practices and other associated services (like equipment).

The inherent risks associated with agriculture arising out of, amongst others, uncertainties around the weather and price, excessive regulatory oversight etc., in addition to the generally limited purchasing power in emerging economies, limits the commercial viability of such investments vis-à-vis other investment options for the private sector. It is for this reason that

[13] Since FPCs were eventually setup and provided with support from the Grant only in Maharashtra, this study is only related to the activities in Maharashtra. All references to activities of the JFPR Grant in this report hereafter are with respect to Maharashtra alone. Out of the $3mn allocation, the total amount that is estimated to have been spent on the Maharashtra portion as of 30th September 2018 was $1.4mn (to confirm and revise with last JFPR report before closure when it is received).

governments around the world – especially those with smallholder dominant production - inevitably provide support to the sector from public resources. With smallholders being most vulnerable and incapacitated, such support typically flows towards them either directly or through support for organized businesses working with them.

The AIDIP was, in effect, attempting to work through organized businesses in a PPP modality to enhance the commercial viability of smallholder integration into organized value chains. At the same time, to the extent that requisite support (like capacity building for functioning as a collective, commercial aspects of large transactions, market intelligence and exposure, agriculture extension services etc.) was considered unsuitable for delivery under a PPP mode, it was envisaged to be provided through the JFPR Grant.

However, the market linkage for these FPCs that was anticipated to come from the private player in these PPP arrangements and its associated infrastructure could not come about on account of various design and implementation challenges faced by AIDIP[14].

Components of support provided

Realizing that the FPCs established would not be able to survive without the infrastructure and market linkage support that was expected from AIDIP, ADB, in consultation with the Government of Maharashtra, decided to use available Grant resources for such support. The mandate of the Grant was thus broadened to go beyond the originally envisaged activities of establishment and capacity building on technical and supply chain aspects to those directly related to market linkage and commercialization. The overall support provided can be broadly divided into four categories[15]:

1. Formation of Farmer Groups and Producer Companies
2. Capacity Development
3. Facilitation of market linkages
4. Overall guidance and administration support from the Grant Implementation Unit (GIU)

Formation of Farmer groups was carried out by an external agency hired for this purpose. A field team was deployed to contact key stakeholders in villages in areas selected under the AIDIP project[16]. The benefits of collectivization were explained to these stakeholders and the expected modalities of project support through AIDIP were explained to them. A baseline survey was completed and 1404 Farmer Groups (FG) from 345 villages were formed with a membership base of 22,417 farmers. Participatory Rural Appraisals (PRA) were undertaken across 70 identified villages during which a number of discussions and consultations were undertaken with key horticulture specialists, government officials and extension officers in this process. One lead farmer was identified from each FG to represent them. Groups of farmers were federated into 18 FPCs and registered under Producer Company Act, 1956. The key details of these FPCs are provided in Table 1.

[14] AIDIP Project Completion Report, ADB
[15] Source: Various ADB Aide Memoirs and Back to Office Reports in addition to Wipro JFPR Closing Report
[16] The project was implemented in 8 districts of Maharashtra in 14 locations. The 14 locations were categorized into 2 Integrated Value Chains (IVCs) around the Nashik and Aurangabad-Amrawati regions in line with the AIDIP Project.

Table 1: FPC key details

S. No.	FPC Name	Location	Members	Focus commodity/ies
1	Deola Agro Producer Co. Ltd.	Nasik	565	Onion, Fruit and Vegetable
2	Satpuda Farmer Producer Co. Ltd.	Jalgaon	497	Banana
4	Shetak Agro Producer Co. Ltd.	Buldana	313	Banana
3	Kalyani Farmer Producer Co. Ltd.	Jalna	300	Citrus
5	Seven Green Hills Farmer Producer Co. Ltd.	Amravati	280	Citrus
6	Shetmall Agri Producer Co. Ltd.	Nasik	250	Onion, Fruit and Vegetable
7	Shubh Labh Farmer Producer Co. Ltd.	Amravati	206	Citrus
8	Sangamner Fruit & Vegetable Agro Producer Co. Ltd.	Ahmednagar	178	Pomegranates, Grapes
9	Wadegaon Agro Producer Co. Ltd.	Akola	160	Onion, Citrus
10	Girna Farmer Producer Co.Ltd.	Jalgaon	150	Citrus
11	Pratisthan Agro Producer Co. Ltd.	Aurangabad	136	Citrus
12	Pandharinath Farmer Producer Co. Ltd.	Jalgaon	114	Onion, pulses
13	Chandwad Agro Producer Company Ltd. Chandwad, Dist.- Nashik	Nasik	105	Vegetable
14	Dhartiputra Agro Producer Company ltd, Sawkheda, Dist. - Jalgaon	Jalgaon	101	Banana
15	Navchaitnya Farmers Producer Co. Ltd.	Jalgaon	100	Vegetable
16	Sonala Agro Producer Company Ltd., Sonala, Tal.- Sangrampur, Dist- .Buldana	Buldana	100	Citrus
17	Reva Valley Agro Producer Co. Ltd.	Jalgaon	82	Banana
18	Tapi Valley Agro Producer Co. Ltd.	Jalgaon	60	Banana

Source: JFPR-GIU

Capacity development included various activities as summarized below:

- Multiple village level awareness meetings by lead farmers and extension staff
- A consultation workshop on institutional building
- Preparation of training manuals covering
    - collective marketing
    - production and post-harvest technology for various crops of the region
    - institution building
    - FPC operations and management
- Exhibitions that brought together government officials and FPCs for sharing of experiences

Once FPCs were registered, the GIU appointed and financed individual Business Development Facilitators (BDF) to support each FPC. This was done with an intent to enable day to day operational support beyond the FPCs' formal establishment, particularly in areas that FPCs were not expected to have inherent strengths, experience or formal training viz. realizing collective sales and purchases with existing or new customers / vendors, documentation, compliance, financial management etc.

Direct support for **market linkage** included the following:

- Assistance for use of packaging material for sales made through the FPC: As part of this, 75% of the total cost of packaging material (including inner packaging materials that can be vital in reducing waste levels viz. punnets, sleeves, rubber band etc.) would be subsidized from the project budget, subject to a ceiling of 200 MT per FPC.
- Assistance for freight for sales made through the FPC: As part of this 75% of the total cost of freight, subject to a ceiling of 200 MT per FPC, was provided for
- Assistance to promote small post-harvest infrastructure in production areas: As part of this Grant-in-aid up to 75% of the total eligible project cost was provided for with ceiling of INR 15 lac for the grant

- Assistance for working capital needs of FPCs through the setup of a Revolving Fund for taking up collective purchase, operation of post-harvest infrastructure and collective marketing activities. FPCs were to collect and contribute an equal amount for any such activity taken up using the Revolving Fund and pay back the fund within one year, beyond which interest would apply[17]
- Assistance for Quality Management, Quality Assurance & Quality Control Systems: As part of this, 75% of the cost for such systems would be subsidized from the project budget for a period of two years.
- Assistance for Marketing Development for Participation in Trade Fair/Exhibitions/Market Study/Trade delegation
- Assistance to FPC directors for participation in Trade Fair/Exhibitions/Market Study/Trade delegations

The above support package was designed based on feedback and consultations with FPC directors.

Finally, **overall support** from the GIU included day-to-day administrative activities and guidance that covered a range of needs of the FPCs as expressed by them from time to time.

Implementation

The full implementation timeline of the Grant with key milestones indicating timing of support provision and other key activities is laid out in Figure 5.

The formation of Farmer Groups started in July 2012 with the appointment of Wipro Ltd. and CSA, Hyderabad as service providers and continued up to June 2014. In addition to formation of the groups, multiple capacity building and exposure activities were undertaken which were - as outlined in Figure 5 - fairly spread out over this period. Activities culminated in formal registration of the companies with the Registrar of Companies, with the last of the 18 FPCs getting registered in November 2014.

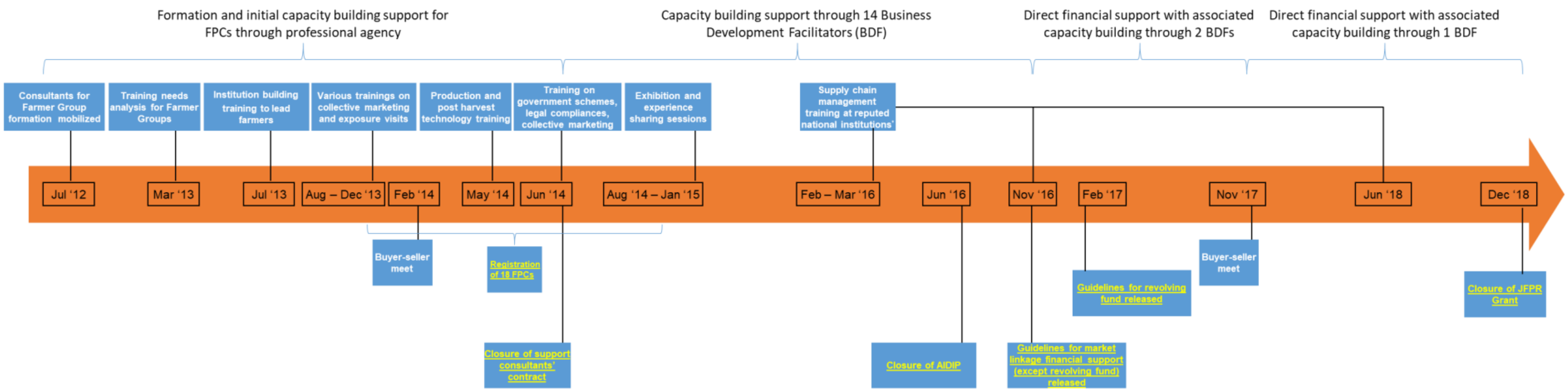
The period between late 2014 and up to the formal closure of the AIDIP project in June 2016 witnessed sporadic activity, primarily around collective input purchase and direct retail in urban centers with some instances of bulk sales. These activities were facilitated through the 14 BDFs appointed for the purpose with support from JFPR funds. While no direct financial support to FPCs was provided in this period, relatively limited capacity building and training activities continued. While FPCs were free to access various forms of support available from the government for their market linkage, financing and capacity building needs in this period, the modalities of direct financial support for market linkage activities were only defined thereafter.

Guidelines on financial support for commercialization and market linkage were released between December 2016 and February 2017. Around this period, more trainings were carried out on supply chain management and commercialization at reputed national institutes like the National Institute of Agricultural Extension Management (NIAM) and National Institute of Post-Harvest Technology (NIPHT).

[17] Total amount of revolving fund was capped at INR 1,275,000 (USD 19,450) for each FPC

Between February 2017 and until closure of the Grant in December 2018, financial support was actively promoted, sought and utilized by FPCs. The GIU was closely involved in administration, release and monitoring of the financial support in addition to organizing a buyer seller meet and additional supply chain management training in November 2017 and June 2018 respectively. Day to day on-the-ground support was provided by 2 BDFs between December 2016 and November 2017 after which only 1 BDF remained until closure of the Grant.

Figure 5: Timeline of JFPR Support



* National Institute of Agricultural Extension Management (NIAM) and National Institute of Post Harvest Technology (NIPHT)

Chapter 3: Approach and conceptual framework for analysis

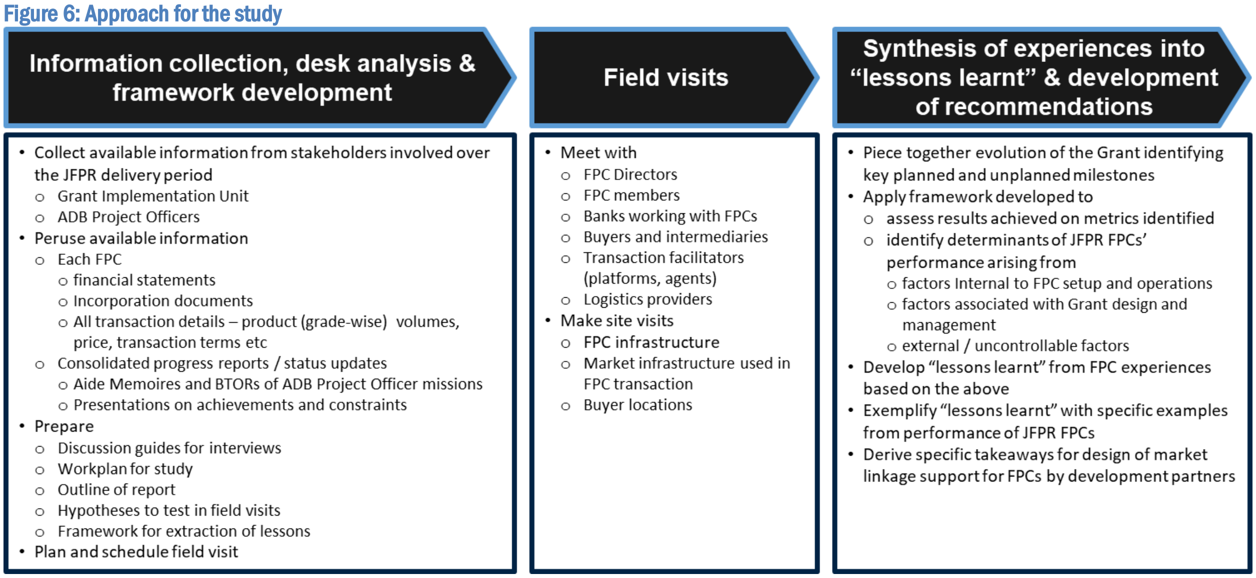
Approach

At the time of carrying out this study, the JFPR Grant had been in operation for about 6 years. In this period, it had undergone many changes – both in terms of its design and implementation and in terms of its administration at the supervisory and execution levels. The 18 FPCs established and supported by the Grant were diverse in terms of their capacity, the level of maturity they achieved and the overall context they were operating in. Though all 18 FPCs were based primarily around horticulture products - making this study more relevant to FPCs operating in this segment - they were also diverse in terms of their specific product of focus (ranging from citrus to onions to banana, amongst others) within the larger category of "horticulture".

Therefore, even though these 18 FPCs may not together comprise a statistically significant sample to derive learnings for the universe of FPCs, the approach for the study was developed based on the belief that mining their experiences can provide vital anecdotal observations that would be useful to provide direction for other exercises in FPC support.

Hence, to ensure that enduring knowledge could be delivered through this study, a comprehensive approach tracing the lifecycle of the Grant and allowing for in-depth assessment of each FPC was developed so that their collective experiences could be synthesized into lessons learnt which could provide guidance for the larger development community. This approach also enabled formulation of more specific recommendations for key stakeholders around the design and implementation of specific support interventions.

Figure 6: Approach for the study



The following paragraphs provide an elaboration of the approach undertaken as outlined in Figure 6.

Phase I: Information collection, desk analysis and framework development

In this Phase the focus of activities was to capture as much of the knowledge as was already available between the stakeholders involved with the exercise primarily including the records available from the 18 FPCs, GIU and ADB. This included review of existing and past documentation since commencement of the Grant project at each level viz. FPC, GIU and ADB[18], development of the analysis framework and preparation for the field visits.

Detailed discussions were carried out with the GIU officials covering key learnings that the staff had in performing their day to day role of Grant administration and strategic role of identifying and implementing support mechanisms for the FPCs. The team also provided a walkthrough of the experiences of each FPC over its life-span.

Based on this and a review of the documentation available, the framework for analysis, workplan, report outline, field visit plan and discussion guides were prepared. Preliminary hypotheses to be tested in the field work were shared and discussed with the GIU. The GIU's feedback was incorporated and its concurrence was taken.

Activities under this phase were carried out between 1st and 15th September 2018.

Phase 2: Field Visits

Each JFPR FPC is unique either in terms of the commodity/ies its members are cultivating, the region they operate in, the markets they service, the quantum and type of support they leveraged, the (financial and operational) capacity of their directors and members etc. This made it imperative that each of the FPCs be studied in-depth so that their experiences could be understood (and lessons could be extracted) while being cognizant of their specific context.

Understanding the perspective of other stakeholders that interacted with the FPCs – particularly those that made commercial transactions with them was indispensable to understand how sustainable and scalable these transactions were, besides providing insights into what made for successful versus unsuccessful transactions.

Therefore, field visits to the location of each FPC in Maharashtra were undertaken followed by visits to selected buyer locations in and around Delhi and two locations in Uttar Pradesh. In these visits, discussions were held with relevant FPC officials and owners or managers of companies that undertook or were involved in transactions with JFPR FPCs. The full field visit itinerary is provided in Annex 1. Key areas covered in the discussions are laid out in Annex 2.

[18] ADB, GIU and FPCs are at different levels in the setup of the Grant project, ADB being the grant-maker, GIU the administrator and FPCs the beneficiaries.

The field visits were completed between 23rd September and 5th October 2018.

Phase 3: Development of "lessons learnt" and recommendations

Findings from desk research and field visits were then synthesized using the framework developed to assess performance of FPCs and identify factors that influenced this performance. A timeline of planned and unplanned milestones in the lifecycle of the Grant was developed with a view to separate these factors into those that were controllable by the FPCs and / or the Grant administration and those that were beyond the control of these entities. This was done to ensure that lessons derived from the JFPR experience would be applicable and transferable to other development programs.

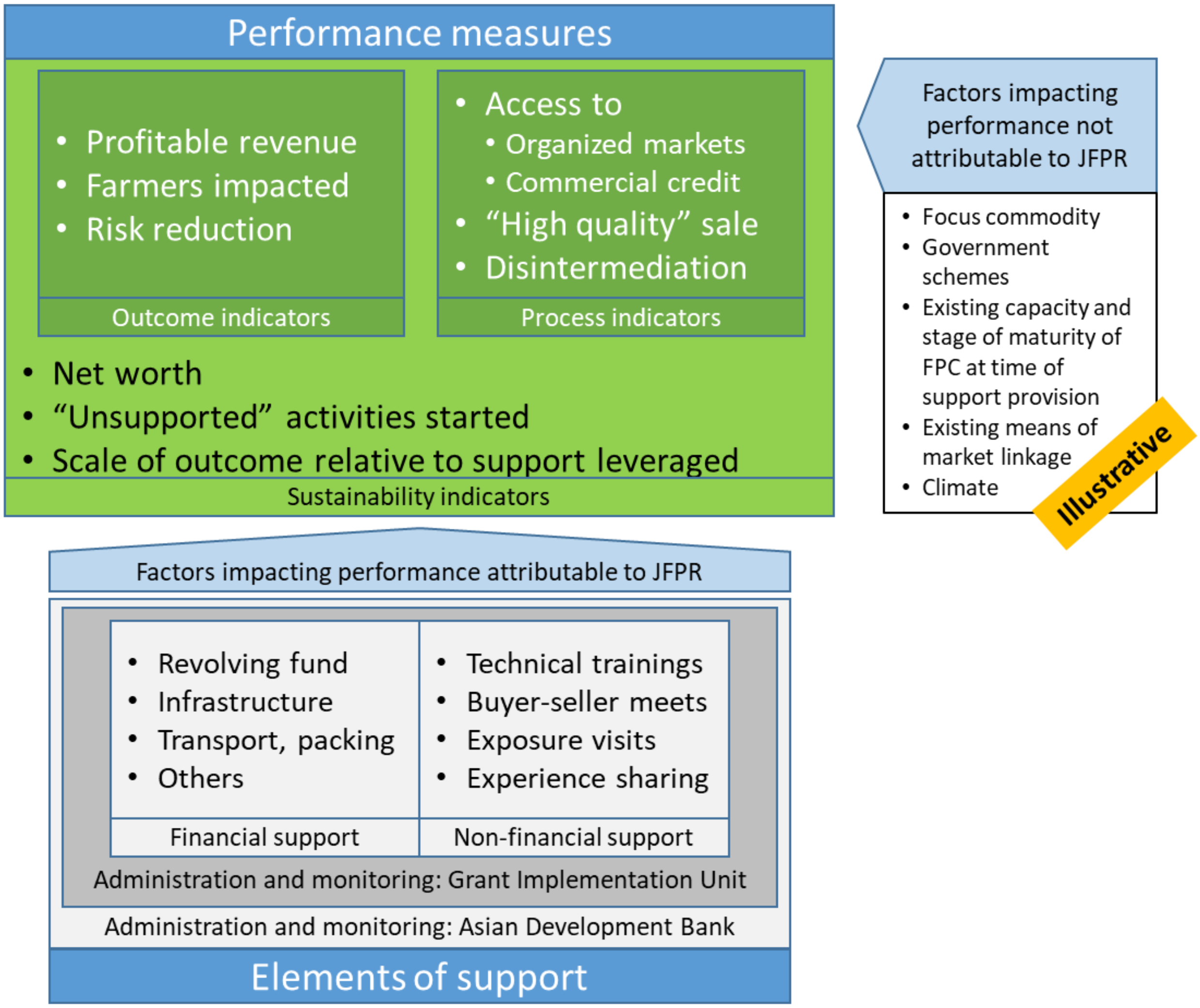
Relevance and impact of the various types of support provided and the extent to which each type of support moved the FPCs closer to self-sustainability was identified to enable development of lessons learnt and recommendations.

Activities under this phase were carried out between 5th September and 15th November.

Framework

While a few studies have been carried out to evaluate, measure and rate the performance of FPCs, few have taken a broad-based approach to identify underlying drivers of performance. Since the concept of FPCs is still recent and the body of knowledge around them is not extensive, it was essential to lay out a sound framework that could explore all the dimensions of performance and what drives that performance. Such framework could also lay the foundation for design of programs that are cognizant of and can provide for the pre-requisites of FPC success by bringing about an understanding of the linkage of support provided to the results achieved.

Figure 7: Framework for analysis



In order to derive lessons for FPC support programs from the experiences of the JFPR Grant, it is essential to first assess the performance results achieved by each of the FPCs supported by the Grant. Investigating into the root causes for achievement (or lack thereof) of performance results would then provide an understanding of the role Grant interventions[19] played in driving the results.

Towards this end, the analysis framework in Figure 7 lays out the key measures of FPC performance along with the various elements that could potentially influence the results assessed by these measures. To the extent that realized performance results are found to be attributable to the specific elements of support provided, the assessment will provide pointers for improvement in such support. At the same time, to the extent that realized performance results are found to be *not* attributable to the specific elements of support provided, the assessment will serve to identify such elements so that the design of future support programs could incorporate or influence these.

[19] Outlined in Figure 7 and described in Chapter 2: The JFPR Grant Project

Measures of FPC performance were derived from the core reason behind the setup of FPCs i.e. enhanced farmer incomes, especially that of smallholders. Enhanced farmer incomes are in turn a function of

- **Profitable revenue generated from collective activities:** Since this specific number is generally not directly available from the FPCs, it is estimated using a combination of the revenues and operating profit achieved by the FPC in conjunction with a qualitative assessment of the level of value addition in the collective sales volumes.
- **Number of (especially smallholder) farmers impacted:** Besides the total number of farmer members at the time of closure of the Grant, the increment (or reduction) in this number is used to estimate performance on this parameter. In addition, the actual number of farmers that are involved in collective sales / purchases (i.e. active members as against all shareholder farmer members) is considered.
- **Minimization of risk in sustained achievement of the above[20]:** One way to minimize this risk is to enter into commercial arrangements where price and / or post-harvest quality risk is passed on to the buyer. Another way could be to enhance shelf life of the product through preservation or processing. Yet, another way could be to diversify FPC's income sources beyond marketing itself so as to include other sources like inputs, extension services or equipment hiring services. These factors are assessed to evaluate performance on this metric.

While the above indicators provide for the evaluation of **performance outcomes** achieved, in cases where FPCs have not been in operation for an extended period, direct outcomes may not be visible or measurable. For this reason **process-level indicators** of performance can be useful to supplement outcome indicators since these indicators can provide directional inputs towards the achievement of direct performance outcomes. Some such parameters include

- **Access to organized markets achieved:** This is assessed as the share of volumes sold to organized players as against the prevalent informal markets to which FPC members may be selling.
- **Share of sale that is "higher quality" than being sold previously:** This is assessed as the share of volumes sold that are of a quality / grade higher than the prevalent quality / grade sold by FPC members and / or share of volumes sold with some value addition (processing, packaging, waxing etc.)
- **Level of disintermediation achieved:** This is assessed as the share of volumes that are sold with no or lesser intermediaries than the prevalent practice for the FPC's members
- **Access to commercial credit achieved:** The amount of credit obtained from mainstream financial institutions, as against Grant resources is indicative of performance on this parameter

[20] Marketing of horticulture products inherently suffers from high risk of losses (due to natural deterioration in quality soon harvesting) and typically high price volatility. Since all JFPR FPCs have horticulture products as the focus crop, performance and sustainability closely hinges upon minimizing these risks.

These parameters are assessed qualitatively (in addition to using direct / proxy data, wherever available) through interviews with FPC Directors, members, their customers, support providers and banks.

The eventual aim of all support to FPCs is to bring them to a point where they no longer need external support and can function in full alignment with their core purpose i.e. as **self-sustaining**, for-profit enterprises that can operate as a "going concern"[21]. Therefore, assessment of FPC performance would be incomplete without measures that indicate the FPC's progress towards this end-state. Some parameters that can provide insights into this element of performance include

- **Net worth[22]:** Since the net worth is indicative of funds that are most directly accessible by a company it provides for a cushion for contingencies in the absence of external support, it is used as a strong indicator of sustainability of an FPC.
- **Any "unsupported" activities started:** The extent and nature of collective activities initiated without any external impetus an indication of the intent and ability of an FPC to sustain in the event of no support
- **Scale of outcome relative to quantum of financial support absorbed:** The greater the magnitude of achievement on performance outcomes from a given amount of support is naturally indicative of the efficiency with which an FPC uses support interventions. A higher efficiency of support utilization is indicative of an FPC's ability to sustain with lesser or no external support. This is measured as cumulative revenues[23] achieved per unit of support obtained.

Each JFPR FPC's activities and performance outcomes were put into context using this framework to assess how the support provided under the Grant impacted outcomes and how, therefore, programs for FPC setup and market linkage can account for these factors in the design of interventions.

[21] Going concern is an accounting term for a company that has the resources needed to continue operating indefinitely
[22] The net worth comprises total shareholder (farmer member) contribution and reserves, to the extent that they are created from cumulative profits.
[23] If data on cumulative revenues is not available on account on non-availability of financial statements across years, reserves on the balance sheet in the latest available financial statements can be used as the outcome indicator

Chapter 4: Assessment of FPC performance and its drivers

Takeaways from overall performance results

The 18 FPCs supported by the JFPR Grant generated positive **performance outcomes** with cumulative revenues of about INR 5.7 crores and cumulative collective sales volume of over 4,600MT (Table 2). A wide range of these activities were undertaken by the FPCs that exposed an estimated 3,700 farmer members to new and / or improved market and input linkages with lesser involvement of middlemen. This included some FPCs making collective sales to organized buyers and a few upgrading their quality and terms of supply through better packaging and direct transport to end-buyers. Most FPCs were able to tap into multiple revenue sources including, primarily

a) Spot sales at distant terminal / wholesale markets through a commission agent at the market
b) Direct retail sale at weekly farmer markets in urban centers
c) Direct sale to wholesale buyer / trader / organized retailer / institution / processor in local or distant markets
d) Collective input purchase
e) Fee / commission income on services (eg. fee for grading and collection for buyer/agent)

Table 2: Summary of FPC Performance

	Outcome indicators							Process indicators			Sustainability indicators		
Name of FPC	Total revenues	Total Operating profit	Number of starting members	%age increaase / decrease in members	Smallholder members	Members involved with collective sales	Diversity of income sources	Transactions with organized bulk buyers	Other value added sales/ activities	Disintermediation	Total revenues per unit of JFPR financial support	Net worth	Collective commercial activities prior to financial support?
Deola	113	0.7	465	22%	24%	~50	a,b,c,d,e	None	Local veg market setup	Direct sale to distant buyer	5.8	11.4	Yes, INR2.5cr inputs
Satpuda	18	-0.7	152	227%	6%	~50	a,e	None	None	Direct sale to distant buyer	0.7	22.8	Yes, 20MT sale
Shetak	5	-2.2	120	161%	89%	~50	a,b,d	None	None	None	0.3	-1	Yes, 50MT fert & 5MT sale
Kalyani	0	-0.1	312	-4%	7%	0	None	None	None	None	0	0.9	None
Seven Green Hills	37	1.7	360	-22%	7%	~15	a,b	None	Improved packaging	Direct sale to distant buyer	1.6	2.3	Yes, 20MT sale
Shetmall	29	0.1	250	0%	15%	~50	a,b,d	None	None	Direct sale to distant buyer	1.4	0.4	Yes, 29MT sale
Shubh Labh	196	1	209	-1%	5%	~25	a,b,c	None	Improved packaging	Direct sale to distant buyer	7.2	1.3	Yes, 225MT sale
Sangamner	NA	NA	240	-26%	24%	~10	b,c	Yes, organized retail	None	None	NA	NA	Yes, 2.5MT sale
Wadegaon	0	-0.3	195	-18%	18%	0	a,c	None	None	None	0	0.8	Yes, 1.2MT seeds
Girna	1	-0.8	150	0%	38%	~15	c,d	Yea, Govt. procurement (NAFED)	None	Direct sale to distant buyer	0.1	1.1	Yes, 1800MT sale
Pratisthan	132	-1.7	300	-55%	4%	~100	a,b,c	Yes, Govt. procurement (SFAC)	None	Direct sale to distant buyer	6.3	0.8	Yes, 100MT sale
Pandharinath	10	-0.2	164	-30%	8%	~40	c	None	None	Direct sale to distant buyer	0.8	1	Yes, 15kg seeds
Chandwad	12	-0.3	173	-39%	10%	~100	a	None	None	Direct sale to distant buyer	No support taken	0.7	Yes, 143MT sale
Dhartiputra	1	-0.6	90	12%	1%	~10	a	None	None	Direct sale to distant buyer	0	-0.4	Yes, 97MT sale
Navchaitnya	NA	NA	100	0%	6%	~10	c,d	Yes, exports	Improved packaging	Direct sale to distant buyer	NA	NA	Yes, 46MT sale
Sonala	0	-0.7	90	11%	14%	0	None	None	None	None	No support taken	0.7	None
Reva Valley	14	1.4	156	-47%	7%	~25	c,e	None	None	Direct sale to distant buyer	1	1.2	Yes, 143MT sale
Tapi Valley	1	0.1	150	-60%	12%	~15	c,e	None	None	Direct sale to distant buyer	0	1.1	Yes, 494MT sale
Total	**566**	**-2.6**	**3,676**	**0.50%**	**20%**	**565**					**2.1**	**45.4**	

Source: Annual Reports of FPCs, GIU

Note 1: Reference for "Diversity of income" (a) Spot sale at distant terminal / wholesale markets through a commission agent at the market (b) Direct retail sale at weekly farmer markets in urban centers (c) Direct sale to wholesale buyer

/ trader / organized retailer / institution / processor in local or distant markets (d) collective input purchase (e) Fee / commission income

Note 2: Smallholder is defined as farmer with less than 2 acres of land

Note 3: Cells have been colored in shades of red, yellow and green based on the level of positivity of the respective parameter contained in the cell vis-à-vis others in the same column.

Note 4: All financial numbers are in INR lacs

Note 5: Table captures all parameters from framework in Figure 7 except "Access to commercial credit achieved". This parameter is not covered because no FPC achieved it

Note 6: Total revenues and Operating Profit between FY15 and FY18 are taken as against latest financial year data because transactions varied widely year-on-year

Note 7: Financials of all 4 years of operation (FY15 to FY18) at the time of writing this report were only available for Seven Green Hills, Girna, Pratishthan, Pandharinath and Reva Valley FPCs; For Navchaitanya and Sangamner FPCs no financials were available for any year; For Deola and Shetmall FPCs, FY15 and FY18 financials were not available; For Satpuda FPC FY15 financials were not available; For Shetak, Shubh Labh Dhartiputra and Tapi Valley FPCs FY15 and FY16 financials were not available; For Kalyani, Wadegaon, Chandwad and Sonala FPCs FY17 and FY18 financials were not available

The host of training and capacity building interventions[24] enabled FPCs to commence activities that leveraged their collective bargaining power and achieved scale economies even before direct financial support was initiated almost 2.5 years after the FPCs were registered (Figure 5 and Table 3).

