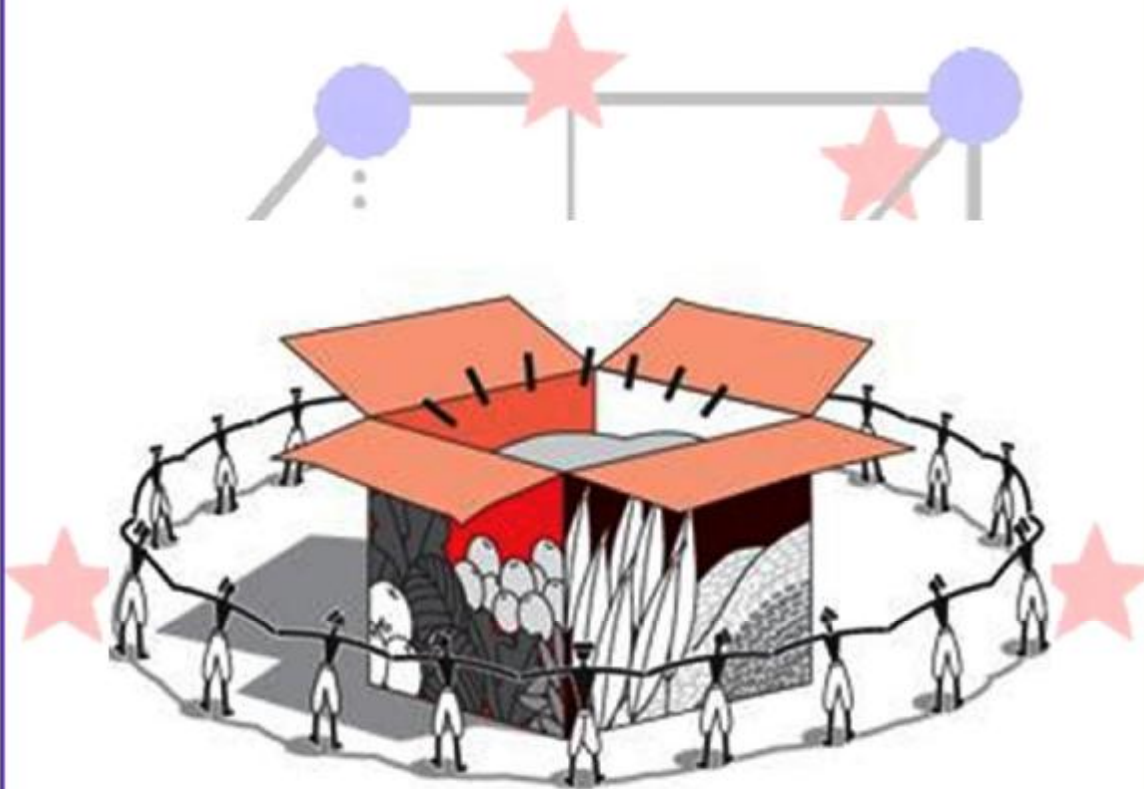


**National Round Table Discussion on
Optimal Design of Farmer Producer Organizations
18th Jan 2016
A Synthesis Report**



Dr. Debroy Maiti/Kamala/1/16



**NABARD CHAIR UNIT
Xavier Institute of Management
Xavier University, Bhubaneswar, Odisha**

TATA TRUSTS



National Round Table Discussion on Optimal Design of Farmer Producer Organizations

EDITORS: Amar KJR Nayak
Asish Kumar Panda

RAPPORTEURS: Asish Kumar Panda
Jeevan Arakal

RTD COORDINATED BY: Amar KJR Nayak

CONTENTS

Sl. No	Content	Page No.
	Preface	ii
	Acknowledgements	iii
1	The Context of Farmers & FPO Initiatives in India	1
2	Literature Review on FPO Design & RTD Discussions	6
3	Summary and Recommendations of RTD	14
4	Memorandum on Legal & Budgetary Provisions for FPOs/PCs in India	17
5	Proceedings of the Discussions	18
6	Executive Committee for Annual Conference	30
7	Summary of Research Papers, Reports & Perspective Papers	31
8	Program Schedule –RTD on FPO	47
9	Participants / Delegates Present in the RTD on FPOs	48
	References	50

Preface

Interacting and coordinating with so many senior academic colleagues on the design issues, senior practitioners and senior policy experts/executives have indeed been very enriching. Listening and moderating the different points of view during the course of the RTD, I had been wondering if the process of thesis, anti-thesis and synthesis to develop sustainable FPOs in India will take a few more years or we might strike a balance soon. On the general principles of cooperation and intent of farmer producer organizations, there is indeed a common understanding and thinking. However, contextual differences, associated transition processes and different levels of experiences in operationalizing FPOs; provides different points of view to design thinking on FPOs.

The round table discussion on FPO design early this year brought out some common design thinking on size, scope, technology, management, ownership, market landscape, convergence and institutional architecture for building sustainable farmer producer organizations; it also brought out different perspectives on some design variables. The design aspects of ownership and management have been commonly understood and appreciated. It is now only a question of adequate policy support for taking FPOs forward. The RTD surprisingly showed greater convergence on issues of smaller size in term of membership and geographic clusters and larger scope of activities for an FPO to be sustainable. Convergence was also perceived by both practitioners and policy experts/executives as a way forward. However, effective methods of implementation are expected from the academics and willingness of legislators to do so; is needed to take it forward. The issue of institutional architecture seems to be a little early for many of the practitioners as the number of FPOs/PCs promoted in each block or district is not many as of today. The need to think on this would emerge after a few years. At present, there seem to be greater difference in the understanding and opinions with regard to optimal market boundaries for the FPOs. Greater research on transactions costs in different markets and its impact on net incomes for farmers/producers will help find appropriate market landscape for sustainable FPOs.

However, the journey of design thinking as a collective of academics, practitioners and policy makers have begun and I hope, we will pursue this together and help in making the farmer producer organizations sustainable. Interestingly, these issues of organizational design have great potential to inform scholarship on traditional organizations in the secondary and tertiary sectors; as we find today positive winds of change in design of these traditional organizations. Given the global trends, I presume that the world will engage more in cooperative logic than competitive logic in the 21st century.

Amar KJR Nayak
Coordinator, RTD 2016

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The sharing of ideas was fruitful due to the active participation of all the participants and delegates of the RTD. About 50 academics, practitioners and policy experts/executives participated in the face to face interactions of RTD (list in Annexure 5) and over 90 members in all joined in the online discussions prior to the RTD and after the RTD. I sincerely thank one and all for making the discussions as diverse and lively as possible. Joining of Prof. Tushaar Shah, Prof. Y. K Alagh, Prof. A. Vaidyanathan, Prof. Vijay Vyas and Dr. Peter Kenmore in the discussions added to the richness of the discussions. The insights and valuable contributions Prof. K.V. Raju, Prof. Sankar Dutta, Dr. Ajit Kanitkar, Shri Subhash Mehta, Dr. B Mukhopadhyay, Dr. A R Khan, Smt. Usha Padhi, Shri GV Krishnagopal, Shri Hemant Naik, Shri Asis Mondal, Dr. Amulya Mohanty, and all highly experienced participants listed in Annexure 5 of the report made the RTD an important milestone in design thinking on FPOs.

I also thank Fr. (Dr.) Tony Uvary, Fr. (Dr.) Arockia Das, S.J. and Fr. Lourduraj Ignacimuthu, S. J. for their kind support and guidance. Without the support and assistance by the RTD organizing team members, viz., Mr. Bibhuti Sahoo, Mr. Rahul Pratyush Mohanty, Ms. Sangeeta Barla, Mr. Dilip Rath, Ms. Sadhna Dash, and Ms. Sunanda Sahoo of XIMB-XUB this work would not have been complete. I also thank all my colleagues at XIMB-XUB for their direct and indirect support for this RTD to be organized successfully.

Amar KJR Nayak
Coordinator, RTD 2016

National Round Table Discussion on Optimal Design of Farmer Producer Organizations

A Synthesis Report

1. The Context of Farmers and FPO Initiatives in India

Farmers and Agriculture in India have been going through a very dynamic process during the last few decades. Smallholder farmers who constitute over 65% of farmers in India seem to be in high risk in the recent years. In addition to traditional monsters of agriculture viz., monsoon and markets; newer monsters viz., increasing cost of agricultural inputs, high cost of labor, and high health costs have been making farmers and agriculture vulnerable by every season. Sample studies show that the average net income of farmers in irrigated clusters is more negative than that of farmers in rain fed clusters. However, the composite risk of farmers in rain fed clusters is higher than that of farmers in irrigated clusters. The relative risks at different stages of agricultural value chain however are different for farmers in irrigated clusters and rain fed clusters.

With increase in the overall risk among farmers; risk of bankers and credit lending agencies has been rising across India. We also find that all the formal banks viz., cooperative banks, RRB and commercial banks are in risk. Among the several informal sources viz., local sahukaars relatives/friends, local traders, SHGs, and money lenders; local sahukaars seem to have the highest risk as well as highest share of lending in rural/agricultural credit. Village sahukaars who provide multiple services viz., credit (*agricultural production, consumption & emergency credit*), supplies agricultural inputs including agricultural machinery, and who procures all marginal surplus produce from farmers are indeed the core competitors to formal banking system today. Despite much higher rate of interest charged by informal sources than the banks, cross country empirical data also show a rise in the share of credit lending from the informal sources; exposing the stark weakness of banks to compete with local sahukaars.

To deal with the numerous uncertainties in agriculture among smallholder farmers, organizing farmers to form producer cooperatives, collectives, and producer organizations have been well

understood globally and in India for a long time. Producer organizations in the form of producer cooperatives exist for over a hundred years in India. The Primary Agricultural Cooperative Society (PACS) is one of the oldest forms of producer organizations in India. In addition to the cooperatives, there have been many other forms of producer organizations catering to specific or multiple function(s) such as self-help groups (SHGs), Federation of SHGs, Common Interest Groups (CIGs), Joint Liability Groups (JLGs), Farmers Club, Producer Organizations, and Producer Companies.

The Government of India, the National Bank for Agriculture and Rural Development (NABARD), Ministry of Rural Development, Ministry of Agriculture, Small Farmer Agribusiness Consortium (SFAC), and state governments have been investing largely on these organizations in the recent decades. One of the earliest large scale efforts to form producer companies was undertaken by the District Poverty Initiative Project, Madhya Pradesh partly supported by the World Bank. It organized farmers on single commodities to bargain better in markets, local seed production and serve as an external agricultural input delivery entity of the government.

A Producer Organization is a generic name that represents different forms of community organizations/enterprises such as large cooperatives, PACS, SHG, Federation of SHGs, CIG, Farmers Club, Producer Company, etc. However, a Producer Company is a special case of producer enterprise that is registered under Section IXA of the Companies Act, 1956.

In the recent years, the international development agencies such as World Bank, IFAD, FAO, UNDP, Rabo Bank, ProCIF, Technoserve, ICCo, etc have been gradually investing in farmer producer organizations especially in the producer companies. Some of the Indian Banks such as Yes Bank and HDFC have given special focus to support FPOs. Many of the Non-Government Organizations (NGOs) in the country had been facilitating formation of producer organizations and in the recent years and some of them have graduated to facilitate formation of producer companies on behalf of the state governments and development funding agencies.

