

FPO CAPACITY BUILDING: NEED, APPROACH AND WAY AHEAD

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Acknowledgements

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Glossary

FPO	Farmer Producer Organisations
FPC	Farmer Producer Companies
LTL	Less-than-Truckload
FTL	Full Truckload
SFAC	Small Farmers Agribusiness Consortium
NABARD	National Bank For Agriculture and Rural Development
IFHD	India Foundation for Humanistic Development
NRLM	National Rural Livelihood Mission
PUC	Paid-Up Capital
NCDC	National Cooperative Development Corporation

EXECUTIVE SUMMARY



The Emergence and Evolution of Farmer Producer Organisations (FPOs)

Farmer Producer Organisations as a concept emerged two decades ago with the goal of reducing transaction costs, streamlining resource availability and improving farmers' bargaining power. With the Government of India's flagship scheme, Formation and Promotion of 10,000 Farmer Producer Organizations (FPOs), FPO promotion and capacity building has gained further traction.

Key Stakeholders in the FPO Ecosystem

Besides FPOs, the ecosystem consists of central government bodies such as Small Farmers Agribusiness Consortium (SFAC), National Bank For Agriculture And Rural Development (NABARD) and Indian Council of Agricultural Research (ICAR) which build policies and facilitate promotion of FPOs across geographies. Several external stakeholders such as implementing agencies, academic institutions, philanthropic organisations and financial institutions implement and measure the outcomes to build and scale FPOs, and strengthen the FPO ecosystem.

The Need for Capacity Building and Existing Gaps and Constraints

While FPOs have the potential to address critical constraints of smallholder farmers, in their current form, their capacities are insufficient. They require intensive capacity building support to become impactful organisations that can sustain and scale up. Current capacity building programmes focus on early-stage FPOs, but FPOs need specific support and strengthening across their lifecycle. This will only be possible by designing and delivering engaging and relevant content. Key gaps and constraints in FPO capacity building are limited control over content and delivery, lack of feedback, limited peer-to-peer interactions, lack of customisation, high costs, and difficulties in scaling and scheduling. Without standardised monitoring and evaluation, capacity building programmes encounter poor outcome orientation, low accountability, and a mismatch between needs and solutions.

Recommendations for Effective Capacity Building to Enable FPOs to Scale

Strengthening key aspects across content, delivery, and monitoring and evaluation within the key contexts of maturity, demographics, geography and value chain will be key to addressing the capacity building challenges that FPOs face. The modules should be aligned as per FPO maturity and delivered in line with FPO business cycles or crop cycles. Delivery models can be tweaked or customised to ensure effective knowledge dissemination and follow-up of action items by FPOs. Effective monitoring and evaluation systems will enable timely feedback, course correction, improved accountability, and better performance. Ecosystem-wide adoption of a business lifecycle-based capacity building model would require support, funding and adoption from policymakers, philanthropic and academic institutions, and NGOs.

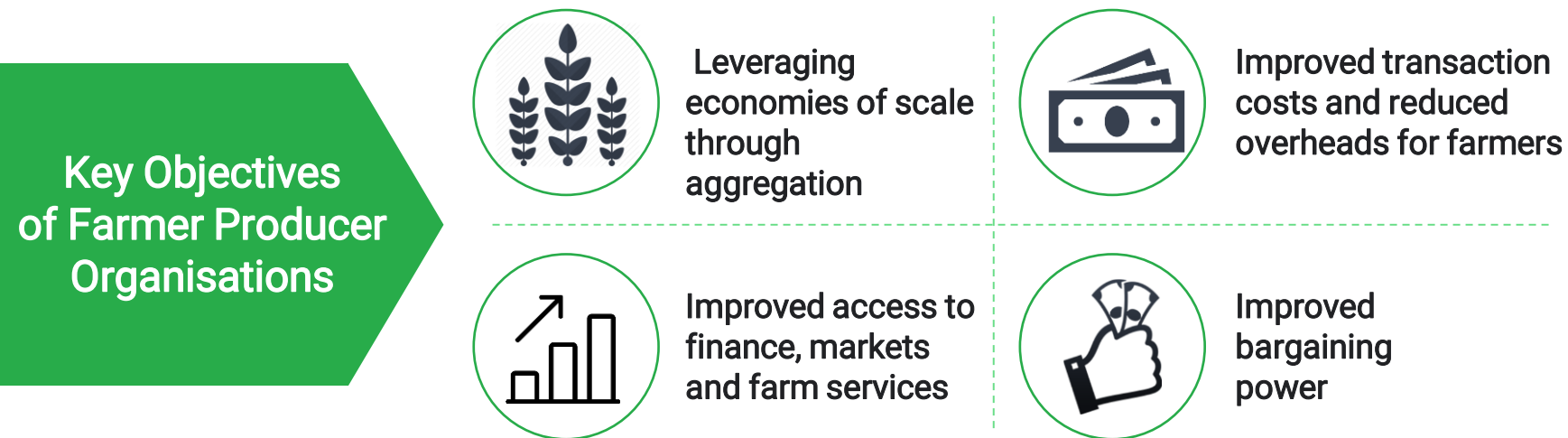


THE EMERGENCE AND EVOLUTION OF FARMER PRODUCER ORGANISATIONS



FPOs play an important role in addressing the key constraints of smallholder farmers.

86% of Indian farmers are small and marginal farmers who face challenges with operations, resource management, market access, etc. FPOs can aggregate farmers, produce and resources, and facilitate linkages to institutional buyers and lenders, resulting in better income opportunities for farmers.