After direct financial support[25] was commenced in early 2017 (Table 3), the FPCs absorbed a total of about INR 2.68cr[26] to expand these activities over a few members that had the capacity and willingness to undertake collective transactions (Table 2). This has created strong positive demonstration effects for replication that is envisaged to expand across the entire existing and expected expanded membership base.

Cumulative revenues generated within 2 years of commencement of financial support amounted to over twice the total quantum of financial support provided. With most FPCs being in a position to sustain operations after closure of support from the JFPR Grant, this ratio – which is indicative of capacity for self-**sustainability** of FPCs – will only improve.

Table 3: Key FPC Characteristics and financial support leveraged

[24] Explained in Chapter 2: The JFPR Grant Project

[25] Financial support is calculated as the sum of all direct subsidies provided for transport, packaging and infrastructure. For the revolving fund, this is calculated as the "opportunity cost" of lending at 0% interest rate. The opportunity cost of interest is taken as 18% per annum benchmarked to loan costs of a comparable risk profile from banks. Including these and all other costs like administration and project management, among others would amount to a total spend of around USD 1.4mn (i.e. about INR 10 crores at the prevalent exchange rate in December 2018; this amount includes the full corpus of revolving fund as against only the opportunity cost of revolving fund - as outlined above – which has been used for calculation of financial support absorbed by FPCs).

[26] Till September 2018

	FPC characteristics					Financial support leveraged					
Name of FPC	**FPC registration**	**Focus commodity**	**Number of current members**	**Members with focus crop**	**Focus crop land share**	**Type sought first**	**Date of first approval**	**PPI**	**Revolving Fund**	**Transport & packing**	**Total quantum**
Deola	Mar '14	Onion, Veg.	565	99%	64%	PPI	Mar '17	15	1.5	3.1	20
Satpuda	Jul '14	Banana	497	100%	51%	Revolving	Apr '17	14	1.5	8.2	24
Shetak	Jan '14	Banana	313	72%	95%	Revolving	Nov '17	14	0.6		15
Kalyani	Oct '14	Sweet lime	300	99%	50%	PPI	Feb '18	14			14
Seven Green Hills	Mar '14	Orange	280	99%	50%	PPI	Aug '17	12	1.5	9.7	23
Shetmall	Nov '13	Onion, Veg.	250	100%	72%	Revolving	Apr '17	15	0.4	5.7	21
Shubh Labh	Aug '14	Orange	206	100%	50%	Revolving	Nov '17	15	1.0	11.3	27
Sangamner	Nov '13	Pom, onion	178	99%	80%	Revolving	Apr '17	15	0.2		15
Wadegaon	Nov '14	Onion, lemon	160	99%	57%	PPI	Feb '18	15	0.6		16
Girna	Jul '14	Lemon	150	99%	43%	PPI	Dec '17	11	0.1		11
Pratisthan	Feb '14	Sweet lime	135	90%	34%	Revolving	June '17	14	1.4	5.6	21
Pandharinath	Jul '14	Onion	114	99%	43%	Transport	July '17	12	0.2		13
Chandwad	Mar '14	Onion	105	100%	49%						
Dhartiputra	Mar '14	Banana	101	99%	51%	PPI	Dec '17	15			15
Navchaitnya	Jul '14	Banana	100	100%	50%	Revolving, Transport & packing	Mar '18		0.7	4.8	5
Sonala	Aug '14	Orange	100	100%	51%						
Reva Valley	Mar '14	Banana	82	100%	55%	Revolving	Apr '17	12	0.8	0.8	14
Tapi Valley	Mar '14	Banana	60	100%	48%	Revolving & Transport	Aug '17	14	1.0		15
Total			**3,696**	**97%**	**58%**			**208**	**12**	**49**	**268**

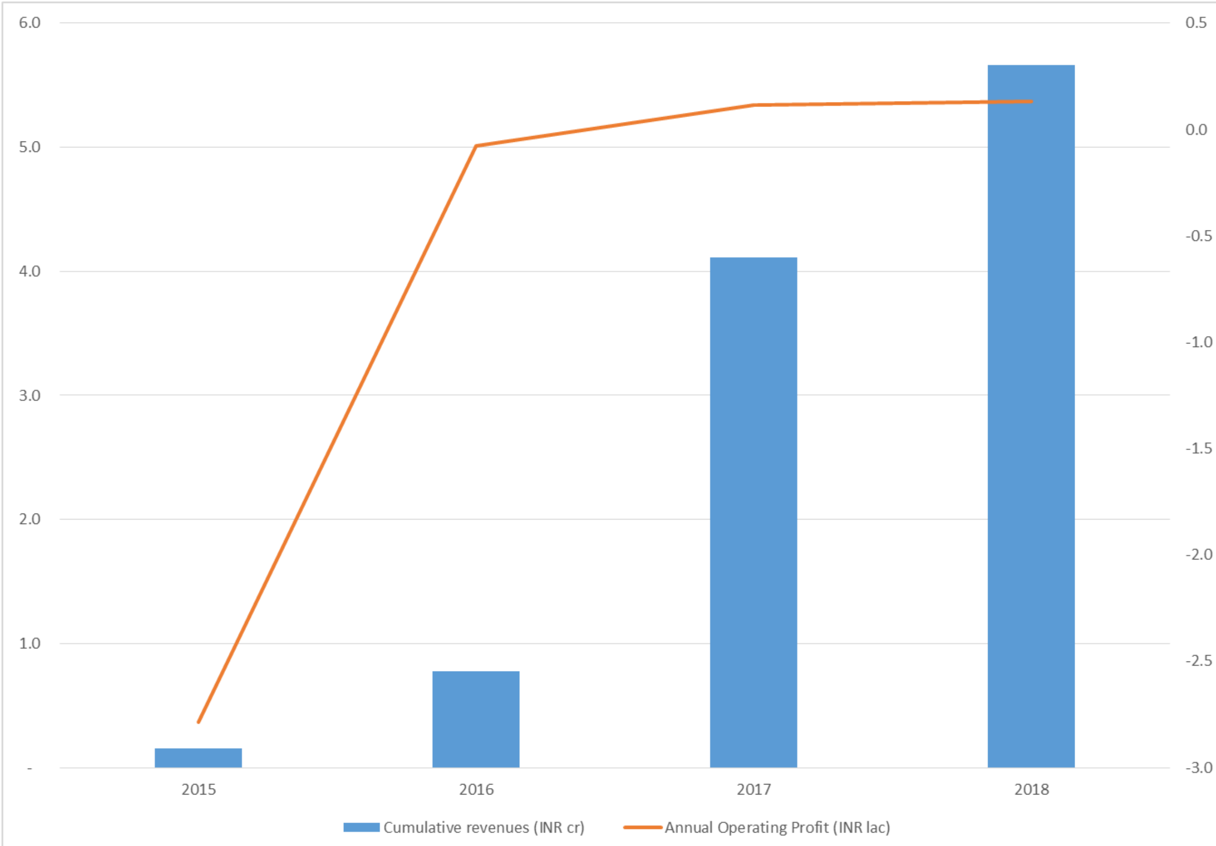
Note 1: Financial support leveraged under "revolving fund" is measured using 18% annualized cost of funding provided

Source: PPI stands for Primary Processing Infrastructure.

As seen in Table 2, though almost all FPCs started some commercial activity after provision of capacity building support and registration in 2014, these activities were at a low scale. Sizeable commercial transactions on the respective companies' account only started in earnest after financial support was commenced in late 2016 (Figure 8). Profit also moved into positive territory only after commencement of financial support even while being low on account of the fact that cumulative losses since registration in 2014 were carried over and many of the fixed and startup costs of FPC operation (including company incorporation, filing of accounts etc.) were being incurred in this period[27]. This indicates the importance of provision of direct financial support to FPCs in tandem with provision of capacity building support for FPCs to be able to perform at scale.

Figure 8: Rapid rise in transactions after commencement of financial support

[27] For this reason, it is expected that as volumes rise, operating profit will inevitably increase going forward



Source: GIU; Note: Numbers are understated, especially for latter years on account of greater non-availability of financial data in these years

10 out of the 18 FPCs lost between 4% and 60% of their members[28] over the duration of the Grant while the balance 8 gained between 11% and 227% members in the same period. The sharper rise in membership in the latter more than set off the losses in the former. Most FPCs with focus crop of vegetable and onion and some FPCs with focus crop of banana retained or increased their membership base while FPCs with oranges and sweet lime as focus crop were relatively smaller and could not build up membership base even while they garnered some of the highest revenues and profits and absorbed high levels of financial support (Table 2). This could be attributable to greater complexity and risks associated with collectivization in crops that are more perishable, whose value is higher and are whose value is more sensitive to quality. Most smallholder farmers of orange and sweet lime in the region prefer to "sell" their orchard before harvest for a fixed price to an agent or trader who pays an advance at the time of the "purchase" and staggers payments as and when he harvests the orchard in line with the demand profile he has access to. Moving away from this practice which ensures a fixed realization and eliminates market risk is more challenging

[28] It is pertinent to mention here that for most of the FPCs the "number of members" in Table 2 represents the total number of farmers who were in the *process of being included* as shareholders at the time of writing this report. As of November 2018, only Deola and Satpuda FPCs had completed this process and converted all these members into shareholders[28]. In the case of all other FPCs, mainly only the Directors were shareholders (numbering 10 to 15) at this time.

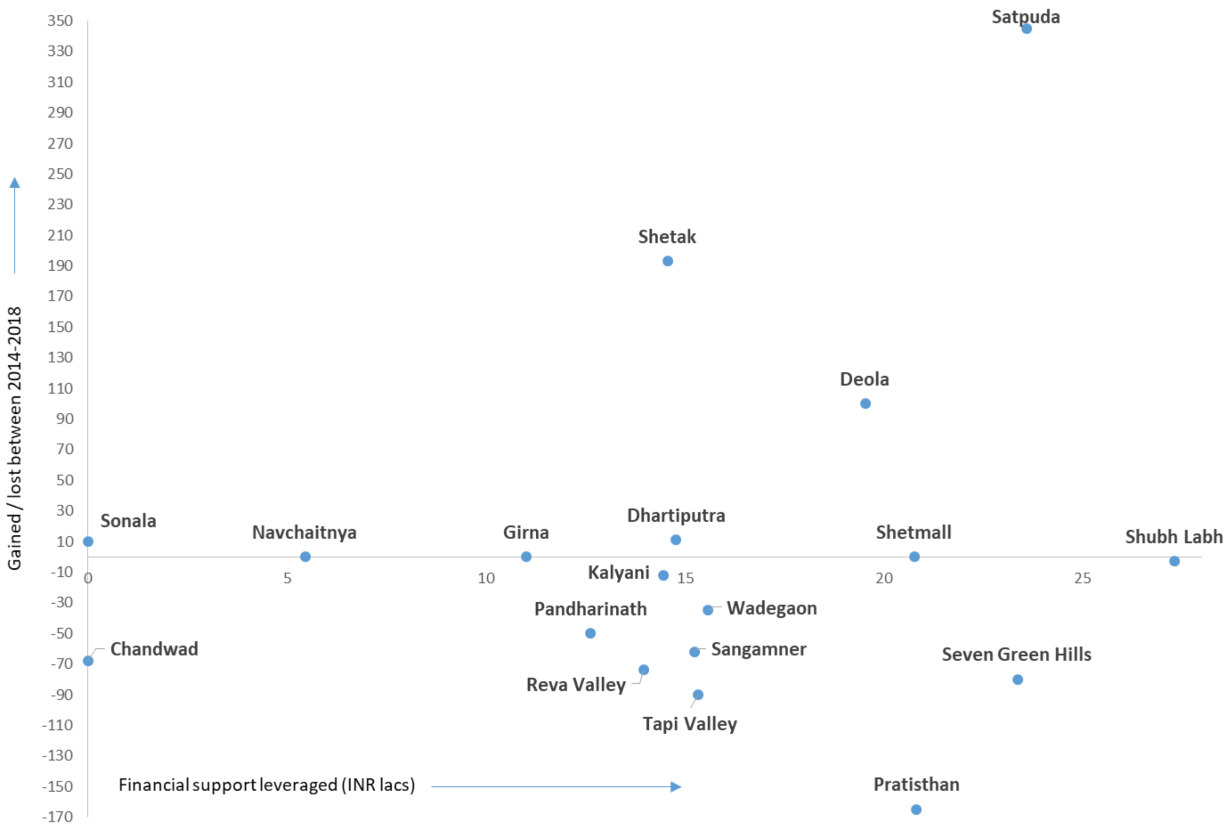
for a smallholder growing these crops than other less perishable crops since in the case of the latter, the existing practice involves him in marketing more directly. Though financial support available from JFPR appears to have addressed these challenges to an extent – as manifested in high levels of usage and high financial performance of these FPCs – there is clearly more that would be needed to ensure inclusion of a larger number of farmers (especially smallholders).

Nevertheless, the very low correlation between membership numbers and revenues even between FPCs with the same focus commodity and with similar amounts of support absorbed can be explained by the fact that (a) the number of members who actually participated in revenue generating collective transactions on the companies' account was different (and much lower) than the number of total members and (b) the volume transacted per member involved with these transactions (mostly the Directors) was different. This implies the importance of provision of support to FPCs that is linked to maximizing inclusion and to creating equal opportunity for all members to participate in collective transactions.

A look at Figure 9 which plots the FPCs on support leveraged versus additional membership garnered since registration demonstrates that some FPCs like Satpuda and Deola were able to garner much larger number of members for the same or lesser quantum of financial support leveraged as many of the others like Shubh Labh, Seven Green Hills, Pratishthan and Shetmall which either retained or lost membership. Satpuda and Deola FPCs were also able to involve larger numbers of members in collective transactions and, by converting a high number of members into shareholders, they were able to qualify for GOI schemes[29] besides enhancing their Net Worth which provided for enhanced sustainability.

Figure 9: Membership garnered compared to support leveraged

[29] Most GOI schemes for direct financial support require a minimum threshold of shareholder member numbers and mandate a minimum threshold of smallholder shareholders for eligibility. For example, this threshold for SFAC's Equity Grant Scheme and Credit Guarantee Scheme is 50 members and 500 members respectively. Both these schemes require that at least 33% of the shareholders are small, marginal and landless tenant farmers and cap the maximum shareholding by any one member other than an institutional member at 5% of total equity of the FPC.



Source: GIU

The ratio of revenues generated to the quantum of financial support absorbed indicates how efficient the support provided to an FPC was[30]. Figure 10 plots the FPCs on this ratio against the number of members to identify FPCs that can potentially distribute the benefits more efficiently over a larger member base. Deola FPC again emerges as one with the best combination of high member numbers and efficient utilization of grant resources. While Shubh Labh and Pratishthan FPCs appear to have deployed Grant resources even more efficiently, the benefits of support provided to these FPCs will be comparatively limited in terms of its spread. Some of this variation can perhaps be explained by the fact that both Shubh Labh and Pratishthan have citrus fruits as the focus crop which are relatively higher value products compared to Deola FPC's focus crop of onion. Nevertheless, the fact that other FPCs with citrus as focus crop (Girna and Seven Green Hills FPCs for example) and other FPCs with onion as focus crop (Pandharinath and Shetmall FPCs for example) did not achieve the same level of efficiency in support utilization indicates that other FPC-level factors (discussed in the following section) account for these differences.

Figure 10: Efficiency of deployment of Grant resources (1)

[30] In other words, it represents the "multiplier" effect of aid provided

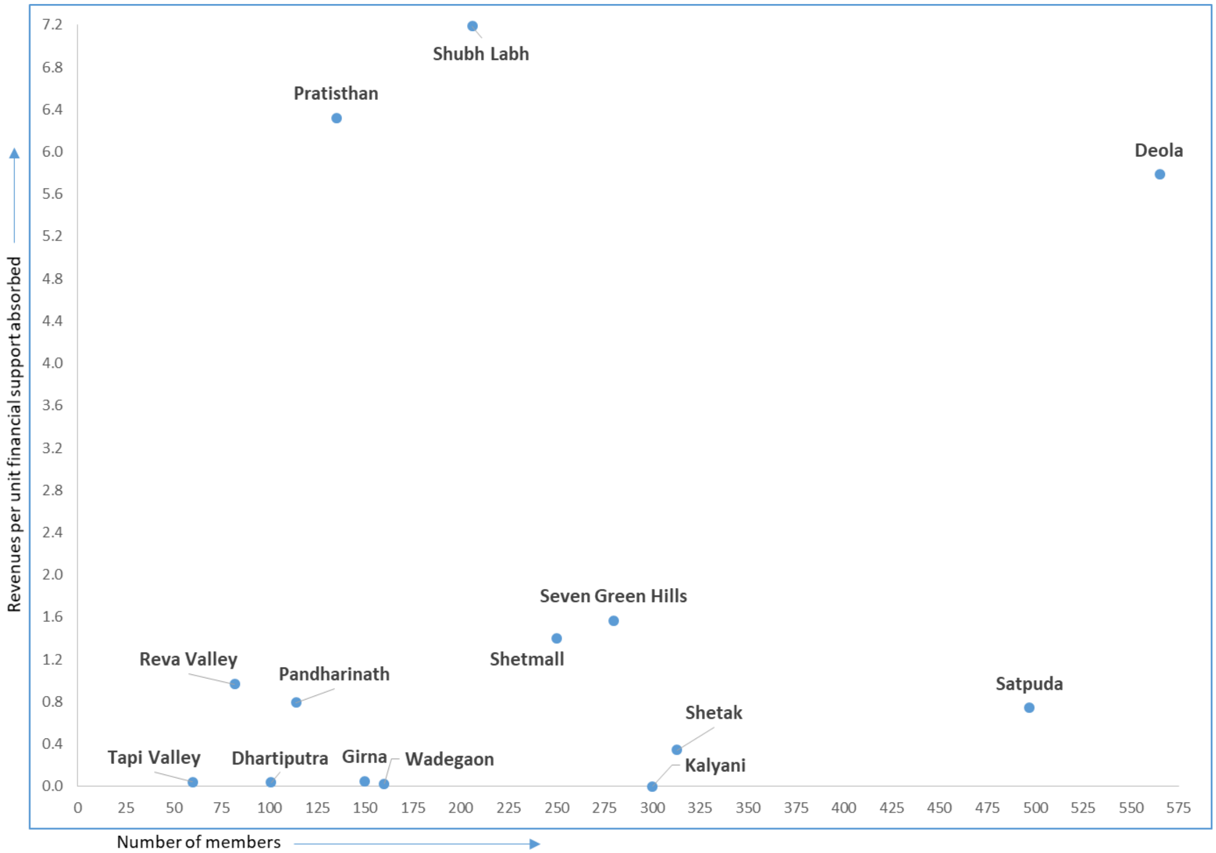
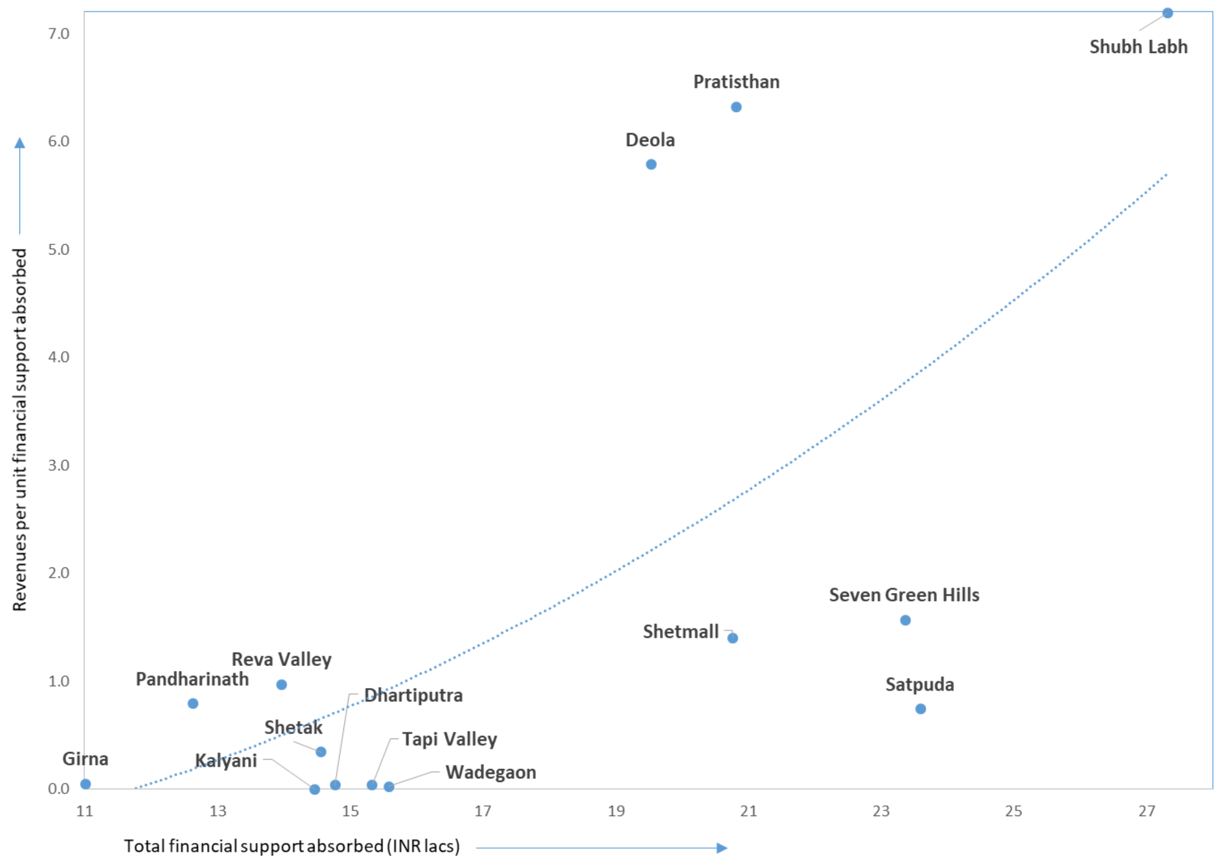


Figure 11 plots the FPCs on this ratio against total quantum of support absorbed by them. This helps to understand the relationship between quantum of support provided and efficiency of its utilization irrespective the level of inclusion achieved. It is evident from the Figure that there was reasonably high correlation between quantum of support and efficiency of its deployment. The trend line also indicates that this correlation would likely reduce as the quantum of support provided reaches a higher threshold. In other words, the multiplier effect of support provided on scale plateaus after a point.

Figure 11: Efficiency of deployment of Grant resources (2)



A look at Table 3 also reveals that different FPCs were able to seek and deploy financial support at different times even though it was made available to all the FPCs together in late 2016. Deola FPC was the first to obtain approval in March 2017, closely followed by Satpuda, Shetmall, Sangamner and Reva Valley FPCs in April 2017. Approvals picked up after this, being distributed between June 2017 till the end of the Grant period. Since the various types of documentation required for approval and release of financial support and compliance with stipulated conditions that were necessary for accessing this support were new for FPCs, they were supported by designated BDFs. The important role played by BDFs is demonstrated by the fact that in the period since commencement of financial support when 2 BDFs were available i.e. between January and October 2017, 9 FPCs started the process and received approvals for financial support as compared to only 7 of the remaining FPCs doing the same in the rest of the duration in which only 1 BDF was available to support all 18 FPCs.

Even though guidelines for the revolving fund came out 3 months after the guidelines for other kinds of financial support, 9 out of the 16 FPCs that took any financial support sought the support of the revolving fund first before moving on to support for infrastructure and transport / packing. This was despite the fact that FPCs were required to contribute 50% of the quantum of the revolving fund they sought as against only 25% of the expenditure on other forms of support. This brings out the importance of the revolving fund and, by corollary, the imperative to address poor access to credit as a key role to be fulfilled by Development Partners.

Overall, from the above discussion and comparative analysis presented in Table 2 and Table 3, it is evident that though all FPCs had access to the same support, performance varied widely between them. While some of this variance could be explained by the different focus crops of the FPCs and different existing practices for sale of produce, the individual FPC discussion that follows attempts to bring out the other key factors that explain the difference and could provide lessons for Development Partners to influence these factors.

Takeaways from individual FPC experiences

Deola Farmer Producer Company

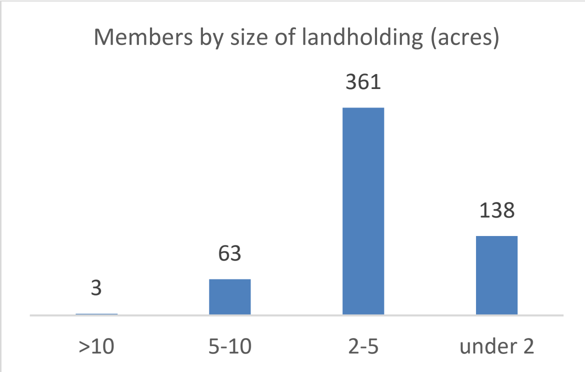
Background

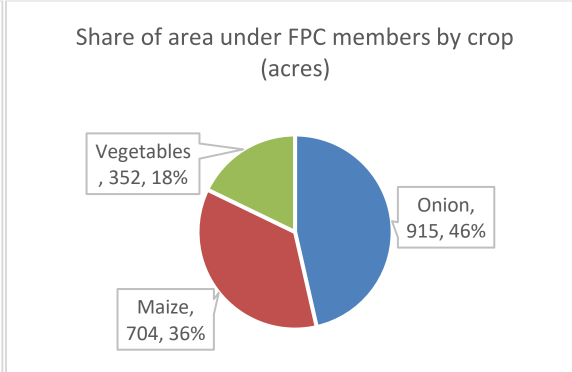
Deola Farmer Producer Company was registered in March 2014 with 465 members drawn from 35 Farmer Groups from several villages in the Nashik district of Maharashtra. Collectively, the FPC members had access to over 1,200 acres of land out of which about 310 acres was under the focus crops of pomegranate and onion[31].

Figure 12: Location of Deola FPC

Figure 13: Deola FPC key parameters

[31] Wipro, 2014





Source: GIU, 2018

Table 4: Financial support absorbed by Deola FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	1.5	Aug-17
PPI	14.9	Mar-17
Transport	3.1	Aug-17
Packaging	0	
Revenues / $ JFPR financial support	5.8	

Source: Company Directors, GIU, 2018

Results achieved

At almost INR 70 lac[32] of revenues and with a positive operating profit, Deola FPC was one of the best performers. Membership grew 22%, with a high share of small to medium farmers, over the Grant period with many members participating in collective transactions. The FPC built up a high Net Worth not only through retained profits but even more so by absorbing a high number of members as shareholders. A "revenues to financial support" multiplier of almost 6 times also indicates efficient utilization of support absorbed.

A summary of the FPC's performance results is provided in Table 5.

Table 5: Deola FPC performance

[32] As of FY17 (FY18 revenues not available)

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	43.7	69.3	NA
Operating Profit	NA	0.5	0.2	NA
Net Profit	NA	0.2	0.1	NA
Total transaction value (INR lac)	125			
Total transaction volume (MT)	460			
Members involved in collective sales	~50			
Total number of members				
At formation	465			
At closure	565			
Total land under members (acres)				
At formation	1,200			
At closure	2,000			
Number of shareholder members				
At formation	NA			
At closure	565			
Risk reduction	Highly diversified revenue mix Contracted sales (as against spot) Fee income de-linked with price			

Process indicators	
Access to organized markets and / or institutional credit	Limited
Disintermediation	Direct sale to trader in distant market at contracted price
Other value added sales / activities	Establishment of a vegetable market platform for transactions in produce destined for urban retail market; Onion inventory management for large buyer being considered

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	5.8	11.4	NA
Paid up share capital	NA	6.5	12.1	NA
Cumulative net (loss)/profit	NA	(0.7)	(0.7)	NA
Activities commenced before financial support	Collective input purchase and discounted sale to members (worth INR 1.25 lac)			
Revenue multiplier on financial support	5.8			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value may include transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

<u>JFPR Grant support:</u>

The FPC attributed its success, in large measure, to the series of capacity building interventions by the JFPR Grant. In particular, training provided on the fundamental benefits of collective marketing by the service provider at the commencement of the project was considered very valuable. Even though many of the Directors had been office bearers in other forms of collectives in prior years, the training and handholding support by the agency deployed for this purpose was indispensable for the members to grasp the concept of FPCs. However, the long gap between capacity building interventions and availability of direct financial support meant that the FPC did not have the opportunity to put the learnings into practice immediately after registration was completed when learnings were recent and contacts made from buyer-seller meets were fresh.

The FPC was able to directly retail its members' produce in the weekly urban retail markets of Mumbai and Pune by utilizing JFPR Grant's infrastructure subsidy for purchase of a goods vehicle. The vehicle enabled collection of members' produce and its direct dispatch to these markets where price realizations achieved were significantly higher than the realizations of sale to local traders and wholesalers. Getting direct access to retail ensured that the FPC received upfront payments at the time of sale as against the typically longer cash cycles associated with sale to / through intermediaries. However, this also meant that the FPC had to develop the capacity for breaking bulk and grading of produce to align with direct consumers' specific preferences and smaller one-time purchase requirements. Investment in a collection center to undertake these activities was also enabled with this subsidy. The FPC went a step further to garner support from the local agriculture market committee for the setup of a platform for traders to buy from farmers for sale at these weekly farmer markets. By doing this, not only did the FPC create another revenue stream for itself in the form of commission fees from the entity that was contracted to run this platform, some of the member farmers' wards who were educated but unemployed took on the role of such traders creating employment in the process.

Even though the FPC had started collective purchase of inputs soon after incorporation, it was only after support in the form of the revolving fund from the JFPR Grant was made available that sales of inputs to members on credit was able to expand significantly.

At the time of field visits, the FPC was planning to utilize the transport assistance from the Grant to make dispatches of onion to distant spot markets. In effect, the transport subsidy enhanced the risk appetite of the FPC to consider making distant dispatches of onion – a highly price volatile commodity – to such spot markets since the subsidy would be available to set off any adverse price movement between the time of dispatch of onion from the FPC location to the distant market.

Other factors:

Role of leadership – All Directors who were interested in pursuing growth for the FPC had strong faith in each other and in the leadership of one of the Directors who was able to take decisions without having to take frequent approvals. A few of the Directors that did not sustain their interest beyond the company's registration had to be persuaded by the other Directors to resign. These Directors were then replaced with those that were more willing and motivated to participate and contribute to the growth of the FPC. In other words, prudent selection, strong cohesion and clear leadership from the Directors were key factors that enabled the FPC to perform well. The Directors used their collective experience and networks to diversify into multiple revenue streams minimizing risks for the FPCs sustainability viz.

- input supplies for members
- fees income, insulated from produce prices through facilitation of a platform for buyers and sellers of vegetables to transact
- sales of members' produce to
    - a distant wholesale buyer
    - proximal urban market (Mumbai)

Regular supply of produce for direct retailing in farmer markets[33] in Mumbai and wholesale transactions in onion with distant buyers in Kolkata were undertaken. Unlike some of other FPCs that dispatched their produce to distant markets without advance assurance on price, Deola FPC

[33] https://www.indiatoday.in/india/story/devendra-fadnavis-mumbai-sant-saavta-mali-farm-produce-weekly-market-maharashtra-335185-2016-08-14

also minimized risk in the wholesale transaction by contracting a price with the buyer in advance. By identifying and supplying directly to an exporter in Kolkata the Directors were able to secure a price commitment in advance even in a generally price volatile commodity like onion which some other FPCs chose to dispatch to highly competitive spot markets where price determination took place only after receipt of produce at the destination. The FPC was able to meet the exporter's minimum volume requirement for a single dispatch by aggregating several members' produce associated with each Director.

Also, since most of the Directors in this FPC had earlier been members or office bearers of Cooperative Societies in the past, they had some experience in collectivization from earlier.

Having been engaged in the discussions that led to development of guidelines for provision of financial support by JFPR Grant and having already executed transactions before this support, the Directors were aware of and able to secure such support very soon after it was made available.