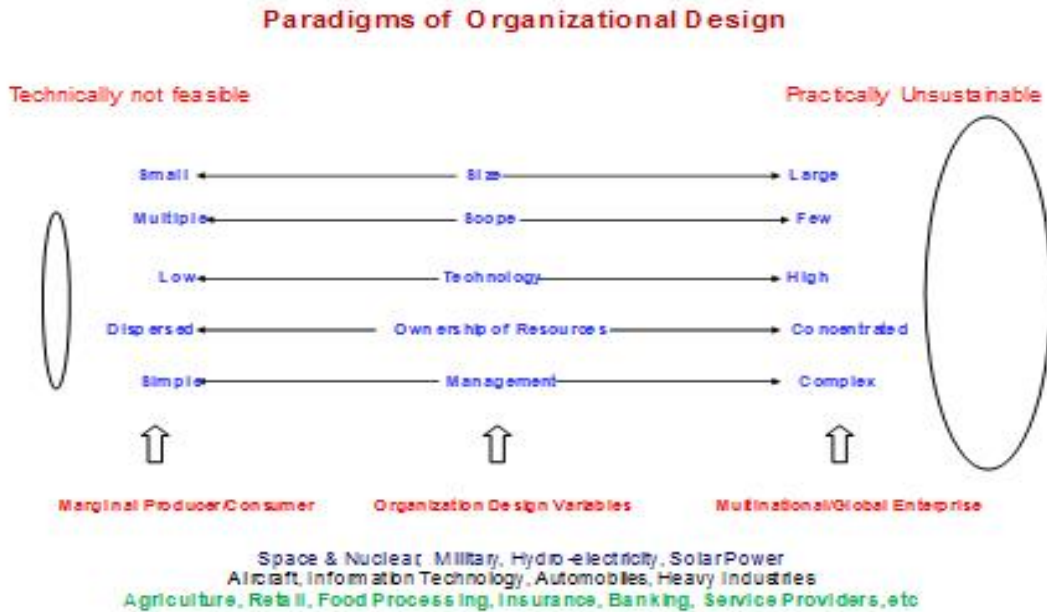
NABARD with a nation-wide district level reach through its state level regional offices across the country has once again been given the mandate by the government to establish producer

companies in the country. From its own internal resources, NABARD started to support producer organizations through its Producer Organization Development Fund (PODF). Subsequently with the Government of India special fund, viz., PRODUCE Fund it has been systematically deepened its support to establish producer companies in the country on a mission mode. Additionally, it has created separate independent units viz., NABKISAN and NABFINS for providing credit support to FPOs.

DEAR-NABARD supported an action research project during 2009-11 on building a community based, community paced, community owned and community managed enterprise system. The focus of which was to find the optimal design positions of key variables; viz., size, scope, technology, management and ownership for a producer organization to be sustainable. Subsequently, it supported an all India study during 2011-13 on the status and performance of producer companies. Based on these research studies, various design and policy issues of community enterprise systems, collectives, producer companies and farmer producer organizations have been published as articles, manuals and reports since 2010.

Nayak (2010, 2012, 2013, and 2014) discusses five internal organization design variables viz., Size, Scope, Technology, Management, and Ownership. **Figure 1** below highlight the design issues that are applicable not only to organizations of farmers in primary sector but also to industrial producers in secondary sector and service providers in tertiary service sector. There are indeed positive winds of change among organizations in the industrial production and service sectors across the world that show gradual change in their internal organizational design from long term sustainability perspective (Nayak & Panda 2016). In the primary agricultural sector; depending on the context of the producers in terms of socio-economic conditions, time, geography and product-service basket, optimal design of a farmer producer organization (FPO) may be arrived; where optimal point for different variables may lie at different points of the spectrum under different contexts.

Figure 1



Source: Nayak, Amar KJR, (2010), Optimizing Asymmetries for Sustainability: A Prism for Agriculture & Rural Development In India, DEAR, NABARD Seminar, Mumbai & XIMB Sustainability Seminar Series 1.0, Dec 2009

In addition to internal design variables, external design variables viz., market landscape (Nayak 2013), institutional architecture of FPOs in a district for stable relationship between small producers and large markets (Nayak, 2013, 2014) and convergence of various development schemes of farmers and rural poor into optimal GP level community enterprise system or a Farmer Producer Organization (Nayak 2014, 2015) have also been highlighted from these previous studies supported by DEAR, NABARD.

While the criticality of these internal and external variables are known, discussed and being implemented in bits and pieces in different cooperative and FPO experiments, the simultaneous optimization of these variables have not been attempted either in theory or in practice. While several larger dimensions of FPOs have become clearer over the years through soiling of hands by experts, donors, banks, and development agencies, there are few macro level dimensions and many more micro level issues of implementation that needs to be clearly understood. Most importantly, a clarity on the interconnected relationship among these dimensions are crucial to

realize better outcomes from the efforts and investment being made in this critical domain for sustainability of farmers, producers, poor, agriculture and rural communities.

There have been many rounds of discussions by Agricultural Finance Corporation, Access Development Services, IIM Bangalore, IRMA, NABARD, SFAC, FAO, and NRLM at different levels to diagnose the issues and resolve them corrective policy measures to make producer organizations viable in the short term and sustainable in the long term. Please see the link for reports: <http://www.ximb.ac.in/rtd> The focus of these previous RTDs have been to deal with the operational issues especially hurdles of registration, working capital requirements, need for professional managers, legal provisions to make producer companies equivalent to cooperatives, tax provision to reduce the cost burden on farmer members and producer companies in their infancy. The key issues had been fairly identified, agreed upon by the various stakeholders as well as represented at the highest level of policy making. These key issues were also briefly discussed and ratified in this round table discussion and a summary of the same is included as part of this round table.

With the above backdrop, the national round table discussion was organized by the NABARD Chair Unit in XIMB, Xavier University Bhubaneswar on 18th January 2016 to discuss the design issues of organizations and institutions of FPOs that have long term impact on their sustainability. Accordingly the following issues were identified for discussions:

1. Optimal Organizational Design of an FPO in terms of *size of membership, scope of activities, management and market landscape for maximum net incomes to members.*
2. Institutional Architecture of FPOs in a district for stabilizing local relationships & establishing balanced connect with commodity markets.
3. Convergence Strategy for better signalling and coordination for collective action by small farmers and producers.

One of the key issues of organizational design viz., **Technology** with specific reference to agricultural production systems was taken up in a separate round table discussion on sustainable agricultural systems in India.

2. Literature Review on FPO Design & RTD Discussions

The present discussion on Farmer Producer Organizations (FPOs) is a continuation to the discourse, policy and practice of cooperatives in India. Cooperative as a way of organization in India goes back to over a hundred and ten years ago when the first cooperative act was legislated in British India in 1904. While the international principles of cooperation seem to have been adopted successfully by several great cooperators in this domain, design thinking has not been common in this domain. Shah (2015) explains this phenomenon and argues that the dominant thought among promoters and policy drivers of cooperatives in India have been more extrinsic than intrinsic. He argues that the promotional process of today's farmer producer companies provides little evidence of 'design thinking' towards "transforming existing conditions into preferred ones" as conceived by Simon, Herbert (1969) and later popularized by Rolf Faste in the eighties.

Literature on design thinking on cooperatives in India is not only about twenty five years old; it is quite scant. *Catalyzing cooperation: design of self organizing organization* by Shah (1996) seems to be the only significant work on the subject during these years. The model of an ideal cooperative is built on three key dimensions viz., Member-User, Governance Structure and Operating Systems. This has also been referred to as key areas of research in the 2015 IRMA producer collectives workshop. This book also refers to four design principles viz., choose an appropriate purpose central to members, get the right operating system, ensure patronage cohesive governance, and secure, retain and continually nurture member allegiance. These design principles were also reiterated by Raju, K V during the online discussions (Jan 2016). Raju emphasizes the member focus in design in terms of member interest, participation and ownership in the producer collective for it to be a 'going on' concern.

All working in the domain of cooperatives, collectives, and community enterprise systems, experience the significance of member interest and their participation for success of these organizations. Among the various development schemes whether for drought proofing, poverty alleviation or overall improvement in quality of life implemented by the government in India, we find that the strongest factor for sustainability is the factor of people's participation (Nayak, 2010). Participation can be further reduced to frequency of interactions in terms of business

transactions and social transactions for a producer organization as seen in successful dairy cooperatives or in successful SHGs in the Indian experience. Nayak (2014) highlights the significance of designing farmer producer organization that facilitates greater frequency of interactions among members. Further, based on action research on recreating sustainable community enterprise system Nayak (2013, 2014) defines “*Sustainability is a dynamic state of deep relationship and love among all the actors and actants in a micro ecosystem; arising out of deep sense among the actors on the reality of inter-connectedness and of the need for inter-dependence among the various constituents in the ecosystem*”

The foundation of people participation in any cooperative or producer organization however seem to wrest on ‘TRUST ‘or ‘SOCIAL CAPITAL’ This is a common sense and has been brought out in a variety of literature across the world. From game theoretic analysis in competitive environment, to evolutionary biologists’ perspective on survival of life on earth, to theological studies; all reiterate the significance of trust. Ostrom, Elinor (1990) in *Governing the Commons* and Nayak (2009, 2012, 2013, 2014, 2015) on recreating sustainable community enterprise systems emphasize the criticality of this dimension for self governing cooperative systems. Kenmore, Peter (RTD 2016) reiterated the need to build trust given the high uncertainties among smallholder farmers across the world. Nayak, Sashmi (RTD 2016) and Peppin S (RTD 2016) reverberated the significance of trust in people’s organization.

Therefore the key issue for designing a sustainable cooperative or a farmer producer organization appears to be: *How should we design the organization for building and retaining ‘trust’ or ‘social capital’ within the organization and outside the organization?* Accordingly the design issues of the national round table discussion were chosen. During the online discussions (Dec 2015 – Jan 2016) on the subject, Dutta, Shankar and Kanitkar, Ajit with their respective field experiences reiterated the need to discuss design issues of producer companies. Venkataramanan, R, Mukhopadhyay, Khan, A R and Ashok, M V had already extended their keen interest on the proposal to discuss the design issues with various stakeholders viz., scholars, practitioners and policy executives in India. Bhanwala, Harsh was particularly keen on understanding the optimal membership and cluster size for farmer producer organizations. Indeed, the best thing that this round table discussion provided was to get the pioneers viz., Tushaar Shah, Yoginder Singh Alagh, A Vaidynathan, Vijay Vyas, many leading scholars and

practitioners to share their thoughts and perspectives on the issues of designing sustainable farmer producer organizations in India.

Although there has been very scant literature on design issues of cooperative in India until around the end of the twentieth century; the interest and literature on cooperative design has picked up momentum from early 2000s. Interestingly, from the beginning of the 21st century, there has been a global resurgence in research on cooperative logic, social enterprises and solidarity economy after almost three hundred years of competitive logic of industrial revolution that show signs of global un-sustainability.

The specific design issues of FPOs to be sustainable include internal organizational issues viz., **size** of membership and geographic cluster, **scope** of product basket, services, and activities base, **technology** of agricultural production and processing, **management** systems, processes, and governance mechanisms, and **ownership** structure and sense of belongingness. The external design issues include **market landscape**, **institutional architecture** of cooperatives/farmer producer companies in a district, and **convergence** of various development schemes in a GP level cooperative/farmer producer company.

Among these eight design issues, the issues of ownership and management have been discussed the most during the last about two decades. The issue of **Ownership** in farmer producer companies was taken up by the Alagh Committee in 2001. The dysfunctional managerial interference from local politicians in dairy cooperatives in Gujarat was the stimulant to the legislation of cooperatives as a producer company under section IXA of Companies Act, 1956 with equity participation of only producer members along with the voting rights of one member one vote policy. Producers can include farmers, fishermen, forest produce gatherers, artisan and craftspeople who engage directly with nature to produce or gather something. In his writings, Alagh (2015) and (RTD, 2016) however laments that the spirit of ownership by producers and interest of producer members as the basis of producer companies seems to get diluted over the years. He expressed concern over the attempt of private enterprise to use these people's cooperatives for their own profit sake. However, the nature of ownership that farmer producer cooperative/companies are to be owned by the producers only for better cooperative action is indeed clear among the various stakeholders.

The issue of **Management** has been most raised by facilitators and promoters of producer companies. Vaidyanathan Committee on Primary Agricultural Cooperatives (2004) provides a detailed account on the issues of management in these primary cooperatives that I suppose are applicable to small farmer producer companies. Among several suggestions, on issues of management, Vaidynathan (2012) recommends creating sanctions and incentives for implementing some key elements of reform and open up spaces for exploring healthier forms and practices, such as (a) Training of personnel (b) Motivate and facilitate efficient and well managed societies to introduce structural and managerial reforms to become models of true cooperatives that promote thrift, manage loans and repayments efficiently, and use surpluses for the collective benefit of their members. The significance of training and capacity building were reiterated by the all promoting agencies and senior policy executives during RTD. Ashok MV suggested the need of capacity building not only for the FPOs but also for facilitating agencies. Mehta, Subhash emphasized on the need for cash-to-cash cycle and weekly plans for producer companies.