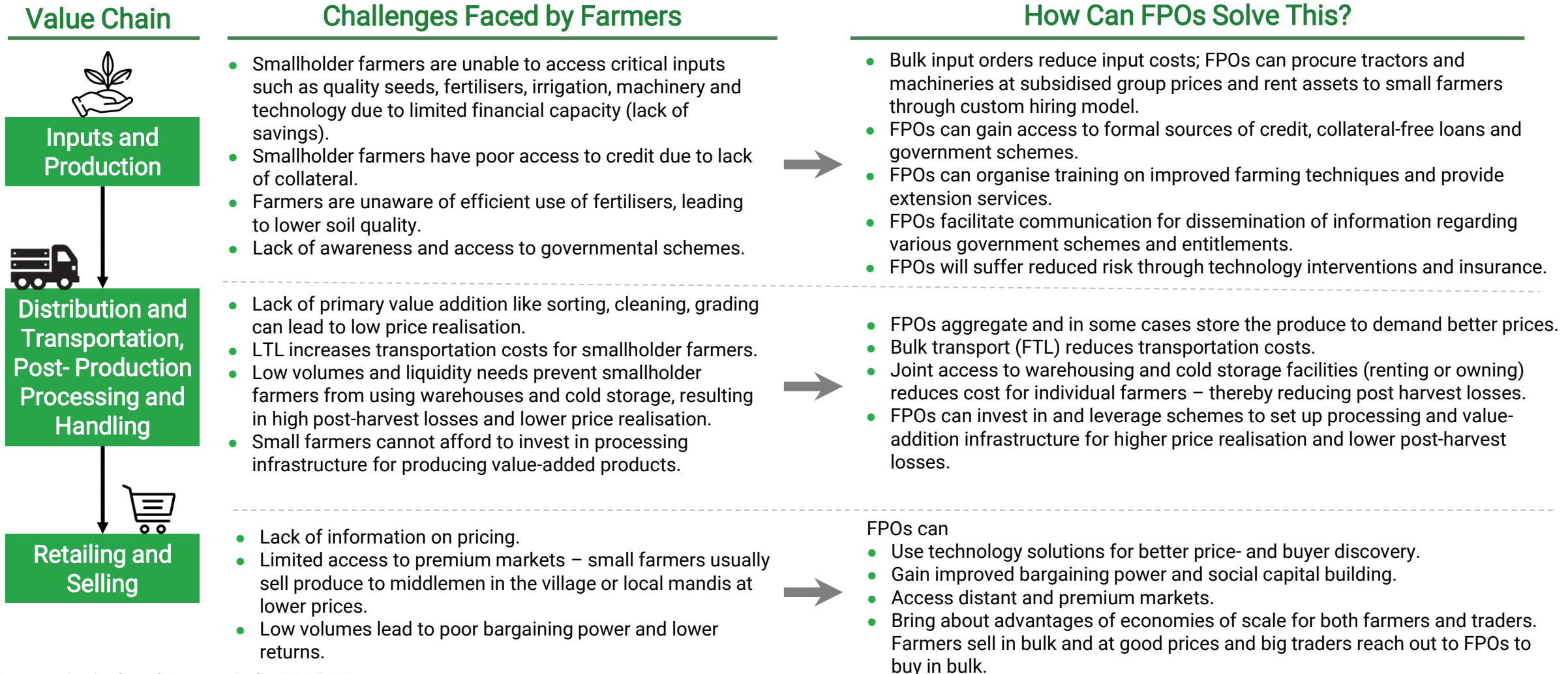


Government agencies like the Small Farmer Agribusiness Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD) are appointed to serve as the nodal agencies to mobilise and promote FPOs.

Source: SFAC-Strategy paper on promotion of 10,000 FPOs



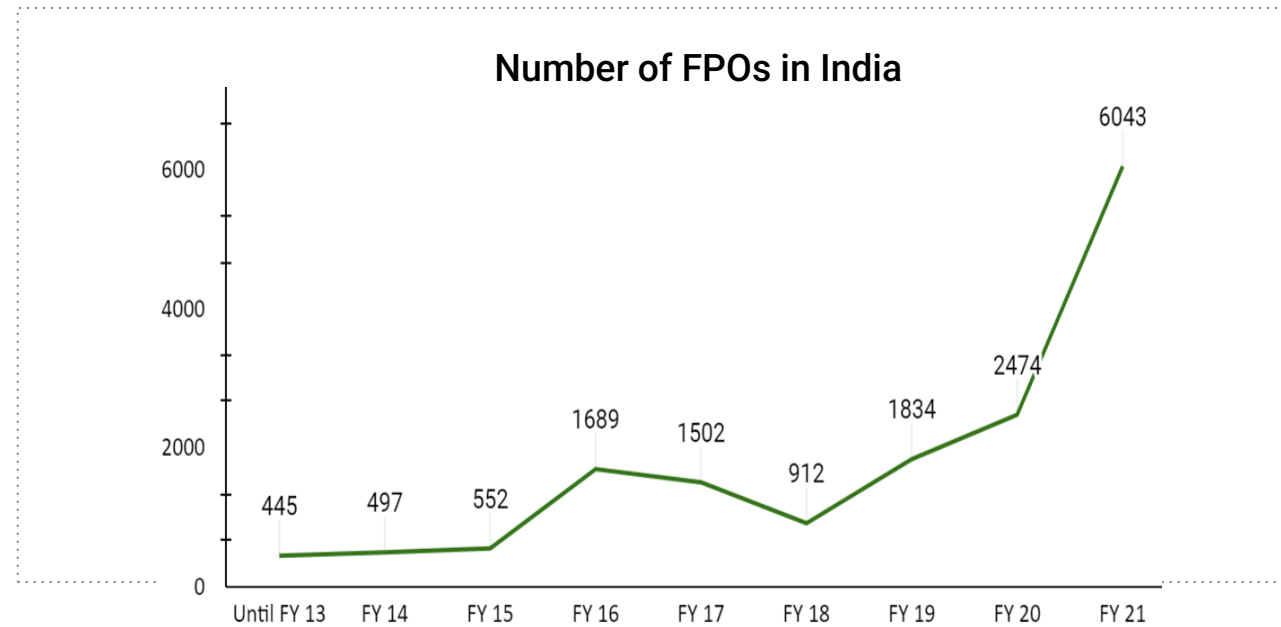
Collectivising farmers into FPOs can improve their incomes, while reducing costs, access barriers and risks across the value chain.



Source: Agricultural Census India 2015-16



The FPO sector has witnessed significant momentum in the last decade.



Source: Prasad 2019

2000-03

Inception

- YK Alagh committee stresses on need for FPOs
- Companies Act included FPC provision

2004-10

Promotion of Early FPOs

- Five FPOs promoted in 2004-05
- Madhya Pradesh takes the lead with DPIIP

2013-19

Strengthening of FPO Ecosystem

- Involvement of SFAC, NRLM, NABARD and other state-level programmes
- Incubation programmes and soft loans for FPOs, helping them attract donor grants
- Increasing FPO engagement with financial institutions and agri-business
- Formation of the NAFPO

2019-21

Scaling Up

- 10,000 FPO schemes launched
- Focus on ease of business and convergence of members
- 15,948 FPCs promoted
- 750+ resource institutions



The FPO ecosystem consists of **diverse stakeholders** spanning across policy, capacity building, business, finance and services.