Demonstration effect – Deola FPC was one of the few that started meaningful commercial activities before the commencement of direct financial support. By leveraging the bargaining power arising from its initial membership base, the FPC was able to negotiate directly with input suppliers for low purchase prices and better payment terms to setup an input shop where it was able to offer better prices than other dealers. Having thus demonstrated clear value for its existing members, it attracted more members which in turn enhanced the FPC's collective bargaining power.

Similarly, by making dispatches of a few members to weekly farmer urban markets, the FPC demonstrated successful transactions and created a demonstration effect which drew more membership, effectively setting in place a virtuous cycle of using bargaining power derived from access to larger volumes for better deals, in turn driving up volumes and membership.

By taking a step-wise approach to building membership base, the FPC was able to cross the minimum threshold of members required to access mainstream FPC support schemes of the GoI.

Professional management – After attaining a basic level of financial capacity, the FPC stopped depending upon the limited support the BDF financed by JFPR Grant was able to provide and hired a full time CEO and accountant to support the FPC's activities. This ensured that the Directors had professional support and bandwidth to expand further. Going forward, while the FPC has capacity for small expenditure from its reserves, it continues to need support for larger transactions and capital investments until it can scale further[34]. Having reached a scale that makes it eligible for financial support from mainstream government schemes, the FPC is well placed to obtain such support, paving the way for its long term survival and growth.

In summary, while the initial training by the service provider on the concept of FPCs and support provided during mobilization of the FPCs laid a strong foundation, leadership from the Directors, their business acumen, experience with cooperatives in the past and a trusting relationship between the key directors were the cornerstones that drove achievement of results for Deola FPC. By the

[34] For example, the FPC has received interest from a buyer who is willing to give a large order of 10,000 MT to the FPC but since the order would require the FPC to store large quantities of onion before dispatch, it is currently unable to accept the order on account of lack of dedicated storage space.

time financial support was forthcoming from the GIU, the FPC was already mature and could leverage support more effectively.

Satpuda Farmer Producer Company

Background

Satpuda Farmer Producer Company was registered in July 2014 with 152 members drawn from 13 Farmer Groups from several villages in the Raver area in Jalgaon district of Maharashtra. Collectively, the FPC members had access to over 630 acres of land out of which about 590 acres was under the focus crop of banana.

Figure 14: Location of Satpuda FPC

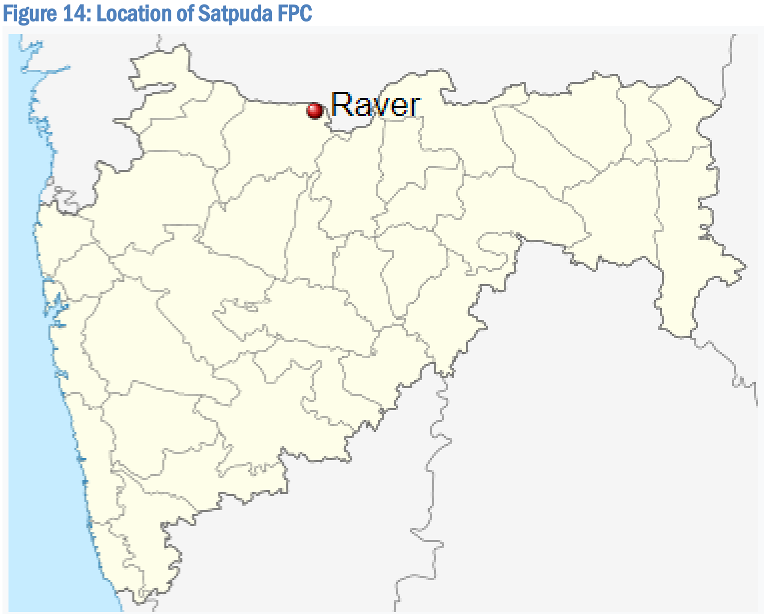
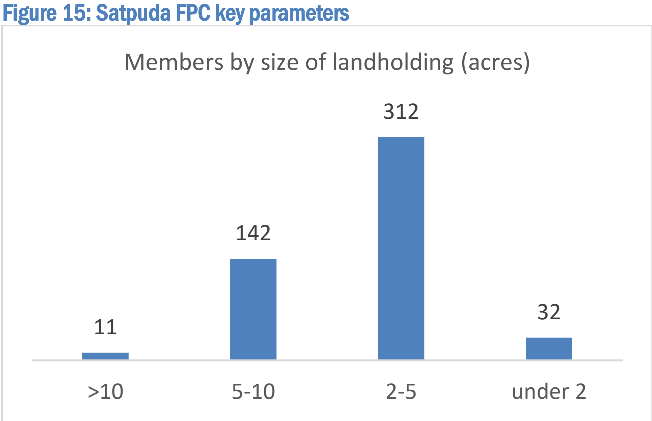


Figure 15: Satpuda FPC key parameters



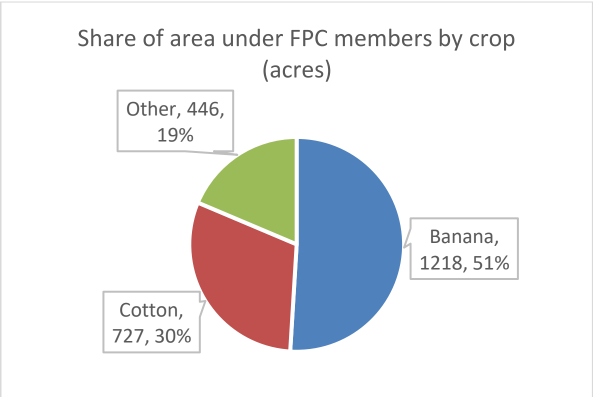


Table 6: Financial support absorbed by Satpuda FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	1.5	Apr-17
PPI	13.9	Aug-17
Transport	8.2	Feb-18
Packaging	0	
Revenues / $ JFPR financial support	0.7	

Source: Company Directors, GIU

Results achieved

The FPC disintermediated the banana supply chain for its members earning the loyalty of large numbers of farmers who joined the FPC making for an increase of over 3.25 times in membership numbers. Though the company did not record very high revenues officially[35], by making a large number of farmers shareholders in the company, it built up a high Net Worth which will enable better sustainability.

A summary of the FPC's performance results is provided in Table 7.

Table 7: Satpuda FPC performance

[35] A large chunk of the reported value of collective transactions undertaken (INR 43.5 lacs, from a reported volume of volumes of 530MT) are not reflected in the company's financials

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	1.6	4.0	11.9
Operating Profit	NA	(0.1)	(0.1)	(0.4)
Net Profit	NA	(0.1)	(0.1)	(0.4)
Total transaction value (INR lac)	44			
Total transaction volume (MT)	530			
Members involved in collective sales	~50			
Total number of members				
At formation	152			
At closure	497			
Total land under members (acres)				
At formation	630			
At closure	2,400			
Number of shareholder members				
At formation	NA			
At closure	497			
Risk reduction	Revenue mix includes commission besides trade sales			

Process indicators	
Access to organized markets and / or institutional credit	Limited
Disintermediation	Direct sale to trader in distant market (Delhi and Amroha)
Other value added sales / activities	None (banana processing being considered)

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	15.9	22.8	22.4
Paid up share capital	NA	17.0	24.0	24.0
Cumulative net (loss)/profit	NA	(1.0)	(2.0)	(1.6)
Activities commenced before financial support	157MT collective sale to local traders and 20MT direct sale to one trader in Delhi			
Revenue multiplier on financial support	0.7			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

JFPR Grant support:

Support in the form of the revolving fund from the JFPR Grant enabled the FPC to purchase from members on payment of cash upfront making it no less attractive for farmers than when dealing with agents. By displacing this intermediary while keeping the farmers' realization at par with what he would have obtained through the intermediary, the FPC was able to convert the commission that the farmer would otherwise have paid to the agent into the FPC's revenue. Multiple dispatches of banana sourced from farmer members in this way were made to a distant buyer in Amroha in Uttar Pradesh in addition to sales made at a major terminal market in Burhanpur in Madhya Pradesh.

Ability to consolidate large volumes from multiple members was enabled through the construct of an FPC. Grant support for a collection center collection center for bananas provided for a more organized and secured environment for aggregation. Transport assistance enhanced the risk appetite of the FPC to make distant dispatches which the members had not been able to attempt on their own in the past.

Support of the BDF financed by JFPR was extremely useful in preparing proposals for grant support and in ensuring compliance with its requirements since no members or Directors were in a position to do so on their own having never had the requisite training or experience for it.

In effect, JFPR support provided the foundation using which the FPC built up its volumes. This enabled the FPC to access larger government support and create a demonstration effect for more members to join in.

Other key factors:

Role of leadership - The leadership and initiative of one of the directors was key in kick starting dispatches. A local trader with whom this director had traditionally transacted helped the FPC to connect with the buyer in Amroha.

Demonstration effect - Though the initial set of members from whom the material for the Amroha buyer was collected was small, it provided a proof of concept which the FPC will replicate. Having built up the membership base with a demonstration of collective marketing using JFPR support, the FPC applied to the SFAC to claim the Government of India's grant support for FPCs which it intends to use for banana processing into chips and other value added products.

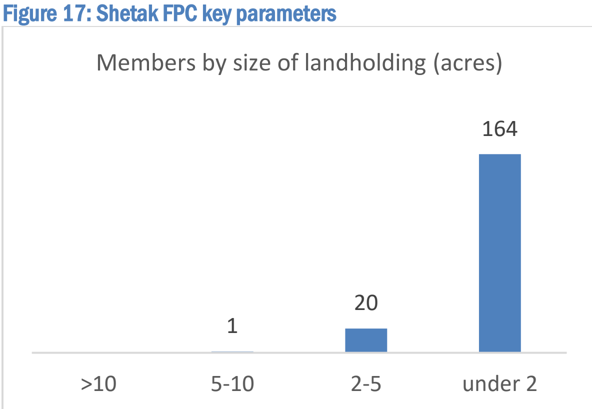
Professional management – To circumvent a common issue of default on payments by traders, the FPC has identified a national B2B platform that provides a payment guarantee service to initiate discussions with. However, there is a felt need for sustained professional support for discussing, negotiating and bringing about an arrangement with this platform.

Shetak Farmer Producer Company

Background
Shetak Farmer Producer Company was registered in January 2014 with 120 members drawn from 8 Farmer Groups from several villages in the Sangrampur area in Buldana district of Maharashtra. Collectively, the FPC members had access to almost 620 acres of land out of which about 370 acres was under the focus crop of banana.

Figure 16: Location of Shetak FPC

Figure 17: Shetak FPC key parameters



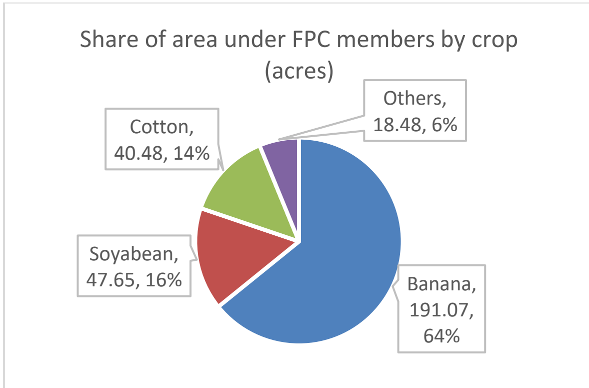


Table 8: Financial support absorbed by Shetak FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.6	Nov-17
PPI	13.9	Dec-17
Transport	0	
Packaging	0	
Revenues / $ JFPR financial support	0.3	

Source: Company Directors, GIU

Results achieved

Shetak FPC achieved a very high growth in membership base with the highest share[36] of membership coming from smallholder farmers. To the extent transactions were undertaken on the company's account these were profitable and served to expand the membership base. However,

[36] Amongst JFPR FPCs

the number of transactions undertaken was small and most of the members had not been onboarded as shareholders at the time of the field visit.

A summary of the FPC's performance results is provided in Table 9.

Table 9: Shetak FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	0.04	3.89	1.07	0.00
Operating Profit	(2.0)	0.2	0.2	(0.6)
Net Profit	(2.0)	0.0	0.0	(0.8)
Total transaction value (INR lac)	5			
Total transaction volume (MT)	221			
Members involved in collective sales	~50			
Total number of members				
At formation	120			
At closure	313			
Total land under members (acres)				
At formation	620			
At closure	300*			
Number of shareholder members				
At formation	NA			
At closure	15			
Risk reduction	Limited revenue base and spread - Small volumes of direct sale in distant market, direct retail (discontinued), limited collective input purchase			

Process indicators	
Access to organized markets and / or institutional credit	Limited
Disintermediation	Limited (being considered at time of field visit)
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	(1.0)	(1.0)	(1.0)	(1.7)
Paid up share capital	1.0	1.0	1.0	1.0
Cumulative net (loss)/profit	(2.0)	(2.0)	(2.0)	(2.7)
Activities commenced before financial support	5MT direct retail in nearby city; 50MT collective input purchase			
Revenue multiplier on financial support	0.3			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available; * Data on landholding is only available for 185 members

Drivers of results achieved and key takeaways

<u>JFPR Grant support:</u>

Training on collective marketing, direct marketing and knowledge sharing between FPCs that JFPR facilitated was instrumental in inspiring the FPC to attempt direct retail sales of bananas in a nearby urban market.

While the training and exposure activities made members aware of the possibilities that arise from collectivization, construction of a banana collection center with support from JFPR Grant funds made a bigger contribution to the credibility of the FPC amongst prospective members. After construction of the center began, membership numbers swelled.

At the time of the field visit, large shipments to a wholesale buyer in Raipur were being planned with the support of a local trader who introduced the FPC Directors to the buyer. The FPC was going to use the JFPR revolving fund and transport subsidy to enable this transaction.

Like in the case of other FPCs, JFPR support provided for the establishment of the FPC and enabled experimental transactions that would otherwise have been challenging for the FPC on its own. Having learnt from these experiences and demonstrated activity, the FPC appears to have garnered increased membership which should provide for further activity.

<u>Other key factors:</u>

Economic profile of buyers in the area of FPC operation: Taking cue from the activities of some of the other JFPR FPCs that made direct retail sales in urban weekly farmer markets, Shetak FPC also attempted the same. While these sales were profitable, the small volumes of offtake in the retail market and the fact that the most accessible retail market for the FPC was in a relatively small Tier 3 town (Shegaon), meant that achieving meaningful scale of profits was challenging. Not only were the volumes low, the operational complexity and effort in breaking down large volumes of production from member farmers into small sizes for retail sale was overwhelming. Even though the retail price realizations were higher than the existing wholesale prices members were receiving, the difference was not significant given relatively low purchasing power and propensity to pay premiums for quality in the town.

Economic profile of farmers in the area of FPC operation: Even though the members had been aware of the buyer in Raipur (and many other such distant buyers to whom their produce was sold through intermediaries), their inability to assess these buyers' creditworthiness was a major reason[37] for there being no prior attempts at direct dispatches. In the absence of any means to assess creditworthiness and insufficient financial cushion to take the risk of losses from a payment default such dispatches were not considered. It was only after the local trader mentioned above stood guarantee for this buyer did the FPC members garner the courage to attempt such dispatches. Even so, given that most members were smallholders with limited resources, putting up 50% of the contribution for the revolving fund was a significant barrier to such an attempt.

Role of leadership and management support: One of the Business Development Facilitators appointed by the service provider mandated to setup the FPCs joined it as a Director after closure of the service provider's mandate. The presence of this Director appears to have been instrumental in bringing about cohesion and providing leadership to the FPC. The said Director also took proactive action to make sure that the FPC's interests were represented to the GIU at all times.

Kalyani Farmer Producer Company

Background

Kalyani Farmer Producer Company was registered in October 2014 with 312 members drawn from 24 Farmer Groups from several villages in the Jalna district of Maharashtra. Collectively, the FPC members had access to about 740 acres of land out of which about 440 acres was under the focus crop of sweet lime.

[37] In addition to the lack of a collective marketing mindset and requisite infrastructure

Figure 18: Location of Kalyani FPC

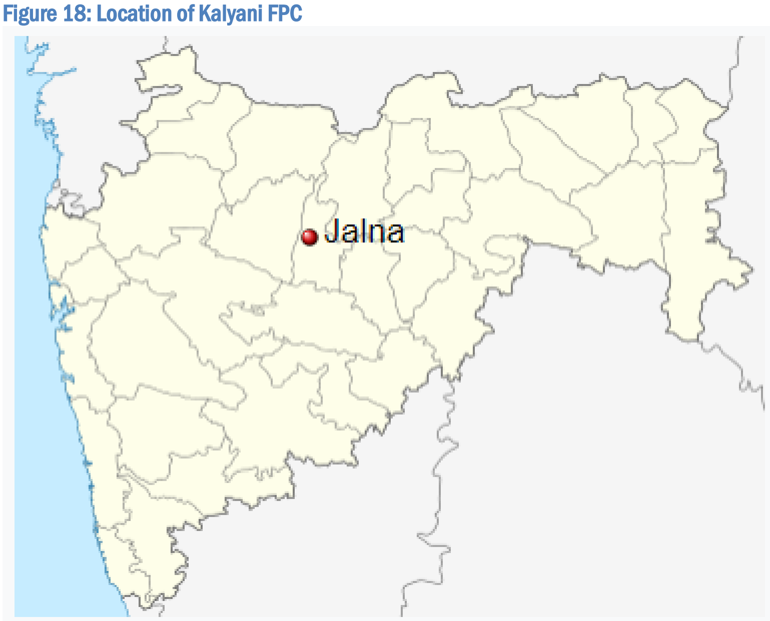
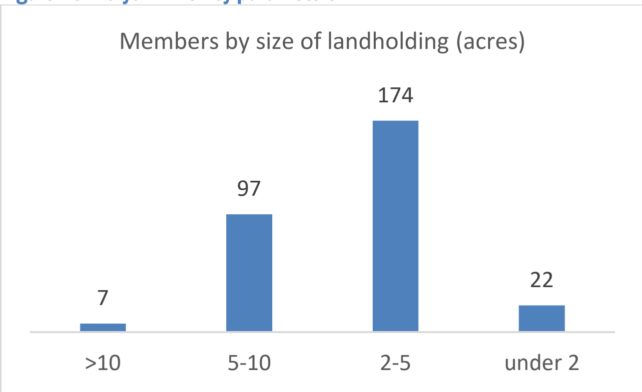


Figure 19: Kalyani FPC key parameters



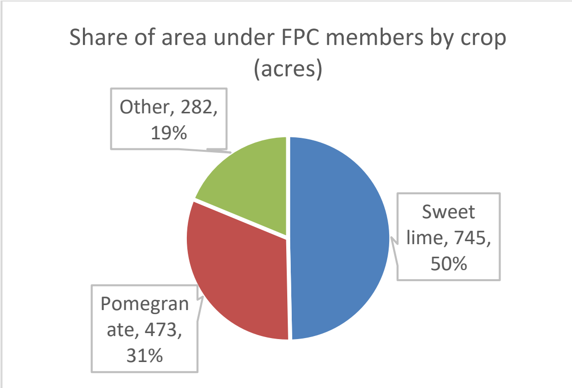


Table 10: Financial support absorbed by Kalyani FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0	
PPI	14	Feb-18
Transport	0	
Packaging	0	
Revenues / $ JFPR financial support	0	

Source: Company Directors, GIU

Results achieved

Kalyani FPC was unable to undertake any transactions on the company's account and lost some of its members. A summary of the FPC's performance results is provided in Table 11.

Table 11: Kalyani FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	-	-	NA	NA
Operating Profit	(0.0)	(0.1)	NA	NA
Net Profit	(0.1)	(0.1)	NA	NA
Total transaction value (INR lac)	0			
Total transaction volume (MT)	0			
Members involved in collective sales	0			
Total number of members				
At formation	312			
At closure	300			
Total land under members (acres)				
At formation	740			
At closure	1,500			
Number of shareholder members				
At formation	10			
At closure	NA			
Risk reduction	No revenues			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	None
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.9	0.9	NA	NA
Paid up share capital	1.0	1.0	NA	NA
Cumulative net (loss)/profit	(0.1)	(0.1)	NA	NA
Activities commenced before financial support	None			
Revenue multiplier on financial support	0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available; * Data on landholding is only available for 185 members

Drivers of results achieved and key takeaways

JFPR Grant Support

While the support in mobilization and setup of the FPC provided by the JFPR Grant was useful, draught conditions that prevailed for a long period after establishment prevented any meaningful attempts at collective transactions.

The FPC could not leverage most of the financial support available from the JFPR Grant. The infrastructure subsidy was utilized towards the very end of the support program with a view to setup a sweet lime packhouse to enable collective sales going forward. Unavailability of time from the designated BDF was one of the reasons attributed to inability of the FPC in submitting the documentation required and the preparation of business plan for the infrastructure.

Other key factors

Weather: Lack of traction and poor results of the FPC were primarily on account of poor harvests of its core crop of sweet lime due to draught conditions that prevailed for much of the Grant duration.

Role of professional support: FPC Directors also pointed out the lack of professional support which was arguably due to the low levels of interaction, interest and availability of the BDF responsible for the FPC, in part attributable to the very wide spread of FPCs assigned to the lone BDFs that was available for much of the period in which financial support was available.

Loss of members: Though the FPC started with one of the highest number of members, the lack of any activity even after 3 years of setup of the FPC led to some member attrition.

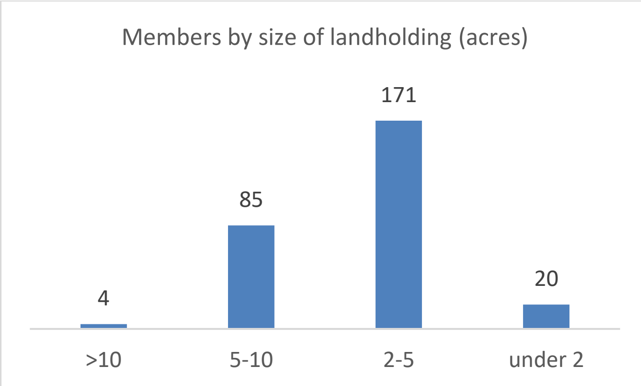
Seven Green Hills Farmer Producer Company

Background

Seven Green Hills Farmer Producer Company was registered in March 2014 with 360 members drawn from 28 Farmer Groups from several villages in the Warud area of Amravati district of Maharashtra. Collectively, the FPC members had access to about 2,100 acres of land out of which almost 1,200 acres was under the focus crop of oranges.

Figure 20: Location of Seven Green Hills FPC

Figure 21: Seven Green Hills FPC key parameters



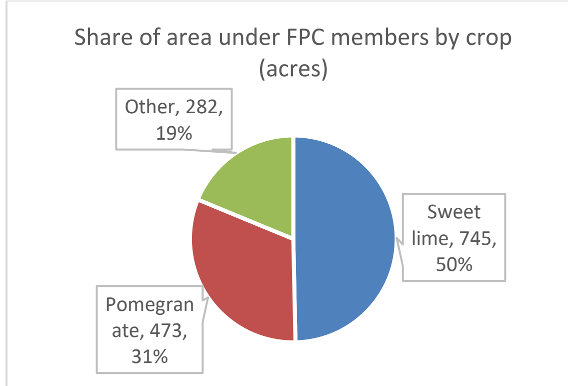


Table 12: Financial support absorbed by Seven Green Hills FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	2	Jan-18
PPI	12	Aug-17
Transport	7	Jan-18
Packaging	3	Feb-18
Revenues / $ JFPR financial support	1.6	

Source: Company Directors, GIU

Results achieved

Seven Green Hills FPC delivered the highest cumulative operating profit by making direct sales to distant market traders. However the FPC lost over 20% of its members arguably on account of its later start. The FPC improved packaging and by earning high margins added to its Net Worth materially despite loss of membership. A summary of the FPC's performance results is provided in Table 13.

Table 13: Seven Green Hills FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	-	-	1.65	34.94
Operating Profit	(0.3)	(0.2)	0.1	2.1
Net Profit	(0.3)	(0.2)	0.1	1.7
Total transaction value (INR lac)	25			
Total transaction volume (MT)	104			
Members involved in collective sales	~15			
Total number of members				
At formation	360			
At closure	280			
Total land under members (acres)				
At formation	2,100			
At closure	1,330			
Number of shareholder members				
At formation	12			
At closure	12			
Risk reduction	Limited - Direct sale in distant spot market exposed to price risk, direct retail (discontinued)			

Process indicators	
Access to organized markets and / or institutional credit	Limited
Disintermediation	Direct sale to trader in distant market
Other value added sales / activities	Improved packaging

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.7	0.5	0.6	2.3
Paid up share capital	1.0	1.0	1.0	1.0
Cumulative net (loss)/profit	(0.3)	(0.5)	(0.4)	1.3
Activities commenced before financial support	Limited; 20MT Direct retail			
Revenue multiplier on financial support	1.6			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available; * Data on landholding is only available for 185 members

Drivers of results achieved and key takeaways

<u>JFPR Grant Support</u>

Seven Green Hills FPC was one of the few that was able to take advantage of the packaging subsidy provided by JFPR Grant for procurement of better quality packaging material for its distant market dispatches which enabled lower losses in transit and better realizations that partly explain its superior profit margins.

The transport subsidy provided by JFPR Grant - in addition to the revolving fund - was key in enabling distant market sales (Kanpur and Lucknow, Uttar Pradesh) particularly including smaller member farmers. Participating member farmers garnered the courage to shift from their existing trader relationships towards sale through the FPC on account of the incentive provided by this financial support.

The FPC was only able to utilize the revolving fund once. Since harvesting of the focus crop takes place between November and January and the Grant project was closing in December, the FPC did not utilize the fund in 2018 on account of project closure in December 2018.

<u>Other key factors</u>

Suitability of support for commodity and location of FPC: Retail sales in urban weekly farmer markets were attempted with an initial lot of 2.5 MT but could not be sustained on account of the operational complexity of breaking bulk from large production volumes to small sized retail purchases accentuated by short shelf-life of the produce and high distance to the more affluent markets of Pune and Mumbai. However, the FPC plans to access facilities for waxing and grading and to package the produce in smaller retail packs in the future for servicing such markets.

Timing of external support and role of professional assistance: Overall, the FPC was somewhat late in seeking Grant support which is in part attributable to the lack of professional support to explain the benefits and prepare documentation and compliance requirements for the obtaining the subsidy. While the FPC choose to use the infrastructure subsidy to setup a collection center and to purchase a bulk transport vehicle and crates, the Directors later rued their lack of foresight in using the infrastructure subsidy for value addition in the form of a grading and sorting machine instead[38]. A combination of factors including the lack of rigor in the feasibility study for infrastructure and the wide gap in time between the training and exposure visits and availability of financial support led to this situation.

Role of leadership: The main distant buyer (from Kanpur, Uttar Pradesh) was identified through personal relationships of some FPC members with intermediaries already operating in the vicinity (Warud) and supplying to this buyer. FPC Directors had also taken the initiative to undertake discussions with upcoming processing facilities in the vicinity for sale of processing grade sweet lime.

Shetmall Farmer Producer Company

Background

Shetmall Farmer Producer Company was registered in November 2013 with 250 members drawn from 50 Farmer Groups from several villages in Sinnar area of Nashik district of Maharashtra. Collectively, the FPC members had access to over 1,200 acres of land out of which about 310 acres was under the focus crop of onion.

Figure 22: Location of Shetmall FPC

[38] While facilities for collection and manual grading is relatively easily available in the vicinity, grading machines are hard to come by

Figure 23: Shetmall FPC key parameters

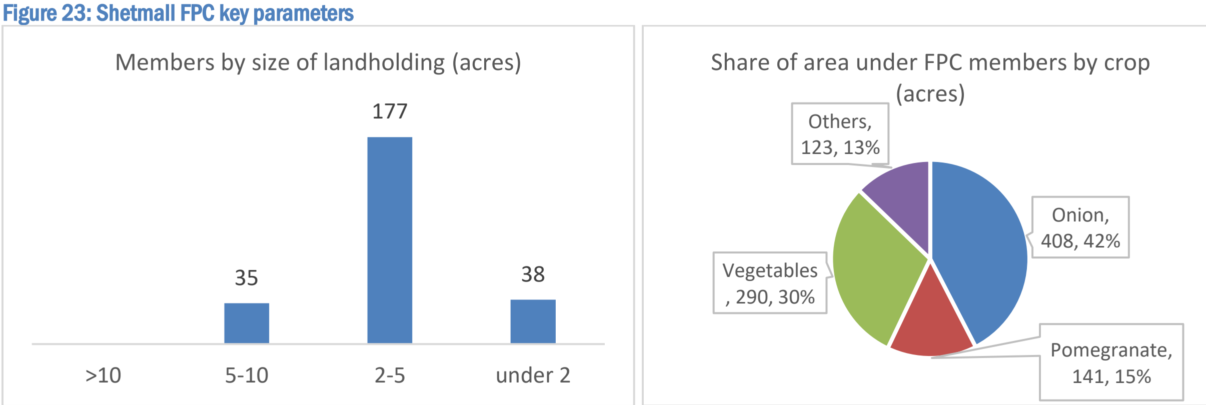


Table 14: Financial support absorbed by Shetmall FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.4	Apr-17
PPI	14.7	Aug-17
Transport	5.7	Jul-17
Packaging	0.0	
Revenues / $ JFPR financial support	1.4	

Source: Company Directors, GIU

Results achieved

Shetmall FPC leveraged its proximity to affluent retail markets of Pune and Mumbai and the presence of dedicated urban farmer weekly retail markets in these cities to its advantage by not only dispatching its members' vegetables to these markets directly but also in securing the management of some of these retail markets to its advantage. A summary of the FPC's performance results is provided in Table 15.

Table 15: Shetmall FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	1.73	27.39	NA
Operating Profit	NA	(0.1)	0.2	NA
Net Profit	NA	(0.1)	0.0	NA
Total transaction value (INR lac)	145			
Total transaction volume (MT)	403			
Members involved in collective sales	~50			
Total number of members				
At formation	250			
At closure	250			
Total land under members (acres)				
At formation	1,200			
At closure	900			
Number of shareholder members				
At formation	NA			
At closure	NA			
Risk reduction	Fairly diverse revenue base - Emerging bulk sales, regular retail sale (though not on company account yet, some volumes of collective input purchase			

Process indicators	
Access to organized markets and / or institutional credit	Limited
Disintermediation	Direct sale through agent in distant market
Other value added sales / activities	None (plan for onion processing plant)

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	0.4	0.4	NA
Paid up share capital	NA	1.0	1.0	NA
Cumulative net (loss)/profit	NA	(0.6)	(0.6)	NA
Activities commenced before financial support	Limited; 29MT sale to local traders			
Revenue multiplier on financial support	1.4			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available

Drivers of results achieved and key takeaways

JFPR Grant Support

Trainings, exposure visits along with encouragement and support from the JFPR Grant administration were instrumental in the FPC's achievement of large volumes of transactions dispatches to weekly urban farmer retail markets. The FPC also took over the responsibility of managing these weekly farmer markets which meant not only putting up the FPC's own stall at the market but also managing the market as a whole in terms of administration and compliance. This played a material role in the retention of its membership.

The JFPR revolving fund and transport subsidy enabled direct dispatch of bulk volumes of onion to a commission agent at the Terminal Market (*Azadpur*) in Delhi, through whom sales of onion were made to wholesalers. While the revolving fund enabled sourcing of onion from members on advance payment, the transport subsidy played the role of providing comfort against potential adverse price movement between the time of dispatch and actual sale in Delhi. Disintermediation achieved by undertaking a direct transaction also enabled lower losses - the agent found the onions to be better packed with lower level of damages / losses arguably on account of the extra care the FPC took in packaging than what would otherwise be expected from an intermediary.

Infrastructure support for collection, packing and marketing of vegetables enabled the movement of large volumes to the weekly farmer markets in addition to providing a secure location for packing and loading of the bulk shipment for Delhi.