Nayak (2012) critiqued the management methods as taught in schools of rural management; that have contributed the maximum service in providing professionals to the cooperatives and producer collectives and producer companies in India. He argues that the language, logic and values of paradigm of competition are contrary to the paradigm of cooperation and that these schools in their curriculum have not carefully segregated them and do not train the students accordingly. The tools, techniques and business frameworks of traditional business schools are often taught in schools of rural management without much critique and modifications. Given this lacunae, the Small Farmers Agribusiness Consortium (SFAC) under Pravesh Sharma and Xavier Institute of Management (XIMB) undertook a curriculum development viz., Management @ Grassroots (Nayak, 2013) specially designed for Farmer Producer Organizations. This curriculum was designed and developed by professors from the field of management, agriculture and social work from XIMB, IRMA, NISWASS, OUAT and from other universities across India. Indeed, many organizations providing training and capacity building to producer companies in India are either using this or have reference to this manual.

The issue of **Size** of organizations in general goes back to the seventies that ‘small is beautiful’ (Schumacher, 1973). However, caution on smaller size of cooperative in India goes back to

early 1900s (Reserve Bank of India, 1915) and later repeated in the sixties (Mehta, 1960). These were recommendations of committees appointed to study the working of primary agricultural cooperatives societies (PACS) in India. As a mechanism to balance social capital and financial capital for a producer organization to be able to deal with the complex needs of small producer members and be sustainable, (Nayak, 2012, 2013, 2014 and 2015) has been arguing for member size of about 1000 small and marginal producers within a geographic cluster size of 2-4 micro-watershed areas. The geographic cluster size will depend on whether the producer organization in well irrigated cluster, coastal region to non- irrigated plains to rainfed hilly region. The number of members assumes that only 30-50% members will actively participate in such cooperatives in the early years of its formation. To make matters simple for all stakeholders, Nayak argues for GP level producer organization to be optimal as the boundary of a GP is somewhat coterminous with the desired conditions of size and the geographic boundary is also easily understandable by most of the stakeholders.

Naik, Hemant (RTD 2016), Krishnagopal, GV (RTD 2016) and Sebastian, M (RTD 2016) expressed the significance of being small and compact producer organization. Mondal, Asish (RTD 2016) indicated typical operating expenses of an FPO while determining the minimum size of an FPO. Paul, Anita (RTD 2016) reiterated this point with reference to minimum turnover of an FPO to cover the operational expenses. Raul Suryamani (RTD 2016) referred to low percentage of active members which influences the size of an effective FPO. Further the challenge of dispersed habitation in hilly region that affects determining geographic cluster size was emphasized by Paul, Kalyan (RTD, 2016). Khan, A R (RTD 2016) and Ashok M V (RTD 2016) expressed how FPOs could begin small and gradually optimize their number of members.

With regard to **Scope** there is no much discussion in the existing literature. Though diversity is basis of sustainability to agriculture and small holder farmers, the logic of diversity is usually thrown out of window when it comes producer organization that are primarily to serve the interest of the producers. The success of Amul has been reiterated to suggest single product strategy for producer cooperative or company. Yes, the three principles of member interest, operating systems, governance structure (Shah, 196, 2015) are well worked for Amul and its financial performance has been good since its inception. However, recent data (Nayak 2014)

shows that nearly 10% of members have withdrawn from Amul. More than 70% of members have less than five cows, and Amul has been procuring milk from non-members outside Gujarat but the milk collected seem to be reported as contribution from members. Nayak (2013) however argues that '*economies of scope*' or '*diversity of product basket*' is the only way to design for high interactions and higher number of business transactions among members for non-dairy, non-fishery based agriculture based producer organization. While there was no much dialogue on the issues during the online discussion; but many executives of NABARD and field level practitioners appreciate the need for multiple product basket for producer organizations. The case of Amalsad, Gujarat, over 70 year old cooperative working in just 17 villages indeed is a classic case of success with diversity in product basket and services (Nayak, 2014).

Market Landscape: Shah (2015) writes that Amul and the recently formed milk producer companies by NDDB have done well because of their market-product approach. Based on the opportunity in the market, these FPOs planned their business plan and organized farmers accordingly. Should these mean that the priority of an FPO needs to be market over the present produce and capabilities of farmers? Would such a market oriented approach lead to 'scale effect' on the FPO, and mono cropping effect on small holder farmers through price signals? How would product scale economies impact the market landscape strategy, associated transaction costs for an FPO and overall net income to producer members in the medium to long run? More importantly, will this market-product strategy adversely impact the other design variables of an FPO making the FPO a product company than a producer company?

Drawing on the experiences of several producer organizations across the country, Nayak (2011) argues that limiting market landscape is important for nascent FPOs including producer companies and cooperatives to reduce the characteristic distance between small and marginal producers and market to be able to reduce transaction costs and increase net income to the producers. Nayak(2011) also argues that for long term sustainability, an FPO should not break the basic principle of sticking to the interest of the producer members and change itself to be a mere product company arising out of distant commodity market compulsions.

Citing the experiences from Mulukanoor dairy cooperative and weaver cooperatives in Srikakulam, Krishnagopal GV (RTD 2016) highlighted the benefits of nearby compact markets. Padhee, Usha (RTD 2016) explained the benefits of Government policy in Odisha that connected producer groups of dal with local school consumption. Mehta, Subhash (RTD 2016) and Kenmore, Peter (RTD, 2016) reiterated the danger of producer companies becoming mere product companies when driven by the market logic alone. Krishnagopal, GV (RTD 2016) also reasoned the compulsion of scale economies arising out of market compulsion.

Institutional Architecture:The three tier institutional architecture of primary cooperatives in the Amul model is a live demonstration of a successful institutional architecture of primary cooperatives. Similarly, the institutional architecture of credit delivery cooperatives, viz., PACS also has a similar working structure. A similar thought on institutional architecture for producer companies is yet to be seriously discussed. Nayak (2013, 2014) suggests three-tier architecture of producer companies at GP level that engages in multiple produce-service activities and basic value addition and local marketing. Block level PC to engage in higher value addition of perishable produce and district level PC to undertake marketing of surplus produce from the district to large commodity buyers. This will also help adopt a saturation strategy of GP level FPOs in a block and district subsequently.

Mohanty, Amulya (RTD 2016) and Mondal, Ashis (RTD 2016) suggest the need to aggregate FPOs at some higher level at block level and district level for scale and better negotiating power. Nayak, Jiten (RTD, 2016) mentioned their efforts to saturate producer companies at block level.

Convergence: Lack of convergence in the development schemes appears to have been the main cause of ineffective coordination and poor efficiency in people's institutions, collectives and producer organizations. Nayak (2014) argues that despite huge funds available for development of rural-agricultural communities, lack of convergence at the grass root level has a mixed and confusing signaling effect on people leading to opportunistic behavior and distrust among themselves. This phenomenon appears to be the biggest threat to any form of collective action by the weak, small and marginal producers in today's context. Vaidyanathan (2016 online discussion) warns that these efforts would be vain if the government were not creating

enabling environment for grass root level decision making. Convergence of resources at the GP level FPO and district level saturation model in the three tier institutional architecture may be a way out from present chakravayuh for smallholder farmers and Indian agriculture. Contradictions in individual policies of the government(s) if any could be resolved and the wise decisions can be adopted if people were to choose at the grass root if these programmes were converged into a GP level FPO. Mishra, Debiprasad (RTD, 2016) highlighted the need for synchronization in addition to convergence in agriculture policy. Padhee Usha(RTD, 2016) suggested the need for district level planning for convergence.

The complex interrelationships among these five internal variables and three external variables make the design for sustainability very challenging. Many, in this context would like to believe that *'one size does not fit all'* and hence would pay little attention to the possibility of better organizational design. In the absence of a model with all these design features in place, it only appears theoretical to presume sustainability of FPO if these design issues are dealt with. Kanitkar (2016) accordingly suggest to consider FPO as in today's practice is still a work in progress and let them evolve before we can figure out what makes them most sustainable. Prasad, Shambu (2016 online discussion) also suggest to consider optimal designs instead of optimal design of FPOs; a point that brings forth the significance of context and how the design features could vary for FPOs in different contexts as described in Figure 1 of this synopsis.

I presume that our inability to optimally design the above five internal and three external design variables simultaneously has been the hurdle in design thinking and policy support to develop sustainable farmer producer organizations and organizations in general. Nayak (2009, 2012, 2013, 2014, 2015), argues that the five internal organizational design issues viz., size, scope, technology, management, ownership and three external design variables of market landscape, institutional architecture, and convergence; when optimized simultaneously could enable trust, social capital and social wealth to grow and make cooperatives as sustainable community enterprise systems.

3. Summary and Recommendations of RTD

- **Size:** 500 -1500 members at a GP level cluster
 - Optimal membership of an FPO range from 500 to 1500
 - The membership size depends on context: tribal belts, mountain regions...
 - Cluster size & membership size based on boundaries that people understand: micro-watershed, size to support visibility of a democratic organization's action; GP
 - Basic units at village level comprising of about 15 to 20 members (through SHG or alike) who in term come together to form a PC of maximum size of 1500 at a GP level
 - If market demand requires size increase, instead of spreading the cluster size; increase the membership size within the cluster, more PCs in the adjacent clusters should be promoted
 - Network of organisations to precede formalization in federations or special purpose vehicles
 - Mechanism of internal coordination crucial for optimal external interface
 - Be as small as possible, as large as necessary
 - Design thinking principles that can enhance greater interactions, business transactions and increase trust and social capital in the FPO.

- **Scope:** Multiple product and services
 - Diversity promotes more transactions, which in turn enhances group feeling and trust
 - FPO could become a single window service point for members at GP level
 - Balance of activities – core operations, financial access & social
 - Knowing when to stop some activities as the external environment improves
 - Doing everything can be costly: use sub –contracting judiciously
 - Alliance formation for various activities
 - Determine scope to meet Commercial viability and Social capital
 - If promoters have to withdraw; capacity of members have to be developed – crucial role of extension

- **Management:** Local trained professionals (5-7) per GP level FPO
 - The PC members need professional help for overall co-ordination, accounting, marketing and social linkage creation
 - Take a systems view, strengthen the weakest link
 - Marginal farmers won't be able to compensate professionals hence needs institutional support in this regard
 - In 5 to 10 years interns from local area should learn running the organization should be able to take over after 10 years of external professional help
 - Efforts has to be made to take as many local persons as employees as possible in the organization

- **Ownership& Governance:** Facilitate as per section IXA of companies Act
 - Through PC registration, the members get legal ownership but very often issues of control rights and residual rights
 - This also needs transparency in all transactions which will further enhance the social capital through trust.
 - The belongingness is more only when the group is small at a smaller spread of area and the stakeholder interaction level are higher
 - Active membership seems to be about one fourth of the members

- **Market Landscape:** Market where farmers can get greater Net Incomes per unit; local marketing lead to lower transaction cost for nascent FPOs and help manage diversity of products and services required by the members.
 - Where are the net returns best for the farmers?
 - Complexity changes with the transition from local, regional and national market
 - Focus on working capital pressures and needs crucial – issues crop up based on value addition, type of buyer and product type
 - Shocks happen- question of FPO strength to withstand the pressure of price fluctuation
 - Connection to scope and product portfolio
 - Clarity on why we want to go to a particular market- how does it help the owner the producer
 - Dynamics of food v/s non- food based products

- **Institutional Architecture:** Three tier structure: GP level FPO -Block level federation for greater value addition and District level federation for Marketing
 - Connection between village level institutions
 - GP level FPOs
 - Saturation of FPOs in a particular area
 - Hybrid forms like FSHGs

- **Convergence:** Government Development schemes to be converged at GP level FPO
 - Government(s) gives confusing signals due to lack of convergence
 - Let us not over burden producer organisations
 - The district wise planning at State level should look at synchronization of actions.
 - Convergence of development schemes of the Government need to be at GP level FPO

The focus of this RTD was to share the experiences and discuss the critical design issues of collectives, cooperatives, community enterprises and FPOs in general and Producer Companies in particular. The issue of Technology including agriculture production technology and processing was undertaken in a separate round table discussion on “sustainable agricultural systems”. Though the organizational design issues are important from a medium to long term sustainability of FPOs; the burning issues faced by the producer companies that needs immediate attention for short term survival are managerial capacity, credit related, taxation, legal provision, and budgetary support.