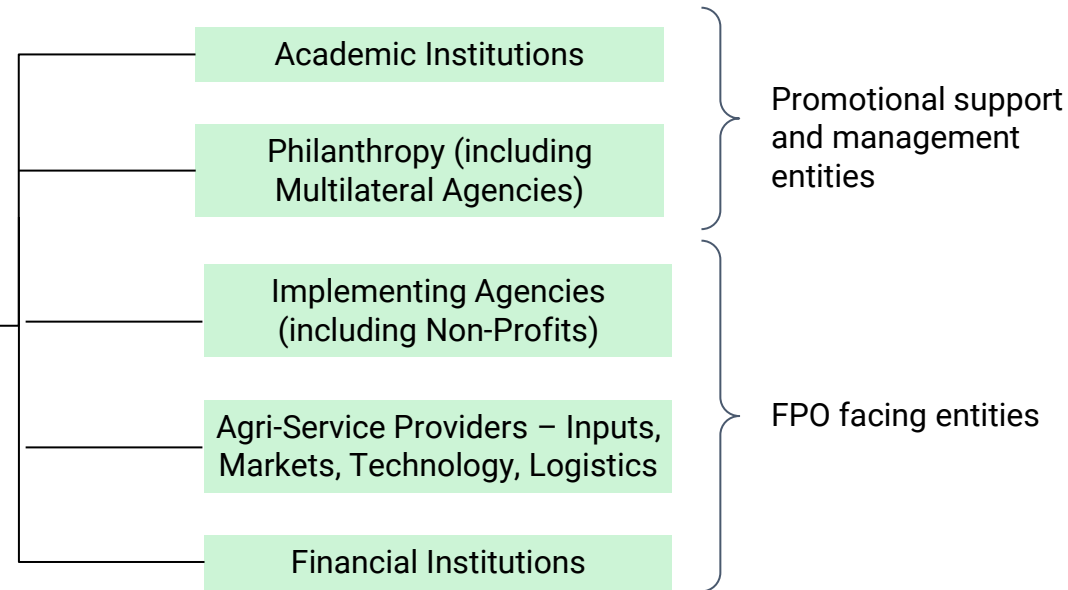
Level 1

Central Governing Bodies
 Policymaking, funding and programme management for 10,000 FPO scheme

Government Institutions:
 NABARD, SFAC, NCDC

Level 2

External Stakeholders
 Capacity building, business linkages, finance and ecosystem services for FPOs



External Stakeholders

Level 3

Farmer Producer Organisations
 Aggregation, access and services to member farmers



Internal Stakeholders

FIG, or Farmer Interest Groups are smaller groups of 10-20 farmers, usually in the same village.

Source: Sattva research



THE NEED FOR CAPACITY BUILDING OF FPOS



Despite the thrust on FPO promotion and capacity building, there are very few FPO success stories; most FPOs are unable to scale or survive on their own, post the project support.

FPO promotion has experienced a lot of traction in recent years

Exponential Increase in Number of FPOs

During 2019-21 approximately 8000 producer companies have been registered, bringing the total to about ~16,000, covering ~6-8 million producer households.

Significant Government Investment

The central government's "10,000 FPO" scheme has a budget of INR 6,866 crores for 9 years of which INR 2,524 crores is for FPO promotion and capacity building.

Majority of the FPOs are still far from reaching their potential

Limited Share Capitalisation

About 86% of the FPOs have share capital lesser than INR 10 lakhs; hardly 25% were able to significantly increase paid up capital.

Constraints in Scaling Up Business

Only 5% of FPOs have a turnover above INR 1 crore.

Poor Survival Rates

45% of the FPOs which are older than 7 years are defunct.

Poor Impact

On average, hardly 15-20% of the farmer members engage with the FPO; women constitute only 2.4% of FPO members.

While FPOs have been touted as the panacea to all the woes of the small farmer, a nascent company governed by farmers and managed by locally hired executives with limited capital and competencies requires intensive capacity building and handholding across various stages of its life cycle, in order to meet high expectations and realise its full potential.

They need rigorous incubation and acceleration support similar to those available for start-ups. FPO promoters and policymakers need to overcome the project mindset to create impactful institutions that can sustain and scale.

Sources: NAFPO 2022; Neti & Govil 2022



KEY ASPECTS OF FPO CAPACITY BUILDING



Overcoming the project-checklist mindset would require an outcome-oriented approach across key aspects of FPO capacity building, **content, delivery, and monitoring and evaluation.**

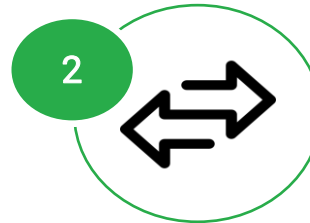


Content

Relevant and effective content helps in disseminating the right knowledge to FPOs.

Thematic content areas include:

- Institutional strengthening
- Business strengthening
- Member engagement (social capital)
- Ecosystem linkages and partnerships
- Sustainability

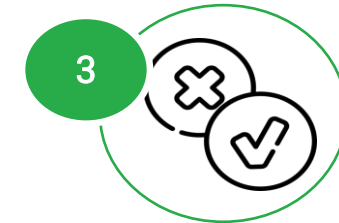


Delivery

Content delivery focuses on the formats and techniques for capacity building.

Key aspects within delivery include:

- Format of training
- Profile of trainers and participants
- Assignments, group activities, exposure visits etc.
- Schedule and frequency
- Batch size
- Local language facilitation
- Decentralised or centralised methods of delivery



Monitoring and Evaluation

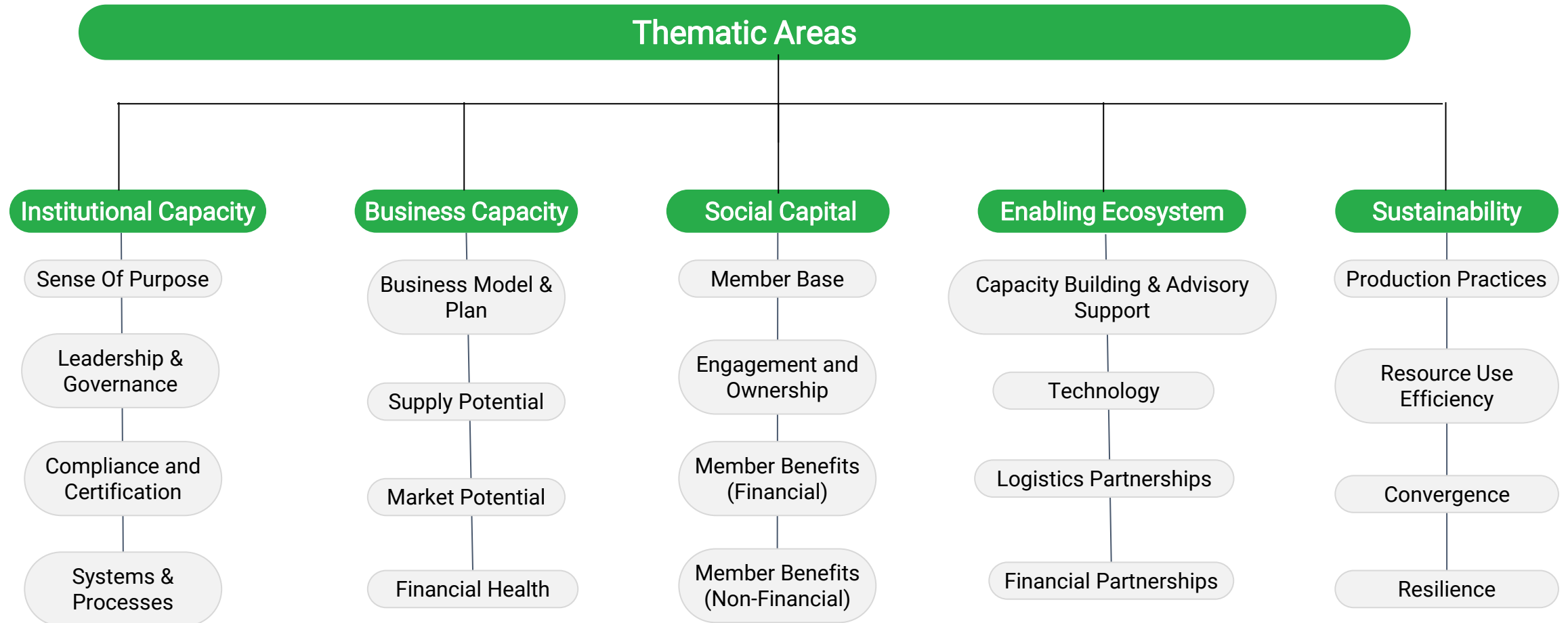
plays a role in tracking the capacity building activities and accounting their impact on the FPOs' progress.