Other key factors

Role of leadership and professional support: Presence of two of the Directors of the FPC in Mumbai, their availability to manage administration of the retail markets in person and their relationships with local authorities played a strong role in achievement of high volumes of direct retail sales from members. The existing relationship of one of the Directors with the agent in Azadpur *mandi* enabled the bulk transaction in onions. Having established a track record, the FPC Directors were planning to foray into onion processing at the time of the field visit with support from the BDF. The BDF's support was also recognized as indispensable for documentation and compliance requirements for the Grant support accessed.

Suitability of support for the FPC's purpose: While the transport subsidy effectively served the purpose of a "risk absorption pool", the packing subsidy was not relevant for the FPC since onions – being relatively less perishable and less susceptible to damages in handling – do not require sophisticated packaging. Also, the FPC was better able to take advantage of weekly farmer markets on account its geographical proximity to Mumbai in addition to the fact that some of the FPC's Directors were based in Mumbai and had relationships with local authorities.

Weather: Draught conditions in 2015-16 prevented much activity until financial support was available

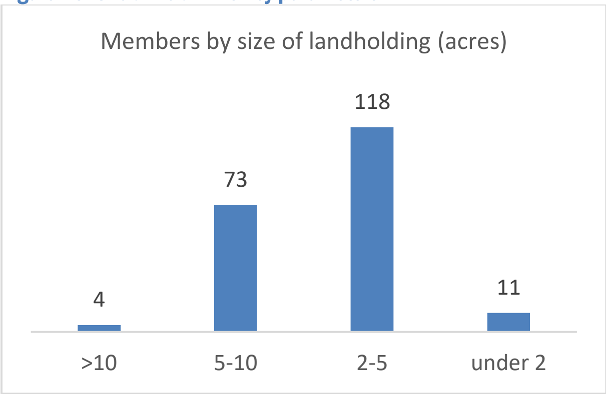
Shubh Labh Farmer Producer Company

Background

Shubh Labh Farmer Producer Company was registered in August 2014 with 209 members drawn from 16 Farmer Groups from several villages in the Anjangaon area of Amravati district of Maharashtra. Collectively, the FPC members had access to almost 1,500 acres of land out of which about 1,200 acres was under the focus crop of orange.

Figure 24: Location of Shubh Labh FPC

Figure 25: Shubh Labh FPC key parameters



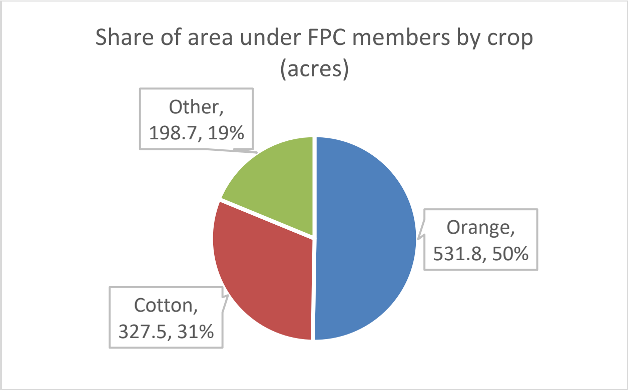


Table 16: Financial support absorbed by Shubh Labh FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	1.0	Nov-17
PPI	15.0	Mar-18
Transport	6.5	Feb-18
Packaging	4.8	Jul-17
Revenues / $ JFPR financial support	7.2	Jul-17

Source: Company Directors, GIU

Results achieved

Shubh Labh FPC was able to utilize all elements of the financial support available from the JFPR Grant and utilized it efficiently to earn the highest revenue amongst all JFPR FPCs while maintaining its membership base. The number of members that participated in collective sales was however very low vis-à-vis its full membership. A summary of the FPC's performance results is provided in Table 17.

Table 17: Shubh Labh FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	NA	121	75
Operating Profit	NA	NA	0.1	0.9
Net Profit	NA	NA	0.0	0.8
Total transaction value (INR lac)	100			
Total transaction volume (MT)	422			
Members involved in collective sales	25			
Total number of members				
At formation	209			
At closure	206			
Total land under members (acres)				
At formation	1,500			
At closure	1,100			
Number of shareholder members				
At formation	10			
At closure	10			
Risk reduction	Medium; Undiversified revenue mix but direct sale to distant trader at contracted price, direct retail (discontinued)			

Process indicators	
Access to organized markets and / or institutional credit	Attempted
Disintermediation	Direct sale to end buyer in distant market
Other value added sales / activities	Improved packaging (planned grading and waxing)

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	0.4	0.4	NA
Paid up share capital	NA	1.0	1.0	NA
Cumulative net (loss)/profit	NA	(0.6)	(0.6)	NA
Activities commenced before financial support	225MT sale in distant market			
Revenue multiplier on financial support	7.2			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

<u>JFPR Grant Support</u>

Buyer-seller meets and market visits undertaken under the Grant program early on exposed the FPC to the value upside achievable from grading and waxing of oranges before sale. Unlike other FPCs with citrus as focus crop, Shubh Labh used this insight to purchase and install a grading and waxing machine with the JFPR infrastructure grant instead of setting up a new collection center. The funds were used to upgrade a collection center and acquire a mechanized grading machine to enable such sorting and grading to be undertaken near the farm. This was key in ensuring that the FPC obtained the ability to price its produce according to its quality as against selling all its produce at an average price that left the upside from the better quality (and downside from the lower quality) portion of the overall production available to the trader in the past. The machine also enabled waxing of oranges providing for a longer shelf life and hence increased shelf life of produce.

The revolving fund incentivized a trader who was also a Director in the FPC to bring his own existing customers into the fold of the FPC. Both the transport and packaging subsidy was leveraged to undertake transactions with distant buyers in Gujarat and Uttar Pradesh. Though the number of members involved with these initial transactions was low – 25 in number or 12.5% of the FPC's membership – by undertaking these transactions on the company's account, it was ensured that the value obtained from these transactions supported by the Grant was captured at the FPC level.

Other key factors

Role of leadership: One of the Directors who was an established trader himself and had been undertaking collective dispatches on behalf of other farmers leveraged the larger volumes available through the FPC to cater to his existing customers. This was key in enabling a rapid ramp-up and achievement of volumes observed. The trader was quick to recognize the value of grading and waxing and since a collection center already existed in the vicinity, the FPC was able to deploy the JFPR infrastructure Grant for value addition as against "plain vanilla" trading. Several dispatches were carried out to buyers in Gujarat and Uttar Pradesh with some undertaken even before financial support from JFPR Grant was forthcoming.

Access to organized markets: The FPC made an attempt towards direct sale to an organized buyer (Bigbasket – India's largest online platform for grocery purchases) through a transaction platform ("Pavata Agro Private Limited") that was introduced to the FPC in one of the training and exposure activities. Dispatches were made without the required grading and led to a dispute between the FPC and buyer around quality and price. While installation of the grading and waxing machine and provision of the revolving fund addressed a key aspect that caused this transaction to fail, training on quality requirements of organized buyers that is customized for the FPC's specific crop and providing a market outlet for the grades that organized buyers would not accept are other elements for which FPCs need support to sustain linkages with organized buyers.

Member participation: Very few members participated in the large volume of dispatches made by the FPC. The FPC Directors attributed this to reluctance of members to take the risk of moving away from their existing practice of "selling" their orchard even before harvesting which minimizes the price and quality risk from factors in the post-harvest chain. Going forward, as the success demonstrated in transactions with these smaller number of members are expected to motivate more members to participate in collective sales.

Relevance of support: Taking a cue from other FPCs and encouragement from the JFPR Grant program, dispatches to weekly farmer markets in urban areas was also attempted. However, a combination of the long distance to Mumbai and Pune, difficulty in managing small volumes of sales and high levels of waste and returns discouraged the FPC from expanding the same. Overall, while the revolving fund was extremely useful in encouraging collective sales by reducing the upfront financial burden of the members, the requirement to put up 50% of the fund by members themselves can limit inclusion[39]. At the same time, since margins from sales of citrus crops are typically higher compared to staple vegetables like onion, the ability to absorb some interest cost on the revolving fund and the cost of transport is relatively greater for FPCs with citrus crops.

[39] Companies in India are typically able to obtain loans for up to 75% of their working capital needs

Since the importance of proper packaging to reduce waste and enhance value realization is still not fully understood by farmers, support for this aspect is relatively more suitable for citrus crops.

Role of professional support: Though the FPC was able to leverage all support available and deploy it directly for the benefit of the FPC, it was not one of the first ones to submit its application for support. Documentation and compliance requirements for approval and release of support was sparsely available and added to the timelines.

Sangamner Farmer Producer Company

Background

Sangamner Farmer Producer Company was registered in November 2013 with 240 members drawn from 18 Farmer Groups from several villages in the Sangamner area of Ahmednagar district of Maharashtra. Collectively, the FPC members had access to over 560 acres of land out of which over 360 acres was under the focus crops of onion and pomegranate.

Figure 26: Location of Sangamner FPC

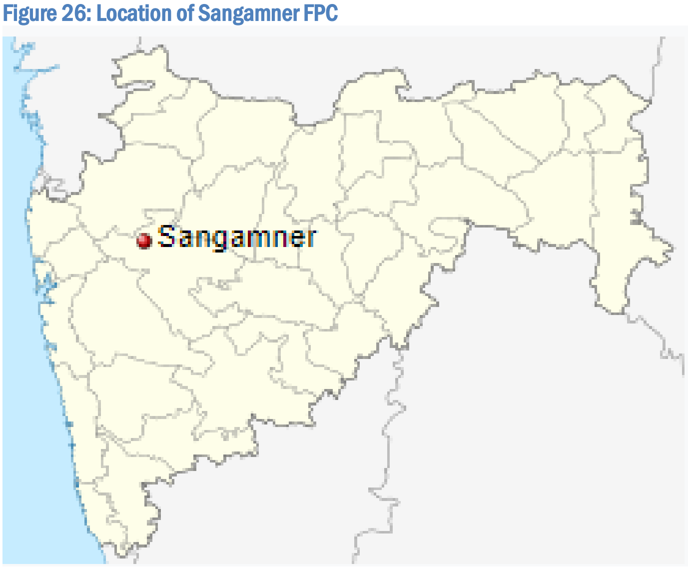
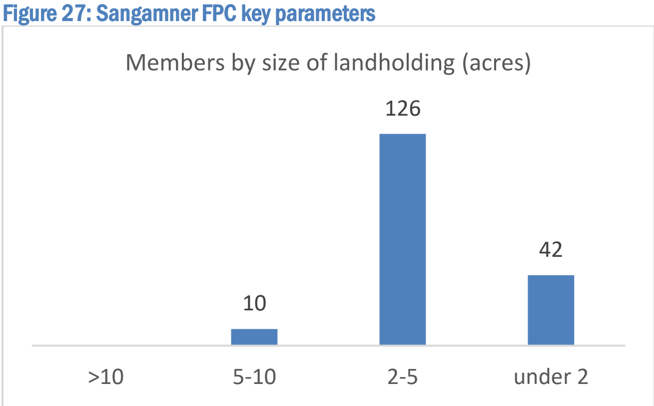


Figure 27: Sangamner FPC key parameters



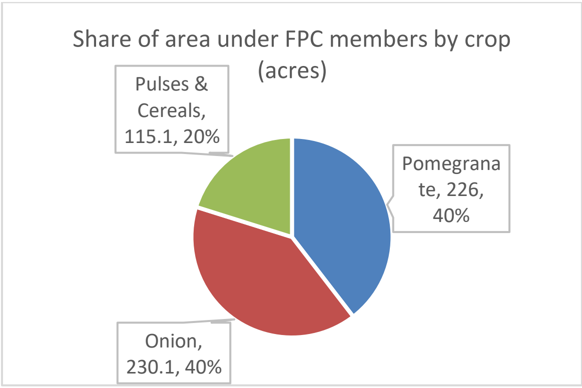


Table 18: Financial support absorbed by Sangamner FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.2	Apr-17
PPI	15.0	Mar-18
Transport	0.0	
Packaging	0.0	
Revenues / $ JFPR financial support	NA	

Source: Company Directors, GIU

Results achieved

Sangamner FPC was one of the first to attempt collective dispatches to an organized buyer. Issues in this transaction and between the Directors however stalled progress thereafter. The FPC's membership fell to 178 members with access to a total of about 570 acres of land and the FPC was not able to undertake any meaningful transactions. A summary of the FPC's performance results is provided in Table 19.

Table 19: Sangamner FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	NA	NA	NA
Operating Profit	NA	NA	NA	NA
Net Profit	NA	NA	NA	NA
Total transaction value (INR lac)	0			
Total transaction volume (MT)	2.5			
Members involved in collective sales	10			
Total number of members				
At formation	240			
At closure	178			
Total land under members (acres)				
At formation	560			
At closure	570			
Number of shareholder members				
At formation	NA			
At closure	NA			
Risk reduction	No revenues			

Process indicators	
Access to organized markets and / or institutional credit	Attempted
Disintermediation	Attempted
Other value added sales / activities	Attempted

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	NA	NA	NA
Paid up share capital	NA	NA	NA	NA
Cumulative net (loss)/profit	NA	NA	NA	NA
Activities commenced before financial support	2.5MT sale to distant buyer attempted			
Revenue multiplier on financial support	NA			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members.

Drivers of results achieved and key takeaways

JFPR Grant Support

During the initial training and exposure visits, the FPC Directors were introduced to a marketing platform setup by a private operator ("Pavata Agro Private Limited") who introduced the Directors to a trader who regularly supplied pomegranates to organized retailers in Mumbai. While the introduction led to an agreement between the FPC and the trader for the sale of a truckload of pomegranates and this truckload was dispatched by the FPC, the transaction did not complete on a good note with the buyer complaining of poor quality of produce received. The buyer made only a partial payment for which the FPC felt cheated. While investigating into whether the buyer was wrong in rejecting part of the produce and making lower payments or the FPC itself erred in dispatching poor quality produce is beyond the scope of this report, this failed transaction demonstrates the gap that exists between the ultimate buyer and farmers' understanding of each other's needs. This gap, which is typically plugged by intermediaries who often play the role of grading and taking risk of transit damages and / or payment defaults, is magnified when direct transactions from FPCs to distant buyers are made.

While the FPC was unable to leverage either the transport or packaging subsidy, the revolving fund was used for the failed transaction and infrastructure subsidy was being deployed for the purchase of a vehicle and setup of a collection center for pomegranate along with a pulses and cereals processing center with an intent to use these for collective marketing going forward.

Other key factors

Access to organized markets: While the private operator - Pavata Agro Private Limited - made an introduction with the organized buyer, the important role of bridging gap in understanding of quality requirements at the FPC's end, providing for the ability to grade and sort to meet this quality requirement, providing an outlet for the low-grade produce and ensuring creditworthiness of the buyer were left unaddressed leading to a failed transaction that eroded the FPCs' confidence in undertaking more transactions. Given FPCs' the lack of experience with collective marketing especially to organized buyers, only a holistic approach to address these aspects can bear fruit.

Role of leadership (selection): The FPC had a dispute amongst its Directors which led to the division of the Directors into two groups, with neither of the groups having quorum for key decisions at board meetings. There was alleged malpractice by one of the Directors who purportedly undertook personal commitments on behalf of the FPC and leveraged support meant for the FPC for their own individual transactions. The inability to remove Directors easily was cited by the Directors as a key stumbling block in resolving this impasse.

Member participation: Poor experience with the first attempt at collective marketing in addition to the issues at the leadership level led to heavy attrition in the relatively large initial membership numbers. Success with a smaller number of members that attracts more members naturally as against members being brought together upfront without requisite training and support for successful transactions is a key lesson that emerges from this FPC's experience.

Role of professional support: The early start which could not materialize into sustainable operation of the FPC stemmed from a combination of alleged unethical activities at the leadership level and the lack of experience with collective marketing to an organized buyer. Experienced professional support that is independent of the Directors (i.e. provides for separation of operations and management of the company) could ensure these issues are addressed.

Wadegaon Farmer Producer Company

Background

Wadegaon Farmer Producer Company was registered in November 2014 with 195 members drawn from 15 Farmer Groups from several villages in the Akola district of Maharashtra. Collectively, the FPC members had access to about 1,100 acres of land out of which about 550 acres was under the focus crops of onion and lemon.

Figure 28: Location of Wadegaon FPC

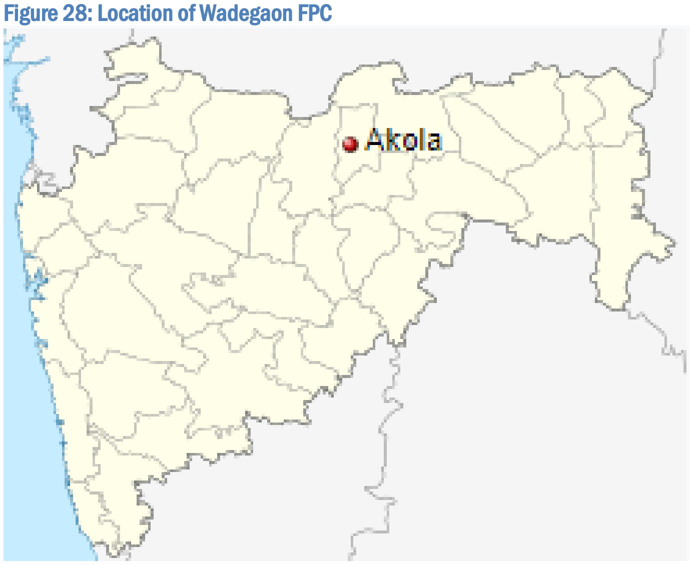


Figure 29: Wadegaon FPC key parameters

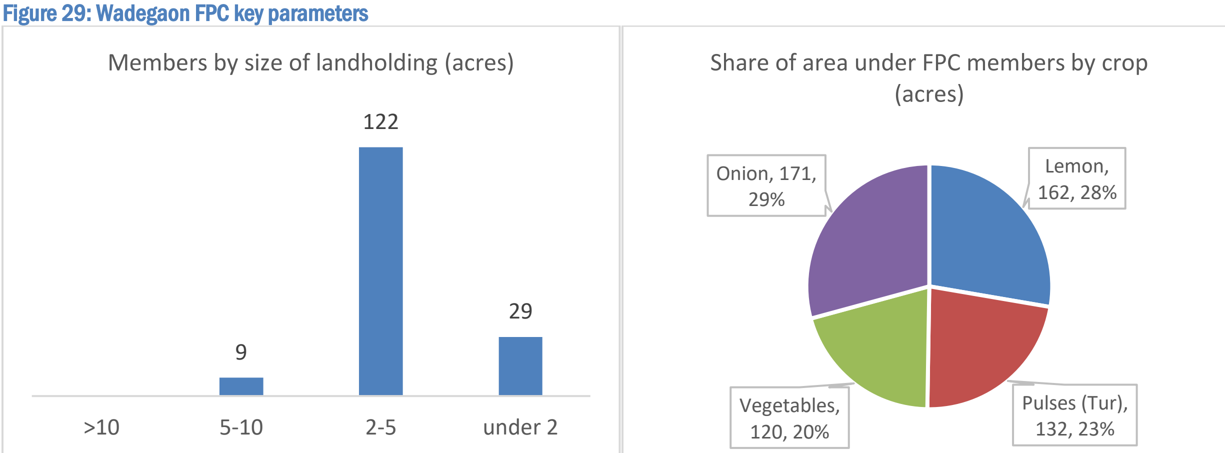


Table 20: Financial support absorbed by Wadegaon FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.6	May-18
PPI	15.0	Feb-18
Transport	0.0	
Packaging	0.0	
Revenues / $ JFPR financial support	0.0	

Source: Company Directors, GIU

Results achieved

Though Wadegaon FPC was the first to supply inputs collectively to other FPCs, overall it achieved limited sales and was able to undertake only a few activities. However, with useful infrastructure being installed with JFPR support, it expect to undertake increased activities across its commodity groups going forward. A summary of the FPC's performance results is provided in Table 21.

Table 21: Wadegaon FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	-	0.4	NA	NA
Operating Profit	(0.2)	(0.1)	NA	NA
Net Profit	(0.2)	(0.1)	NA	NA
Total transaction value (INR lac)	4			
Total transaction volume (MT)	32			
Members involved in collective sales	0			
Total number of members				
At formation	195			
At closure	160			
Total land under members (acres)				
At formation	1,100			
At closure	590			
Number of shareholder members				
At formation	10			
At closure	11			
Risk reduction	No revenues			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	None
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.8	0.7	NA	NA
Paid up share capital	1.0	1.0	NA	NA
Cumulative net (loss)/profit	(0.2)	(0.3)	NA	NA
Activities commenced before financial support	Supply of 1.2MT onion seed to Deola FPC			
Revenue multiplier on financial support	0.0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available. During the field visit, the Directors claimed to have 450 members

Drivers of results achieved and key takeaways

JFPR Grant Support

The FPC's first activity was the collection and supply of onion seeds to other JFPR FPCs[40]. The sale of onion seed in bulk quantities to other FPCs materialized after the Directors got acquainted with other FPCs during the JFPR sponsored training and exposure visits. Before the JFPR Grant came about, seed supplies were limited to the local vicinity.

The revolving fund enabled sale of onion to a distant buyer in Kolkata, West Bengal. The buyer in Kolkata was found through a local agent who had been operating in the vicinity for some time and was known to the directors. Though the Directors also met with the buyer on one of the JFPR sponsored study tours, it was only on the assurance of the creditworthiness of this buyer from the agent, that the FPC actually undertook this transaction. Even so, the payment came in small installments and constrained the working capital available for making more dispatches which the transport subsidy and revolving helped to alleviate to a certain extent.

A pulses processing mill was established with the support of the infrastructure subsidy using which FPC was planning to undertake sales of packaged pulses.

Other key factors

Role of leadership: The Directors have taken the initiative to discussion collaboration with another JFPR FPC - Navchaitanya – to undertake exports jointly since the latter has had experience export shipments. Since the commodity profile of farmer members was diverse, the FPC Directors recognized the need to pursue multiple options for market linkage based on which a pulses processing mill was setup.

Role of professional management: Though the FPC Directors were pro-active in leveraging capacity building support, a key reason for the delayed submission of proposals for grant support was the lack of awareness and constrained ability of members to submit proposals aligned with requirements. With only 2 (and later 1) BDF available in the time that was available for availing the subsidy, the time that each was able to spend with each FPC was limited.

Relevance of support: Though farmers in the area had been considering direct dispatches to Kolkata earlier, the availability of JFPR support and importantly, the assurance of creditworthiness from the agent, enabled them to implement it. Transactions were also attempted through online platforms with whom introductions were done during JFPR sponsored exposure and buyer-seller meets. However, no successful transactions could be undertaken through these platforms primarily on account of the lack of assurance of credibility between the buyers and sellers on the platform.

Girna Farmer Producer Company

Background

Girna Farmer Producer Company was registered in July 2014 with 150 members drawn from 14 Farmer Groups from several villages in the Bhadgaon area in Jalgaon district of Maharashtra.

[40] Deola, Sangamner, Shetak and Shubh Labh FPCs were some of the FPCs to which the sales of seed was undertaken

Collectively, the FPC members had access to about 420 acres of land out of which about 180 acres was under the focus crop of lemon.

Figure 30: Location of Girna FPC

Figure 31: Girna FPC key parameters

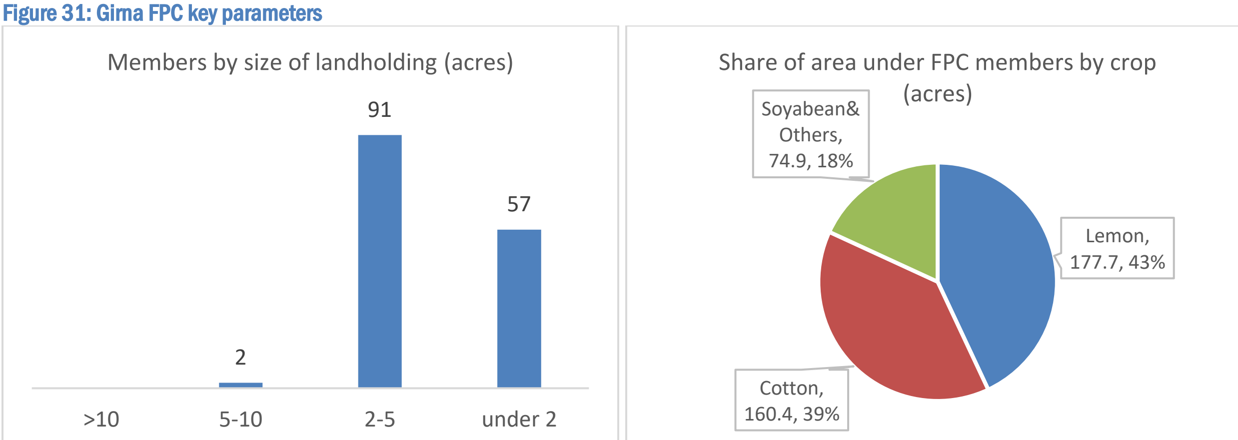


Table 22: Financial support absorbed by Girna FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.1	Jul-18
PPI	10.9	Dec-17
Transport	0.0	
Packaging	0.0	
Revenues / $ JFPR financial support	0.1	

Source: Company Directors, GIU

Results achieved

Girna FPC undertook large volumes of collective transactions on behalf of its members to distant buyers in addition to supplying to a government procurement agency and securing certified planting material for its members cost effectively. A summary of the FPC's performance results is provided in Table 23.

Table 23: Girna FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	-	0.3	-	0.2
Operating Profit	-	0.1	(0.6)	(0.2)
Net Profit	-	0.1	(0.6)	(0.4)
Total transaction value (INR lac)	33			
Total transaction volume (MT)	441			
Members involved in collective sales	~15			
Total number of members				
At formation	150			
At closure	150			
Total land under members (acres)				
At formation	420			
At closure	1,500			
Number of shareholder members				
At formation	11			
At closure	11			
Risk reduction	Very low base of recorded revenues; revenues of members not reported in accounts fairly diversified including collective input purchase, sale to distant buyers and to organized buyers			

Process indicators	
Access to organized markets and / or institutional credit	Sales made to government body (NAFED)
Disintermediation	NAFED sales done directly
Other value added sales / activities	Attempted pickle plant

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	1.0	1.1	0.4	(0.0)
Paid up share capital	1.0	1.0	1.0	1.0
Cumulative net (loss)/profit	-	0.1	(0.6)	(1.0)
Activities commenced before financial support	1800MT bulk sale to distant buyers (not on company's account)			
Revenue multiplier on financial support	0.1			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

<u>JFPR Grant Support</u>

The FPC was also able to leverage the services of the service provider Pavata Agro – who was introduced to the FPC in some of the capacity building and exposure activities - to secure planting material in bulk from a research center in Nagpur which would otherwise have been challenging on an individual basis.

At the behest of the JFPR support program, a few shipments were also carried out to a government agency – National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) – in Delhi. However, the lack of proper grading to align with the buyer's requirement in the dispatched material led to challenges in these shipments. By using the collection center being setup with JFPR infrastructure assistance, the FPC expects to be able to address this issue.

Overall, while the FPC could not leverage the transport, packaging or working capital support since the vast majority of collective transactions was carried out on the account of individual Directors' as against through the FPC, the setup of a collection center using JFPR infrastructure subsidy is expected to provide the ability to grade produce so that it can be directed to appropriate end-buyers of different grades of produce.

The FPC is considering joint dispatches with another FPC supported by JFPR Grant – Navchaitanya FPC – for export markets. This opportunity was discovered through interactions at JFPR sponsored exposure and training visits.

Other key factors

Role of professional support: The presence of Directors who already had established relationships with buyers in distant markets for whom they were already making large volume dispatches contributed to the FPCs ability to undertake large volume transactions. Dispatches were made primarily to the large buyers in Surat with whom individual directors had already been transacting before the FPC was setup. Even though large volumes of transactions were undertaken, the FPC financials do not reflect the same. This is because almost all the transactions were undertaken from the account of individual directors as against the FPC's bank account even while the FPC Directors claimed that members benefitted from the collectivization of volumes from members. The FPC Directors claimed that this was the case due to the unwillingness of their buyers to transact with the FPC officially due to perceived concerns with respect to exposure of their transaction volumes to the tax authorities[41]. Understanding the specific concerns of the buyers for their hesitation and allaying these or identifying mechanisms to address these through dedicated and professional support can potentially enable accrual of benefits of collective transactions to the FPC.

Relevance of support: The FPC also participated in electronic auctions arranged by e-Rashtriya Kisan Mandi (e-Rakam), a Government backed portal that provides a platform for farmers to sell agricultural produce through online auctions[42]. However no sales could be made through these auctions. The unwillingness of buyers to pay the transaction fees of the portal, doubts about the quality of material that might be received at the buyers end and payment assurance at the FPC's end were cited as some of the reasons for the same[43]. While introductions made to e-Rakam and Pavata platforms during JFPR sponsored exposure visits and meets were instrumental in enabling transactions attempted through these entities, the roles of bridging the gap in understanding of quality requirements at the FPC's end, providing for the ability to grade and sort to meet quality requirements, providing an outlet for the low-grade produce and ensuring creditworthiness of the buyer are other aspects that customized support can potentially help to resolve.

Pratishthan Farmer Producer Company

Background

Pratishthan Farmer Producer Company was registered in February 2014 with 300 members drawn from 23 Farmer Groups from several villages in the Paithan area of Aurangabad district in

[41] The field visits could not include a meeting with the buyers due to which this assertion could not be validated or verified.

[42] https://currentaffairs.gktoday.in/government-launches-e-rakam-portal-08201746980.html

[43] Interview with e-Rakam representative, Mr. Himanshu

Maharashtra. Collectively, the FPC members had access to about 1,500 acres of land out of which about 820 acres was under the focus crop of sweet lime.

Figure 32: Location of Pratishthan FPC

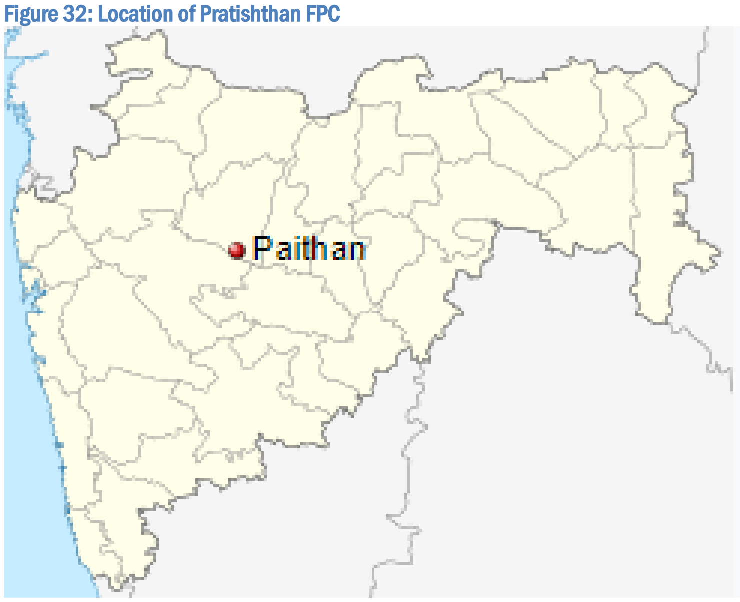
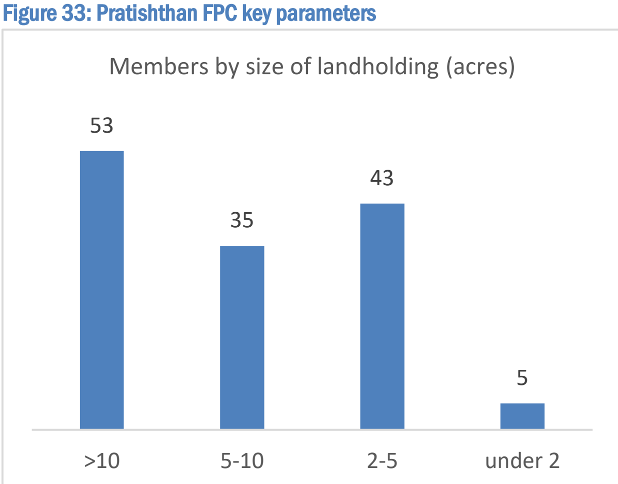


Figure 33: Pratishthan FPC key parameters



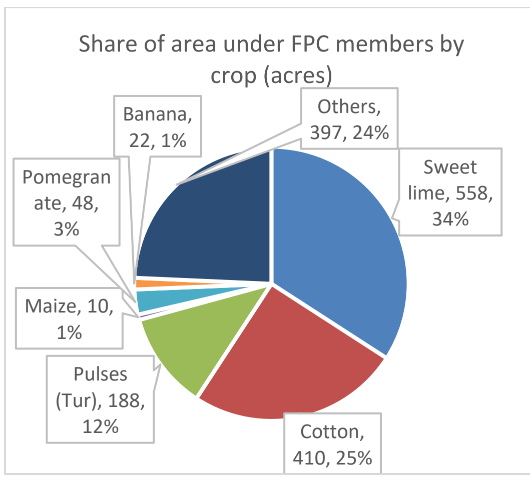


Table 24: Financial support absorbed by Pratishthan FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	1.4	Dec-17
PPI	13.8	Feb-18
Transport	5.6	Oct-17
Packaging	0.0	
Revenues / $ JFPR financial support	6.3	

Source: Company Directors, GIU

Results achieved

Pratishthan FPC recorded amongst the highest revenues amongst JFPR FPCs with a well-rounded revenue mix. Profitability of transactions was however quite low and membership numbers could not be retained.