While these immediate operational issues at hand have been discussed in various forums and round table discussions in the past, the present RTD summarized the points of the past including notes shared by Sastry, Trilochan (RTD 2016), Garg, Irina (RTD 2016) and Mondal Ashis (RTD, 2016), Shri Pravesh Sharma, National Advisory Committee of NABARD on PRODUCEFund and others. These were placed for discussion in this round table discussion. The participants discussed these summaries and recommendations unanimously agreed to put the following points on legal and budgetary provisions for changes in policy level.

4. Memorandum on Legal & Budgetary Provisions for FPOs/PCs in India

1. The Central Government, State Governments and the Reserve Bank of India to legislate that the FPOs/PCs shall get all the financial and taxation and other benefits that are currently being extended to the societies, cooperatives, PACS, SHGs, and individual farmers etc.
2. The registration/processing fee for registering a FPO/PC with the Registrar of Companies shall not be charged by the Registrar of Companies.
3. The FPOs/PCs need external professional help from NGO's / CSO in the area in terms of community mobilization, stabilize collation, processing and marketing. As FPOs/PCs cannot generate funds for remuneration of professionals; the initial management should comprise of a principal coordinator, a marketing professional, an accounting professional and a social mobilization professional with remuneration ranging from Rs.30000 to Rs.40000 per month for principal coordinator and Rs.15000 to Rs.25000 per month for others. The Central and State Governments are to provide these professional expenses to the registered FPO directly.
4. The FPOs/PCs working capital need at interest rates for marginal farmers (being members) of the FPO without collateral or bank guarantee for the sanctioned limits. The Central Government, State Government, SIDBI, NABFINS& NABARD are to provide a one-time seed capital of INR 50 lakhs towards margin for capital and working capital directly to every registered PC / FPO.
5. The registered FPO/PC must get all the tax holidays as applicable to Societies, cooperatives, SHG's, and Start-Ups for first 10 years; as most FPOs will take about 5 years to stabilize.
6. Grants for capacity building, initial IT infrastructure, community radio and physical infrastructure including 2 hectares of common village land, community office, storage, drying yard, basic processing facility to be provided by the State Government and Central Government. A provision of INR 2 crore per PC / FPO is to be made by the above government and other development agencies through convergence of various development schemes such as MGNREG, RKVY, Watershed, NRLM, etc. and all district development programmes. All these are to be implemented within five years of formation of an FPO/PC in a GP.
7. SFAC Guarantee cover and matching Equity Grant to be extended to all registered FPOs/FPCs.
8. Government to notify that CSR Funds to be extended by companies to promote and stabilize FPOs/FPCs based anywhere in the respective states where the facilities of a company are located.

5. Proceedings of the Discussions

Introduction

One day National Round Table Discussion on Optimal Design of Farmer Produce Organizations was organized by Dr. Amar KJR Nayak, Professor of Strategic Management & NABARD Chair Professor, at Xavier Institute of Management Bhubaneswar on 18 January, 2016. There were over 50 participants belonging to academic fraternity, senior executives/practitioners and senior policy executives from different organizations and institutions from across the India and a member joined on Skype from USA.

Inaugural Session

At the outset Fr. Dr. Paul Fernandes S.J. Vice Vice-Chancellor & Director Xavier University Bhubaneswar welcomed all the participants/delegates of the RTD and delivered a welcome speech. In his welcome speech he provided thanks to NABARD Chair Unit for organizing this RTD and conveyed his good wishes for the discussions. He also focused on the various issues of farmers, overall constraints of climate change and adverse economic conditions etc. that needed to be viewed seriously.

Opening Remarks by Dr Amar KJR Nayak

Firstly, Dr. Amar KJR Nayak, Professor of strategic Management & NABARD Chair Professor, congratulated and thanked all the participants for actively engaging and contributing towards design thinking to make FPOs sustainable. At the outset, he said, “We are here because we are all concerned about the risks that farmers are facing” Globally, even management schools in academic conferences are increasingly looking at issues of sustainability seriously.” The design issues for discussion at the RTD were only significant to farmer producer organizations but also for industrial/service organizations in the corporate world. He highlighted the internal organizational design parameters of farmer producer organizations and external design issues that shall be discussed during the day. The internal design issues include:

- Size
- Scope
- Technology
- Management
- Ownership & Governance

I am happy to share that the ownership issue will be addressed specifically by Prof. Y K Alagh and issues of management will be addressed by Prof. A. Vaidyanathan who has a vast experience studying the primary agricultural cooperative societies in India.

The external dimensions of shall include the following for discussion:

- Market Landscape
- Institutional architecture of FPOs in a district (in saturation mode) for relationship amongst FPOs and balanced connect to commodity market
- Convergence of development schemes

Optimal Design: Issue wise Discussions:

Hemant Naik

- We are a 73 year old society, we started with a PDS. In 1955 we started marketing mango and chickoo collected from farmers. We also started consumer activity; we have three activities in 17 villages. We have 17 retails stores with a turnover of 23 crores; this is being done in a population of 40,000. We have marketed 35,000 tones of chickoo. We give loans to farmers at 7 %, with a hundred percent recovery. We have not received any support from the government. We have advances of 3.5 crores and deposits of almost 30 crores. We have revenues of almost 14 crores for selling processed materials. We have started medical facilities for our farmers. The key issue is leadership; we started with 29 people and have a membership of 9000 members. People should see the benefit of working with us; they come to us even when members have access to a government market yard near them. It is important to look at the context and then design the right kind of interventions.

D P Mishra

- Suggest as a student of management, one thing is clear that policy signaling is not very good in agriculture. We need to factor in issues of synchronisation in addition to issues of convergence.

Ashis Mondal

- We have been with FPOs since 2005, it's been a mixed experience so far. The issues for discussion are very relevant.

Prabhakar Nanda

- ICAR has experience in farm to fork technology transfer; I will be focusing on the production aspects of agricultural markets.

Sashmi Nayak

- Here to learn primarily, I want to look at issues of justice and inclusion. There are people smaller than small farmers. How do you include them?

Mathew Sebastian

- I worked with organic farmers; they formed a producer company called IOPCL. They have faced difficulties in accessing finance and markets. The director was forced to pledge his own property. Today it is a successful producer company with exports of coffee, spices and coconut oil.

Mukesh Tiwary

- Traidcraft working in 30 countries and have diverse experience across countries.

Amulya Mohanty

- Access promoting FPOs since last 5 years. Currently 84 FPOs are being facilitated by Access. The issues and challenges vary from area to area. I would like to learn from others on ownership issues.

K. Maitreyi

- I have been working on collectives of various kinds. I have been interested in using modern management into the rural development. I am looking at linkages with institutional economics, transaction cost economics. This understanding is missing in the current discourse.

Jaidpeep Srivastava

- We are promoting large number of FPOs, but now the issue of sustainability and ownership. It is not clear how it will happen so look forward to larger discussions.

Peter Kenmore

- The optimal design of FPOs was a topic Amar and Subash introduced almost 10 years ago. During my time in India I visited a large number of FPOs, based on my own experience it gets a lot of energy in India. At the same time when I look at the experience of rural people, one of the founding principles of the UN sustainable goals is no one is less behind. When we look a hunger and poverty people in rural areas are suffering more. Overall development focus was on production, the focus was in urban areas. Shrinking resources in agriculture affects nearly half of the work force. This is not enough to get people out of poverty, increasingly non-farm rural income and investment is becoming important. During my stint in India I appreciated the dimensions of the kinds of organisations that rural people can benefit from. There are some issues that one must keep in mind:
 - Social justice and removal of inequality is an important issue to bring in the weakest of the community into the fold of FPO without any hesitation.

- Findings of the survey funded by NABARD. A producer company must work for producers; it must not be a product company. A producer company will face shocks, what will hold people together. Organisations have to build trust amongst their members.
- Marketing is a key issue; how far are you willing to travel in search of markets. Complexity goes up with increased distance and farmers know less and less of these areas.
- Trust is necessary but not automatic, so it requires times and resources. There is an issue of who promotes FPOs. Promoting the FPOs in villages is difficult for promoters to allow the FPOs to graduate. This has been demonstrated in several studies commissioned by NABARD. This is again an issue of trust, Promoters expect farmers to trust them. Farmers are expected to route their produces through the FPO management system. There are many reasons why farmers may not benefit from this relationship. 2 out of 20 FPOs had success got a resource transfer from the promoter organisations.
- It's very important to understand how rural organisations are corrupted by management boards that siphoned money and resources from the FPO. Promoters are not letting go of FPOs even after 10 years. It means sufficient resource transfers and investments was not made in the preceding years. We can also look at some interesting examples from China.

Suryamani Roul

- We work on productivity issues; we are also focused on social capital. We work with 20 producer groups in Bihar. The important issue is the business turnover and sense of ownership. We have a maturity development index; our work is in the final stage. Transparency in transactions is very important.

Sunil Padale

- Looking for ideas on how programmes can be linked for using agriculture as a means for poverty reduction.

Usha Padhee

- Worked in the livelihood sector and headed the Odisha Livelihood Mission. My focus has been looking at the role of government in these development efforts and issues of convergence.

Kalyan Paul

- The Anand pattern offers a lot of lessons. However, it may not be applicable for all contexts. How do get them federate is the central question.

M V Ashok

We have been working with Prof. Amar for many years.

A. R. Khan

- How do we professionalize these FPOs? How do we link with the right kind of markets? These are the two critical issues in my opinion.

Shouvik Mitra

- We are discussing our stance on FPOs, we are looking for inputs from the meeting. I have some observations which I will share later.

G V Krishnagopal

- I feel there is a close relation with economic performance, market access and the social benefits. I hope to understand the linkages between the various variables.

Kajri Misra

- What roles women play in a producer company, as a researcher I want to examine on various kinds of producer companies? In community organisations how do they link with the local government system? There also seems to be a move towards creating interest groups and how do they interact with local systems.

Prateek Uniyal

- Working on FPC on a rigorous basis, we found two instances. One producer company promoted by Prof. Amar, it is located in a jungle. Distance from resources is a key issue, we also looked at Healing Heritage, processing is in Bhubaneswar and production is in Kandhamaal. This FPC was not making profits, rather the facilitating organisation gets major share of the margin there was a distance, design issues on locations choices.

S Peppin

- Do we need to design for organising production or organisation of organization? The commoditization of land that is taking place. Should producers be organised at all or should we organise production? Whose agenda is this? Are we talking about designing or talking about development?

Saibal Paul

- Understanding the overall architecture. How is an FPO running, how can a micro finance contribute to this development process?

Shridhar Dash

- Can we look at FPO as a collective enterprise? In entrepreneurship there is failure, so what does failure mean in FPO. How does one manage control rights and residual rights?

S S Ganesh

- I want to understand knowledge management and skill development in farmer producer organisations.

Shambu Prasad

- Institutional forms of organisational design, we have looked for innovations in design.

Anita Paul

- A FPO is a living organism, you have to let go. Is there some scope for exit when saturation happens at the district level? The eco-system is very important, without it producer organisations will die.

Subhash Mehta

- Design is supporting hijacking by bigger farmers. Ownership should really be with farmers. The word farmer should be replaced with producer to reflect the diversity of the system like tribal and collectors. The playing field is not even for producer companies; they don't get the benefits of societies and cooperatives but have to pay the costs of normal companies.

Nanda Kumar

- Difficulty in accessing finance- four years of difficulty. For getting WC loans we need collateral. There are issues of taxation and also for compliance. Each state has its own taxation issues, so when we face issues of commercial taxes.

Jitendra Nayak

- How can FPOs contribute to poverty reduction?

