

# Need a Market Facing Institutional Leadership for Growth of FPOs

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## Abstract

*High mortality and very few FPOs growing beyond the size of a small scale industry (SSI), even these are seen as an entrepreneurial success than of a farmer collective. Therefore, it is unrealistic that each of the few thousand FPOs in the country would be able to turn into business houses of some stature, with only capacity building and hand holding services by Cluster Based Business Organisations (CBBOs). Instead of every FPO going to market, the strategy proposed is to have FPOs access markets through Anchor Institutions (AI) that would be value chain specific, market-oriented and to be managed by a professional organisation. Under a Build-Operate-Train-Transfer (BOTT) model FPOs would be suppliers of quality produce, for 4 years, after the business is established, concurrently as the FPO directors are exposed to the organisation, the original promoters would transfer ownership to vendor FPOs of the state, more or less on equal basis. FPOs, just as a village milk society, would specialise in production and postharvest, while all commercial and market requirements are vested with the AI. Under the FPO policy for 10,000 FPOs by the GOI, the mandate of the CBBOs is to promote FPOs and support each of them to individually work on their business plan. The policy modification sought is to provide for the CBBOs to set up dedicated Sec 8 company as AIs to manage business strategy for specific value chains to be supported financially, under the BOTT model.*

**Keywords:** FPO, Leadership, Anchor Institutions

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## **Introduction**

Euphoria about Farmer Producer Organisation or Company seems to be waning rapidly, although the GOI is continuing to drive hard in creating more of these, even as most of the already established FPOs are struggling to find reasons for them to exist. NABARD, in its report (National Paper - PLP 2019-20) on issues of FPOs, has a long list such as a) lack of professional management, b) weak financials, and c) inadequate access to a range of services such as credit, market, risk mitigation, infrastructure. Essentially, it is an admission that the issues that farmers individually face are the same as their collective organisation. This assessment comes after huge efforts put in by various Resource Institutions (RI) providing capacity building services to the Directors of FPOs, in developing business plans and so on. Having said that, it is also unfair to pass judgement on such concepts before enough and all has been done to make it work; guess lots left to be done other than what has been done so far.

## **Learnings from Success of Cooperatives**

In structuring a strategy for succeeding in building FPOs as an institution, it would be relevant to understand the operating model of co-ops in India, which has earned international acclaim for all developing countries to emulate, particularly in the dairy sector. The dairy sector under the coops, as per the recent reports (<https://ncdfi.coop/about-us/>), has a revenue of Rs. 4,661 Cr. in FY 2020-21, organising 172.63 lakh farmers through 1.96 lakh village milk societies. The hierarchy above the village milk societies are the district milk unions numbering 223 affiliated to 27 state level milk federations. At the national level, it is the National Cooperative Dairy Federation of India. These have evolved and come to the present state of a large business owned by farmers and managed by professionals. Some of the basic structural aspects that contributed to this level of success are noted as follows:

- Specific focus on limited value chain- Dairy and Edible Oil

- Technology applications in Production and Processing, besides mighty branding and national and international marketing
- Strong professional organisation to manage operations, setting strategic directions and Organisation systems and processes.
- Activity and responsibility at the three levels - village/district/state are clearly defined, all of them work towards a single business goal collectively

### **FPOs or PACs - No Different in Capabilities**

It is to be noted that aggregation of farmers under an organisation is nothing new which has been happening under the co-operatives movements for many decades, and shown successful results in the dairy sector and to a large extent in credit delivery as well, however, success seems to elude FPOs.

The key difference is that the FPO is left free to decide its business domain while the co-ops are dedicated to a specific line of business such as milk, oil seed, credit and so on. This is a huge entrepreneurial challenge on the FPOs which is nothing but a group of farmers who have come together on the lure of incentives and drive from the Resource Institutions hired to form and support them. As a result, FPOs have often fancied playing trader kind of roles which is the next link in their transaction chain, setting up input distribution activity, grain aggregation and so on. Very few of them are venturing into value added products such as Atta and so on, visualising their packs as building brands little realising what it takes to fight the might of the large players. As a result, even those functioning do so in isolation without building scale necessary to be sustainable in the long run, therefore FPOs are not effectively building strength and solving the problems of the farmers.

### **FPO Management Bandwidth**

Primary Co-op Societies handle responsibilities of production and related aspects, and all the rest is handled by the apex body building scale in operation. While for an FPO, it is required to manage the business in its

entirety from the supply chain, markets, finance and so on, the challenges have been the single most hurdle in making progress for the FPOs. Capacity building class room exercises cannot alone deliver the intended outcome of FPOs, as has been seen from the experience so far. Contents have also laid emphasis on regulatory and compliances for a company, which are usually outsourced in any company, where the owners are guided by the professional service providers. It is not unusual for businessmen to be poorly informed on the regulatory requirements, which is not an area of core competence needed to manage business other than the laws applicable for the business such as licences, etc.