A summary of the FPC's performance results is provided in Table 25.

Table 25: Pratishthan FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	2.7	4.3	96.3	28.3
Operating Profit	(0.2)	(0.1)	(0.0)	(1.4)
Net Profit	(0.3)	(0.1)	(0.0)	(2.5)
Total transaction value (INR lac)	31			
Total transaction volume (MT)	315			
Members involved in collective sales	~100			
Total number of members				
At formation	300			
At closure	135			
Total land under members (acres)				
At formation	1,500			
At closure	1,600			
Number of shareholder members				
At formation	15			
At closure	15			
Risk reduction	Large and well diversified revenue mix including fee income, collective input sale, direct retail and distant market bulk sale at agreed price			

Process indicators	
Access to organized markets and / or institutional credit	Sales made to government body (SFAC)
Disintermediation	Direct sale to distant market buyers
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.8	0.7	0.7	(1.8)
Paid up share capital	1.0	1.0	1.0	1.0
Cumulative net (loss)/profit	(0.2)	(0.3)	(0.3)	(2.8)
Activities commenced before financial support	100MT direct sale to distant buyer; 20MT direct retail sale in urban markets; collective input purchase			
Revenue multiplier on financial support	6.3			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available. Note: ~100 members were involved in one transaction with SFAC. For most other transactions, up to 20 members were involved.

Drivers of results achieved and key takeaways

JFPR Grant Support

Sizeable volumes of transactions were achieved by the FPC including both in distant markets of Gujarat and Delhi for which the FPC utilized the transport assistance and revolving fund and in the urban weekly farmer retail markets. Like in the case of other FPCs, the propensity to undertake transactions on a larger scale under the FPC - even with previously known buyers - came about in part because of the availability of a "cushion" in the form of subsidy support from the JFPR Grant.

The FPC also established a collection center with JFPR Grant support for sweet lime which provides for better and larger transactions going forward.

The FPC was also encouraged by the JFPR Grant program to engage members on the input side by sourcing and supplying bio-fertilizers that resulted in superior yields.

Other key factors

Role of leadership: Buyers for distant bulk market transactions that were undertaken in multiple locations including Baroda, Gujarat, Delhi and Lucknow were primarily found through personal contacts of Directors. A bulk of revenues were accounted for by the selection of the FPC for supply of pulses by the government agency – SFAC – as part of its mandate for procurement of pulses for public distribution. Directors liasoned with Apex Maharashtra FPC (MahaFPC) to become members to qualify for bulk government purchase. The Directors took the initiative to undertake discussions with the processing companies in the vicinity for supply of processing grade sweet lime. The company proactively attempted a few bulk transactions and member mobilization efforts even before JFPR financial support was forthcoming which enabled it to gather experience for successful transactions after the support commenced. The Directors also undertook self-financed trips to other potential market locations like Bangalore to explore the feasibility of dispatches to these locations after receiving exposure to other markets through JFPR financed trips.

Relevance and timing of support: The Directors rued the delay in extension of financial support after capacity building interventions. The time gap between trainings imparted and extension of the financial support needed to consummate transactions led to attrition among members and left very little time for the FPC to expand to the level the Directors were desirous of[44]. However, as successful transactions were demonstrated in the last year of the Grant period after financial support was commenced, more queries for and interest in membership has been witnessed.

Also, while support was used for transactions with traditional traders, sales to organized / high value buyers could not be attempted in the limited time available for financial support. The FPC was unable to leverage the packaging subsidy which, in the case of Shubh Labh and Seven Green FPCs (both of whom also have citrus products as focus crops) enabled higher margin/value transactions.

Even though some contacts were made in JFPR sponsored visits, the FPC chose to undertake transactions only with those buyers whom they knew from earlier since there was no basis for the FPC to assess the creditworthiness of the former.

Role of professional support: The FPC stands out as one that had the second highest revenues and second highest "return on support absorbed"[45] while also being amongst the FPCs with maximum number of members lost and having the second highest operating losses despite large value and volume of transactions. Independent professional management and a deliberate process of strategic planning could potentially address some of the possible issues that led to this peculiar situation.

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[44] Many members lost interest and moved away from the FPC in the absence of large transactions that could only be undertaken with Grant support two years after the initial excitement and anticipation that arose after capacity building was undertaken and the company was registered.

[45] Measured as Cumulative revenues achieved divided by total financial support absorbed

Pandharinath Farmer Producer Company

Background

Pandharinath Farmer Producer Company (formerly known as Naigaon Farmer Producer Company) was registered in July 2014 with 164 members drawn from 12 Farmer Groups from several villages in the Yawal area in Jalgaon district of Maharashtra. Collectively, the FPC members had access to 540 acres of land out of which over 300 acres was under the focus crop of onion.

Figure 34: Location of Pandharinath FPC

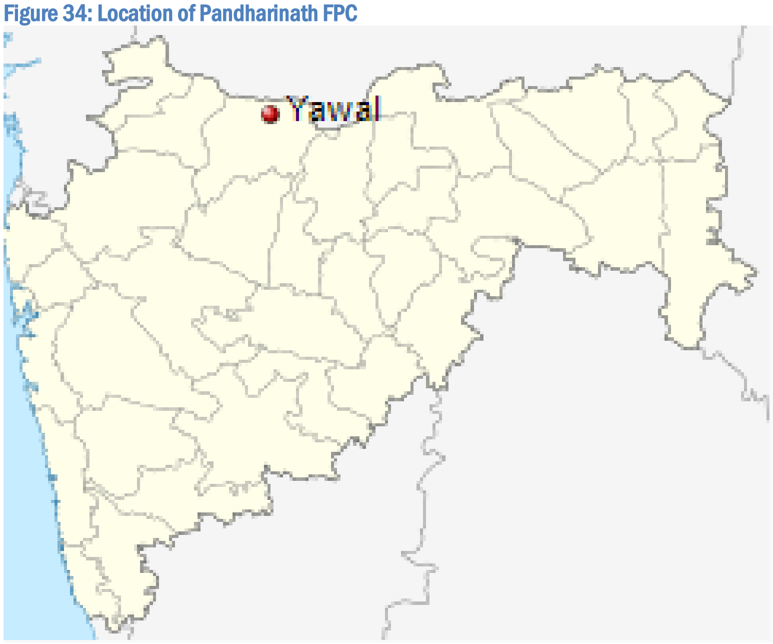
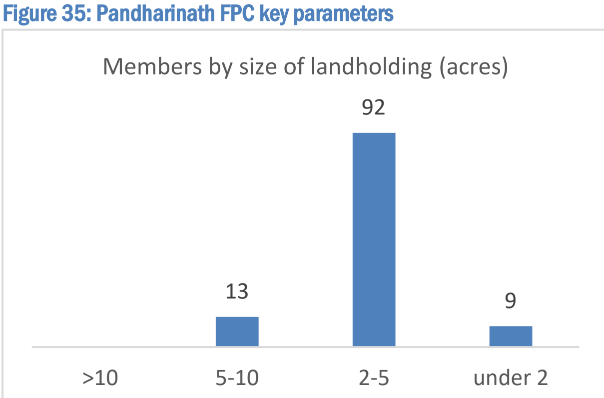


Figure 35: Pandharinath FPC key parameters



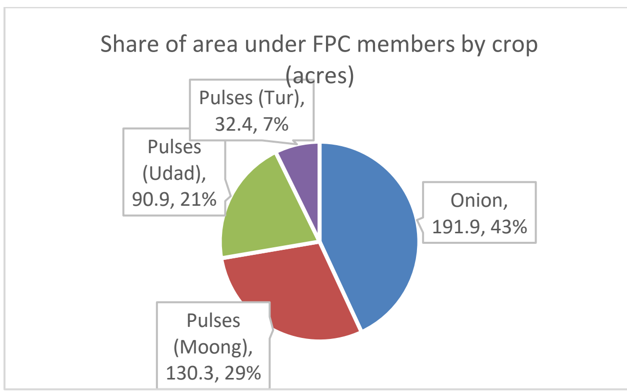


Table 26: Financial support absorbed by Pandharinath FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.2	Jul-18
PPI	12.5	Aug-17
Transport	0.0	
Packaging	0.0	
Revenues / $ JFPR financial support	0.8	

Source: Company Directors, GIU

Results achieved

The FPC fell to 114 members with access to a total of almost 450 acres of land. The FPC transacted a total volume of about 64MT[46] of onion valued at INR 7.7 lacs.

A summary of the FPC's performance results is provided in Table 27.

Table 27: Pandharinath FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	0.4	0.7	8.8	0.2
Operating Profit	0.0	0.1	0.1	(0.4)
Net Profit	(0.0)	(0.0)	0.0	(0.4)
Total transaction value (INR lac)	8			
Total transaction volume (MT)	64			
Members involved in collective sales	~40			
Total number of members				
At formation	164			
At closure	114			
Total land under members (acres)				
At formation	540			
At closure	450			
Number of shareholder members				
At formation	11			
At closure	11			
Risk reduction	Medium; Low revenue base but sizeable portion from commission			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	None
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	1.0	1.0	1.0	0.6
Paid up share capital	1.0	1.0	1.0	1.0
Cumulative net (loss)/profit	(0.0)	0.0	0.0	(0.4)
Activities commenced before financial support	15kg seed sale to members			
Revenue multiplier on financial support	0.8			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

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46 Data on share of this total volume which arose from profitable versus unprofitable sales is not available

Drivers of results achieved and key takeaways

JFPR Grant Support

The FPC was able to undertake some transactions, though primarily limited to local traders for which the JFPR revolving fund was utilized. By disintermediating these sales, the FPC earned commission revenue reducing its exposure to price risk.

Setting up of the JFPR subsidized infrastructure was crucial in creating the goodwill for farmer members to patronize the FPC for transactions which the revolving fund enabled.

While the infrastructure subsidy was used for the setup of an onion collection center and a pulses and cereals processing center, the transport and packing subsidy was not used by the FPC.

Other key factors

Role of leadership: Director churn was undertaken to ensure that individuals better aligned with the core principle of FPC functioning as an entity meant for commercialization of farmer members' production were brought in. Some of the initial members had different notions of the functioning, more akin to the cooperatives that have been prevalent in the region.

Existing relationship of one of the Directors was instrumental in securing advance payment from the main buyer in Jabalpur, Madhya Pradesh.

The FPC Directors also leveraged the collective strength of the FPC to develop another revenue stream by commencing collective purchase of pulses from farmer members for storage to be sold in off-season at higher prices.

Role of professional support: While the Directors were knowledgeable and resourceful as exemplified in the transactions they were able to undertake with collective membership, the FPC's activities were limited to the vicinity primarily on account of the limited reach of the Directors. While the BDFs financed by JFPR Grant were available for this purpose, their bandwidth was finely spread across 18 FPCs not leaving enough dedicated time for developing such outreach.

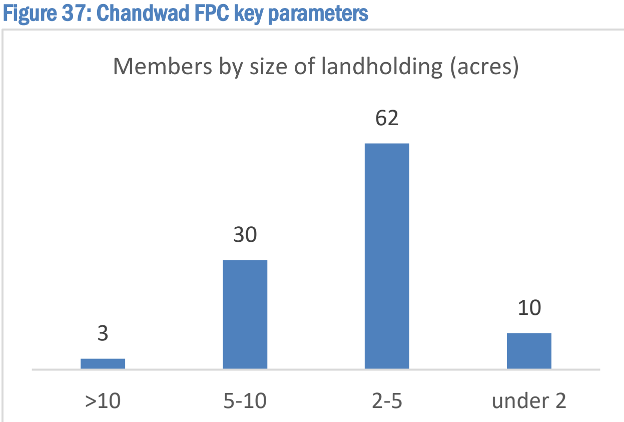
Chandwad Farmer Producer Company

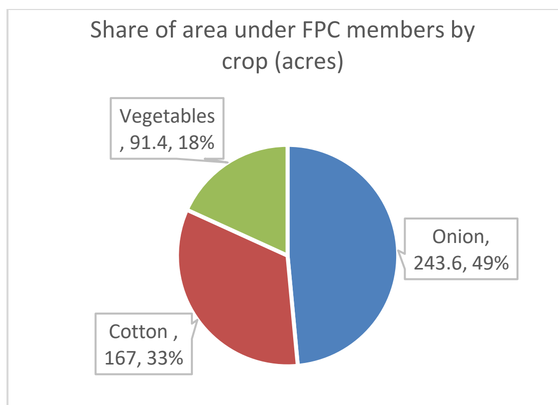
Background

Chandwad Farmer Producer Company was registered in March 2014 with 173 members drawn from 13 Farmer Groups from several villages in the Chandwad area in Nashik district of Maharashtra. Collectively, the FPC members had access to about 510 acres of land out of which 350 acres was under the focus crop of onion.

Figure 36: Location of Chandwad FPC

Figure 37: Chandwad FPC key parameters





Results achieved

Chandwad achieved revenues higher than at leaser 8 other JFPR FPCs (many of whom had absorbed sizeable financial support from the Grant) without any financial support. However, high losses in the transaction that amounted to these revenues stalled all progress thereafter.

A summary of the FPC's performance results is provided in Table 28.

Table 28: Chandwad FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	11.1	0.5	NA	NA
Operating Profit	(0.3)	(0.0)	NA	NA
Net Profit	(0.3)	(0.1)	NA	NA
Total transaction value (INR lac)	NA			
Total transaction volume (MT)	143			
Members involved in collective sales	~100			
Total number of members				
At formation	173			
At closure	105			
Total land under members (acres)				
At formation	510			
At closure	500			
Number of shareholder members				
At formation	12			
At closure	12			
Risk reduction	Very low; direct dispatch to distant market with price uncertaintly			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	Attempted
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.7	0.7	NA	NA
Paid up share capital	1.0	1.0	NA	NA
Cumulative net (loss)/profit	(0.3)	(0.3)	NA	NA
Activities commenced before financial support	93MT vegetables and 50MT onion sale to distant buyers			
Revenue multiplier on financial support	0.0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

JFPR Grant Support

Capacity building support provided under the JFPR Grant inspired the Directors to undertake sizeable bulk transactions. Since financial support was unavailable even until long after the capacity building interventions, the FPC undertook transactions without the cushion and risk cover that such support enabled later.

While some transactions in vegetables went well, a large direct dispatch of onions for spot sale through an agent at the wholesale market in Mumbai – Vashi *mandi* – incurred heavy losses due to a drastic fall in onion price between the time of dispatch and actual sale.

The losses on this transaction crippled the FPC and eroded members’ and directors’ confidence in undertaking further transactions even after financial support from the Grant was forthcoming later.

The FPC could therefore not leverage any JFPR support whatsoever, having attempted the onion transaction before the revolving fund or transport subsidy was put in place.

Other key factors

Relevance and timing of support: Even though the FPC has little to show in terms of consummated transactions, it is notable that it attempted collective dispatches for a large number of small farmer members much before any of the other FPCs did, without waiting for any kind of monetary support from JFPR Grant. Arguably, the FPC attempted "too much, too soon" and the losses incurred on the early attempt led to disappointment and loss of faith amongst a large number of members, from which the FPC could not recover. This highlights the critical importance of provision of financial support in tandem with capacity building interventions for these to have their effectiveness mutually reinforced.

Member participation and role of professional support: Having lost almost 40% of its member base many of whom had participated in early transactions, at the time of the field visit, the FPC was actively considering undertaking winding up proceedings. Though one of the Directors was keen to restart earlier transactions for sale of organic vegetables in Mumbai weekly farmer markets, it did not appear that this Director had the support of other directors on the board. Starting with a small base of members with whom successful transactions are demonstrated and drawing more membership from such positive experience is an alternate approach worth testing. Also, independent professional management can potentially provide for a dispassionate assessment of options to sustain operations with available support. The FPC Directors were unable to take such a view in light of their personal isolated bad experience.

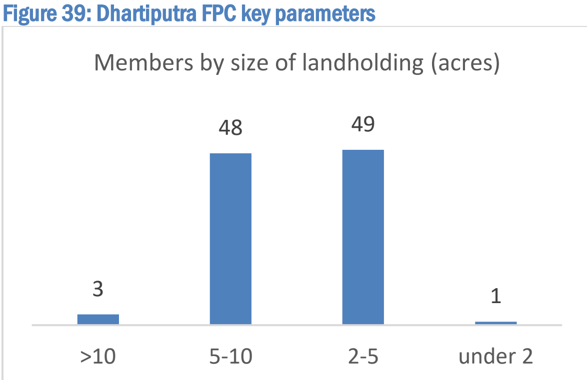
Dhartiputra Farmer Producer Company

Background

Dhartiputra Farmer Producer Company was registered in March 2014 with 90 members drawn from 7 Farmer Groups from a few villages in the Raver area of Jalgaon district of Maharashtra. Collectively, the FPC members had access to 480 acres of land out of which over 300 acres was under the focus crop of banana.

Figure 38: Location of Dhartiputra FPC

Figure 39: Dhartiputra FPC key parameters



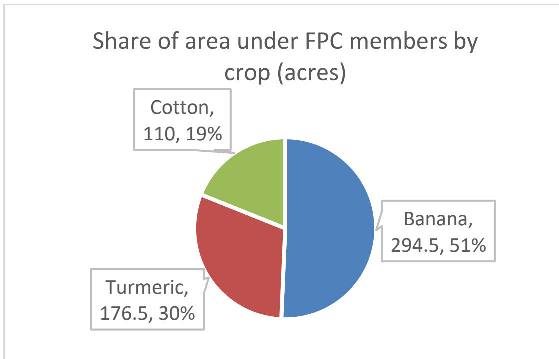


Table 29: Financial support absorbed by Pandharinath FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.0	
PPI	14.8	Dec-17
Transport	0.0	
Packaging	0.0	
Revenues / $ JFPR financial support	0.0	

Source: Company Directors, GIU

Results achieved

Even while undertaking sizeable collective sales, Dhartiputra FPC did not undertake any transactions on the company's account[47]. However, by demonstrating the benefits of collectivization in such sales, the FPC was able to increase its small initial membership base.

[47] Revenues in Table 30 (taken from the Annual Report) are in the form of reimbursement of pre-incorporation expenses and not revenue from transactions.

A summary of the FPC's performance results is provided in Table 30.

Table 30: Dhartiputra FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	NA	0.3	0.2
Operating Profit	NA	NA	(0.3)	(0.3)
Net Profit	NA	NA	(0.3)	(0.3)
Total transaction value (INR lac)	14			
Total transaction volume (MT)	197			
Members involved in collective sales	~10			
Total number of members				
At formation	90			
At closure	101			
Total land under members (acres)				
At formation	480			
At closure	581			
Number of shareholder members				
At formation	10			
At closure	10			
Risk reduction	No transaction revenues			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	None
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.7	0.7	NA	NA
Paid up share capital	1.0	1.0	NA	NA
Cumulative net (loss)/profit	(0.3)	(0.3)	NA	NA
Activities commenced before financial support	197MT collective sale to local traders			
Revenue multiplier on financial support	0.0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

JFPR Grant Support

Beneficial transactions for farmer members amounting to almost 200MT were undertaken by disintermediating established "groups" of larger farmers and traders that performed the role of collection from small farmers and dispatches to distant buyers[48]. This was done by collecting volumes from the FPC's members and delivering the produce directly to the agent (who would otherwise work with the "groups") for dispatch to distant buyers. By taking over the role of collection and disintermediating these "groups", the FPC was able to eliminate the commission /

[48] These "groups" intermediate a large share of volumes that are grown in the vicinity of the FPC by securing advance purchase of bananas from small farmers' orchards and aggregating the produce for dispatch to distant markets. Since they provide advance payment to small farmers, their presence is entrenched and farmers are typically loyal to them. However, these groups are also perceived to be monopolistic and exploitative in some quarters.

service charges of the agent for collection in addition to limiting the uncertainty in purchase price from diverse farmers.

The FPC leveraged the infrastructure subsidy provided by JFPR Grant to setup a banana collection center and turmeric processing plant which it expects to use for value added sales in the future.

Other key factors

Role of leadership: The Directors were keen to continue to disintermediate these established "groups" for dispatches to distant buyers. While this was achieved to up to a certain level with the FPC and Directors' own resources, to scale up such direct sale and disintermediation, they were in discussions with more distant buyers for direct dispatch at the time of the field visit.

Role of professional support: Support from the Business Development Facilitator was indispensable in complying with project documentation and compliance requirements for preparation of the proposal for subsidy and release of the same. However, support available from the BDF was limited in terms of time and was one of the main reasons for the delay in submission of application and receipt of approval for support. Also, reluctance of the FPC to book transactions undertaken in the FPC's account meant that support could not be sanctioned for much of the volumes. The FPC was keen to address this issue and sought professional support for the same.

Navchaitanya Farmer Producer Company

Background

Navchaitanya Farmer Producer Company was registered in July 2014 with 100 members drawn from 9 Farmer Groups from several villages in the Chopda area of Jalgaon district in Maharashtra. Collectively, the FPC members had access to about 680 acres of land out of which about 340 acres was under the focus crops of onion and banana.

Figure 40: Location of Navchaitanya FPC

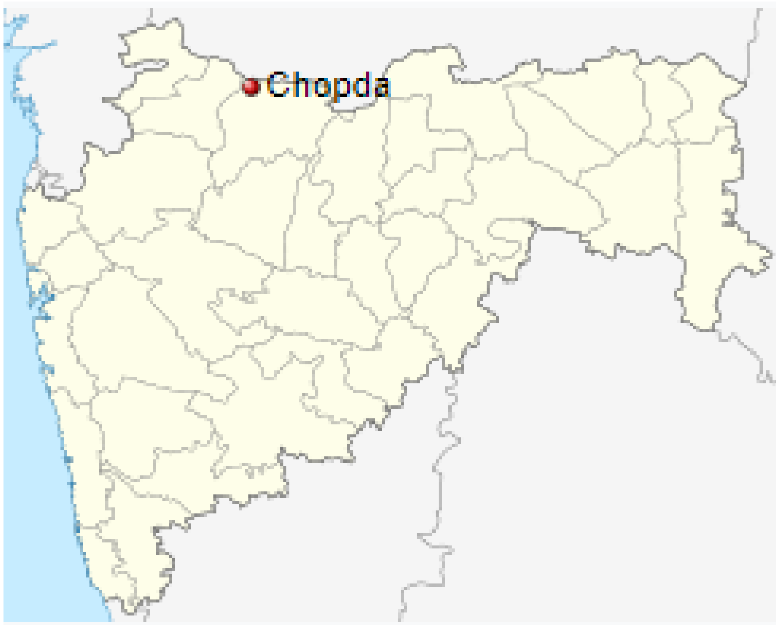
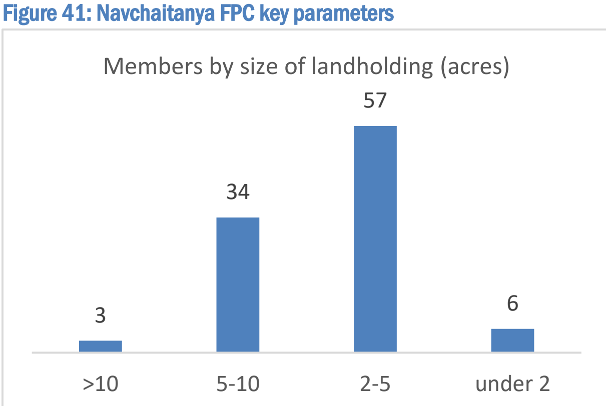


Figure 41: Navchaitanya FPC key parameters



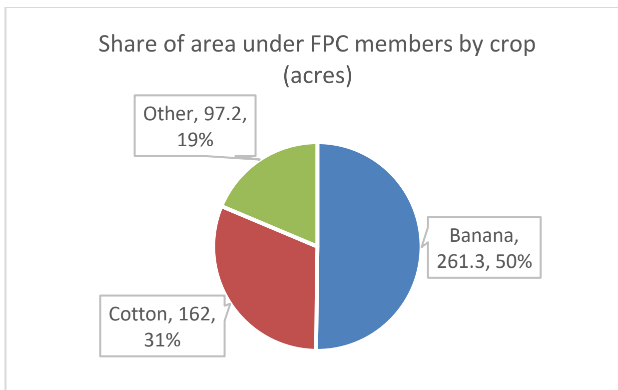


Table 31: Financial support absorbed by Pandharinath FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.7	Mar-18
PPI	0.0	
Transport	3.0	Mar-18
Packaging	1.8	Mar-18
Revenues / $ JFPR financial support	NA	

Source: Company Directors, GIU

Results achieved

Even though Navchaitanya FPC started activity late, it was able to commence export shipments by bringing on new Directors that had the familiarity with export shipments. This created its positioning as a role model for many other FPCs.

A summary of the FPC's performance results is provided in Table 32.

Table 32: Navchaitanya FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	NA	NA	NA
Operating Profit	NA	NA	NA	NA
Net Profit	NA	NA	NA	NA
Total transaction value (INR lac)	14			
Total transaction volume (MT)	71			
Members involved in collective sales	~10			
Total number of members				
At formation	100			
At closure	100			
Total land under members (acres)				
At formation	680			
At closure	520			
Number of shareholder members				
At formation	NA			
At closure	NA			
Risk reduction	NA			

Process indicators	
Access to organized markets and / or institutional credit	Sales for export
Disintermediation	Direct sale to exporter
Other value added sales / activities	Improved packaging

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	NA	NA	NA
Paid up share capital	NA	NA	NA	NA
Cumulative net (loss)/profit	NA	NA	NA	NA
Activities commenced before financial support	46 MT Sales of vegetables to local traders; Input shop sales of INR 7 lac			
Revenue multiplier on financial support	NA			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

<u>JFPR Grant Support</u>

Given the stringent requirements and high logistics costs for exports, the FPC was effectively able to leverage the packing and transport subsidy with the latter being especially useful for commencing trial air shipments to the Middle East.

While the first export shipment barely broke even with the support of the JFPR subsidy, a subsequent transaction delivered a reasonable profit without any subsidy support as the relationship established from the first transaction and experience from the same enabled better negotiating leverage and understanding of the mechanics of the transaction. But for the subsidy on the first transaction, the FPC, let alone individual farmers, would not have had the financial capacity (and therefore the courage) to undertake such a transaction.

While it has not utilized the infrastructure subsidy provided under the JFPR grant, the revolving fund was key in enabling exports of onion and okra to Dubai through a local exporter.

Other key factors

Role of leadership: One of the key enablers for kick starting exports transactions was the familiarity of one of the newly appointed Directors with customs formalities, existing relationship with the buyer (exporter) and the Director's personal relationship with one of staff members at the Mumbai airport cargo terminal. Before this Director was appointed towards the end of the JFPR Grant period, a large share of volumes had been transacted with local traders. Inability to leverage infrastructure support from the JFPR Grant stemmed from the absence of sustained guidance for the FPC. Though arrival of the new Director enabled exports and utilization of the transport, packaging and revolving fund, no such guidance was available to the FPC for utilization of the infrastructure.

Relevance and timing of support: An input shop was also attempted shortly after setup of the FPC but could not succeed on account of the inability of farmers to buy without credit. While this was later made available in the form of a revolving fund, by the time it was available, the FPC had already closed the input shop.

Sonala Farmer Producer Company

Background

Sonala Farmer Producer Company was registered in August 2014 with 90 members drawn from 6 Farmer Groups from a few villages in the Sangrampur area in Buldana district of Maharashtra. Collectively, the FPC members had access to about 350 acres of land out of which of 200 acres was under the focus crop of orange.

Figure 42: Location of Sonala FPC

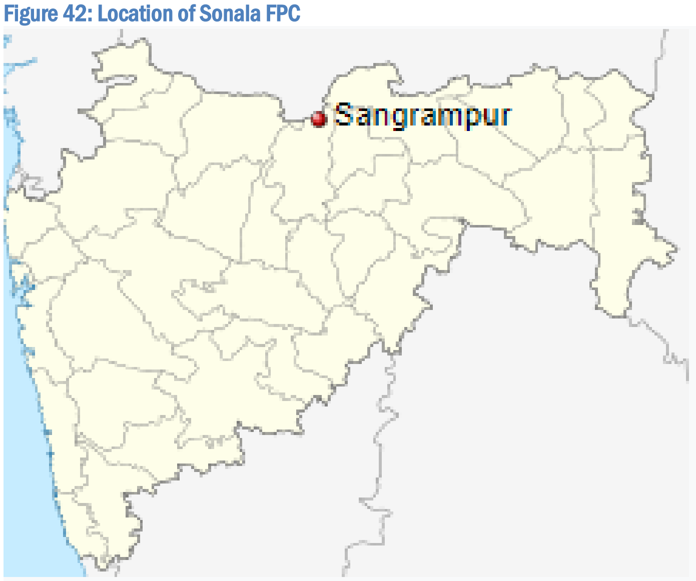
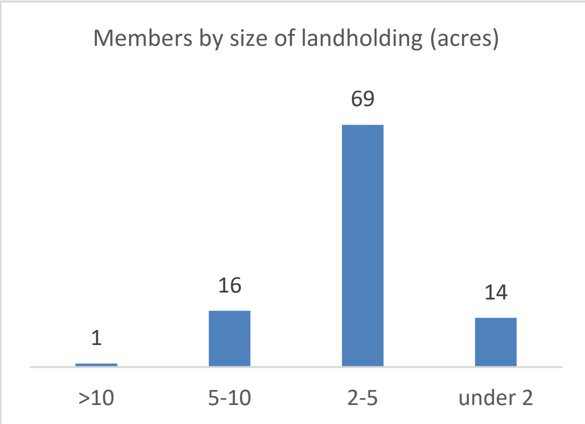
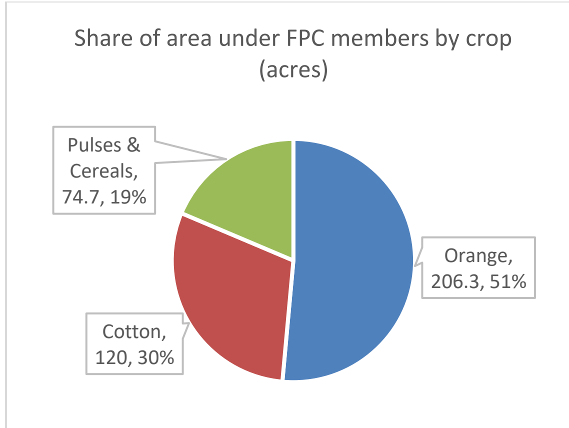


Figure 43: Sonala FPC key parameters





Results achieved

Sonala FPC was unsuccessful in undertaking any transactions, a key reason for which was attributed to the draught conditions and consequent poor harvests during the time that JFPR Grant was active. It was one of the few FPCs that did not leverage any direct financial support from the JFPR Grant whatsoever.

A summary of the FPC's performance results is provided in Table 33.