Y K Alagh

- The institutional structure is a problem, set up when Mr. Jaitley was corporate affairs minister after Anand declaration. When the new companies act came in 2012, these institutions were dropped. Even earlier farmers producer organisations were finding it difficult, they sit very heavily. The idea was to create a separate bill under ministry of agriculture. This will bring in the old baggage of cooperatives into FPCs; there is a need for an academic group to overcome this problem. The statistics of FPOs is pretty weak, getting the base right would be very useful. FPOs are linked to the corporate sector; RALLIS is working with FPCs for pulses. Star Agri is also working with FPOs. Remember that earlier FPOs did not want the corporate organisation as a partner. Now those strategic alliances with a lot of organisations, so how does that happen? They are doing well in URBAN contexts, but what about the really backward areas. What happens to FPOs when there is a poor agricultural and economic performance?

Optimal Organization Design: Need to take a systems view, if we focus on the weakest link it will take care of the strongest link. We need to discuss from the point of the small and

marginal farmers. Three kinds of groups: Intermittent groups, Latent groups and Privileged groups

Ashis Mondal

- What is the goal? – You can't have one number. About 1000-1500 could be a number. We assumed that primary groups would exist at the village levels. FPOs could be like federations, in central India due to lower population density, we find more homogeneity so a natural affinity exists. Aggregation to a credible volume creation. Unless you have 1000-1500 then how much money do you need? Is this a manageable number, I think it is with 7-8 staff will about 12, 00000 – 13, 00000 as operational costs.
- A group above Producer Company is needed to link with other markets. The cluster size is 15-20 villages with farmers who out migrate for 6-7 months in a year. Rs. 5000 input expenses.
- Focus should be on the ability of farmers to keep professionals who can plan and coordinate the activities. Let us look at numbers in such a way such that the focus is on the needs of the producer.

Subhash Mehta

- Producer company's objectives should not to get converted to a marketing company. Let marketing be taken up through larger bodies and producer companies should focus on development within the small community

Hemant Naik

- I think that size and geographical areas are key issues, we should start and sequencing is very important. All along we focused on just 17 villages and membership size for producers (class A) is about 3000 which are primarily about 850 families. Need to look at their needs, so that one should look at a localised consumption and production hub. This increases the bargaining power of the producer; there is a recalibration of the relationships. We have 108 ambulances now, so we stopped using the ambulance services. Transparency and leadership is very important. This is the supporting institution, so it needs to be developed. We don't have people from outside the locality.

Kalyan Paul:

- We have to demonstrate with a lower number, we need to meet the total requirement of farmers. The community needs service from the farmer, who pays the cost at what stage. In Himachal even getting 50 people is difficult because of dispersion, in North east getting even 20 people to come together is difficult. We need to stay small at grassroot level especially keeping the following in perspective:

Location & dispersion, Profile of farmers, Location diversity, Overheads, Services, Sequencing of coverage and scope, Extension and non-farm activities should be embedded.

Suryamani Roul

- A commercial orientation and extension services are needed. A self-sustaining systems can have about 800- 900. However, only one fourth of the members are active.

Anita Paul

- Hundreds of walnut producers, we brand the product first. You look into the market, once we assess the market. Based on that we increase the number of growers who will become part of the company, businesswise this looks as the wiser option. For mountain regions for Umang membership is 1500, the villages are around 100. There 150 self-help groups. About 1100 active members can sustain 12 people. This is on a turnover of 2 crores. There has to be another Umang, many other small Umang need to form. There has to be a federation at some stage. One umang cannot do the entire job even if there is growing market. Then it will be difficult to manage by itself.

A. R. Khan

- The question is why farmers would come forward for membership. We must demonstrate the benefits. The farmers must understand that local community development is essential. We should start with about 100 members and slowly grow up to optimal level.

Subhash Mehta

- Sometimes the system creates problem for the PCs and bureaucracy kills the interest of the farmers. The local NGOs should work with them not allowing the system to take farmers for a ride.
- Failure to understand needs, we found only 10 % of the federations is working. It has to be a bottom up. Size has to increase gradually; we cannot put a number. Externalities have to be taken into account. Are we going to break existing institutions, and create either new one to support FPO or make producer organisation support service institutions?
- Nabard has promoted a FPO of 3500, corpus is 4 crores. At least 500 should be the minimum. Panchayat with 1000-1500 family members could be the ideal number. Which will come first? Sequencing becomes important. Being as small as possible and large as required, the relationship between social and financial capital needs to be examined.

Jitendra Nayak

- Experimenting and then taking a stand. When we are with farmers both tribal and rain fed areas - 500-1000 in tribal areas and 1500- 2000 in rain fed areas. We focus on 10-15 villages in a block, we saturate. So we have some economic advantages, as a democratic organisation their activities are visible to the farmers. Design needs considering democratic governance will succeed, we want to give door step delivery of services; we need to work more on the financial and consumption services. Purely in terms of economics how you are managing in terms of income and expenses. The opportunity will decide the size.

- Learning of PACS, why did they succeed or fail. Can private players and producer organisations actually co-exist. 2 producer companies with 1250 members in one, 500 in one. All women producer company. In Ganjam we are promoting 9 producer companies in 6 blocks.
- The producers company is standing on the back bone of the self help groups, nested institutions. The government has said SHGs cannot provide loans to the producer company. What is the form of organisation of the marketing body? The balance between the social and economic activity is also important.
- Can we look at the point of transaction costs economics? - Costs of coordination.
- Design thinking, the external environment is changing. The exact number should be a heuristic. It is important to see FPOs as a start-up, some are not going to work. It may take 7 years, trial and error and experimentation is working. Policies must support processes.

M. V. Ashok

- We are depending on promoters, should we also not look at promoter capacity? We should also look at costs, familiarity with the ground. When you talk about viability, becomes more important when processing happens, only for aggregation does viability matter.
- We understand political boundaries – the Panchayat, somewhere the political, economic and social should coincide. Synchronization with other agencies, I see this as a micro-watershed.
- The logic of economies of scale is also hitting, we have to use to the logic of economies of scope. What should be the design that will help manage this organisation?
- More examples with scope. Internal and external transactions that need to be studied. Should we have a design that looks at centrality and also see if Pareto principal works.

Usha Padhee

- One size fits all might not work. Out of experience in livelihood mission where over 300 groups were created, now may be 10% active. Demand for the produce need to be generated first. We must start small and grow organically while taking all externalities into account. Convergence of scheme benefits is essential while taking inter-dependability into account. The geographic and administrative boundaries for the PC should be fixed.

Ashis Mondal

- Value chain will only determine the size. Welfare activities will not work if size fixed first. Pursuing the scale might be a problem as in case of the PC facilitated by Prof SankarDatta.

GV Krishnagopal

- The size should be 500 to 1000 in tribal area and 1000 to 2000 in other areas. We should work in a saturation approach. The advantage of this would be creation of active PCs and a democratic institution would be visible within an area of 10 to 12 Km. In this size the PC will succeed and it should focus on requirement of members. The viability would depend a lot on management.

S Peppin

- Lots of design thinking required as lots of opportunities available to growing global scenario.

Amulya Mohanty

- The size 700 to 1500 would be feasible and proper design is essential for better management.

Kalyan Paul

- SHG funding the PC has been stopped by RBI which is a problem for PC working capital now.

Ashis Mondal

- Many PCs can join to create a marketing entity

Prabhakar Nanda

- 600 to 700 members should be appropriate and welfare economics as well as commercial activities must co-exist.

R. V. Singh

- Transaction Cost approach model might be important here.

M. V. Ashok

- The PCs need to start small and start working with families of members too to create trust. If we think of only produce viability is not an issue. It comes into consideration when we think of processing.

Sashmi Nayak

- For a PC to start, population in a GP should be enough and product basket is important to keep the members getting work for the whole year without thinking of migration.

S Peppin

- Remote area private player are going now. They will take the benefits while producers won't get their due.

K.R. Maitreyi

- Transaction cost is very important, be it of enforcement or negotiations. Internal and external networks are equally important.

GV Krishnagopal

- For scope external competition will pressurize the PCs for scale for internal development requires diversity. There has to be deeper relationship within members and employees understanding each others' needs

Amar Nayak

- If you don't saturate the local market you may not be able to deal with situations whenever there are shocks in the external commodity large markets

Usha Padhee:

- About market distance, experiment of linking local dal to MDM and going for ICDS was successful but local traders do create problem.

Vaidyanathan:

- Relying on cooperative approach will not succeed. It should be an organised PC with one member one vote approach. If no initial patronage, this organisation can never stand.

Usha Padhee

- How to get convergence? Govt of India should allocate funds and only do the monitoring and guiding role. State should actively plan district wise as every district might have different development requirement. Activity based planning will bring convergence. One agency in every district will be given fund to implement and every GP would be the implementing partner.

Amar Nayak

- Instead of GP the FPOs should directly be the implementing partners so the convergence can occur directly at the lowermost level.

6. EXECUTIVE COMMITTEE FOR ANNUAL CONFERENCE

An executive committee for the follow-up National Conference on the subject was proposed at the end of the RTD and the following members volunteered/proposed to form the Executive Committee for the proposed National Conference.

1. Mr. M. V. Ashok, CGM DEAR NABARD
2. Dr. A R Khan, GM, NABARD
3. Dr. P Satish, Executive Director, Sa-Dhaan
4. Mr. Ashis Mondal, ASA Bhopal
5. Mr. G V Krishnagopal, ALC India
6. Dr. Amulya Mohanty, Access
7. Mr. Mathew Sebastian, Vanilco
8. Mr. Mukesh Tiwari, Tradicraft
9. Mr. Subhash Mehta, Trustee, Devarao Shivaram Trust, NGO Association for Agricultural Research Asia Pacific (NAARAP)
10. Dr. Amar Nayak, Professor XIMB

The proposed conference is to bring together the experts of both FPOs and Sustainable Agricultural Systems. A suitable date in November-December 2016 shall be considered for the proposed national conference. Other senior members may be invited to be part of the Executive/Advisory Committee.

7. Summary of Research Papers, Reports & Perspective Papers

RESEARCH PAPERS

Catalysing Cooperation: Design of Self-governing Organisations

Tushar Shah (2015)

Catalysing cooperation was first published in 1996 with the backdrop of three theories going around at that time; (a) a cooperative enterprise succeeds if it has an honest, selfless leader who enjoys allegiance of its members, (b) hardy and enterprising farming communities such as Patidars in Gujarat and Marathas in western Maharashtra created a fertile ground for the seeds of cooperative action to germinate and form root, (c) farmer cooperatives of all manner would emerge and come into their own *if only* the legal and policy environment facing cooperatives was more liberal and nurturant rather than repressive and paternalistic as it has been so far. Prof Shah argued in his earlier publication that there was more to building strong farmer cooperatives than charismatic leadership, supportive laws and social capital and with some catalytic support, cooperatives can be *designed* and incubated to be viable, self-sustaining and member-controlled enterprises.

In the earlier paper he argued that members' interaction with their cooperative in ways that imparts strength and vitality to the latter can make the organisation sustainable. He has furthered his design thinking in this recent publication where member patronage cohesiveness, governance effectiveness and operating effectiveness are key issues for success of producer organisation. He has taken example from 5 producer companies promoted by NDDB Dairy Services Company to argue that the success of these are due to the professional managers running the business and answerable to board, frequent board meetings, continuous training and capacity building for board, managers, field staff and members with strong focus on understanding vision, mission and long term plans, performance linked incentive for employees at market rates and barring board members to take up any political positions.

He further argues that the key issue of producer company design is to have a robust operating system that can add value in terms of delivering consumer rupee to farmers and this is possible through high level of transparency within all intra-organisation interactions, creating high asset turnover, debt free or low debt capital structure, limited use of commercial credit from bank while using own cash generation as working capital, creating variable cost model to mitigate risk of sales slowdown, healthy retention of profits to have reserves and increase of net worth and accelerate value addition to increase margin.

Optimizing Asymmetries for Sustainability: A Prism for Agricultural Research for Development

Amar KJR Nayak (2009)

This concept paper provides conceptual clarification on the design defect of traditional firm for long term sustainability of the society and discusses how the inherent asymmetries could be optimized for sustainability of the enterprise system in a rural agricultural setting in developing country context like India. The ideas in the paper has evolved from the framework of non-competition and from the power of trust, cooperation and giving. The ideas will be of value to scholars in the field of organizational theory, institutional studies and policy makers on development. The model with optimized asymmetries of enterprise system can empower rural population across communities in the developing country context.