Therefore, the expectation that each of the few thousand FPOs in the country would be able to identify a business domain, set strategic goals, develop plans and implement to success and generate growth is grossly unrealistic, as has been the experience. The absence of an equivalent of a state-level apex body like in the co-op sector to guide the FPOs is considered as one of the key reasons for the poor performance of the FPOs as an institution.

### **FPOs, Rural Entrepreneurship or Farmer Institutions Programme**

A study entitled "FPO - Past, Present and Future" by Azim Premji University in March 2020, has observed that "Producer companies are dependent on promoters for identifying and evaluating business opportunities, raising capital, conceptualising and operationalising the business, compliance, basic management skills, and governance. In most FPCs we visited, there was no dedicated or professionally-trained CEO: In some cases, the board was acting as the de-facto management of the company, while in other cases, the NGO played this role. Thus, the success of the PCs depended on the business competence of their promoters and board members.

Yet, many promoters establish PCs without first conducting a sound analysis of the business opportunities and risks in the local context. They tend to underestimate the operational complexity and the cost of running a viable business and experiment with different approaches and strategies. One

promoter admitted this challenge: "This is a business, not a charity but most of our staff are not from the business side." As a result, they are unable to fully grasp the implications for operational and capital requirements, and often fail to institute strong compliance and governance processes. One promoter acknowledged that the high turnover companies are usually the ones which are self-promoted."

The observations in this report validate the reality that a handful number of FPOs that have grown beyond SSI kind of scale are attributable to the entrepreneurial success of individual entrepreneurship. For FPOs to emerge as an institution as strong as the dairy coops needs a development framework different from the present approach adopted by the GOI, an approach that mimics the way the co-ops movement succeeded in the dairy sector. Any business organisation begins with a sound business idea, evolved into a plan, backed by strong execution capabilities and which in combination makes it a bankable project to raise necessary funding. As seen from the performance of the FPOs over many years and as evidenced by the responses of farmers in the study cited above, it is clear that individual FPOs cannot deliver the scale necessary to make a significant impact in long term.

### **An Institutional Leadership Framework**

The strategy would be value chain specific market oriented and to be managed by an Anchor Institution (AI) in alliance with FPOs as suppliers of quality produce, as per the standards and terms mutually agreed with the AI, ownership of AI to be transferred to the FPOs under a model incorporating training needed alongside the development of the business. FPOs are best left to specialise in production and post harvest, their areas of expertise, while all their commercial and market requirements are vested the AI and managed by a team of independent professional organisations responsible to deliver on a business plan for the domain defined.

## Build-Operate-Train-Transfer Model

The thrust and difference in this model of FPO development are a) FPOs risks of markets and performance are collectively managed by AI, b) Equal opportunity for all FPOs to participate and benefit in the growth opportunity, c) Training is focussed and experiential, with application in actual business, and many others.

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|----------|---|
| Build    | <ul style="list-style-type: none"> <li>• Choice of Value Chain</li> <li>• Develop a 4-5 year business plan for the identified domain</li> <li>• Establish a professional organization &amp; management process including financial authorities</li> </ul>   |
| Operate  | <ul style="list-style-type: none"> <li>• Run the operations, establish commercial infrastructures and trade relationships</li> <li>• FPOs participate as aggregators and/ or as vendors</li> <li>• Encourage FPOs to meeting standards of inclusion &amp; fair trade, support small farmer participation in FPOs</li> <li>• Scale volumes of operations to create competitive strength</li> </ul> |
| Train    | <ul style="list-style-type: none"> <li>• Based on a rating system, identify FPOs and its directors with potential to be trained</li> <li>• Year 3-4- invite FPOs directors for Management Committee(s) deliberations</li> <li>• FPO Directors to be rotated among different functions, supported with relevant concept exposure</li> </ul>  |
| Transfer | <ul style="list-style-type: none"> <li>• End of Year 4-5- Transfer of ownership to FPOs under a scheme of allotment</li> <li>• Shareholder agreement to guide relationship and ownership to be part of T &amp; C</li> <li>• Management to continue to have autonomy in operations and Board to provide strategic guidance/ oversight</li> </ul>   |

BOTT Model provides for delayed induction of the final beneficial owners into the company for the purpose of allowing the management to focus in the initial years on building the business, stabilise processes and systems

until a stage the business model is robust enough to expose the FPC directors, also facilitating experiential learning by the FPC directors.