Table 33: Sonala FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	-	-	NA	NA
Operating Profit	(0.3)	(0.4)	NA	NA
Net Profit	(0.4)	(0.4)	NA	NA
Total transaction value (INR lac)	None			
Total transaction volume (MT)	None			
Members involved in collective sales	0			
Total number of members				
At formation	90			
At closure	100			
Total land under members (acres)				
At formation	200			
At closure	400			
Number of shareholder members				
At formation	11			
At closure	11			
Risk reduction	No revenues			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	None
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	0.7	0.3		
Paid up share capital	1.0	1.0	NA	NA
Cumulative net (loss)/profit	(0.3)	(0.7)	NA	NA
Activities commenced before financial support	None			
Revenue multiplier on financial support	0.0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

<u>JFPR Grant Support</u>

No Grant support was sought.

<u>Other key factors</u>

Weather: A key reason for the inability of this FPC to get off the ground was cited as the prevalence of draught in the last few years in the region of its operation. This led to lower production and lesser propensity of members to attempt any new mode of operation.

Reva Valley Farmer Producer Company

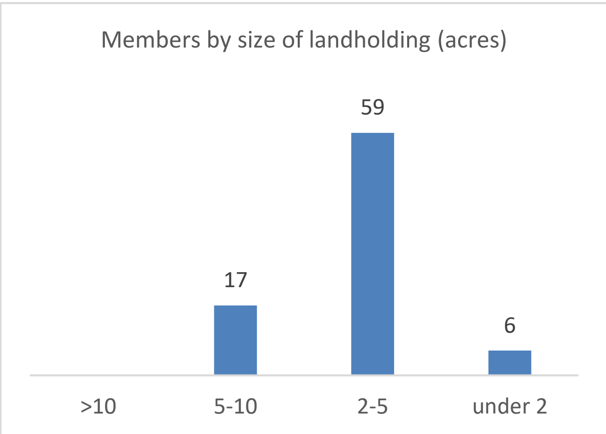
Background

Reva Valley Farmer Producer Company was registered in March 2014 with 156 members drawn from 12 Farmer Groups from a few villages in the Raver area in Jalgaon district of Maharashtra.

Collectively, the FPC members had access to about 760 acres of land out of which about 470 acres was under the focus crop of banana.

Figure 44: Location of Reva Valley FPC

Figure 45: Reva Valley FPC key parameters



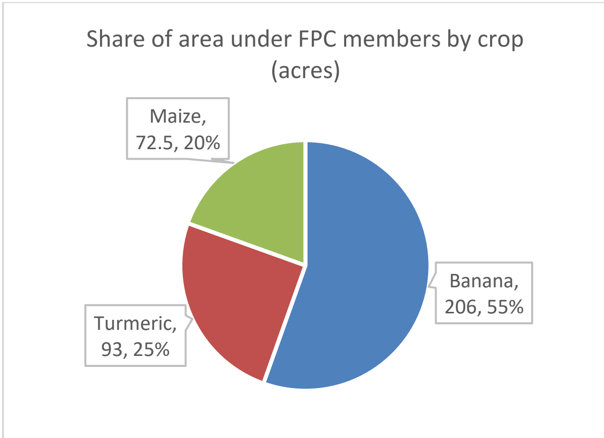


Table 34: Financial support absorbed by Reva Valley FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	0.8	Apr-17
PPI	12.3	Dec-17
Transport	0.8	Jul-17
Packaging	0.0	
Revenues / $ JFPR financial support	1.0	

Source: Company Directors, GIU

Results achieved

Reva Valley FPC undertook multiple collective bulk transactions with distant buyers in addition to securing commission revenues. With 11% operating margin, this FPC was most profitable amongst all JFPR FPCs. The FPC's membership however fell by almost 50%.

A summary of the FPC's performance results is provided in Table 35.

Table 35: Reva Valley FPC performance

Outcome indicators	**FY15**	**FY16**	**FY17**	**FY18**
Revenue	1.3	5.0	3.5	3.6
Operating Profit	0.5	0.3	0.2	0.4
Net Profit	0.1	0.1	0.0	0.1
Total transaction value (INR lac)	58			
Total transaction volume (MT)	773			
Members involved in collective sales	~25			
Total number of members				
At formation	156			
At closure	82			
Total land under members (acres)				
At formation	760			
At closure	370			
Number of shareholder members				
At formation	11			
At closure	10			
Risk reduction	Revenue mix includes commission besides trade sales			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	Direct sale to distant buyers
Other value added sales / activities	None

Sustainability indicators	**FY15**	**FY16**	**FY17**	**FY18**
Net Worth	1.1	1.2	1.2	1.4
Paid up share capital	1.0	1.0	1.0	1.0
Cumulative net (loss)/profit	0.1	0.2	0.2	0.4
Activities commenced before financial support	Supply of white onion to organized processor; sale to local traders; 143MT to distant market buyers			
Revenue multiplier on financial support	1.0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

<u>JFPR Grant Support</u>

Though trainings and exposure visits sponsored by JFPR Grant were extremely useful in exposing the FPC directors to possibilities for market linkage that they had not imagined hitherto.

The FPC achieved a very high volume of transactions primarily to distant markets like Delhi, Gorakhpur in Uttar Pradesh and Burhanpur in Madhya Pradesh. However, only about 200MT – the quantum that was available for availing transport subsidy - of this was undertaken on the FPC's account. Prices obtained were higher than those available locally and the FPC was also able to earn from service charges paid by the trader to whom supplies were made.

While local traders were playing the role of consolidation of produce from various individual farmers and transportation to the buyer hitherto, the FPC was able to replace these traders by consolidating members' volumes thereby disintermediating and collecting produce directly from its members.

The FPC leveraged the revolving fund and transport subsidy for undertaking some of these transactions and setup a collection center for consolidating volumes and undertaking basic grading using the infrastructure subsidy provided by the JFPR Grant. The revolving fund was key in mobilizing participation from member farmers to incentivize them to shift from their regular trader relationships towards sale through the FPC.

Other key factors

Member participation: High loss of membership stemmed from the long gap between provision of capacity building support and availability of financial support for transactions which led to demotivation amongst the initial set of members. Though the actual number of member farmers whose produce was transacted was limited to about 25 as continued profitable sales are being demonstrated member interest is on the rise and is expected to lead to rise in membership.

Role of leadership: Buyers in distant locations were accessed through traders operating in the vicinity who were known to the Directors and had a track record of reliable payments. The Directors were proactive in seeking the revolving fund very soon after it was available to kick start activities of the FPC leading to rising participation.

Role of professional support: Having demonstrated its ability to undertake profitable transactions using the collective strength of membership, the FPC could leverage professional support for scaling up operations and undertaking more transactions on the company's account.

Relevance and timing of support: The transport subsidy was instrumental in building the company's reserves since the underlying transactions for which it was used was profitable even without the subsidy and price risk was low. Given that ability to garner margins through collectivization is available in the case of banana and that price risk is lower (compared to onion), and the larger constraint is non-availability of credit for advance payments to small farmers, there is a case for customization / flexibility of support for FPCs in line with their focus crop.

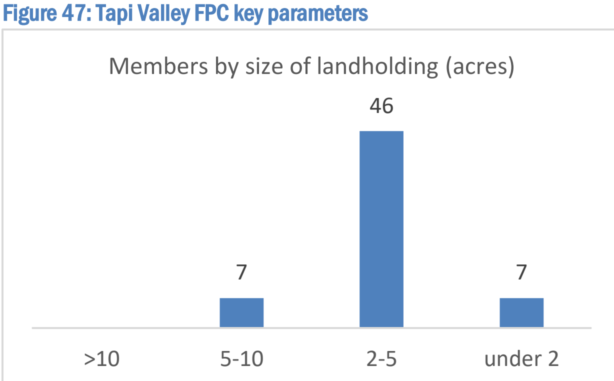
Tapi Valley Farmer Producer Company

Background

Tapi Valley Farmer Producer Company was registered in March 2014 with 150 members drawn from 13 Farmer Groups from several villages in the Muktainagar area in Jalgaon district of Maharashtra. Collectively, the FPC members had access to 1,100 acres of land out of which about 840 acres was under the focus crop of banana.

Figure 46: Location of Tapi Valley FPC

Figure 47: Tapi Valley FPC key parameters



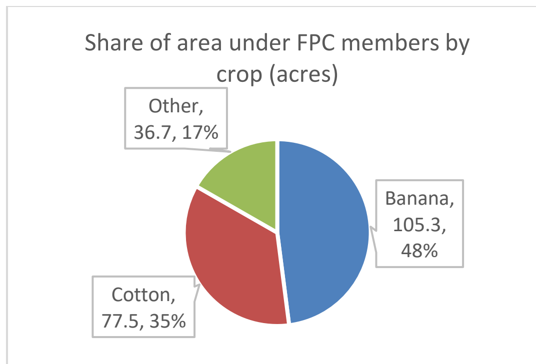


Table 36: Financial support absorbed by Tapi Valley FPC

Financial support absorbed (INR lac)		Date of approval
Revolving fund	1.0	Aug-17
PPI	14.3	Dec-17
Transport	0.0	
Packaging	0.0	
Revenues / $ JFPR financial support	0.0	

Source: Company Directors, GIU

Results achieved

The FPC achieved one of the highest volume levels amongst all JFPR FPCs, second only to Reva Valley FPC. At the same time, similar to Reva Valley FPC, the membership base declined and transactions remained limited to a small subset of members.

A summary of the FPC's performance results is provided in Table 37.

Table 37: Tapi Valley FPC performance

Outcome indicators	FY15	FY16	FY17	FY18
Revenue	NA	NA	0.3	0.3
Operating Profit	NA	NA	0.1	0.0
Net Profit	NA	NA	(0.0)	0.0
Total transaction value (INR lac)	43			
Total transaction volume (MT)	580			
Members involved in collective sales	~15			
Total number of members				
At formation	150			
At closure	60			
Total land under members (acres)				
At formation	1,100			
At closure	220			
Number of shareholder members				
At formation	NA			
At closure	10			
Risk reduction	Revenue mix includes commission besides trade sales			

Process indicators	
Access to organized markets and / or institutional credit	None
Disintermediation	Direct sale to distant buyers
Other value added sales / activities	None

Sustainability indicators	FY15	FY16	FY17	FY18
Net Worth	NA	NA	1.1	1.1
Paid up share capital	NA	NA	1.0	1.0
Cumulative net (loss)/profit	NA	NA	(0.1)	(0.1)
Activities commenced before financial support	54 MT sale of watermelon to distant market; 22MT sale of banana to distant market			
Revenue multiplier on financial support	0.0			

Source: Company Directors, GIU; Notes: Data on volume and value of transactions is as of October 2018. Transaction value includes transactions that were not booked in the FPC's accounts even when they may have been undertaken as collective sales from members; Data on share of this total which arose from profitable versus unprofitable sales is not available.

Drivers of results achieved and key takeaways

JFPR Grant Support

JFPR sponsored training programs and exposure visits provided a sound basis for the sizeable volume of transactions achieved. Dispatches were made to distant markets in Delhi and Madhya Pradesh and pricing benefit was secured for the members involved with the transactions. A transaction was also undertaken for collective marketing of watermelons to Bhopal in Madhya Pradesh and for retail weekly farmer markets and housing societies in Pune.

Bulk transactions in banana were undertaken by disintermediating the “trading groups” operating in the vicinity. These transactions were made possible by eliminating some of the costs associated with intermediaries and by charging lower commission as the FPC than these “groups” would charge. In addition, grading was undertaken by the FPC before sale which led to improved price realizations that were passed on to the farmers. However, this could not be sustained in the face of pressure from traders and price undercutting by them.

Though some of the buyers to whom dispatches were made by the FPC were found in buyer seller meets sponsored by the JFPR Grant, transactions on the company's account were limited.

"Chana" (black chickpea) seed production which was undertaken by sourcing foundation seed from the state-owned seed company (Mahabeej) was enabled because of the scale available for the same from the FPC. Availability of the JFPR revolving fund for sourcing foundation seed enabled this activity.

The motivation for undertaking planned collective exports in collaboration with other JFPR FPCs came about from discussions with Agriculture Produce Export Development Authority (APEDA) at a JFPR sponsored export training.

Direct retail sales in housing societies yielded a profit but could not be continued on account of the challenges with respect to breaking bulk and difficulties in grading for small lots for individual households.

Since most transactions undertaken were not on the company's account the FPC could only use the infrastructure subsidy for setup of a collection center and the revolving fund for some of the transactions but none could be utilized for transport or packaging subsidy.

Other key factors

Member participation: A very high loss in member numbers (60%) despite multiple collective transactions stemmed from the low level of inclusion of members in collective transactions. Like in the case of most other FPCs, collective transactions primarily involved only the Directors. This was, in many cases, attributed to the unwillingness of non-Director members to undertake the first few transactions on account of the perceived risk and inability to put up the upfront matching commitment that was needed for release of the Grant. However to ensure inclusion is enhanced, it would be critical that such concerns of non-Director members are addressed. Unless there are clear incentives for inclusion and independent professional oversight, support programs risk being monopolized by a small set of Directors.

Role of professional support: Reluctance to undertake transactions on the company's account limited the leverage available from JFPR Grant support and the level of inclusion that was achieved. Similar to Reva Valley FPC, the FPC could leverage professional support for scaling up operations and undertaking more transactions on the company's account. The FPC's discussions with some other JFPR FPCs (Reva Valley, Satpuda, Dhartiputra) to collectively undertake banana exports to build up the volumes needed for exports are another example where independent and experienced support can be useful. The motivation for this came about from discussions with Agriculture Produce Export Development Authority (APEDA) at a JFPR sponsored export training.

Summary takeaways from individual FPC experiences

Role of leadership and professional support

The initiative, leadership, business acumen and experience of individual directors and the level of cooperation / cohesion amongst them was a key driver of success for FPCs. While this was supplemented with professional external support through Business Development Facilitators, this support was limited making the FPCs dependent on the individual drive, capacity and interests of their directors.

Though the capacity building trainings and exposure visits provided by JFPR Grant were critical in building capacity, particularly in cases where such capacity was limited to begin with, the selection (and in some cases, the attrition[49]) of FPC Directors and members itself had a strong bearing on its performance.

Some FPC's (eg. Deola FPC) leveraged their Directors' influence in the political or social ecosystem while others used their commercial contacts (eg. Navchaitanya FPC) to drive performance. For some, like Shetmall FPC, the presence, influence and networks of a couple of their Directors in Mumbai was key. For others, like Shubh Labh FPC the presence of an established trader-cum-farmer meant that this traders' customer contacts and expertise were immediately available for the FPC to take off. On the other hand, for smallholder-member dominated Shetak FPC, with location in a relatively remote geographical area, such advantages were unavailable. Similarly, for another smallholder dominated FPC (Girna), access to JFPR support remained extremely limited since they were unable to convince their buyers to transact on the company's account – something professional support could arguably have addressed.

The benefit of independent professional support, and more importantly, professional opinion / expertise was limited to the development of business plans by a professional agency and the BDF provided by JFPR. The support for business plans was however limited to only a high level feasibility study for primary processing infrastructure with the specific objective of justifying grant support and it was available for a very limited time period. When it came to the BDFs, while 14 individuals were servicing 18 FPCs during the period of capacity building, only 2 were left for half (and only 1 for the balance half) period in which financial support was available. Coverage of 18 FPCs spread across the length and breadth of one of India's largest states by 1 BDF not only meant their very sparse availability for each FPC, but also placed a heavy burden of travel on them. Such working conditions lead to demotivation, lack of attractiveness for talented individuals and attrition. The BDF's support was anyway largely limited to documentation and compliance for release of JFPR Grants, leaving very little time and motivation for indispensable strategic planning activities, not to mention the sheer limitation of their capacity to provide independent professional opinion, expertise or exposure for business expansion of the FPC.

Access to organized markets

Most FPCs were able to achieve at least some transactions with many of the sizeable transactions coming about on account of direct or indirect JFPR support. While most transactions were for sales, some transactions were also carried out for bulk purchase of inputs. Only a select few FPCs garnered revenues from other sources like commission or service fees.

While most sales were without value addition, a share of sale of fruits like sweet lime and orange enjoyed some level of value addition in the form of better packaging, though no sale of processed produce was undertaken.

[49] One such example was in the case of Deola FPC where inactive Directors were "eased out". Details in description of individual FPC experiences in preceding section "Takeaways from individual FPC experiences".

The nature of sales transactions achieved can be broadly divided into three key types

a) Sale of bulk volumes through spot sale at distant terminal / wholesale markets through a commission agent at the market
b) Direct retail sale at weekly farmer markets in urban centers
c) Direct / indirect sale to organized retailer / institution / food processor / large wholesale buyer / large organized trader in local or distant markets

A large majority of bulk sales transactions undertaken by JFPR FPCs was with the mechanism described under (a) above. This, in effect, entailed replacement of an intermediary by the FPC to undertake a trading activity for making sales to distant buyers. This contributed to farmer incomes by ensuring that some of the revenues and margins / commissions that were otherwise being captured by intermediaries were now accessed by the FPC. However, while FPCs were able to leverage benefits of scale from collectivization of produce from multiple members in this case, no negotiating leverage was available from increased bargaining power and the FPC remained exposed to price risk[50] and to the risk of payment default from the buyer in addition to having to deal with an extended payment cycle[51,52].

Almost all FPCs attempted direct retail sale in weekly urban farmer markets (described under (b) above) which meant full disintermediation and much higher price realizations for the farmers. However, only those FPCs that had sizeable volumes of vegetables and were located within reasonable distance from urban centers were able to effectively benefit from this. For others, a combination of the long distance to market, perishability of the produce and operational complexity and low familiarity of dealing with small purchase quantities of retail buyers for farmers who have traditionally only dealt with bulk volumes were key barriers to scale.

Very few transactions were observed in category (c) though multiple attempts at the same were made, of which almost all were either never consummated[53] or could not be replicated[54]. The main reasons for this was the lack of understanding of specific quality requirements of buyers at the level of the FPC, absence or limited understanding of the grades and standards between transacting entities, the need for sustained large volumes that are typical of such buyers and the concern with respect to creditworthiness of buyers. In some cases, garnering the volumes required for direct, sustained sales to end-buyers at agreed negotiated prices was challenging because of the reluctance of farmer members to make a sale to the FPC at even small discounts to the price offered by itinerant traders despite the assurance of sustained off take in the former. As FPCs demonstrate more and more successful transactions, it can be expected that farmer members will be more amenable to such transactions as credibility of the FPC's ability to bring about sustained off-take rises.

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[50] JFPR Grant's Transport subsidy was, in effect, used to absorb this risk in some cases, particularly onions, as seen in the case of some of the FPCs with onion as focus crop.

[51] Intermediaries often pay upfront or within a shorter duration after collection of produce from farmer than distant buyers.

[52] JFPR Grant's revolving fund was used to provide the working capital cushion to deal with these extended payment cycles.

[53] One such example was in the case of Girna FPC. Details in description of individual FPC experiences in preceding section "Takeaways from individual FPC experiences".

[54] One such example was in the case of Sangamner FPC. Details in description of individual FPC experiences in preceding section "Takeaways from individual FPC experiences".

While direct retail sale was attempted for the first time The split of transactions between category (a) and (c) undertaken

Level of inclusion

The level of inclusion of farmer members (as defined by the number of farmers that were impacted by JFPR direct and indirect support) achieved can be assessed at three levels viz. (a) the total number of members mobilized and associated with each FPC at the time of formation in 2014, (b) the subset of these members that were included as shareholders in the FPCs and (c) the set of members who actually participated in the specific transactions that were undertaken by the FPCs with JFPR support.

The number of farmers in each FPC under category (a) ranged between 90 to 465 at commencement and between 60 and 565 around the time of closure of the Grant. The number of farmers that had been included as shareholders (category (b)) in the FPC however was limited to a maximum of 15 at the time of formation and ranged between 10 to 565 around the time of closure of the Grant with 16 out of the 18 FPCs being very close to the lower limit. The number of farmers in category (c) remained very limited, ranging between 5 to a maximum of 100 with this number for all except 1 FPC being close to around 25.

Though the direct monetary benefit of profitable sales made by several FPCs with JFPR support was thus limited to a relatively small number of farmers, the demonstration effect created by these transactions heavily influenced how member participation changed over the course of the Grant. This is evident from the fact that Deola and Satpuda FPCs ramped up membership significantly from a sizeable base having demonstrated profitable transactions. The reverse happened in the case of many other FPCs like Chandwad, Tapi Valley and Sangamner to name a few. However, this raises a question on why some of the FPCs that performed quite well like Seven Green Hills, Pratishthan and Reva Valley also lost sizeable number of members. Observations from the field visit point towards three key potential reasons for this anomaly (i) the relatively greater risk associated with marketing of more perishable products like citrus that also have a higher "value-at-risk" and the related (ii) lower levels of patience of farmers growing this crop[55] (iii) low share of transactions undertaken on the FPC's account which effectively meant that for the greater share of transactions, Directors (and not the FPC) was replacing existing traders making it not very different in terms of long-term benefits for farmers involved. A fourth possible reason (which could not be verified, being out of scope for this report) could be the level of interest, motivation and personal incentive of Directors to expand or retain large membership levels[56].

Irrespective, given the risk in undertaking a new mode of transactions and the upfront financial commitment that was typically needed for undertaking the same, the absence of large numbers of participants in initial transactions is perhaps understandable. However, it remains to be seen if the success demonstrated in the initial transactions draws in greater member participation that would enhance the scale and bargaining power benefits expected.

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[55] As mentioned earlier, there was a 2-year time gap between formation of the FPCs (and the associated mobilization of members) and availability of financial support.

[56] Absence of independent professional management leaves very little means for checking such adverse motivations, if any

Relevance and utility of JFPR support

The **revolving fund** appears to have been the most useful and effective means of support by far. This is reflected not only in the fact that FPCs applied for this support much sooner after it was available than was the case with other types of support (Table 3) but also revealed in personal interviews with almost all FPCs.

Since the majority of bulk transactions were undertaken with the existing small scale and / or unorganized buyer universe that has limited capacity and willingness for long term contracts and / or advance (or even immediate, post-delivery) payments, these transactions were only possible with the help of external funds that could be used to bridge the time gap between payments to farmers and receipt of sales proceeds from buyers. With a limited track record and low level of reserves, the FPCs were not in a position to obtain such funds from any financial institutions[57]. JFPR's revolving fund addressed this compelling market failure thereby addressing a very crucial and often-neglected constraint for FPC growth. The fund was also very useful in some cases for sale of inputs to members on credit under collective purchase agreements with suppliers.

However, the requirement for contribution of 50% of the fund from the FPC made it challenging for some of the smaller and less resourceful FPCs to access the fund. At the same time, not charging any interest on the fund meant that even while some of the FPCs' margins were sufficient to absorb an interest cost, they did not have to service this "loan" in any way. Thus, in effect, while the fund addressed the key constraint of liquidity (availability of cash) at the time of harvest, not charging any interest in a context where local money lenders lend at rates up to 50% per annum may not have been absolutely necessary.

The **transport subsidy** played a positive role in incentivizing transactions that involved dispatch of produce to distant locations. The subsidy, in combination with the training on collective marketing, exposure visits and buyer-seller meets, served a very positive role in helping overcome the reluctance of FPCs towards accessing distant and new markets. Interestingly, in effect the subsidy also, and perhaps more so, played the role of alleviating concerns around price variation between the time of dispatch and actual sale in a distant spot market. In other words, the transport subsidy was, in many cases, used with the intent to set off price risk as against being used purely for accessing distant markets that would otherwise be inaccessible on account of transport costs.

The **packaging subsidy** was leveraged and very useful for FPCs engaged in the production of crops that are relatively more susceptible to damages, like oranges and sweet lime. Trials initiated with this support would be crucial in enabling access to organized markets going forward. However, other FPCs with commodities that do not require improved packaging, were unable to utilize support available under this head.

Simulating the impact of transport subsidy and revolving fund

[57] Though some GoI schemes provide access to such funding targeted towards FPCs, since JFPR FPCs did not meet the eligibility criteria (primarily total number of shareholder members and share of smallholders amongst members, besides others; refer footnote 29) for these schemes, such funding was not available for them.

Figure 48 provides a simulation of the impact of the revolving fund and transport subsidies. It is clear that price volatility in a distant high-volume market like Delhi is very high. As confirmed from the field interviews, while the transport subsidy enabled absorption of losses from price variability, it is clear from Figure 48 that it is the quantum of price variation (level of volatility) that is greater driver of profitability than the transport costs. In the months of January, February, June and October, price available was more than sufficient for garnering a good margin despite transport costs. Conversely, in most other months, even with a 75% transport subsidy, the margin would be low or negative.

Figure 48: Simulation of impact of transport subsidy and revolving fund on performance of transactions in onion

	Description	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
	Wholesale price in Delhi wholesale market (INR/MT)	30,109	19,244	11,170	8,572	8,286	13,634	10,664	12,453	10,664	14,022	10,656	8,811
	FPC's cost including transport up to Delhi (INR/MT)	11,385	11,385	11,385	11,385	11,385	11,385	11,385	11,385	11,385	11,385	11,385	11,385
Without transport subsidy	Margins with actual price (INR/MT)	18,724	7,859	(214)	(2,812)	(3,099)	2,249	(721)	1,068	(721)	2,637	(729)	(2,574)
	Margins with average price (INR/MT)	1,806	1,806	1,806	1,806	1,806	1,806	1,806	1,806	1,806	1,806	1,806	1,806
With transport subsidy	Margins with actual price (INR/MT)	20,974	10,109	2,036	(562)	(849)	4,499	1,529	3,318	1,529	4,887	1,521	(324)
	Margins with average price (INR/MT)	4,056	4,056	4,056	4,056	4,056	4,056	4,056	4,056	4,056	4,056	4,056	4,056
Without transport subsidy	Margins with actual price with revolving fund @36% interest cost	18,383	7,518	(556)	(3,154)	(3,440)	1,907	(1,062)	727	(1,062)	2,295	(1,070)	(2,915)
	Margins with average price with revolving fund @36% interest cost	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464
With transport subsidy	Margins with actual price with revolving fund @36% interest cost	20,633	9,768	1,694	(904)	(1,190)	4,157	1,188	2,977	1,188	4,545	1,180	(665)
	Margins with average price with revolving fund @36% interest cost	3,714	3,714	3,714	3,714	3,714	3,714	3,714	3,714	3,714	3,714	3,714	3,714

Source: Ministry of Agriculture, Government of India
Notes: The revolving fund is assumed to be utilized for 1 month for each transaction of 10MT to be delivered in 1 truck. The cost of transportation – INR 30,000 for a 10MT truck from Nasik to Delhi - is based on field interviews. Onion prices and cultivation costs are sourced from https://eands.dacnet.nic.in/Cost_of_Cultivation.htm

Access to a revolving fund, especially in times of high price realization (months of January, February, June and October) could however be transformational. At the same time, the margins achievable by having this access are such that a reasonably high interest cost can be absorbed within the margin.

Not only does this indicate the relatively greater impact that the revolving fund had, it also points out that the binding constraint is the *availability*, and not the cost of working capital finance.

The two key takeaways from this analysis are

i. Price variation (at least in onion in India's largest wholesale market - Delhi) is too wide to be set off by a transport subsidy
ii. The revolving fund (even if provided at market-comparable costs) can enable access to high margin periods by enabling storage of inventory and providing farmer members advances

Since most of the FPCs were able to bring the **infrastructure** in operation only close to end of the program, the benefits were not visible at the time of this study. At the same time, it was clear that the infrastructure served at least two critical purposes – (a) providing for collection, future value addition and grading for the farmers to realize greater value from the produce that would otherwise be garnered by trading intermediaries[58] (b) creating a "tangible" output that convinced more members of the benefit of coming together and incentivized them to participate. The feasibility studies for establishment of infrastructure were however superficial and largely supply driven, providing no insight into specific offtake arrangements that would ensure high capacity utilization of such infrastructure. This appears to have led to some level of misalignment of benefits available from infrastructure that was setup vis-à-vis the core or most compelling need of the FPC members. At least one FPC openly admitted to a lack of good judgment in their choice of infrastructure.

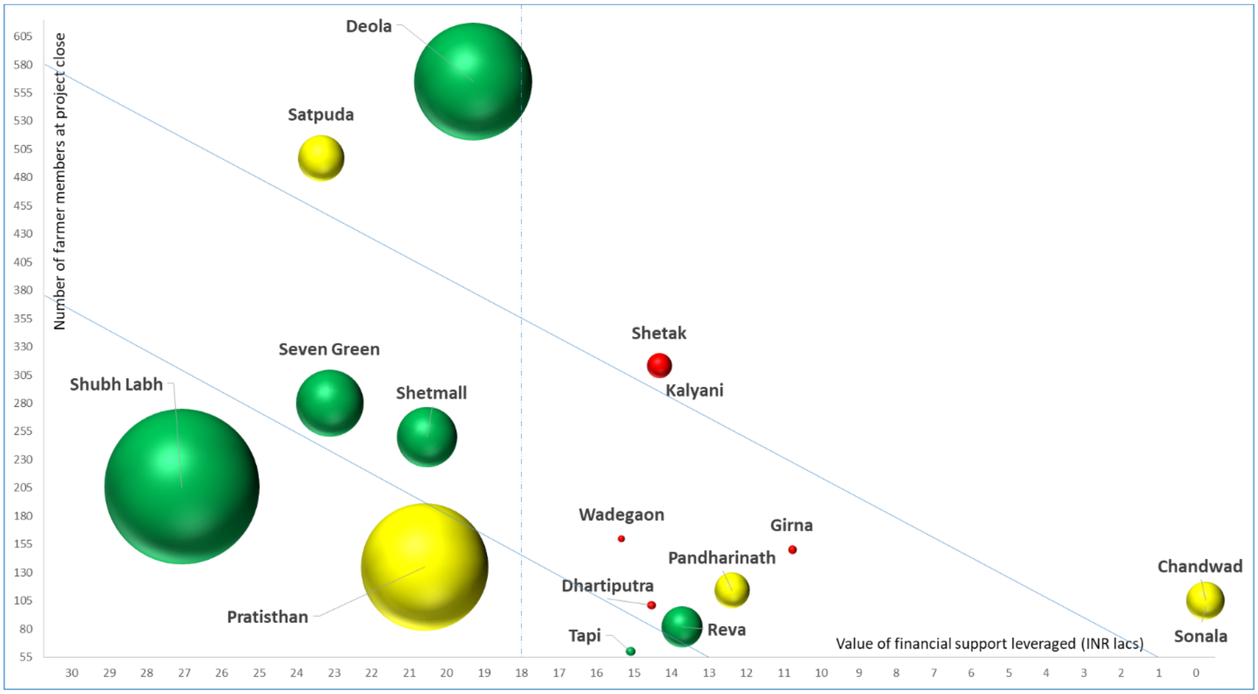
As far as **non-financial support** is concerned, it's utility cannot be understated simply because the very establishment of FPCs and selection of its Directors took place because of such support. The various capacity building, exposure and training activities undertaken (Chapter 2: The JFPR Grant Project) during and after establishment ensured that the value of collectivization as a commercial entity was understood by most members[59] providing motivation for and leading to many of the transactions that provided for survival and growth of the FPCs. Coordination and linkage of such support with the financial support provided was however missing. Financial support commenced only after 2 years of registration in which period the level of handholding was also relatively lower compared to the same before registration (Figure 5). The time gap not only led to demotivation and attrition in membership but also meant that learnings were not fresh and contacts made in exposure / buyer-seller meets were not recent amongst the remaining members when financial support was finally made available.

Urban weekly farmer markets provided for very useful outlets for FPCs producing vegetables that were within a relatively short distance from the key urban centers of Mumbai and Pune. At the same time, the utility of these markets was limited for FPCs engaged in production of other crops located at larger distances from these key urban centers. Operational challenges associated with breaking bulk production into small lots for retail sale especially in sensitive, low shelf life produce like oranges made these markets less useful for some of the FPCs.

Figure 49: Putting FPC performance into perspective

[58] This was most evident in the case of Shubh Labh FPC who will be able to use the mechanized grading and waxing machine subsidized by the JFPR Grant to meet the needs of high value buyers, secure greater margins and lower waste.