At the conceptual level, the paper discusses the purpose of the firm, control and perpetuation of the asymmetry generating variables of the firm. On its suggestion on optimization of asymmetries for sustainable enterprise system, the paper draws from the Action Research methodology. The key observations of the paper include: (a) The traditional firms are asymmetry generating entities and are at the core of un-sustainability of the society, (b) Since the sum total of inherent asymmetries in the real world conditions will remain to be greater than zero, our models for sustainability are bounded by optimal solutions and not ideal solutions, and (c) For an enterprise system to be sustainable, the enterprise needs to be designed with simultaneous optimal positions on all the asymmetry generating variables and that sustainability can be best ensured by ensuring the sustainability of the weakest person(s) in a local ecological system.

Future of Cooperatives in India

A.Vaidyanathan (2012)

The expansion in the scope and reach of cooperatives as a whole and in the volume of their activity is impressive. But the process has been highly uneven across activities and regions. Its growth has been continues to be driven by government rather than as a mass grassroots movement motivated by the basic ethos and spirit of cooperative enterprise. The manners in which they are organized and function are not conducive to efficient and prudent use of the vast resources at their disposal. Mechanisms to ensure accountability for efficient conduct of business and for benefitting sections of the population that they are expected to cater are weak and ineffective. With few significant exceptions, their finances are in a chronic state of sickness and prone to recurrent crises. This paper reflect on the factors and forces that account for this unhealthy state of affairs; the experience of efforts to improve the performance of coops; and the reasons and why they have not been effective. That these efforts have been ineffective does not mean that they foredoomed to failure and therefore not worth pursuing.

On the contrary, it is important to recognise that efficient and vibrant cooperatives, organized and managed as democratic, self reliant and self managed institutions offer the best means for the vast resource poor and resource less segments of the country's population to improve their living conditions. The author's views are based on this conviction and also the belief that, though obstacles to reform are too formidable to be tackled frontally, it is possible, through carefully planned and orchestrated efforts to circumvent and subvert the opposition, to generate strong political pressures for genuine reform.

He has recommended creating sanctions and incentives for implementing some key elements of reform and open up spaces for exploring healthier forms and practices, such as (a) Training of personnel (b) Motivate and facilitate efficient and well managed societies to introduce structural and managerial reforms to become models of true cooperatives that promote thrift, manage loans and repayments efficiently, and use surpluses for the collective benefit of their members, (c) Identify and bring together successful/promising innovators to exchange experiences and make the wider cooperative community, (d) Enabling and encouraging the spread of societies under MCA is one way to blunt the hold of the political class to implementing much needed institutional reform, (e) This will be useful to create pressures on the government and the political class from within the cooperative movement for implementing institutional reform of wider scope and scale. Simultaneously Nabard needs to play a more proactive role in inducing states to fulfill their commitments to undertake radical legal and institutional reforms and to eliminate their governmental interference in the functioning of societies, (f) MOUs signed by states are in nature of contracts under which they have undertaken commitments to implement a series of specific reform measures in exchange for substantial central financial assistances. The possibility of invoking judicial sanctions to enforce these contractual commitments deserves to be seriously pursued, (g) NABARD also can and should play an important role by conducting a forensic audit of the loan portfolios of a representative sample of primary societies in each state to find out the veracity of their records of characteristics of borrowers and purposes for which loans are given; impose penalties, including withholding of funds, for gross inaccuracies and misfeasance; and make continued access to NABARD funds conditional on the implementation of grass root level reforms specified in the MOUs signed by the government, & (h) It also necessary to get away from insisting on supply driven targets for agricultural financing . It is high time that greater attention is paid to the demand for credit from agriculture. This calls for a careful review the practice of projecting credit requirements using simplistic and untested assumptions about the relation between output and credit needs. A more disaggregated assessment of nature and sources of demand for short term, long term and indirect lending as well as for different segments of staple crops, horticulture, and animal husbandry, post-harvest processing and marketing is urgently needed.

Farmer organizations in China and India

Zuhui Huang, Vijay Vyas, Qiao Liang (2015)

Purpose – Agriculture sectors in China and India are going through rapid changes. There is a shift in demand pattern, significant changes in the supply chain, greater competition due to opening up of the domestic and external markets and fuller integration with rest of the economy. These developments have impacted traditional agriculture and its institutional underpinning. Latter are being transformed and new institutions are coming into existence. The paper aims to discuss these issues.

Design/methodology/approach – This paper discusses the changes in economy and the agricultural sector, explores institutional responses in terms of various producer organizations in the two countries, and examines their adequacy for the coming phase of agricultural development in China and India.

Findings – The co-existence of various farmer organizations will sustain for a long period in both China and India. Overall, they have benefitted agriculture producers, and more particularly the surplus generating farmers. However, the incompatibility between these and the vast and growing small farm sector is not disappearing. Next set of institutional reforms should address this critical question of “reaching the unreached.”

Originality/value – China and India are the world’s two largest countries in terms of population as well as agricultural population. They share a lot of common features. This paper discusses the changes in agricultural sector, explores institutional responses in terms of farmer organizations, and examines their adequacy for the coming phase of agricultural development in China and India, which has never been seen before.

The Logic of Farmer Enterprises (FEs)

Ajit Kanitkar (2016)

This essay presents an overview of recent experiences with regard to promoting, managing, and growing farmer enterprises (FEs) while highlighting the need for promoters of FEs to plan their interventions depending on the stage of growth of these enterprises. It is based on a reflection and synthesis of ideas and insights gained by the author from promoting and managing FEs and during conversations with field-based promoters pertinent to the challenges and opportunities of managing FEs in twenty-first century India. The paper maps the current ecosystem for FEs and then highlights missing links in need of strengthening for the emergence of strong and vibrant FEs. The paper suggests that rather than treating an FE as a successful finished product an openness to see it as a work in progress offers opportunities for both academicians and practitioners to collaborate towards co-creating a live learning laboratory that will be beneficial to primary producers.

Producer Company and Institutional Producer Company-A concept report

Subhash Mehta (2016)

Producer partners will promote the PCs, staff them with professionals to take all the risks and responsibilities, leaving them to farm and on farm activities, with transparency being the fundamental principle. The purpose of this document is to clearly establish how the PC intends to operate, define the standards and ethics it will adopt, and grant members the opportunity to contribute and feedback on the company's structure and policies. PC will strive to align its business vision with the visions of its producers in a manner beneficial to all stakeholders.

PC aims to create sustainable development through meeting the needs of its members from soil to harvest, taking responsibility for the 'cash to cash cycle' and, therefore, implements standards and a code of conduct that ensures the social, environmental, and economic aspects of the agri-rural communities. PC will work with organisations to develop appropriate criteria for ethical business practices in all sectors of interest to their members, especially meeting their own needs and incorporating MADPs in their farming systems. PC understands its responsibilities of working in partnership with its members, helping them to overcome the barriers they face in their day to day working, especially, financing their operations, finding a market for their products and most important rapidly increasing their 'Purchasing Power'. The shareholding structure be finalised after feedback from potential partners. PCs will provide a framework that is advantageous to all the stakeholders.

PC's management, which carries the financial risk, will be empowered to run the company as it sees fit, taking full responsibility and accountable for decisions taken. PC recognises the importance of the relationship with members, incomes and increase in share value, for continued support and the success and growth of the company. Members are encouraged to attend the annual general meeting of shareholders each year.

PC members are able to hold shares that do not carry with them any restriction on the times they can be traded. PC members will benefit from holding nominal shares initially in the company and raise holding by converting the part harvest or profits into shares. PC members will be free to focus on their core competence, farming and on farm activities, with all other risks and responsibilities being taken by the professionals, staffing the PC and the Board

Economies of Scope: Context of Agriculture, Smallholder Farmers, and Sustainability by

Amar KJR Nayak (2014)

Tracing the evolution of theory and practice of '*economies of scale*' during the last three centuries of industrial revolution, the paper shows the irony of adopting *economies of scale* time and again only to face greater economic recession, market failures, climate changes, food crisis and growing un-sustainability of our ecosystem. The article analyzes the significance of '*economies of scope*' in the context of (a) basis of efficiency in agriculture versus industry, (b) operational dynamics of scope and scale across sectors in agriculture (c) organizational design

and institutional architecture with the logic of scope. Further, through empirical evidences from smallholder farmers and farmer producer organizations from across India, the paper highlights that '*economies of scope*' in agriculture is not only more efficient for nutritious food production and climate smart but also for the sustainability of agricultural ecosystems and the overall socio-economic-environment.

Based on the analysis and empirical observations, the article provides three tracks for future research for long term sustainability of global food production and supply system. The three tracks include (a) science of economies of scope in agriculture, (b) optimal organizational design in the light of economies of scope, and (c) optimal institutional architecture for stable relationship among producer organizations and markets. From the available action research outputs during the last about eight years, it is imperative that agricultural and rural development policy to adopt sustainable agriculture facilitated through optimally designed producer organizations at 1-2 Gram Panchayat level where these producer organizations are saturated at the district level (Nayak 2013).

Farmer Producer Organizations in India: Policy, Performance and Design Issues

Amar KJR Nayak (2015)

Farmer Producer Organizations as producer companies are increasingly been seen as engines of growth for agriculture and rural development in India. It also fits well in the current economic and political milieu of the country. While there have been budgetary commitments, extension of support, and legal provision for producer companies during the last ten years by the government, development agencies, and civil society organizations, the performance of the producer organizations have been much below expectations. In the above context, this article focuses on the status of internal organizational design of producer organizations viz., *size, scope, technology, governance and ownership* for greater cooperative action and sustainability. Arguments and suggestions in this article are based on the findings of an all India baseline survey of producer organizations including detailed case analysis of 21 producer organizations during 2011-14 and complemented by an action research during 2007-14 on developing sustainable producer organization.

What made agriculture risky and farmers vulnerable in India?

Amar KJR Nayak (2015)

This paper talks about the problems of small and marginal farmers in the context of green revolution where agriculture has gradually become more external input driven. Agricultural inputs of seeds, manure, credit and natural pest management have been externalized. Farmer today needs to buy seeds, fertilizers, capital, and pesticides as well as labour from the external market. The externalization of internal capabilities has considerably weakened the farmer and

is making him more vulnerable by every passing season. Further, externalization of internal capabilities of farmer probably has led to greater external capital dependency, making credit one of the new monsters of small farmer. The externalization phenomenon in agriculture seems to have exposed farmer communities with low government institutional reach especially tribal farmers to greater risk

Smallholder Farmers and Agriculture in India: Challenges & Way Forward

Amar KJR Nayak (2016)

The note provides some perspective on the state of farmers and agriculture in India and the process of transition to overcome the present concerns. The first part of this note highlights the present state of nature of risks to farmers and agriculture, rise of new monsters in agriculture, disobedience to science of efficiency in agricultural production system and consequent high cost of insurance, lack of grass root level convergence in government schemes with dissipating social capital and high transaction cost of extension services, inability to balance diversity in production and scale & specialization in marketing in absence of optimal farmer producer organizations and institutional architecture. The second part of this note points to the transition strategy and policy measures to overcome the deep rooted challenges of present agriculture and rural economy in India.

PRACTICES

Amalsad VVKSK Mandli Ltd – Pathway to success

Hemant Naik (2016)

Set up in 1941, this organisation has come a long way working with farmers and other members within 17 villages of Gandevi taluka at Navsari district. It started with control (fair price) shops at the village level and started collation and marketing of Chiku and Mango from the local farmers. All along their aim was to look for needs of the community and fulfilling them by adding activities one after another. They now support the community through creation of availability of daily needs like petrol, fertilisers, pesticides, seeds, building equipments, consumer goods, apparels etc. They also are providing service for gas bill payment, telephone bill payment etc. Every need is understood and catered to. The level of transparency, trust and interaction is very high which keeps the entire member attached to the system. The initial leadership provided during inception and subsequent selection of management has played an important role in keeping the community united.