Key aspects within M&E include:

- Process monitoring
- Feedback loops from participants and FPOs
- Marketing Information Systems (MIS)
- Evaluation parameters
- Impact indicators
- Frequency of impact evaluation



For the FPO to achieve its potential, it must be strengthened across key thematic areas, which are **institutional capacity, business maturity, social capital, enabling ecosystem and sustainability**.



Source: Sattva research

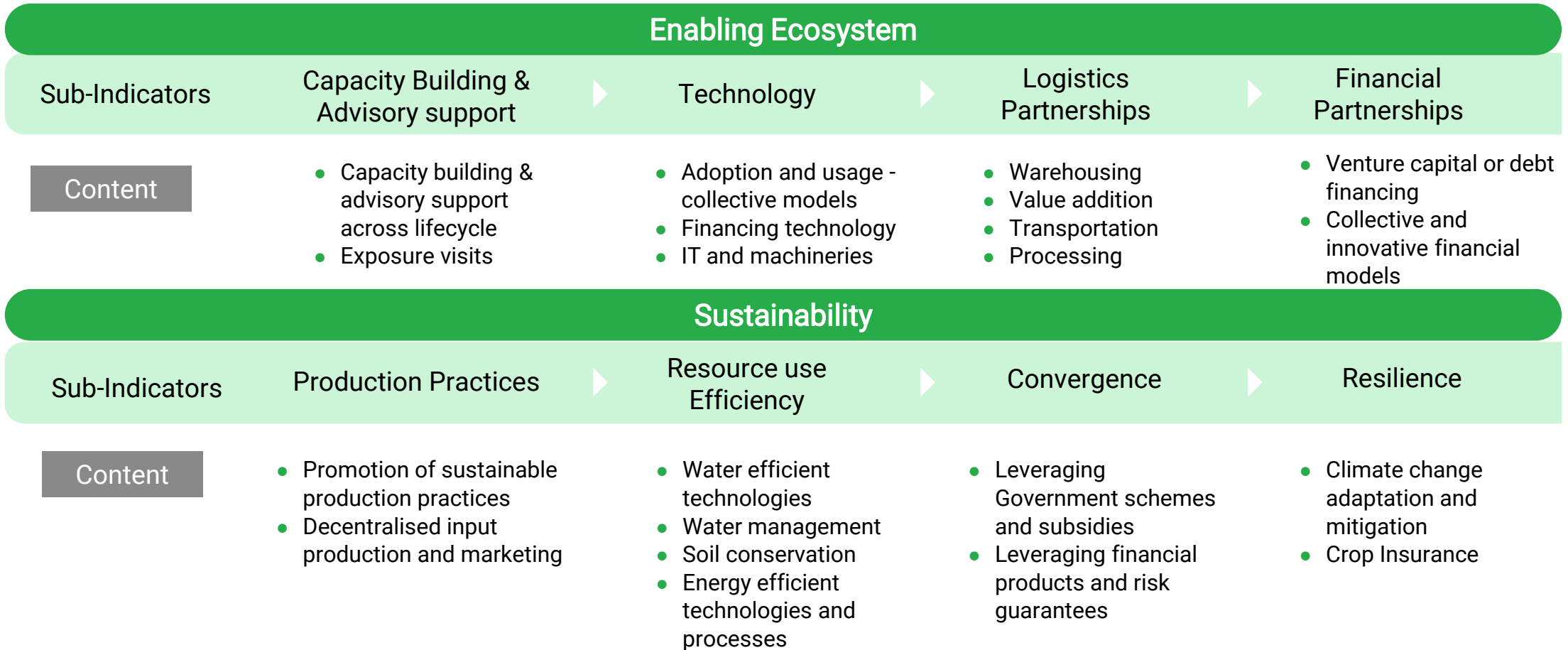
The key thematic areas under Content can be further broken down into **sub-themes and modules** which are essential to develop the capabilities of the FPO (1/2).



Institutional Capacity				
Sub-Indicators	Sense of purpose	Leadership & Governance	Compliance and Certification	Systems & Processes
Content	<ul style="list-style-type: none"> Setting expectations Baseline studies Mobilisation 	<ul style="list-style-type: none"> Governance Roles and responsibilities Strengthening FIG and sub-committees 	<ul style="list-style-type: none"> Compliance Licenses Regulations 	<ul style="list-style-type: none"> Business operations Standard operating procedures and policies MIS and data management
Business Capacity				
Sub-Indicators	Business Models & Plans	Supply Potential	Market Potential	Financial Health
Content	<ul style="list-style-type: none"> Market research Detailed business planning Risk management Operating strategies 	<ul style="list-style-type: none"> Production dynamics Procurement and quality control Risk management 	<ul style="list-style-type: none"> Market dynamics Buyer linkages Product-market fit Competitive advantage Product diversification 	<ul style="list-style-type: none"> Working capital and cash flow management Debt, grants and subsidies Equity collection
Social Capital				
Sub-Indicators	Member Base	Engagement and Ownership	Member Benefits (Financial)	Member Benefits (Non-Financial)
Content	<ul style="list-style-type: none"> Registration Mobilisation BoD selection FIG formation 	<ul style="list-style-type: none"> Engaging with FPO in business and services Ownership in operations 	<ul style="list-style-type: none"> Patronage bonus Price premium Dividends Reduced costs 	<ul style="list-style-type: none"> Resource availability Input availability Access to assets and services



The key thematic areas under Content can be further broken down into **sub-themes and modules** which are essential to develop the capabilities of the FPO (2/2).