[59] This was extremely important in a context where the prevalent historical mode of collectivization (through cooperative societies which were not established as commercial for-profit entities and which were subject to politicization) had left a legacy of poor outcomes from collectivization (see footnote 3).



Source: GIU, FPC Annual Reports

Notes: Size of bubble is proportional to the total revenues of the FPC; Color of bubble is indicative of total operating profit (FPCs that made positive operating profits are colored green, those that made operating losses of up to 5% of revenue colored yellow and those with greater operating losses colored red)

Figure 49 brings out the different dimensions of FPC performance correlated with the level of financial support each was able to leverage. Since the purpose of Development Partner (or, for that matter, Government or all "public") support is to drive profitable growth that is inclusive of a large number of beneficiaries, by separating these elements out, the chart attempts to derive takeaways from the correlation that exists between these elements.

- The importance of financial support for FPCs is borne out of the experience of Chandwad FPC. Even though it achieved material revenues without any Grant support, without such support, it did not have the financial capacity to absorb one transaction that suffered from an adverse price movement. Thus, even with a positive demonstration of resolve and (revenue) performance, the FPC could not survive.
- Any material performance on either dimension (financial results and inclusion) was demonstrated only amongst those FPCs that absorbed Grant support in excess of INR 20 lacs. While almost all FPCs were able to obtain between INR 12-15 lacs of financial support for developing infrastructure, those that went beyond and used the comprehensive package of support on offer were able to demonstrate more material performance. It is also noteworthy that the stronger performing FPCs were mostly the ones that were amongst the first to seek and receive financial support[60].
- However, high use of financial support did not necessarily translate into all-round performance

[60] Deola FPC was the first one to seek and receive financial support, with other high-performing FPCs – particularly those that performed better in terms of inclusion - also typically being amongst the early ones to seek and receive financial support. (See Annexure 5: Timing of support sought by FPCs).

- Even while Shubh Labh FPC leveraged high levels of financial support to deliver superior financial performance, the level of inclusion achieved by the FPC was relatively low[61]. By using some of the support for value addition through better packaging and using the infrastructure subsidy to enable access to organized markets[62] the FPC did however manage to achieve high levels of profitability. The strong demonstration effect that this has delivered can drive increased membership going forward. Pratishthan FPC, on the other hand, did not undertake any value addition activities even while achieving high revenues which could, in part, account for the poor inclusion levels achieved.
- Deola and Satpuda FPCs demonstrated much higher levels of inclusion. The fact that Deola FPC engaged in activities beyond enabling market linkage and consciously pursued a more holistic, yet step-wise approach to be a "service provider" to members appears, that it recognized and onboarded dedicated independent management support, that its Directors proactively identified and collectively leveraged opportunities within and outside their network appear to be some of the factors that played a strong role in its high and inclusive financial performance.
- Seven Green Hills and Shetmall FPCs achieved medium to low levels of inclusion while absorbing reasonably high levels of financial support to deliver small but profitable revenues. The demonstration effect that has been delivered through profitable transactions could drive increased membership going forward.

In conclusion, it is important to emphasize that the results achieved by the 18 FPCs discussed in this section are limited to a total operating period of 4.5 years since registration. Of this period, a maximum of only 2 years[63] was that of *active* operations. While the investment in establishment and provision of support was fully incurred in this period, the results attributable to such support will continue to accrue over an extended period of time to the extent that these FPCs continue to operate. Since many of the FPCs are either already operating at a profit or are likely to be able to achieve profitable growth with further available support from other Development Partners and – in some cases – the GoI, the chances of such continued operation of these FPCs are quite high. Provision of support from JFPR Grant has thus not only created a few successful FPCs but, more importantly, it has created a body of experience and demonstration that can meaningfully and positively inform the larger Development Community and GoI in its strategy for achievement of enhanced farmer incomes through collectivization.

[61] Some of the potential reasons for this are discussed under the sub-section "Level of inclusion" above.
[62] Please refer narrative on this FPC under section "Takeaways from individual FPC experiences"
[63] Counting from the time that direct financial support was made available

Chapter 5: Lessons learnt and recommendations

It is evident from the preceding compilation of the JFPR FPCs' experiences that performance of these FPCs hinged closely around the nature, quantum and timing of support provided. At the same time, the analysis throws up multiple other factors which influenced performance that were either only indirectly influenced by such support or remained entirely independent of it.

An understanding of the correlation between these factors and the performance of FPCs gained from the preceding analyses leads to some clear lessons that can be learnt and can inform future exercises in support of FPC development and commercialization.

This chapter lays out these lessons and breaks them down into more specific recommendations for such exercises in the future.

Lessons learnt

A step by step approach to building membership works better than starting with a large membership base. There was low correlation between the starting and closing number of members amongst JFPR FPCs. Though the performance of FPCs is, by definition, closely linked to the level of (participation of) members, it was clear from the JFPR experience that gain in membership was driven by performance achieved rather than vice versa. While this meant that initial performance results were spread over a small base of members and that financial support was primarily used up by the small set of initial members (mostly the Directors), it also meant that such performance attracted more members to join and gain from replication of a proven concept. In effect, the "first movers" who had the willingness, capacity and risk appetite for trying a new mode of operations utilized the support and created a demonstration effect that enabled others with lower levels of willingness, capacity and / or risk appetite to join.

The ability of an FPC to create value for its members rises with the strength of its membership. This is because an FPC's bargaining power, financial strength and access to non-financial resources expands with membership. However, increasing membership requires convincing a large number of farmers across large geographical areas to join and commit their time and resources. The experience of JFPR Grant implementation showed that while reaching modest levels of membership is possible on the back of the vision and intent behind an FPC, raising membership levels significantly requires a visible demonstration of its value. The financial commitment required to become a member can be a barrier, particularly for the core target segment of marginal / smallholder farmers, until such demonstration is forthcoming. Lack of such demonstration also contributes to a situation where, even after becoming members, many farmers hesitate to patronize[64] their FPC for their marketing needs.

Thus, even while it is easy for farmers to understand the benefits that collectivization provides for by enhancing scale economies and improving bargaining power, various factors limit the utility of

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[64] As evidenced in some individual FPC narratives in "Chapter 4: Assessment of FPC performance and its drivers", lack of patronization can arise from various reasons including, but not limited to, being unsure of the sustainability of volumes they commit to the FPC (and therefore reluctance to switch from their existing marketing relationship) or because the FPCs is unable to offer a price competitive to that being offered by alternate channels of marketing available or because the volumes sought by the FPC are minimal.

setting up FPCs with high levels of membership upfront. Experience with the setup of JFPR FPCs showed that the ability and willingness of lead farmers of FGs to join in and contribute share capital for the setup of an FPC across large geographical areas was limited beyond a membership base of 50-100 members. Coordination between diverse stakeholders spread geographically was found to be challenging, particularly when these groups had little to no familiarity or acquaintance to share amongst them. This was the key reason that a decision to setup 18 FPCs with lower membership was taken as against the intent to setup 3 FPCs with much larger membership. However, this should not be construed to mean that FPCs larger than 50-100 members cannot be developed. Since the benefits of collectivization rise with scale, it is meaningful to seek a membership closer to 1,000 members as is suggested in the Government of India's guidelines for the setup of FPCs.

However, the process of reaching this scale should be pursued in a stepwise manner. Demonstration of activities undertaken collectively by the initial group of farmers provides encouragement and motivation for more farmers to join which in turn provides for achievement of greater scale and sets off a virtuous cycle of rising membership and improved outcomes. This was most evident in the case of Deola, Satpuda and Shetak FPCs where membership rose after success was demonstrated by the initial members[65].

A step-wise approach also enables cascading of learnings from the experiences of the initial set of members to the larger set as membership grows over time. Further, financial commitments for support required from development partners / government can also be utilized in smaller tranches at a time creating the opportunity to support a larger number of FPCs from the same funding pool.

Capacity building and financial support should be closely coordinated and provided in tandem. FPCs need capital and capacity for their setup and survival until they can become self-sufficient. Capital is needed since the costs of startup (one-time setup costs) and initial operations (working capital) is prohibitive and capacity is needed to ensure that the capital can be prudently managed and deployed for generation of profit. How soon an FPC reaches the stage of self-sufficiency depends not only upon the nature, quantum and timing of such capital and capacity support but also on how these two components of support relate to each other.

After having received extensive handholding and capacity building support between 2012 and 2014 when the JFPR FPCs were registered (Figure 5), the levels of motivation and capacity amongst members was high and the contacts made through exposure visits and buyer-seller meets were fresh. During provision of the capacity building support, it was understood that financial support would be forthcoming for the FPCs to put their learnings into practice. That this financial support only came 2 years later meant that much of the momentum built up from the trainings was lost and many members had been disillusioned.

More importantly, for some members who did not wait for financial support to put their learnings into practice, it led to a situation where undue risk was perhaps undertaken at the behest of trainings provided for collective marketing. Without the concomitant financial cushion that was supposed to be associated with such marketing in the initial period, this exposed the members to losses. An

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[65] Refer "Takeaways from individual FPC experiences" in "Chapter 4: Assessment of FPC performance and its drivers"

example where this was eminently evident was Chandwad FPC attempted a bulk transaction in a distant spot market in a commodity highly exposed to price risk (onion). Adverse price movement in the commodity on the initial attempted collective sale of a reasonably large number of members without any risk protection (that was only much later provided in the form of a transport subsidy) led to heavy losses and erosion of share capital of the FPC, eventually leading to its demise[66]. As this example demonstrates, developing capacity without concomitant capital to utilize that capacity can be counter-productive.

At the same time, is important to ensure the capacity to utilize capital prudently exists before release of capital. For example, capacity support in the form of buyer-seller meets should be immediately followed by provision of essential working capital to consummate transactions between buyers and FPCs since moving to direct transactions between FPCs and buyers would eliminate the working capital typically brought in by the intermediary. Similarly, provision of capital support for development of infrastructure should follow a recent, close and customized assessment of value addition needs of the FPCs for which capacity support in the form of professional assessment of viability of such infrastructure is useful.

Breaking down capacity building and financial support into smaller "bundles" as explained above, linking them directly and providing these in tandem can also ensure that membership growth (as explained in the previous "lesson learnt") takes place systematically as demonstration of results takes place incrementally. Further, this can enable closer monitoring of performance and, as a consequence, tighter linkage of support with performance results. This can, in turn, help in developing the right kind of incentives (for example for inclusion of smallholders) for FPC managers that can be linked with release of support.

Finally, such a step by step approach can also ensure that Development Partners play a role that is "additional" to the role played by GoI schemes as against replicating or duplicating these. Since most GoI schemes for support to FPCs require specific thresholds to be achieved in terms of member numbers and their shareholding (explained in footnote 29), Development Partners can play a positive role in nurturing FPCs up to the achievement of these thresholds. In effect, some of the JFPR FPCs have followed this trajectory and became eligible to access GoI schemes on account of JFPR Grant support.

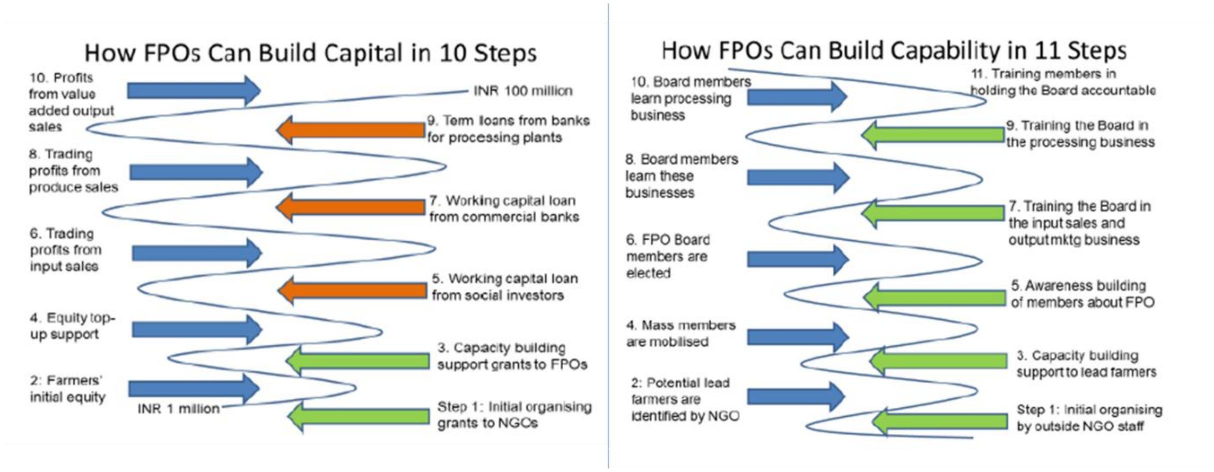
<u>Importance of provision of capacity building and capital support in tight lockstep</u>

One of the most comprehensive studies on this subject in the recent past was written by Vijay Mahajan in 2014. As the Founder of CEO of one of India's most prominent NGOs working with farmers and FPCs, the summary of this author's main conclusion was that capital support in financial terms and capacity development support must be closely interrelated and should take place in tandem. The report outlines 10 steps for building capital and 11 steps (Figure 50) for building capacity in any form of Farmer Producer Organizations and provides guidance on how

[66] Though some others like Deola FPC was able to initiate activities on collective input purchases in the interim, until financial support was available, the operations were limited and low in scale until the revolving fund enabled scale through larger sales on credit to its members. Refer "Takeaways from individual FPC experiences" in "Chapter 3: Approach and conceptual framework for analysis"

these activities for capital and capacity support must relate to each other for optimal development of such organizations.

Figure 50: Illustration of Steps for capital and capacity support towards FPC development



Source: "Farmers' Producer Companies: Need for Capital and Capability to Capture the Value Added", State of India's Livelihoods (SOIL) Report, 2014, Vijay Mahajan

Dedicated professional management support to FPCs is critical to plug key capacity gaps amongst FPC members. Setting up and operating a company for profit requires bringing together a diverse set of skills and experience. While all members of an FPC bring their core competence of managing cultivation to the company, many of the other critical skills and experience for maximization of shareholder value (see Box titled "Illustrative skills needed for running a for-profit company") can be limited amongst the farmer members and directors.

Illustrative skills needed for running a for-profit company

Some of the key skills and experience required for managing a for-profit company, beyond production, include

- Business development : Identifying, pursuing, negotiating and closing transactions with customers
- Exposure and business intelligence: Networks and linkages with potential and emerging markets
- Financial and technical support activities like
  - Accounting
  - Documentation
  - Compliance and legal
  - Financial management – managing sources and uses of funds obtained and generated respectively
- Operations : Managing physical operations (handling, storage, collection, aggregation etc), managing service providers (logistics, labor etc) and customer service

- Commercial : Contracting (beyond legal), invoicing, banking etc.
- Project management and planning

Even when it comes to cultivation, the exposure of individual small farmers to emerging best practices can be limited. In the case of JFPR FPCs, though such support was envisaged to be provided by the "Business Development Facilitators" (BDF) appointed for each FPCs in the initial stages. The number of BDFs were reduced from 14 to 2 to eventually only 1 in the last – and most intense – 18 month period of Grant implementation which led to laggard performance of some of the FPCs that were either left without a BDF or had limited exposure to the few / one that was available. During field visits, several FPCs spoke of the need for more BDF support during the author's interactions with them. Further, though the role of the BDF was envisaged as a provider of "Business Development" services, the actual role performed by the single BDF remaining at the time of the evaluation was observed to be less in the nature of business development and more in the nature of technical support services like compliance and documentation.

Also, even though buyer-seller meets and exposure visits carried out under the project exposed FPCs to alternate markets, lack of experience with identification of the right markets to target and limited understanding of trade practices limited their utility, leaving the FPCs to depend upon the individual strength of Directors or serendipity. This is borne out in the multiple instances of unsuccessful transactions undertaken with buyers that FPCs met with during these meets.

A sustained effort to follow up on the meets and visits wherein negotiations can take place and the details of the transaction like specific quality requirements of the buyer, terms of payment and delivery etc, can be worked out could provide for an improved outcome.

For example, even though multiple FPCs attempted onion dispatches to distant markets, Shetmall and Chandwad FPCs chose to make dispatches to a very competitive market (Delhi) without any assurance of price that they would receive while Deola FPCs identified a buyer (exporter to Bangladesh) where the buyer was willing and able to provide a price guarantee before dispatch of the material. A strategic assessment of all available markets and an informed choice of which markets to target was conspicuously missing - while Shetmall and Chandwad chose the market they were aware of (and claim to have suffered losses), the Directors of Deola FPC were able to undertake such an assessment and sought an introduction with a buyer with whom price risk was eliminated.

Similarly, lack of experience with market practices and customer requirements and minimal effort spent in understanding the same (even if experience was missing) led to disputes that Sangamner FPC had with their first buyer. At one end, the buyer complained of delivered produce being of a quality inferior than what was agreed upon, at the other end the FPC felt cheated in having received reduced payment for what they considered to be produce that was up to the mark in terms of quality.

Conversely, successful bulk transactions were mostly achieved on account of the knowledge / experience / relationship of an individual Director. For example, multiple successful dispatches of orange shipments by Shubh Labh or lemon shipments by Girna or banana shipments by Satpuda FPCs were achieved primarily because one of the Directors was also a trader (or had close relationships with Traders) who started consolidating and shipping FPCs members' produce along with his own. The experience and knowledge that was brought about by such individual Directors was not available for all FPCs and even if it were, such individual driven transactions would be difficult to replicate.

Vesting all authority and accountability for decision making for the FPCs on the Directors also gives rise to risks arising from conflict of interest. Separation of management from ownership is a core tenet of good corporate governance in companies. This principle is perhaps even more relevant in the case of producer companies since all members are shareholders while only a few selected members are Directors. Since Directors make the day to day decisions for the company, vesting management responsibility with them can potentially give rise to a conflict of interest[67].

Further since Directors are also farmers, often with no formal training or experience in the operations and management of a company and - more importantly - in marketing, they often have limited capacity in these activities. For the same reason, they are also best aware of the challenges that must be overcome to ensure FPCs are able to perform their function of maximizing and sustaining increase in farmer incomes.

It is therefore worthwhile putting in place mechanisms to bring in independent professional management to support the Directors as FPCs evolve. Irrespective, non-strategic functions like documentation, compliance and even accounting/financial management functions require specialized skills that are often entirely absent with existing members. Providing for the availability of these services is therefore indispensable for success of FPCs. … provides some perspective on the shape and form such independent professional support could take.

Support for FPCs should be closely customized to individual FPC needs arising from their unique characteristics as against "blanket" schemes. It is evident from the compilation of the JFPR FPCs' experiences in the previous chapter that performance of these FPCs varied widely even though exactly the same kind of support at more or less the same points in time was made available to them. The differences were accounted for by various factors that can be classified in to two broad categories viz. those that are controllable at the FPC level (eg. choice of market for sale of produce, choice of business model) and those that are not controllable at the FPC level (eg. commodity of focus/commodity mainly grown by members, agro-ecological conditions in the FPC's region). It follows therefore, that being cognizant of and accounting for these factors can provide for driving improved outcomes through provision of support.

While all FPCs appreciated the value of trainings, exposure visits and buyer seller meets, relevance of the programs for specific FPCs based on their product profile was varied. For example, there did not seem to be specific guidance for FPCs engaged in citrus (particularly lemon) in any of the trainings[68]. Closer customization of training programs and exposure visits for FPCs based on their

[67] As an example, the much greater number of collective transactions undertaken on the account of individual Directors as against the FPC's account (as was observed in a majority of FPCs) could not be explained satisfactorily by any of the FPCs or even the BDF during field visits. While such transactions did not quality for JFPR support, the benefit of collectivization is open to potential misuse in such transactions. Though investigating into the reason for the rampant prevalence of such transactions was beyond the scope of this report, specific professional advise could potentially help to address the anomaly which can be critical in ensuring larger volumes accrue at the FPC level.

[68] The training needs of FPCs with citrus as their core crop would vary significantly from those of the FPCs with vegetables, especially when it comes to servicing organized markets where each category may be dealt with differently

specific needs and better timing of financial support to align with these is a key takeaway for the future.

Field visits revealed that the revolving fund was the overwhelming favorite of most FPCs in the menu of support provided. This is not surprising given that most farmer members – especially smallholders - are unable or unwilling to sell their produce on extended credit periods while most distant market buyers were also unable or unwilling to make full payments within a short period of time. Without the revolving fund (or, working capital access), the access to market would necessarily be limited to financially strong members or the FPCs reserves would have to be tapped into. In most cases, neither the infrastructure nor the transport and packing subsidy would be much meaningful without the working capital access that the revolving fund enabled.

However, the revolving fund would be best utilized by making it available during the peak season of the FPC's focus crop – a larger amount during the few months of its peak season can be more valuable than a smaller fixed amount for the whole year. Further, a transport subsidy would be less attractive to an FPC with a core commodity (like oranges) that is less affected by transport cost or price fluctuations and more impacted by the quality of packaging as against an FPC with the core commodity like onion.

Early provision of the revolving fund (or some form of working capital support) can provide for faster uptake of transactions and provide for more time to FPCs to build a track record for becoming suitable to mainstream financial institutions – something that is core to the sustainability of FPCs beyond Grant closure.

In the case of the infrastructure support, the share of capital that is required to be contributed by the FPC can be made to vary based on the level and extent of "unviability" of the investment. This calls for a detailed feasibility assessment that specifically points out the gap in commercial viability of such infrastructure and only provides grant funds to the extent that this gap is plugged. The same level of support for all kinds of infrastructure risks distorting incentives in case the infrastructure would have been viable with a lesser quantum of support and, on the other hand, could lead to the creation of a "white elephant" if the quantum of support was insufficient or unsuitable for the purpose it was sought for. Such customization can enable FPCs to utilize Grant support in a manner that is more directly targeted towards their specific binding constraints. For example, while transport subsidy was not very relevant for FPCs with citrus and banana as focus crop, the relevance of a processing facility for these could be higher[69]. Flexibility to reallocate the capital available under these heads can potentially provide for improved outcomes even though it will arguably increase overheads associated with management and monitoring of the Grant pool.

At least 2 of the 18 FPCs were directly and adversely affected by draught conditions that existed during the active period of the JFPR Grant while some others were indirectly and / or less adversely affected. Flexibility in reallocation of the Grant pool to align with the specific needs of these FPCs (for example for small scale irrigation investments) could have potentially enabled their survival providing for ramp up after draught conditions passed.

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and by different stakeholders. Training required around cultivation and post-harvest practices can similarly be more valuable for fruits as against pulses, requiring a different approach to address the training needs of each.

[69] Unsurprisingly, Satpuda FPC – one of the more successful FPCs with banana as its focus crop – was in the process of seeking GoI support for investment in a banana processing facility.

Similarly, as explained above, the relevance of support in linking with urban farmer retail markets is much greater for FPCs that are located in a geography that is directly and easily linked with these urban markets and / or have relatively less perishable / long shelf life produce[70] and / or have access to an existing distribution network that breaks bulk and ensures a fair share of the retail price realization to flow to them.

Criteria for selection (and release) of FPC Directors should be clear and consistent. A key determinant of the performance of JFPR FPCs was the nature of leadership and experience available from the Directors. Since the Directors were responsible for overall planning, direction setting and execution, their role was strongly determinant of FPC performance. In cases where Directors were cohesive and authority / accountability was clearly defined, performance was perceptibly higher. For example, Deola FPC was able to achieve the highest membership while executing a profitable transaction in a price-volatile commodity like onion which can be attributed to the capacity its Directors to mobilize the required contacts and identify a market with assured price for executing the transaction. At the same time, a key reason for the inability of Sonala FPC to get off the ground was the inability of its Directors to agree on collectivizing dispatches to distant markets.

There are three key elements to this driver of FPC performance viz. Capacity and willingness of individual Directors, cohesion between the directors and clarity of authority / accountability amongst them. While the first can arguably be influenced through capacity building efforts, prudent selection of Directors and sharing information with them on the concept of FPCs and role of Directors at the time of mobilization and selection can have a greater role in ensuring FPC leadership (i.e. its Directors) has the requisite capacity and remains motivated in its position. Cohesion between Directors is a softer challenge to address but putting in place standard operating procedures or detailed guidelines for FPC operations could potentially address the challenge of lack of cohesion besides training workshops that emphasize the benefits of collective marketing could also influence this. Ensuring that individuals motivated by political ambitions and / or those motivated by the availability of government support alone are not selected as Directors can further address this challenge.

Also, some JFPR FPCs' performance was significantly limited due to the lack of availability of Directors. Though in some cases it was on account of lack of interest, at least in one case, this was alleged to be arising from the unethical activities of some Directors. In such cases, functioning of the FPC was crippled since the quorum required for decision making in meetings of the Board of Directors could not be achieved. Since the Company law provides very limited options for the release of such Directors, especially if such Directors are not willing to be relieved, a provision for the release of such Directors may be worth considering in the Producer Company Act. In line with an earlier "lesson learnt" outlined above, providing for dedicated independent professional management support with direct reporting into the Grant maker can also help to address this issue.

FPC support programs should have a bias towards provision of support for diversification of revenue streams, value addition and capacity to cater to organized large scale buyers. The vast majority of transactions undertaken by the JFPR FPCs were trading transactions involving limited

[70] Or, alternatively, have the means to extend shelf life of perishable produce in the form of pre-cooling, end to end cold chain and / or waxing (in the case of citrus fruits) and / or packaging that preserves shelf life

to no value addition. While this provided for higher margins for the FPCs (and - by virtue of farmers' expected shareholding in the FPC - for farmers) through disintermediation, it also transferred the risk undertaken by the intermediary to the FPC and, in many cases, exposed it to a longer payment cycle. Though the transport subsidy and revolving fund (respectively) enabled FPCs to set off this exposure, sustaining and growing revenues while minimizing risks for the FPC would require a more holistic and sustainable approach.

Theoretically, FPCs undertaking only trading transactions can sustain by capacitating themselves to the same level as that of traders. This would however mean that a very different set of skills would need to be inculcated in the FPC, primarily including gathering of market intelligence from multiple end-markets (not just on prices but also on the credit-worthiness of bulk buyers in these markets) and access to large pools of affordable working capital. For example, for a commodity like banana, this would mean acquiring and continuously updating the knowledge of supply and demand situation of banana within the country. With banana being produced in large quantities in at least 10 states[71] spread out the geography of the Indian sub-continent and being sold in bulk in almost all urban centers across the country, this translates into a very onerous requirement that FPCs, being only involved with cultivation (or at best exposed to one or two traders), are highly ill-equipped to develop. Having said that, dedicated professional and experienced support could theoretically be absorbed to enable the same.

Irrespective, given the inherently risky and uncertain nature of revenue streams[72] that depend upon trading, it would make sense to encourage or support the generation of income from various other unrelated sources. Such sources can include, inter alia, (a) fee revenue from provision of services[73] (b) support for services not related to market linkage like setup of an input shop[74] or provision of mechanization services (c) undertaking activities around non-focus commodities opportunistically[75], and most importantly, (d) developing the capacity to cater to large scale organized buyers (e) engaging in value addition activities[76].

Despite multiple attempts JFPR FPCs were also unable to undertake successful transactions with organized large scale buyers. Organized large scale buyers typically have the capacity and willingness to enter into long term contracts for purchase of sustained large quantities at mutually agreed, market-linked prices and can be amenable to providing advances to FPCs. Many of the constraints that FPCs face in terms of lack of liquidity at the time of harvest and uncertainty in

[71] Source: http://agritech.tnau.ac.in/banking/PDF/Banana.pdf
[72] On top of the inherently risky nature of cultivation by virtue of its dependence on the weather
[73] As demonstrated in Deola FPC's provision of a platform for sale of vegetables for urban markets for a fee and also demonstrated by Satpuda, Reva Valley and some other banana FPCs in generation of commission income for the FPC by making the agent's work of collection / consolidation easier
[74] As demonstrated by Deola FPC in setting up an "agri-mall" for collective sale of discounted inputs to members on credit
[75] As demonstrated by Pratishthan FPC in taking membership of MahaFPC to provide an offtake for large quantities of pulses from members for the government's procurement
[76] If FPCs replace traders, the value addition is limited and the FPC has to acquire the risk taking ability of the trader which in turn requires the ability and investment for gathering and analyzing extensive market intelligence. One of the core benefits of collectivization – enhanced bargaining power – was not effectively leveraged by some JFPR FPCs since they made sales in spot markets through a commission agent where price discovery took place only after dispatch was made and produce arrived at the agent's location. Moving into value added products that can be sold on a long term contract basis with assured price could provide for improved performance.

level and price of offtake from existing buyers can thus be eliminated or reduced in transactions with such buyers. However, large organized buyers, especially those that are willing to undertake the commitments mentioned above typically have stringent quality, reliability and consistency requirements that FPCs are not equipped to meet. Some of the key barriers that FPCs face in meeting the requirements of such buyers include

- **Inability to find offtakers for produce rejected by such organized buyer:** The quality of farm produce, being dependent on varied conditions and cultivation practices of individual smallholders, is never of 100% uniform quality. This means that at least some of the produce of farmers is such that it does not meet the quality requirements[77] of an organized buyer. Since traders have, over the years, developed networks that enable them to secure an outlet for each type of produce, farmers are often used to selling their entire produce at one go without having to undertake much grading and sorting. When contracting with organized buyers, even though farmers may obtain higher realization on the portion of their produce that is of high quality, they have to deal with finding a suitable buyer for the balance portion. Since the balance portion may be small and the set of buyers of such produce may be much smaller and less easily accessible for farmers directly, dealing with organized buyers becomes a constraint.
- **Lack of access to equipment to preserve quality:** Requirements of organized buyers, especially for highly perishable produce like citrus fruits, may necessitate a cold chain which is capital intensive and for which affordable availability is scarce
- **Lack of awareness of quality requirements:** Even if farmers are able to access the means for retaining quality requirements in the post-harvest chain, they are often unaware and untrained on cultivation practices, practices around use of inputs and harvesting that production of quality produce requires.

In addition, other issues can include the long payment cycles that some organized buyers impose and lack of certainty of sustained offtake which makes farmers reluctant to switch from their existing means of sale, even if it may be yielding low realizations.

While the above constraints are compelling and certainly not easy to overcome at the farmer level, development programs would do well to institute support programs that enable FPCs to overcome these.

Finally, even though the period of active operation of JFPR FPCs was limited, not providing enough time for FPCs to evolve into production and marketing of value added products, a couple of FPCs were able to secure greater value for their produce by using the packaging subsidy for improved packing that helped reduce losses and retain freshness. One of the FPCs was also able to use the infrastructure support to deploy a machine for grading, sorting and waxing, all of which enable greater value realization. Some other FPCs were in discussions with food processors for offtake of their low grade produce and one was planning to use GoI support for the setup of a banana processing plant. It is not surprising to note that these FPCs were amongst the top performers in the set of 18 JFPR FPCs.

[77] Quality requirements can range widely from the level of freshness, to the length/breadth/circumference of the fruit to how many "marks" are permitted on the surface, level of pesticide residues, variety, amongst others.

Even while the analysis in this report delivers a lesson that FPC support programs should have a bias towards enabling diversification of revenue streams, value addition and capacity to cater to organized large scale buyers, it would be impractical to suggest that trading as an activity should be discouraged at the FPC level. This is simply because the share of value added sales and that of organized buyers in the total fresh produce sales in the country is very small[78,79,80] even though it is growing at very fast pace[81]. The larger market for most FPCs is therefore highly unorganized in nature and limited options for long term, contracted sales exist. While diversification of revenue streams beyond trading is one way to address the risk arising from trading, the other way would be to develop support options that minimize or set off the risks of engaging in trading. As mentioned above, one way to do this is by absorbing / accessing experienced talent that is well versed in trading into / for the FPC[82]. Alternatively, or in combination with this, establishing "branches" or "extensions" of the FPC in key wholesale markets close to consumption centers can provide for more certainty in price realizations. The risk of payment defaults, which is another key challenge associated with dealing with the unorganized trade can be addressed by identifying and working with an independent platform that can secure creditworthiness of both parties by taking a deposit / advance from both parties and / or operating an "escrow" account until consummation of satisfactory transaction. Such platforms already exist in various forms (a couple of which are discussed earlier in this report viz. e-Rakam and tradeindia.com) but are at a nascent level and could use the support of Development Partners to evolve into such platforms.