Views of Access Livelihoods Consulting India Ltd

G. V. Krishnagopal (2016)

He is of the view that, strong social leadership, legal environment and design features of the collective are essential for success of a producer enterprise. One never can reduce and easily prove that a single factor is sufficient ground for promotion and development of collective. So criticism of those factors is not going to help the sector as even strong leadership and enabling legal environment is very much required. One also need to look at performance from member impact perspective, performance in relation to sustenance of underlying resource - be it water, land, animal etc, increasing governance effectiveness.

Optimal design of FPOs

ICCo (2016)

ICCO approached in a different pattern for promotion of PCs where they focussed on PC being treated as a business organisation rather than a platform for capacity building for members. With their regular interaction during promotion, they have learned that business incubation support can be applicable here with sharing of responsibility by members, in-site support of a strong leadership or champion in place. Not-for-profit approach dilutes the seriousness of members. Access to difficult geographical locations and frequent interactions play a vital role in success of the PCs. Many times lack of response from PC members hinders the growth of business.

BASIX experience in Promotion of Farmer Producer Organisations (2016)

This paper describes Basix's experience in promoting 256 FPOs across 9 Indian states. In community mobilisation and FPO formation, the membership size depends on the supporting organisations and varies from less than 100 to 2000. In terms of governance, it gets difficult for bringing the marginal farmers to the board meetings and many times individual interest overpowers the willingness for collective benefit. For the business mix they have been procuring inputs in bulk for farmers, arranging credit, insurance and extension services, aggregation of produce for collective marketing and processing produce for value addition to create better income for members. Capability building for board members for management is a challenge and requires regular training. Capital generated through contribution for share from members is not always sufficient to generate business and hence requires external assistance in the initial period. Having qualified and capable managerial staff is a challenge for all FPOs. Recently Basix has developed a tool for assessment of capability and maturity of FPOs.

Bhutan – an outstanding successful evidence backed case study for replication among isolated rural communities globally - Tarayana's case study (2016)

This project focused on the Olep ethnic group who live on the western fringes of an important national park in the west central part of Bhutan. Originally; a nomadic hunter gatherer community, the Olep were encouraged by the government to settle in Rukha in the early 1970s, so that they could benefit from the development initiatives that were taking place in the country. With no experience of settled living and their earlier means of living off the forest no longer available, the community fell into extreme poverty. This project, run by the Tarayana Foundation, has developed skills and encouraged a self-help ethos that has successfully helped the community recover and prosper. Originally focusing on the village of Rukha, the project has spread to 150 other villages across Bhutan. They worked on three important area of concern, i.e. (a) House building & renovation, (b) Revitalisation of traditional handicrafts, & (c) Environment friendly farming. They also supported for sanitation, health and education in the community and helped them access micro-credit, arrange irrigation, supported for fish farming and solar electrification.

POLICY LEVEL PAPERS

National Advisory Council - Draft Recommendations of the Working Group on Enhancing Farm Income for Small Holders through Market Integration

The broad terms of reference of the NAC Working Group was to review the current gaps in policy and implementation processes that affect smallholders' agriculture. In particular, the WG was mandated to look into the issues concerning integration of smallholders with the organized market and develop a set of recommendations for policy, legal framework and implementation guidelines to create a favourable ecosystem for members' owned farmer producer organizations (FPOs) thus contributing towards inclusive growth, as is the case that majority of the smallholders are out of the service network of either government or private service providers. The working group had consulted with wide range of institutions and individuals involving practitioners from the civil society and farmers' organizations, Ministries and institutions of the Central and State Governments, corporate bodies involved in agribusiness, financial institutions, donor community, academic institutions, experts, etc. Besides, it has taken a note of the suggestions and recommendations of the various Committees set up earlier and reviewed existing legislations and policies related to the subject. The recommendations as followed are developed out of these consultations and were examined in the light of need and practicality. The key recommendation were on (a) Institution building initiatives, (b) Create conducive policy regime for the FPOs to access start up and investment capital, & (c) Address marketing related issues to incentivize direct market interventions by the FPOs.

Note seeking deduction of income, under section 80P of Income Tax Act, of producer companies registered under Part IX A of the Companies Act

Irina Garg (2015)

A 'producer company' is a business enterprise registered under the provisions of Part IX A of the Companies Act, and established on the principle of mutual assistance (listed in Section 581G(2) of the said Act), which are similar to "Cooperative Principle". Producer Company, under the Companies Act can be registered by producers or producer institutions engaged in any activity related to agriculture and allied sector and handloom, handicraft and other cottage industries. Producer Companies combine the institutional strengths of Cooperative principles with the flexibility, autonomy and transparency of company and a cooperative society. It combines all the virtues of a cooperative enterprise coupled with the vibrancy and efficiency of a company. Perusal of the relevant provisions of the Companies Act shows that the producer companies registered under section 581A(L) are required to be constituted of not less than 10 producers engaged in activities relatable to primary produce which are same as listed in section 80P(2) of the Income Tax Act. Section 581 A(K)(j) of Companies Act defines primary produce as follows: "Produce of farmers arising from agriculture (including husbandry, horticulture, floriculture, viticulture, and forestry, forest produce, re-vegetation, bee raising in farmer produce) or from in any other primary activity or service which promotes the interest of the farmers or consumers." Thus the producer companies registered under Part IX A of the Companies Act are required by law to carry on the same business activities that are listed in section 80P(2). Furthermore, the objects of Producer Company as defined under Section 581(B) of the Companies Act specify these activities along with the injunction that these producer companies would work on principles of mutuality. From the provisions of section 581B of the Companies Act, it is seen that the producer companies are required to function on the same principles as co-operative societies, for instance, principle of mutuality, principle of voluntary and open membership, democratic control by its members, economic participation by its members, autonomy and independence to be exercised by its members, and providing training, education and information to its members. Moreover, section 581C(5) of the Companies Act clearly mandates that the producer company shall not, under any circumstance, become or be deemed to become a public limited company under the Act. This clearly reiterates the fact that the organizational structure of the producer companies registered under Part IX A of the Companies Act is envisaged to be along the lines of the co-operative societies. It is therefore not surprising that Section 581J of the Companies Act gives an option to inter-state cooperative societies to become producer companies. In fact, Section 581M allows the benefit of all fiscal and other concessions, privileges, and exemptions granted to the inter-state cooperative societies in connection with. Their businesses are under any law from the date of their incorporation under the Companies Act as producer companies. To deny the concessions under section 80P of the Income Tax Act to the producer companies other than the inter-state co-operatives who have opted for incorporation under section 581J of the Companies Act amounts to differential treatment to similar concerns which is a legal anomaly that is sought to

be rectified. The Central Board of Direct Taxes is therefore, requested to amend the provisions of section 80P(1) to include producer company being an assessee, entitled for claiming deduction of any or specified incomes referred to in section 80P(2) from its gross total income.

Policy Issues on FPOs

Trilochan Sastry (2016)

Prof Sastry recommends (a) access to working capital at reasonable rates as per guideline by RBI for Cooperatives & PCs. Regular bank policy of lending upto 3 to 4 times of net current assets is not helping the PCs and an RBI guideline/ clarification on SHG-Bank linkage which was collateral free lending, Banks can do cash flow based lending to Coops/MACS/Producer Companies and still get priority sector benefits, it may give a big boost to this sector, (b) the approvals, certifications and documentation must be made simpler so that PCs don't have to run to 20 agencies while starting the organisation, (c) The VAT and other taxes and duties should not be applicable to help the PCs stand on its own.

How Do We Fund Our Farmer Producer Organizations?

Venkatesh Tagat and Anirudh Tagat (2015)

This article seeks to address supply-side issues in financing of Farmer Producer Organizations (FPOs) in India. The growing importance of producer companies (and more generally, farmer collectives) is best seen in the context of the predominance of smallholder agriculture in India. Understandably, there are several constraints in terms of access to technology, credit, and markets – there has been extensive evidence to show that organizing marginal and small farmers into producer organizations can be fundamental in overcoming such constraints. However, most of the studies are either qualitative or empirical analyses of specific POs or specific states, offering only minor implications for national-level policy.

Financing for Farmer Producer Organisations (FPOs), Policy paper

ACCESS (2015)

Collectivizing farmers into Producer Organizations (POs) has been considered as one of the way to overcome the challenges faced by the small and marginal farmers. This approach is demonstrating the potential to be more successful in breaking farmer's dependency on intermediaries, and enabling them access better markets (inputs and output). In the last decade, efforts have been made towards creating and strengthening POs and thus strengthening their position in the mainstream value chain/s. Over the years, there has been a growing interest in promoting an enabling environment for the FPOs. Several initiatives have been taken by the Government, Apex financial institutions such as NABARD, private donor organizations, financial institutions and many other institutions to support the growth of the FPOs and

facilitate their emergence as successful business enterprises. Under the 12th Five Year Plan of the Government of India, promotion and strengthening of FPOs has been one of the key strategies to achieve inclusive agricultural growth. In the last three years, the growth of the FPOs has witnessed a big spurt in the formation of FPOs. Given this rapid growth of the FPOs, the issue of access to credit - linking the FPOs to reliable and affordable sources of financing to meet their working capital, infrastructure development and other needs - has assumed centre stage. As the FPOs strive to achieve sustainability, there is an urgent need to reorient the funding ecosystem to support the newly formed FPOs. This paper, further explores the financing requirements of the FPOs based on their stages in the lifecycle. Stages of the FPOs are broadly categorized into three phases:

- Incubation and Early Stage
- Emerging and Growing Stage
- Matured Stage (Business Expansion)

In each of the stage of the FPO, the financial needs were found to be different. In early stages, financial need of the FPOs revolves around the cost of mobilizing farmers, registration cost, cost of operations and management, training, exposure visits etc. Mostly the need is met thorough the grant support. Later in the emerging and growing stage, FPOs need working capital to run their businesses. As the FPOs move towards expanding their businesses, POs need term loans are needed to set up processing units, processing/ grading/ sorting yards, storage godowns, cold storage, transport facilities, etc. Further, this policy paper attempts to examine the issues relating to financing the FPOs, and offers some recommendations to initiate discussionand debate by the policymakers, financiers and practitioners to evolve consensus to design appropriate policies, financial products, and governance and management practices.

Producer Company (PC) or Institutional Producer Company (IPC), a federation of PCs, of, for and by the Farmers, but staffed by professionals

Subhash Mehta (2016)

This paper is based on experience in working with PCs and recommends the change in the way it should function for success. It talks about the current status of small and marginal farmers and the difficulties they face. The new legislation of giving Producer Company a separate legal status has attempted to eliminate external vested interests and create transparency with financial institutions in a position to delivery of funds when required. This will help small and marginal farmers to have access to funds, better management, capacity building and market access. For this capacity building is essential and the managing staff from within the members should be selected by professional method to ensure smooth running of the organisation. The initial investment in fixed capital and subsequent requirement of working capital are to be supported by banks and NABARD. Initial investment for mobilisation and capacity building should be funded by Government and NGOs who also will support the community through

training on best agricultural practices, mentoring them for access to funds, providing market linkage, helping them to create value addition for better margins and looking after daily needs of the community. This initial handholding is essential to enable the PC stand on its own.

Producer Company Employee Job Description

Subhash Mehta (2016)

In this document the author has outlined job description of CEO, his job specification, roles and responsibilities, entitlements and performance measurement indicators. It has in detail elaborated how the CEO would work in field and what he/she should do for creating awareness and helping people in their daily needs.

Workshop Report - Producers Collectives and Livelihoods: Exploring Issues for Research and Policy

IRMA (2015)

For a deeper exploration of the six themes identified by the organisers – socioeconomic and political context, design of institutions, institutionalisation process, availability and access to capital, policy legal and regulatory issues, and value chain and marketing and product innovation – the workshop participants were divided into six groups with one of the members from IRMA as a theme custodian. The groups engaged in elaborate discussions followed by presentations made by one of the members of each group.