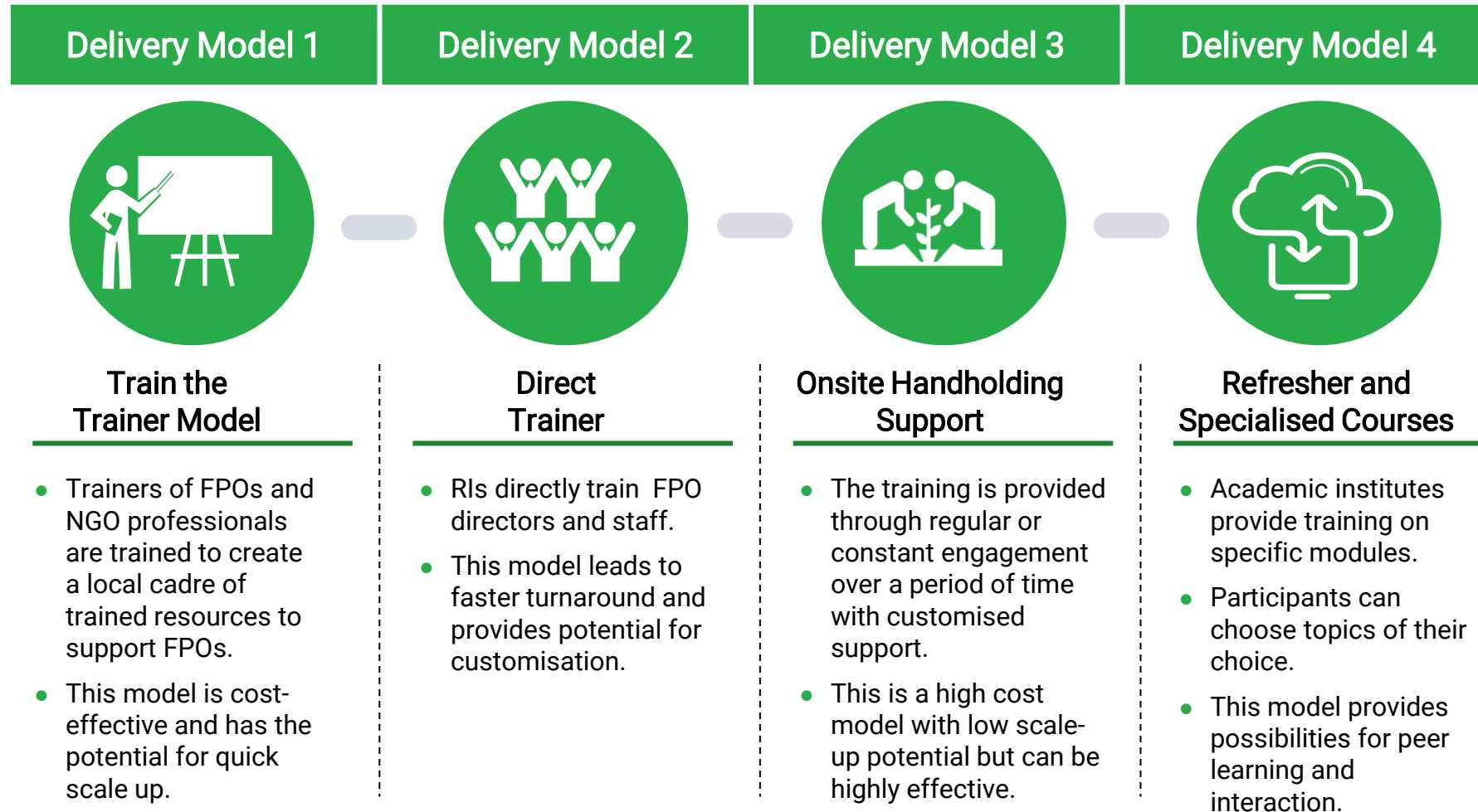


Source: Sattva research



The major delivery models adopted by capacity building institutions are training of trainers (ToT), direct training, training and on-site hand-holding, and specialised courses.

2



Source: Sattva research



There are **no standard monitoring and evaluation tools for capacity building**; some RIs have developed their own tools for maturity assessment, diagnostic evaluation and credit rating.

	Monitoring	Evaluation
Importance	<ul style="list-style-type: none"> Monitoring is essential for proper process follow-ups and for defining the right systems for operations. It needs to be incorporated into both internal (FPO) and external (other stakeholder) levels for seamless and effective process follow-ups. 	<ul style="list-style-type: none"> Evaluation is required to analyse the progress of FPOs as well the implementing programmes. It gives evidences of progress and analysis helps to understand and rectify gaps.
Use Case	<ul style="list-style-type: none"> Monitoring is required for constant KPI monitoring and progress tracking to achieve intended targets. 	<ul style="list-style-type: none"> Evaluation is required to enhance FPO performance and to set targets for next levels.

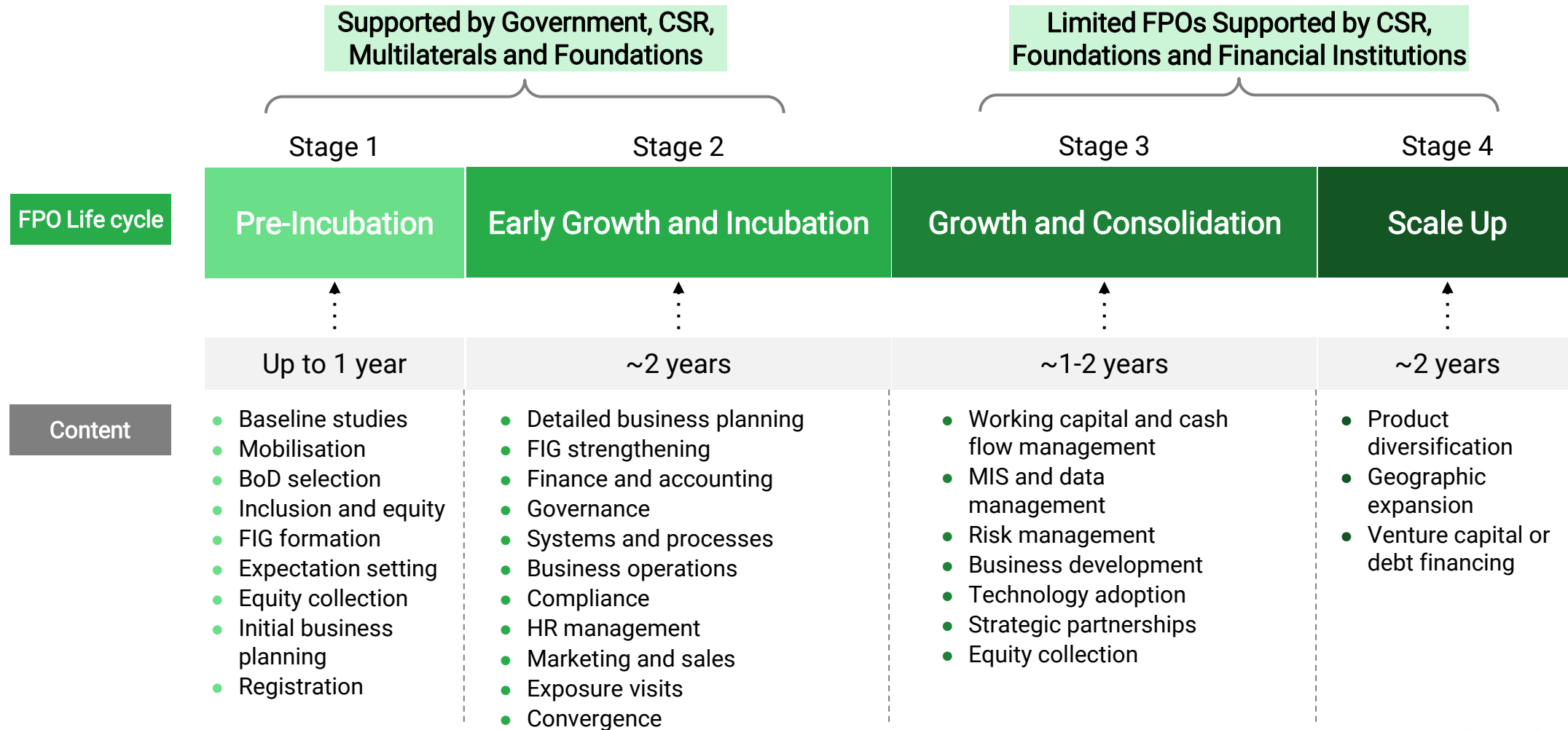
Key Examples of Frameworks in Ecosystem	Purpose
IFHD	Diagnostic assessment tool for capacity building
Technoserve	Assessing FPO maturity
IIT Bombay	Performance of the FPOs
SFAC	Indicators specific to commodities
NABARD	Guiding tool to form an FPO