Among various options of legal entities, AI is best registered under Section 8 of Companies Act 2013, as a Non-Profit Organization (NPO), which can avail benefits from State and Central Government schemes, besides and also the ease of transfer of company shares without any valuation gains by end of year 4 or 5 as the case may be.

### **Anchor Institution Concept under GOI FPO Policy**

Under the policy for promotion of 10,000 FPOs by the GOI, implementing agencies engage several Cluster-based Business Organisations, earlier known as Resource Institutions, which are essentially NGOs or Consulting Firms. Their mandate is to promote FPOs and thereafter support each of them to individually work on their business plan, help manage all the challenges of the business for every single FPO. In preceding sections, the need for a federated approach under an anchor has been explained; the policy could provide for the CBBOs through a selection process in which the most deserving business strategy for specific value chains in 5-10 states are taken up and supported financially, under the BOTT model. Selected CBBOs would serve as the promoters of the AI, going through the BOTT stages.

In addition to this, in every state, there are several agribusiness professionals who could either be retired or those wanting to contribute to the common effort of supporting farmer organisations. Such groups of individuals could also be encouraged to participate and submit their proposals for evaluation, who could be the promoters.

Evaluation of proposals could be based on the projections of growth and absolute sales revenue, detailing of the implementation strategy, track record of the promoters in the domain, incremental earning conveyable to the participating farmers and FPOs.

Some of the State Governments have recognised the need for an AI for FPOs, rather than supporting individual efforts at building their business. MAGNET, a horticulture development project funded by ADB and implemented by MSAMB has a component of Anchor FPOs. The Government of Karnataka is in its consultative stage of developing an implementation road map for anchor institutions or anchor FPOs at district and state levels. The Government of Tamil Nadu plans to set up 50 retail shops in 5 major cities of the state, which will be stocking products of various FPOs. While the structure of the operation is still not clear; it would be a loose federation of mutual cooperation it appears.

### **Funding Needs**

The funding needs of each of the proposals will vary with the business model and the value chain chosen. However, it can be expected that any business will need some time to generate revenues and growth, hence the business can be expected to suffer cash losses in the first two or three years depending on the business. Often it is the ability of the business to keep itself afloat through this phase which determines if it can succeed or not. This support to keep the business going would be a funding need, essentially economic viability gap funding (EVGF). Besides this, AI would also need to be funded for the requirement of initial corpus and working capital. Timely capital infusion as per the requirements of the business is critical for the success of implementation. Performance conditionalities and oversight by Government nominees on the performance of the AI could form part of the T & C of the promoters to comply with, besides the statutory audits.

### **Benefits of Anchor Institution and BOTT**

There are multiple benefits arising from this, most important being the funds deployed result in the creation of a midsize business run by a professional organisation that can emerge bigger over a period of time. Creating capacity by way of training has only a limited impact, as the recipients of training

are often unable to convert into building business institutions, whereas, under BOTT, training along with the growth of business in terms of the resource needs are provided for. This brings in a high probability of success and sustainability. Multiplier of the funds invested in an AI makes a compelling case for the concept and model.

Widespread and equal opportunity to participate for all aspiring and target FPOs in each of the value chains managed by an AI, besides as the AI would align its business plans with the demands of the market making it possible for the FPOs and its catchment area farmers to align their production and quality with the market needs. A significant benefit would be that AI being a neutral agency managed by a professional team would support every FPO which responds to the needs of the business; hence efforts put in would be rewarded equally for every participating FPO.

AI would support inclusive participation of small farmers in the ownership and management of the FPOs, as also the AI itself which would in its final stage be owned more or less equally by the vendor FPOs. Directorship policy of the AI would be covered under the shareholder agreement to promote a healthy rotation of the directors, and also the chairmanship, which would seek to be a responsibility and service to the community rather than as a coveted position accompanied with perks. The AI board would stay apolitical and business-oriented.

## **Conclusion**

Private capital comes in plenty into agritech startups, evidenced by their proliferation, most eloquent on improving the lives of farmers through better productivity and produce prices, however, in reality, are by and large techie middlemen looking to benefit from sourcing from the farmers at best rates for them, and farmers would remain a supplier for ever. The AI under BOTT model is a startup incubated on behalf of the farmers, being a not a profit entity, would not attract private capital, hence needs the support of public funding.

An equivalent of AMUL in the dairy sector is the need for non-dairy farmers, to help them realise the worth of their produce and not be left to the mercy of the markets. Government policy on FPO development lays entire emphasis on production centre based micro-enterprises, in addition, building macro enterprises to support the micro institutions to emerge as a strong competitive force is essential.