The FPO Round-Table - Agri Business Banking in India: Opportunities and Challenges

IIM Bangalore (2014)

The idea of organizing a Round-Table to discuss Agribusiness Banking in India, particularly in the context of Farmer Producer Organisations or FPOs, has been in discussion ever since the Government of India has given a thrust to the promotion of FPOs through the Small Farmers Agribusiness Consortium (SFAC) in 2012. Through SFAC, over 350 FPOs are proposed to be promoted in the next few years. Given the several challenges that FPOs are expected to face as they strive to achieve sustainability, ACCESS Development Services and IIM Bangalore jointly organized a One-Day Round-Table on April 5, 2014, to identify the expected challenges and draw out a roadmap for these organisations. The Round-Table was supported by NABARD and was attended by key “by invitation” stakeholders. To set the tone of the discussion, Prof. G Ramesh, Chairman, Centre for Public Policy at IIM Bangalore started his welcome address by highlighting the new demands emerging in the agriculture and agribusiness sectors and a weak, skeptical response from banks in providing lending support to FPOs. At the same time, it was noted that only a very few cases of sustainable FPOs are being

reported from the field. He emphasized on the need to look for mechanisms to address these issues and challenges. In addition to the national level initiatives by apex institutions like NABARD and SFAC, peripheral efforts made by Rabobank, HIVOS, Ford Foundation, etc. were also discussed; but these, by no account, seemed to be large enough to meet the diverse and complete requirements of FPO financing. Hence, it was deemed important to bring together a Working Group to come up with concrete ideas on how to improve this funding ecosystem in the country and to strengthen the FPO institutional capacity and steer it towards sustainability. The Round-Table was attended by a small select group of informed experts to explore these issues. Current challenges were discussed and a view was taken on the prevailing policy environment and operational impediments and the growth trajectory of FPOs. Experiences in India and other countries were shared on innovative financial products in meeting agri-financing needs, with bankers sharing their experience of working in the agri-business sector. Lastly, it was attempted to bridge the policy – practice gap by discussing ideas to pilot new financial products for start-ups, advocating changes in the existing policy structure, fostering innovations in agribusiness financing through collaborative programs between apex organisations like NABARD, SIDBI and SFAC and scaling up of existing efforts by these institutions. Ten concrete recommendations were drafted by the group, as points to take forward jointly to a working committee at NABARD, the RBI and the Ministry of Finance, as required. These policy recommendations are aimed towards creating a more cohesive and conducive environment for FPOs in the country and to bring more investments and support to the agri-business sector at large.

Roundtable Discussion on Role of Farmer Producer Organizations in improving farmers' access to markets

Agricultural Finance Corporation Ltd (2010)

Learning from the self help group (SHG) experience in the country, farmer producer organizations (FPOs) should be self selecting and not mobilized against any target or predetermined objectives. Felt need and voluntary association are critical ingredients to successful FPOs. The basic unit of any form of FPO (be it a cooperative, informal association, producer company etc.) should be not be more than 20 members to ensure close coordination, ownership and participatory governance. When federating into larger structures, a membership base of between 1000-1500 members appears to be the optimum strength of viable FPOs.

FPOs should not take up collective production and marketing efforts immediately. A period of trust building is vital for long term success. Agriculture extension is the most favoured entry-level activity around which a strong FPO can be built. Collective efforts to access inputs in bulk form are also good confidence building moves. Intensive capacity building and training inputs are key to the success of FPOs. These must begin as quickly as possible after the group has formed and must keep pace with growing needs (e.g. marketing, accounts, quality and

inventory management etc.). Over a period of time the asymmetry in the governance capacity of various members of the FPO must be leveled to ensure democratic and transparent functioning.

FPOs should not rush to acquire formal legal status and they can function as informal groups till such time as the need to federate into larger bodies for marketing or input supply arises. A small cash contribution as membership charge is desirable to promote a sense of ownership and bonding among FPO members. This can be adjusted against share capital contribution if and when the FPO acquires a legal status as a cooperative or producer company. There is a strong felt need for a tier two financial institution that can offer capital and technical support to FPOs. The lesson from India's successful microfinance experiment is that such a second tier institution (which sources its funds in bulk from banks, donors, government sources and international bodies, and on-lends them in turn to a specified category of borrowers) is required to incubate and nurture FPOs on a large scale. Existing financial institutions, especially banks, are unsuited to address the need for capital and other support of FPOs. Financial institutions and regional rural banks lack adequate understanding and human and technical resources to undertake these tasks. The role of a "champion" for FPOs can be acquired by this institution, mediating not just capital and technology transfer, but addressing the larger policy context as well. Professional managerial support is a challenge for FPOs. Current institutional responses (in the form of MBA programmes) are not suited to the needs of these nascent organizations and a local cadre of educated youth may have to be developed to serve as field managers in FPOs. This will call for shorter, diploma level courses to sensitise the potential managers to the special needs of FPOs. Mitigating risk is one of the major reasons for mobilizing FPOs, as the limitations of individual resource endowment, entrepreneurial ability and market leverage are overcome through the strength of the collective. Appropriate risk mitigation measures in the form of diversification of resource use (primarily reducing the dependence on crop husbandry and increasing the share of livestock, dairy, poultry, fisheries and horticulture in the product mix) as well as linking up with emerging innovations in risk insurance will be required to increase the attraction of FPOs for cultivators. Another important risk reduction strategy is entering into partnerships/joint ventures/PPP mode projects with private sector players increasingly looking to source produce for the fast growing urban retail format. This will require both understanding and expertise, again underscoring the need for a "sector champion", an institution or body that builds awareness among all players in the sector and helps to develop norms for institutional behaviour. A period of handholding may be necessary to bring emerging FPOs to a point where the internal leadership is able to take over critical functions and supervise management. Suitable institutions in civil society and the private sector are best suited for this role. The period and nature of support will vary in the case of each FPO but the danger of dependency should be clearly avoided. In normal circumstances a period of two to three years should suffice to enable a FPO to achieve internal capacity for management, with a gradual shift in responsibilities taking place within the first year itself. The role of government agencies is critical to the success of FPOs. In particular, the government can support capacity building and training, basic infrastructure and knowledge dissemination. The role of

government is vital in removing any legal bottlenecks that may exist to enable FPOs to function in an unfettered manner (e.g. mandi laws in several States prohibit direct marketing by farmers to consumers). Venture capital financing and viability gap funding are new areas that require government attention to incubate successful FPOs on a large scale. xiii) A national effort to support FPOs is only possible with a strong leadership role played by the government. This would require a platform or mechanism to be created for civil society and the private sector to be able to join government efforts at FPO promotion. The success of the SHG based microfinance movement suggests that such a coalition is both possible and desirable in the current context.

8. Program Schedule

**Round Table Discussion on
Optimal Farmer Producer Organization Design
Venue: MDC Conference Hall, XIMB
Date: 18 January, 2016**

Time	Topic	Facilitation
8.30 am – 9.00 am	Registration	Organizing Team
09.00 am - 9.05 am	Welcome	Fr. Paul Fernandes, S.J. Vice Chancellor, XUB & Director, XIMB
09.05 am - 9.10 am	Introduction to RTD	Prof. Amar KJR Nayak
9.15 am – 10.45 am	Self-Introduction & brief opening Remarks	Senior Academics, Senior Practitioners & Key Policy Executives including Dr. Peter Kenmore, Former FAO India Representative now based in USA
10.45 am – 11.00 am	Tea Break	
11.00 am – 1.00 pm	Optimal Design Issue-wise Discussion	Participants / Delegates
	Ownership & Legal Issues of PCs/FPOs (11.00 am – 11.15 am)	Prof. Y.K. Alagh through Video Conference
1.00 pm – 2.00 pm	Lunch	
2.00 pm – 3.30 pm	Implementation & Policy Recommendations	Participants / Delegates
	Governance & Management of PACS/FPOs (2.30 pm – 2.45 pm)	Prof. A. Vaidynathan through Video Conference
3.30 pm – 3.45 pm	Tea Break	
3.45 pm – 4.45 pm	Summary output on Optimal Design Issues	Rapporteurs: Asish Panda, Doctoral Scholar, XIMB & Jeevan Arakal, Asst. Professor, XIMB/XUB
	Key Recommendations on Legal & Budgetary provisions Based on all previous RTDs	Brief discussion & approval
4.45 pm – 5.30 pm	Concluding Observations & Selection of Executive Committee for National/ International Conference on FPOs & Vote of Thanks	Mr. Ashok Methil, CGM, NABARD Dr. A R Khan, DGM, NABARD Mr. Subhash Mehta, Key Policy Executives & Prof. Amar KJR Nayak

9. Participants / Delegates Present in the RTD on FPOs

SN	Name	Designation	Organisation
ACADEMICS			
1	Paul Fernandes, S. J.	Vice-Chancellor & Director	Xavier University Bhubaneswar
2	A. Vaidyanathan	Professor & Viadyanathan Committee Chairman	Joined through SKYPE
3	Yoginder Singh Alagh	Emeritus Professor	Joined through SKYPE
4	Peter Kenmore	Former FAO India Representative	Joined through SKYPE
5	Debiprasad Mishra	Professor & ED, Gram Vikas	IRMA
6	Shambu Prasad	Professor	IRMA
7	Sashmi Nayak	Professor of Social Work & Ambedkar Chair Professor	NISWASS
8	K R Maitreyi	Professor	Hyderabad
9	S. Peppin	Professor & Dean, XSOS	XUB
10	Kajri Mishra	Dean, XSRM	XUB
11	Jeevan J Arakal	Asst. Professor	XIMB
12	B S Misra	Professor & Dean	XIMB
13	S S Ganesh	Professor	XIMB
14	Shridhar Dash	Professor	XIMB
15	Asish Panda	PhD Scholar	XIMB
16	Rahul Pratyush Mohanty	PhD Scholar	XIMB
17	Amar KJR Nayak	Professor of Strategy & NABARD Chair Professor	XIMB
PRACTITIONERS			
18	Ashis Mondal	Managing Trustee & Director	Bhopal
19	G V Krishnagopal	Chief Executive Officer, ALC Ltd.	ALC India
20	GA Swamy	Regional Coordinator	ILRI, BASISX
21	Subhash Mehta	Trustee	Devarao Shivaram Trust, NGO Association for Agricultural Research Asia Pacific (NAARAP)
22	Usha Mehta	Trustee	Devarao Shivaram Trust, NGO Association for Agricultural Research Asia Pacific (NAARAP)

23	Anita Paul	Director	Pan Himalayan Grassroots Development Foundation, Uttarakhand
24	Kalyan Paul	Executive Director	Pan Himalayan Grassroots Development Foundation, Uttarakhand
25	P Satish	Executive Director	Sa-Dhan
26	Saibal Paul	Senior Professional	Sa-Dhan
27	R. Nanda Kumar	Chief Executive Officer	Chetna Organic FPC Hyderabad
28	R V Singh	Sector Lead	OMEGA, SIRD, BBSR
29	Nabaghana Ojha	Sector Head	OMEGA, SIRD, BBSR
30	Sujay Kar	Sector Head	ORMAS, BBSR
31	Jitendra Sinha	Team Leader	SRIJAN
32	Jitendra Nayak	Odisha In-Charge	TATA Trust
33	Amulya Mohanty	Vice President	Access Development Serives
34	Hemant B. Nayak	Ex-Secretary & Advisor	AMALSAD, Gujarat
35	Mathew Sebastian	Founding Executive Director	Indocert
36	Mukesh Tiwari	Business Dev. Leader	TRAIDCRAFT
37	Prateek Uniyal	Program Manager	ICCO
38	Arunabha B	Manager	Partnership & Linkages
39	Arvind Kumar	Team Leader	SRIJAN
40	Suryamani Roul	Deputy Director	Technoserve
SENIOR POLICY EXECUTIVES			
41	Usha Padhee	Joint Secretary	Government of India
42	M V Ashok	CGM, DEAR	NABARD HO, Mumbai
43	Jaideep Srivastava	GM	NABARD HO, Mumbai
44	A R Khan	DGM	NABARD HO, Mumbai
45	KJS Satyasai	DGM	NABARD, Mumbai
46	P. Nanda	Principal Scientist	Indian Council of Agricultural Research
47	Shouvik Mitra	Consultant	World Bank
48	Suneel Padale	Program Analyst	UNDP

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