GAPS AND CONSTRAINTS OF FPO CAPACITY BUILDING



Current capacity building programmes focus on early stage FPOs; content across the thematic areas needs strengthening, and key gaps need to be addressed through engaging and relevant content.



Source: Sattva research



Key gaps and constraints in delivery models are limited control over content and delivery, lack of feedback, low peer interactions, lack of customisation, high costs, and difficulties with scalability and scheduling.

Delivery Models	Gaps/ Challenges/ Constraints	Suitability and Effectiveness for Nascent FPOs	Suitability and Effectiveness for Mature FPOs
Train the Trainer Model	<ul style="list-style-type: none"> Limited control on FPO training in terms of quality of content and delivery. Limited FPO-level customisation of content. Lack of feedback loop and monitoring of FPO impact. Low peer interaction and learning opportunities. 	Low	High
Direct Training	<ul style="list-style-type: none"> Higher budget. Lower scalability. Peer interaction possible only in group trainings and exposure visits. 	Medium	High
Onsite Handholding Support	<ul style="list-style-type: none"> Involves high costs. Poor scalability. 	High	High
Refresher and Specialised Training	<ul style="list-style-type: none"> Limited FPO-level customisation of content. Scheduling constraints. 	Low	High

General constraints in delivery:

- Requires skilled and competent trainers.
- Needs consistent and regular participation from trainees.
- Content needs to be customised and fully relevant.
- Issues with frequency and batch sizes.
- Difficulties with scheduling trainings in line with crop and business cycles.

Key Low Medium High

Source: Sattva research



Lack of standardised monitoring and evaluation in FPO capacity building can lead to poor outcome orientation, low accountability, and mismatch between FPO needs and capacity building.

General Challenges



1

Lack of
Monitoring
Systems



2

Lack of Uniform and
Universal Metrics



3

Subjective Nature
of Feedback



4

Cost Overheads
Involved
in M&E

Cluster-based Business Organisations (CBBOs), Producer Organisation Promoting Institutions (POPIs) and Resource Institutions (RIs) may be hesitant to adopt M&E systems due to the following reasons:

1

Risk of highlighting
bottlenecks

2

Backlash from donors or the
government

3

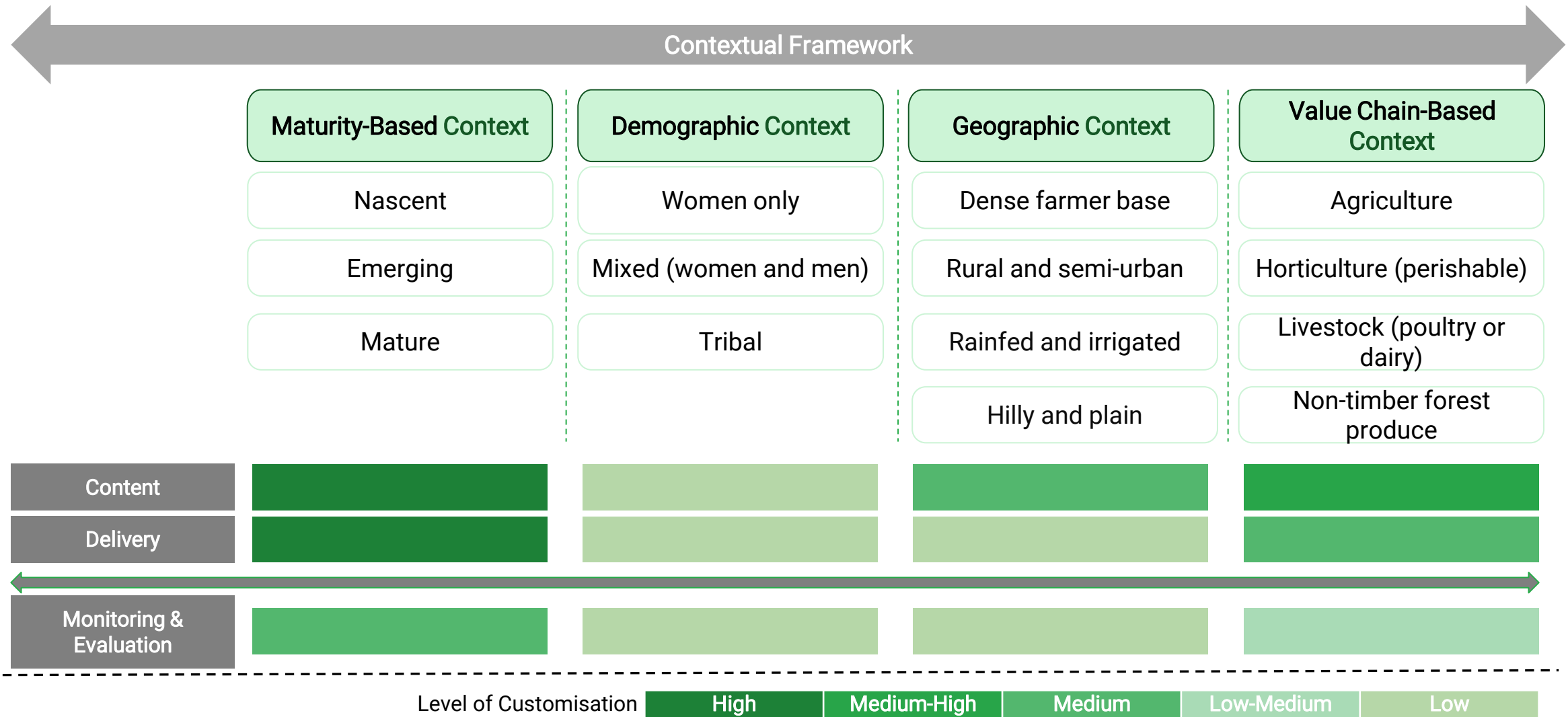
Additional overhead costs on cash-
starved RIs