Recommendations

Lessons learnt from the JFPR Grant experience provide a sound base of knowledge and experiences that adds to the existing but arguably limited current literature in the area of Development Partner support for FPC development and performance.

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[78] The share of all fresh produce sale in India that takes place through organized retail chains is estimated to be under 1%. Source: Supermarket Expansion in Latin America and Asia : Implications for Food Marketing Systems, Thomas Reardon, C. Peter Timmer and Julio A. Berdegué, 2015

[79] Only 2.2% of fruits and vegetables produced in India are processed. Of this 2.2%, only 48% is in organized sector. Source: "Food Processing Industry in India: S&T Capability, Skills and Employment Opportunities", Journal of Food Processing & Technology; https://www.omicsonline.org/food-processing-industry-in-india-s-and-t-capability-skills-and-employment-opportunities-2157-7110.1000260.php?aid=18929, 2013

[80] The market share of India's largest organized online retailer of fresh produce – BigBasket - is less than 0.5%. Source: Estimated using data from "Horticulture Statistics at a Glance", 2017, GoI http://nhb.gov.in/statistics/Publication/Horticulture%20At%20a%20Glance%202017%20for%20net%20uplod%20(2).pdf and https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/bigbasket-wholesale-generates-rs-1176-cr-turnover-in-fy17/articleshow/63526737.cms

[81] Growth in food processing in India is estimated at 12% (Source: https://economictimes.indiatimes.com/industry/cons-products/food/food-processing-will-be-main-industry-in-future-jaitley/articleshow/61485828.cms) while that of organized retail is estimated at 20-25% (Source: https://www.thehindubusinessline.com/news/indias-retail-sector-projected-to-grow-to-13-trillion-by-2020/article25125747.ece)

[82] See "Annexure 4: Illustrative options for provision of independent professional support for FPCs"; In interactions with market players, the author came across at least one mid-sized trader operating in India's largest fruit and vegetable wholesale market (*Azadpur*, in Delhi) who was keen to explore employment opportunities with FPCs in a marketing role. As the organized share of market increases, the vast population of small and medium sized traders will inevitably have to reduce over the years. Many such traders possess vital experience in trading that can be valuable for FPCs in a management position.

This section attempts to breakdown the lessons learnt into specific suggested recommendations for Development Partners that are interested in undertaking activities for support of FPCs and for the FPCs that are recipients of such support[83].

For Development Partners

The following specific recommendations could provide for incorporation of lessons learnt from the JFPR Grant experience.

FPC formation and capacity building

- Start with registration of FPCs with a small[84] membership base and provide targeted support to enable demonstration of success, even if it is limited in scale, early on. While this may not be applicable across contexts, provision of working capital support either for a direct transaction with a distant buyer or for collective purchase of inputs for sale on credit to members (associated with capacity building support relevant to such transaction) could provide for such initial demonstration. Publicizing success achieved amongst other prospective members to create a pull for them to join followed by another demonstration, with a larger membership base and so on, can create a virtuous cycle of success that grows on the back of membership which in turn drives greater membership.
- Define a selection process for Directors that provides clear incentives and disincentives aligned with FPC performance. Ensure selection accounts for and gives high weightage for (a) personal dedication to the cause of collective commercial transactions involving the larger community (b) representation of smallholders and women. At the same time establish rules for retrenchment of Directors based on level of activity and performance.
- Identify training and capacity building needs specific to each FPC's context accounting for, inter alia,
    - Focus (and other) commodities grown by members.
    - Specific nature of existing and evolving market (eg. large volume low margin informal trade and low volume large margin organized trade)
    - Profile and existing capacity of farmer members
- At the same time, expose members to a broad spectrum of revenue opportunities including, inter alia,
    - fee revenue from provision of services
    - support for services not related to market linkage like setup of an input shop or provision of mechanization services
    - undertaking activities around non-focus commodities opportunistically
    - developing the capacity to cater to large scale organized buyers
    - engaging in value addition activities

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[83] Though the elaboration of lessons learnt in the previous section provides pointers for all other stakeholders interested in this space, providing comprehensive recommendations for other stakeholders, especially the government, is avoided. This is because the Government's agenda for FPC support is extensive and extends well beyond what this study could conceivably have covered, being limited in scope to the extraction of lessons for Development Partner programs from a set of 18 horticulture FPCs.

[84] The specific number could vary based on circumstances and context though, as pointed earlier, in the case of the JFPR Grant program, mobilization of 50-100 members at a time was found to be reasonable. More important than the specific number would be the level of cohesion that naturally exists within the set of initial members by virtue of socio-economic, demographic or other common characteristics.

- Ensure liaison between local extension bodies and organized buyers to ensure that cultivation and harvesting practices can also align with quality needs of organized buyers
- Provide for independent professional management support to the FPC on a sustained basis with direct reporting of such management to self through the government implementing agency. Develop a governance mechanism that ensures a close and continuous level of coordination between such provider of professional management services, self (Development Partner) and the government implementing agency[85]. To begin with, the cost of such professional support should be provided from Grant funds with a provision for reducing the same and replacing with FPC's reserves as these rise.

Financial support

- Release Grant support in tranches linked, and in tandem with, relevant aspects of capacity building support being provided. After demonstration of initial success, also create a link between the release of support and achievement of financial and development results (eg, inclusion of smallholders, women and / or underprivileged groups)[86]
- Provide case based support within a larger defined set based on submission of specific proposals keeping enough flexibility and customization for release of Grants based on the specific needs of each FPC. To enable this, capacity building and professional management support could include the development of an overall business plan for the FPC once it reaches a defined minimum threshold in terms revenues and / or reserves.
- Some suggestions on likely elements of financial support are outlined below (the order, extent and specific nature of such support can vary based on the specific context and need of FPCs being supported)
    - Provide working capital support in the form of a revolving fund upfront
        - Align disbursal and recovery to the cropping cycle of FPC's core crops
        - Keep the share of FPC's contribution to the fund limited to 25%
        - Build in incentives linked to
            - the participation of larger numbers of farmer members in the transaction for which the fund would be utilized
            - external finance mobilized
        - Limit number of times a particular FPC can access the fund (to ensure it is not creating dependency) or alternatively, start / increase charging interest on subsequent withdrawals in a stepwise manner (eg. no interest for use

[85] The shape and form that such independent professional support takes can be developed based on guidance provided in "Annexure 4: Illustrative options for provision of independent professional support for FPCs"

[86] By continuously measuring the parameters laid out in Figure 7 (detailed in Table 2 and Figure 49), support providers can be dynamically tweak incentives to achieve the specific aspect – financial or inclusion - being underserved. As an illustration therefore, looking at Figure 49 - if support were to be continued to the JFPR FPCs - Shubh Labh FPC's further support should be linked to inclusion while sustaining financial performance. Similarly, Satpuda FPC's (and to an extent, Shetak and Kalyani FPCs'), support should be targeted towards raising financial performance. Some other FPCs, like Seven Green Hills, Shetmall, Reva Valley which are profitable might need support that helps sustain profitability while using the success to garner more membership simultaneously. Finally FPC that leveraged high levels of support but remained unprofitable and could also not garner large membership - like Pratishthan FPC - need to be examined very closely for the development of specific interventions that ensure course correction.

twice, 4% interest for another two uses, 6% interest for the next two and so on)[87]
    - Provide for the sustainability of the fund by charging a management fees on the corpus managed as the fund; the corpus pool itself could be made up from interest charges
  - Provide support for infrastructure that is most critically needed and only to the extent of bridging the viability gap. In other words, provide infrastructure support on a case to case basis based on proposals submitted by FPCs, contingent upon
    - Commencement of some activity as FPC prior to application for infrastructure support
    - Quantum of support being only as much as would make the project viable
    - Preference for infrastructure for value addition as against for enabling "plain-vanilla" trade
  - Provide for a pool of capital for other means of support that may be proposed by FPCs for their specific needs. This will enable FPCs at different levels of maturity to leverage support for their most compelling needs. For example, an FPCs that has the capacity to invest in a collection center on its own, might prefer to leverage support for a processing plant or sophisticated grading machinery that would require greater financial commitment. Prioritize support requests with a bias towards value addition and access to organized markets
  - Develop a price support pool[88] (with a nominal fees to sustain corpus) with an intent to absorb
    - price fluctuations between the time of dispatch and actual sale
    - payment defaults by buyers

Ecosystem

Besides specific support for FPCs through time-bound development programs, it would make sense for Development Partners to work in coordination with the Government to

- develop existing and upcoming platforms for limiting payment defaults by buyers or any breach of contract by either party
- design pilots for offtake from FPCs in consultation with organized buyers and buyers of value added products
- institute quality grading systems onboarding learnings from similar contexts globally
- identify specific reform opportunities in FPC regulation

Overall, Development Partners would be well positioned to provide support to FPCs to prepare themselves for reaching the minimum threshold requirements of the GoI for support under its schemes. While GoI schemes have a strong and well-informed program for FPC support that can enable sustainability over a period of time, a vast majority of existing FPCs in the country struggle to reach the level that is considered minimally necessary for direct financial support by the

[87] Please refer Box titled "Simulating the impact of transport subsidy and revolving fund" in "Chapter 4: Assessment of FPC performance and its drivers" for analysis that demonstrates why a price support pool can be useful

[88] Instances of such price support and / or guarantee pools have emerged across the world in emerging markets over the last few years. In India itself, The Rabobank Foundation provides guarantees to the Indian Financial Institutions lending to FPOs.

Government. Plugging this gap can ensure complementarity and mutual reinforcement of development partner and GoI initiatives in FPC development.

Finally, it is extremely important for Development Partners to maintain a razor sharp focus on the market failure that is sought to be addressed by FPC support programs i.e. (a) the lack of commercial viability for sourcing, transportation, processing, distribution and delivery to consumers of the volumes generated at the level of smallholders (b) the limited capacity at the smallholder level for investment required to align with quality requirements of buyers, to consolidate volumes that can bring about economies of scale for these activities and / or enhance bargaining power of smallholder farmers vis-à-vis buyers. Any support extended to FPCs must be continuously cognizant of this as the barrier to be overcome only until, like in the case of any public intervention, the viability for private investment can come about. Loss of focus on this aspect can tilt the balance towards financial support that is damaging to private sector incentives and can lead to crowding out of private investment. For example, provision of a revolving fund needs to ensure that while it enables transactions that are not achievable with commercially available finance, it delivers clear development benefits for smallholders and the underpriviledged while building in incentives that discourage dependence on continued provision of the fund at terms concessional to commercial finance.

For Farmer Producer Companies

- Use the support provided by Development Partners and Government to undertake transactions that provide a demonstration effect. In other words, using financial support to undertake transactions that are fundamentally unviable commercially should be avoided. Instead, viable transactions that underprivileged farmers are unable to undertake on account of their constrained access to capacity and capital that is otherwise available to those farmers who are not similarly underprivileged, should be prioritized. Achievement of success in such transactions should be publicized to attract greater membership.
- Once demonstration has been achieved and FPC reserves start building up, such reserves (or commercially available institutional finance, if available / accessible) should be used for transactions in preference to external Development Partner or GoI support
- While trading activity cannot be avoided for achievement of scale, the attempt should be to undertake more and more transactions with organized buyers and / or those that require value added products,
- All transactions that leverage the collective strength of members should be undertaken on the FPC's account
- Actively identify specific capacity building needs (including professional support) and seek the same from Development Partners in preference to direct financial support
- Develop a long term vision and strategy as soon as some successful transactions have been demonstrated

For the government

While development programs can provide essential support for FPCs, since these programs are time bound and intermittent, it would be prudent for the Government of Maharashtra to create dedicated institutional support for FPC development. Since MSAMB already provides such support intermittently and has been a key counterpart for development projects oriented towards

FPCs, it may be useful to setup a dedicated FPC support unit within MSAMB. Alternatively, since MSAMB's core mandate is limited to marketing and that too, specifically around aspects of the Agriculture Produce Marketing Committee (APMC) markets while FPC development requires a more holistic approach covering all aspects of farming that can benefit from collectivization (including, inter alia, inputs like seeds, fertilizers, pesticides, mechanization, extension services like cultivation and harvesting practices, provision of credit etc), a cross-departmental body that draws members from departments covering all these functions would be worth considering for sustained provision and management of FPC support programs.

It would also be imperative for the government to coordinate with Development Partners and other stakeholders to address key systemic issues that limit FPC performance. At least two such issues encountered in the JFPR Grant project viz. (a) the lack of universally accepted quality standards / grades and, more importantly, limited understanding of the varied quality requirements of different buyers at the FPC level that led to disputes around quality in the attempts made by some JFPR FPCs to address organized markets (b) high level of payment defaults from market operators (or, in other words, the lack of a mechanism to establish creditworthiness of buyers and sellers/farmers). For the former, the government extension machinery can constructively work in tandem with Development Partners and organized buyers bridge the gap in quality required and what is available from farmers / FPCs. For the latter, again, the government can constructively work in tandem with Development Partners and platforms that are already operating and attempting to bridge the credibility gap between buyers and farmers / FPCs[89].

<u>Sustaining the specific initiatives seeded within the JFPR Grant program</u>

The revolving fund was transformational in its impact and accounted for many successful transactions at JFPR FPCs. Since the GIU would cease to exist after closure of the Grant project, there would be need for an institutional support mechanism for the maintenance of the revolving fund beyond project closure.

Similarly, an FPC Portal developed under the JFPR Grant provided a sound base of data on FPCs in the state and garnered interest from buyers. While it has provided for a beginning as a tool to facilitate transactions, it needs to be developed further for it to gain traction as a tool for facilitating commercial transactions for FPCs. While other platforms for connecting FPCs with buyers have been tried in the past, including within the JFPR Grant[90], they have met with limited success on account of various factors including creditworthiness of buyers, lack of understanding of market requirements and reliability of supply from farmers/FPCs, disputes around quality etc.

With MSAMB's strong experience in agriculture marketing and its deeper understanding of these challenges, bringing the portal under MSAMB's guidance can enable addressing of these challenges. Since MSAMB has a mandate to develop the GoI's e-NAM[91] platform, it may be

[89] Examples of such providers mentioned earlier in this report include indiamart.com (mostly in a non-agriculture sector) or e-Rakam (focused on agriculture)
[90] An attempt was made to use two such platforms for FPCs transactions in the JFPR Grant viz. e-rakam and Pavata.
[91] National Agriculture Market (eNAM) is a pan-Indian electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.

worthwhile to link the FPC portal to e-NAM exposing it to a national market. The feasibility and practicality of such a linkage can be best explored and assessed by MSAMB. An alternative would be to invite a professional entity that already facilitates buyer-seller transactions to manage and grow the portal under MSAMB's guidance[92].

Further, the GIU has proposed creating a federation of JFPR FPCs for which a few discussions have taken place and there is general agreement. However, with closure of the Grant, it would be useful to pursue this objective with some institutional support with a view to bring together the FPCs' strengths in collective marketing and achieving scale that becomes more attractive for large organized buyers.

[92] Examples of such providers include indiamart.com (mostly in a non-agriculture sector) or e-Rakam (focused on agriculture)

Annexure 1: Field visit itinerary

Field visit itinerary
Sunday, 23rd Sep
Visit to mantralaya farmer market and meeting with farmer-retailers and one Director of Shetmall FPC (FPO that manages the market)
Monday, 24th Sep
Full day meeting with GIU
Tuesday, 25th Sep
Meetings with Directors and select members of Sangamner and Shetmall FPCs Meeting with Jayesh Desale and Co. (CA firm auditor of some JFPR FPCs)
Wednesday, 26th Sep
Meetings with Directors and select members of Deola, Chandwad and Girna FPCs
Thursday, 27th Sep
Meetings with Directors and select members of Tapi, Reva, Pandharinath, Satpuda, Navchaitanya, Dhartiputra, Sonala and Shetak FPCs
Friday, 28th Sep
Meetings with Directors and select members of Shubh Labh and Seven Green Hills FPCs
Saturday, 29th Sep
Meetings with Directors and select members of Wadegaon and Kalyani FPCs
Sunday, 30th Sep
Meeting with Directors and select members of Pratishthan FPC
Monday, 1st Oct
Meetings with FPC buyers at Azadpur Mandi : (1) Trader who bought onions from Shetmall FPC (Akhil Gupta) and (2) Trader who bought oranges (Sunil Sheth) from Shubh Labh FPC
Wednesday,3rd Oct
Visit to (and meeting with) trader in Amroha (3 hours from Delhi) who bought bananas from Satpuda FPC
Meeting with prospective buyer of bananas (discussions ongoing to start deliveries) from Dhartiputra FPC in Meerut
Thursday, 4th Oct
Meeting with trader who bought oranges from Seven Green hills (Chaudhri Guchchan) in Kanpur
Meeting with trader who bought oranges from Seven Green hills (Ashok Sheth) in Lucknow
Friday, 5th Oct
Meeting with trader who bought oranges from Shubh Labh FPC (Vijaya Fruit Co.)
Week of 8th and 15th Oct
Calls with Ahsan and Paolo, previous ADB Project Officers

Annexure 2: Broad areas of discussion for stakeholder interviews

<u>FPCs</u>

- How did the Directors came together? What is their background and key motivation to join the FPC?
- Walkthrough of experiences since conception to current state covering, inter alia,
    - All transactions undertaken – failed and successful
        - Walkthrough of how the customer was acquired
        - What were the key decision criteria for choosing to undertake the transaction
        - What was the nature / terms of transaction and experience in executing it
        - Has the customer been retained
    - All non-financial support leveraged and feedback on its utility and relevance
    - All financial support leveraged and its utility
    - Experience with Business Development Facilitator
- What share of farmer members are actively participating, peripherally participating and not participating in FPC activities?
- What share of their produce (inputs) are farmer members selling (buying) through the FPC?
- What in your view determined the level of success (or lack thereof) that you achieved? Please explain.
- What are the biggest challenging in the sustainability of your FPC after the Grant expires
- Were all applicable available support mechanisms leveraged – why/not?
- What suggestions would you make for the design of a new program that seeks to develop FPCs and provide market linkage support to them to make them self-sustaining
- Did grading / quality / practices of any farmer members improve in any way after the FPC was setup

<u>GIU</u>

- Walkthrough GIU activities for FPC support from conception of Grant to current state.
- Relative assessment of each FPCs along above questions
- Which FPCs amongst the 18 that were setup do you think will be best able to sustain or expand their operations after the project is closed? Why?
- Suggestions on discussion guide for FPCs? Any areas that require more focus / attention in the information gathering?
- Procedural challenges in Grant administration and their impact on FPC performance
- Which model for market linkage works best for FPCs and under what circumstances
    - Farmer / FPC holding / owning the produce upto the retail market
    - Attracting more buyers to source from farm/FPC-gate
    - Contractual relationships with buyers – long term contracts, contract farming etc.
- Please describe a few transactions that were attempted or started but could not get completed or resulted in a loss after completion for the FPCs. Discuss reasons that led to such outcome.
- any cross-pollination of learnings did? Possible?

- Did FPCs face any social or other resistance to their collective marketing efforts (for eg. from traders, agents, other intermediaries). Please discuss.
- What were the drivers

Buyers

- Why did you choose to deal with XXX FPC?
- How was your experience dealing with the FPC different from your normal course of operation?
- What challenges do you envisage in scaling up such transactions?

Annexure 3: Short review of literature on FPC performance

One of the first comprehensive studies on producer companies was carried out by PRADAN in 2006. This study dealt more with the operational problems of establishing producer companies, many of which had to do with the unfamiliarity of officials and bankers about this new legal form. The next important study was by Murray from the College of Agricultural Banking, Punein which he studied nearly 25 producer companies, of which a majority were in Madhya Pradesh. Murray talked of a three step evolutionary process of farmer producer organizations – initially as aggregators, later as intermediaries between farmers and processors, and finally as processors themselves.

One of the most comprehensive studies on producer companies in India was carried out by Dr Amar KJR Nayak of XIM, Bhubaneswar with NABARD sponsorship in 2013. The study sought to understand the existing status of the producer companies in India in terms of organisational design and structure of ownership, the performance of the existing producer companies on various business parameters and in terms of improving net incomes and market power of small and marginal farmers and to determine the problems faced by these companies and the possible mechanisms to address the constraints being faced.

The study began with a list of 258 producer companies, collected secondary data on 55 of those and then 15 of those were studied through field visits. The main findings were that producer companies already represent a huge diversity in terms of size, from those with a few hundred members to some with over a million. In terms of economies of scale, most FPCs have gone into at least the first few links of the value chains so as to add value. Few have gone into multiple commodities. In terms of technology, again they represent a spectrum from using the traditional to adopting modern technology.

The study identified the key drivers for the formation of producer companies as (i) to create a good alternate delivery system to supply external agricultural inputs to farmers on time and at government prices and (ii) to directly sell the surplus produce of farmers in the market so that farmers get better price for their produce.

Challenges of producer companies were identified in the following areas: (a) Social capital formation (b) Governance and Management capabilities (c) Scope and scale (d) Market landscape (e) Ownership issues (f) Convergence of resources from district administration (g) Institutional architecture of producer organizations in a particular district, and (h) Financial capital formation.

To overcome these challenges, the study recommends greater upfront effort in social capital formation and in capacity building; developing ecosystem services which include emergency credit, consumption credit, production credit, retail services on consumables and other agricultural production support services; basic physical infrastructure; taking up "climate-smart" agriculture, mitigating the risks of or adapting to climate change; convergence of knowledge and resources at the level of the FPC, including the creation of a district and below level architecture for FPCs, so that they do not come up as islands and later get overwhelmed.

A set of more recent studies have taken a case-study based approach to the assessment and evaluation of FPC performance making lessons learnt more relevant to the specific needs of the studied FPCs.

As far as Maharashtra is concerned, an assessment of the performance of the FPCs setup under the World Bank (WB) sponsored MACP project was carried out by consulting form Grant Thornton in early 2018. The study considered a sample of 200 FPCs that had commenced business activities and assessed their overall progress with respect to various parameters using a quantitative rating method. The study identified various procedural, regulatory and strategic issues in the development of FPCs. Procedural issues identified include lack of documentation of meetings of the Board of Directors, timely and regular organization of Annual General Meetings of all shareholders, challenges around transfer of shares to members, difficulties in accessing government schemes. Regulatory issues identified include requirements for obtaining input and direct marketing licenses. The key strategic issue identified was the lack of availability of working capital finance.

While this and other studies mentioned above provide valuable insights on the performance of FPCs, assessments of the nature and extent of impact of various kinds of support provided and the relevance, effectiveness and efficiency of such support for the sustainability of FPCs are more difficult to find.

Annexure 4: Illustrative options for provision of independent professional support for FPCs

From amongst the skill sets needed for running a for-profit company, the skills for which the gap between available and required capacity is expected to be the highest and therefore those that ought to be provided for through professional management support are

- Market intelligence
    - exposure to alternate markets and assessment of their relative attractiveness
    - understanding and appreciation of specific needs of different, especially organized buyers (quality, traceability etc)
    - ability to assess / confirm creditworthiness of buyers
- Commercial aspects of scaled transactions for
    - Sale
    - Purchase
        - Goods (inputs)
        - Services (equipment, labor)
- Growing and managing a professional for-profit enterprise
    - business development
    - operations
    - commercial
    - finance and accounting, legal
    - regulations and compliance, documentation
    - human resource management
    - project mgmt. and planning

Different models for provision of professional support to FPCs have been tried in India. These options can be broadly divided into four categories. The following provides a brief description of each option along with its pros and cons:

- Option 1: A consulting firm that sets up a dedicated team to support FPCs on the directions of the Development Partners and the Government Implementation Agency. Eg. Agribusiness Promotion Facility setup under various World Bank projects in multiple states in India
    - Pros: Robust professional training, work ethics and program management approach
    - Cons: Limited credible industry contacts, no direct linkage of FPC performance outcomes with incentives, no ability to influence policy
- Option 2: Government entity / implementing agency. Eg. GIU / MSAMB in the case of JFPR Grant program with sporadic and limited support from consulting firm and 1-2 BDFs for 18 FPCs
    - Pros: Strong ability to influence policy, greater credibility within government
    - Cons: Limited direct industry connects, no direct linkage of FPC performance outcomes with incentives, exposure to red-tape and bureaucracy related hurdles as a government department
- Option 3: Resource agency (typically an NGO), appointed by the Government.

  - Pros: medium ability to influence policy, deep understanding of supply side issues and strong farmer connect
  - Cons: Limited industry connects, Limited professional capacity
- Option 4: Full-time CEO recruited at FPC level (sometimes in combination with Option 3)
  - Pros: (Heavily dependent upon candidate recruited) Since salary / incentives come from / through FPC, most direct alignment of incentives with FPC performance; Stronger familiarity with and trust of FPC members
  - Cons: Limited talent pool with requisite skills that is willing to undertake such assignment

Comparing the relevance and utility of each of these options (in addition to another option proposed option that entails provision of such support through an existing organized aggregator / intermediary / trader) with the most critical skills needed as defined above, reveals the following:

Table 38: Comparing options for provision of professional support vis-à-vis FPC skill gaps

	Govt dept	ABPF (Consultant)	Resource Agency Aggregator/organized intermediary	NGO	FPC CEO
- Market intelligence					Depends on candidate recruited
○ exposure to alternate markets and assessment of their relative attractiveness	Low	Low	High	Low	
○ understanding and appreciation of specific needs of different buyers (quality, traceability etc)	Medium	Medium	High	Low	
○ ability to assess / confirm creditworthiness of buyers	Medium	Low	High	Medium	
- Commercial aspects of scaled transactions for					Depends on candidate recruited
○ Sale	Low	Low	High	Medium	
○ Purchase	Medium	Low	Low	Medium	
▪ Goods (inputs)					
▪ Services (equipment, labor)					
- Growing and managing a professional enterprise (esp for-profit)	Low	Low	High	Medium	Depends on candidate recruited
○ business development	Low	Low	High	Low	
○ operations	Low	Low	High	Low	
○ commercial	Low	Low	High	Low	
○ finance and accounting	Low	Low	High	Low	
○ regulations and compliance	High	Low	High	Medium	
○ human resource management	Low	Low	High	Medium	
- Alignment of desired FPC performance results with core purpose of entity	Medium	Low	Low	Low	High

As can be seen from Table 38, while an existing organized aggregator / intermediary brings on board the best combination of skills needed at the FPC level, as a market operator that may be working with a wide range of farmers for its core business, its interests would be mis-aligned and, could potentially even be in conflict with the interests of the FPC. At the same time, the relevance of suitability of an individual recruited as a CEO at FPC level will be heavily dependent on such individual's capacity. Further, the strong understanding of local context and supply side issues that a grassroots NGO can bring provides some value. Finally, government departments' have the best ability to influence policy level issues that stand in the way of FPC development and independent consulting firms have their strengths in the rigor of professional training they are equipped with for program management and their strong work ethic.

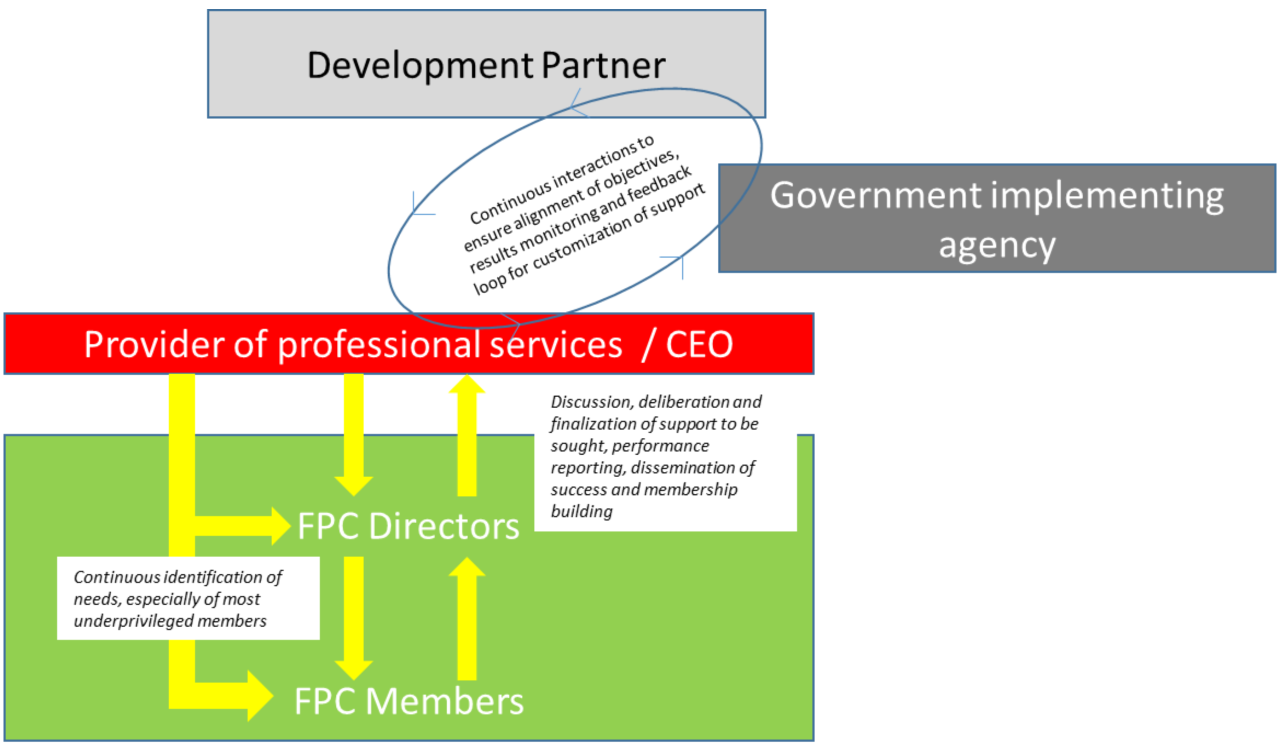
Though the above table makes it evident that the actual solution for provision of independent professional management would depend on a range of factors including availability of appropriate resources, it enables a dispassionate view of the specific advantages and disadvantages of each option. It also reveals that a combination of options can potentially be made to work for an ideal outcome.

For example, in case a senior employee or leader of an organized aggregator / intermediary can be incentivized to join as a CEO of an FPC, the right mix of skills can be available without the associated disadvantage of conflict of interest. On a case to case basis, such CEO may be supported by a team of shared technical specialists in specific expertise areas (like accounting, compliance, commercial etc.).

Another alternative could be to find and develop / nurture an individual with any experience in agriculture marketing and operations to become the CEO of an FPC working under government supervision and / or coached by an organized intermediary / aggregator or consulting firm.

Irrespective of how the independent professional management support is brought about, the governance structure for FPC support by any Development Partner should provide for a continuous and close looped interaction between itself, the FPC Directors (and members as needed), the provider of professional services / CEO and the government implementing agency so that continuous monitoring and customization of support can be ensured (Figure 51).

Figure 51: Illustrative governance structure for continuous improvement and tight alignment of FPC support imperatives between stakeholders



Annexure 5: Timing of support sought by FPCs

		Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Guidelines released in Mar-17	Revolving fund				Shetmall				Tapi Valley			Shetak	Pratishthan	Seven Green		Navchaithanya		Wadegaon		Girna			
					Satpuda				Deola			Shubh Labh								Pandharinath			
					Reva Valley																		
					Sangamner																		
Guidelines released Nov-16	Primary Processing Infrastructure			Deola					Shetmall				Girna		Pratisthan	Shubh Labh							
									Satpuda				Reva Valley		Wadegaon	Sangamner							
									Seven Green				Tapi Valley		Kalyani								
									Pandharinath				Shetak										
													Dhartiputra										
	Transport subsidy							Shetmall	Deola		Pratishthan			Girna	Satpuda	Navchaitanya				Shetak	Wadegaon		
								Reva Valley	Tapi Valley					Seven Green Hills	Shubh Labh								
								Pandharinath															
	Packing subsidy														Shubh Labh	Navchaitanya							
															Seven Green								

Note: Updated as per information received from GIU up to October 2018; the project closed in December 2018

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