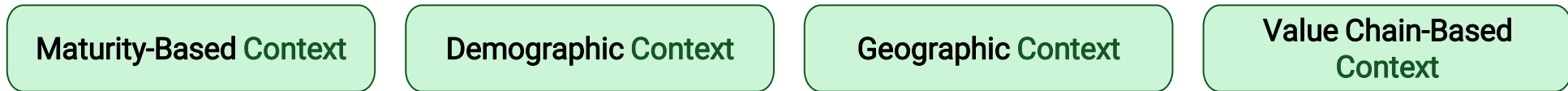
RECOMMENDATIONS



Content, delivery, and monitoring and evaluation need to be customised as per relevant FPO contexts, considering their **maturity, demographics, geography and value chain.**



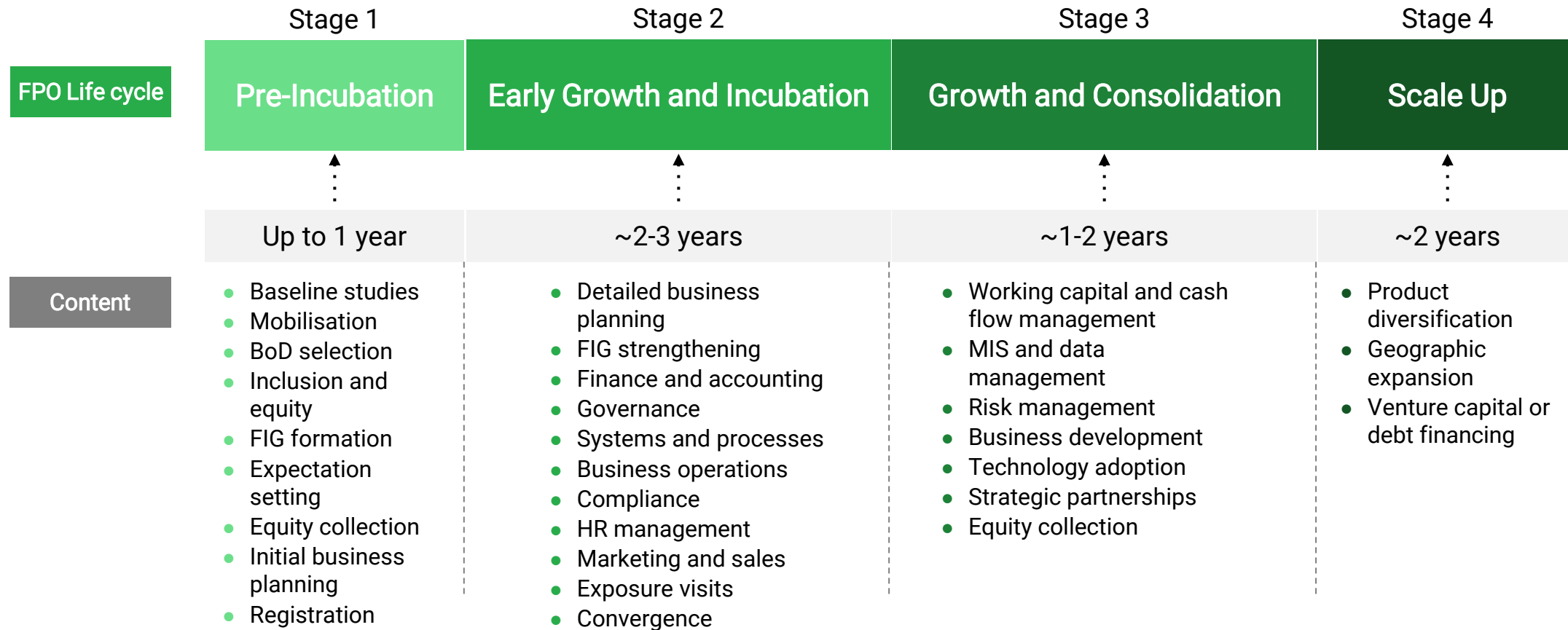
Instead of adopting a one-size-fits-all approach to FPO capacity building, the content should be customised to suit the FPO’s needs, maturity and context.



Key Areas for Customisation	All Topics	Social Capital and Institutional Capacity	Business Capacity, Enabling Ecosystem and Sustainability	Business Capacity, Enabling Ecosystem and Sustainability
Examples of customisation in delivery models according to the context	<ul style="list-style-type: none"> Content must be customised as per the FPO maturity. E.g. nascent FPOs need more hand-holding whereas mature FPOs need more specialised training. 	<ul style="list-style-type: none"> Content needs to include topics such as gender equity and strategies on inclusion of vulnerable and marginalised communities. 	<ul style="list-style-type: none"> Smart aggregation models are required to ensure the survival of FPOs in remote areas. E.g. models for hilly and remote FPOs to build business ecosystem and focus on sustainable practices. 	<ul style="list-style-type: none"> Customised content for particular crops and value chains is needed to strengthen business segments and product diversification. This will improve the business ecosystem and sustainable practices across the value chain.



Intensive FPO capacity building should follow a life-cycle based approach with relevant content covering the key thematic areas; gaps and constraints need to be tackled.



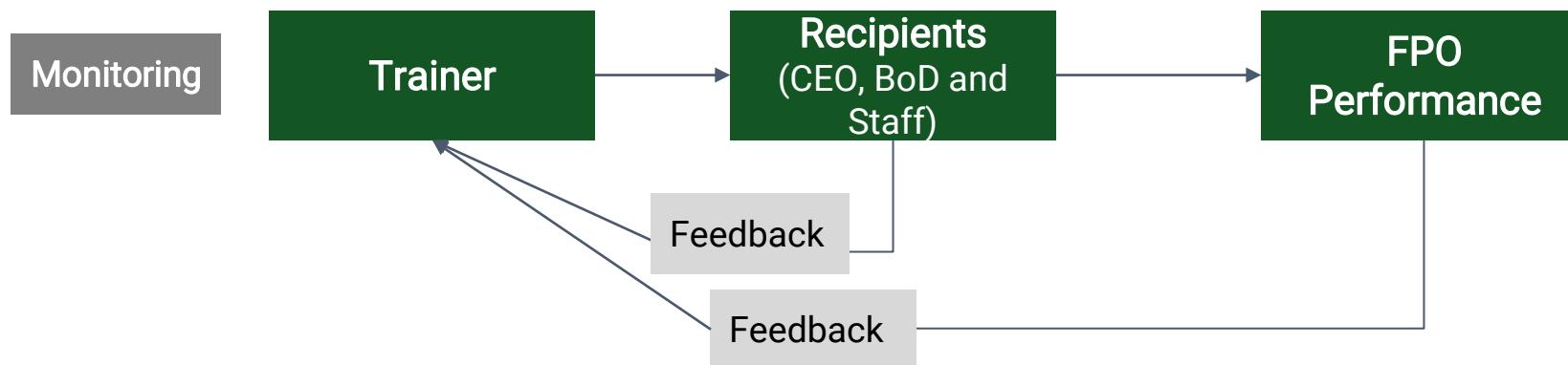
Different FPO contexts would require customisation or tweaks in the delivery models for effective capacity building and knowledge dissemination.

	Maturity-Based Context	Demographic Context	Geographic Context	Value Chain-Based Context
Key focus areas	Specific selections of delivery models as per maturity	Social Capital and Institutional Capacity	Business Capacity, Enabling Ecosystem and Sustainability	Business Capacity, Enabling Ecosystem and Sustainability
Examples of customisation in delivery models according to the context	<ul style="list-style-type: none"> Nascent FPOs would benefit from intensive hand-holding or direct training. Emerging or growing FPOs would benefit from handholding, training and a cadre of local trainers. Mature FPOs can benefit from specialised courses and refresher programmes. 	<ul style="list-style-type: none"> There should be more women trainers in the programmes to ensure participation of women farmers and BoD. 	<ul style="list-style-type: none"> The delivery models need geographic level selection and the methods should be incorporated as per the regional language. 	<ul style="list-style-type: none"> Need to have a value chain expert to advise on business specific interventions, scaleup strategies and ecosystem building.



Effective monitoring and evaluation can improve accountability, drive FPO performance, steer course correction and track the progress across key indicators and impact metrics.

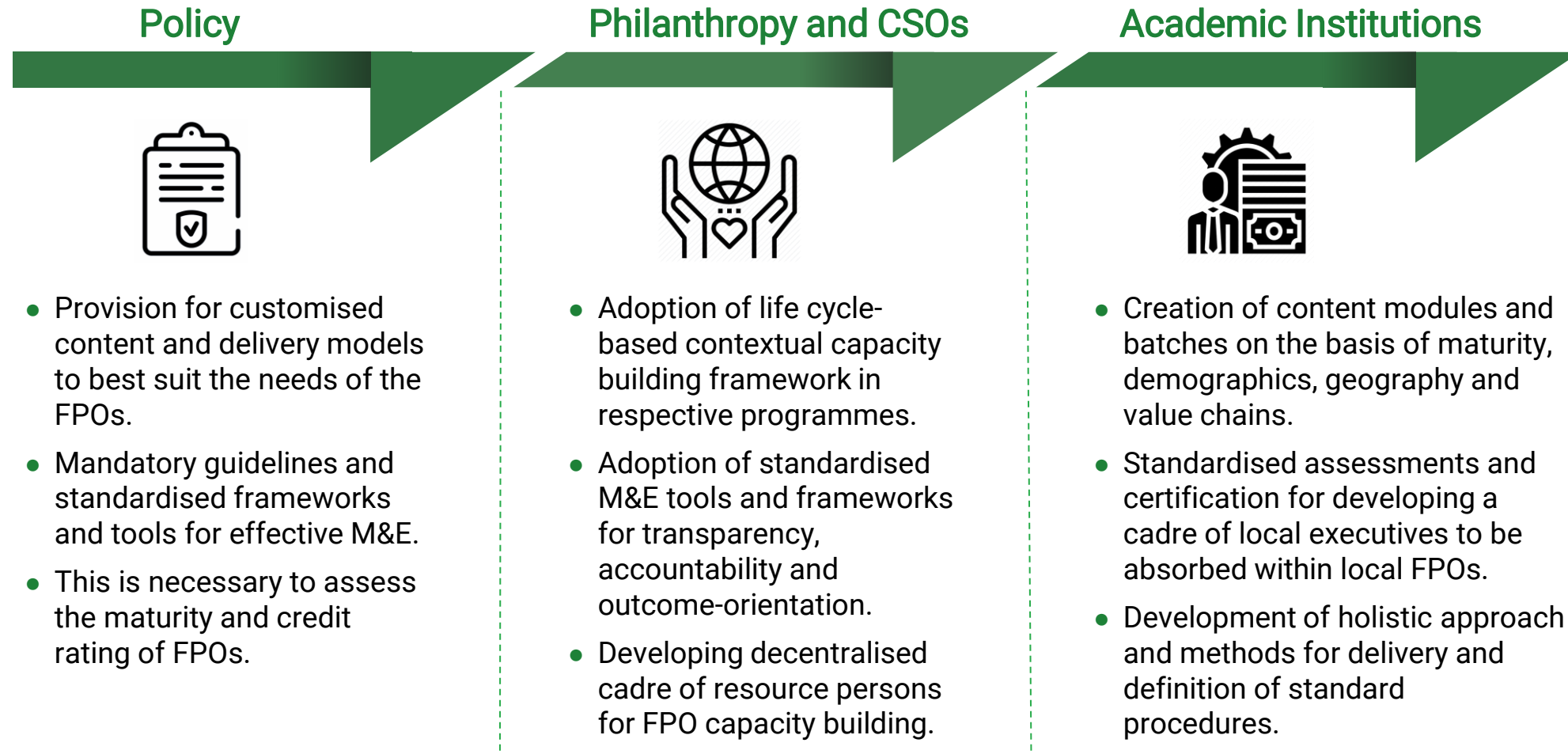
	Maturity-Based Context	Demographic Context	Geographic Context	Value Chain-Based Context
Key focus areas (Evaluation)	Change in weightage	Focus on gender and inclusion-related indicators	Provision for customisation in business and ecosystem indicators	Provision for customisation in business and ecosystem indicators
Examples of customisation in M&E strategy as per the context	<ul style="list-style-type: none"> For efficient evaluation, the weightage of the success determinant needs to match the maturity of the FPO. 	<ul style="list-style-type: none"> The evaluation process needs to include gender- and inclusion-related indicators. 	<ul style="list-style-type: none"> Indicators should be relevant and customised to geographical context. 	<ul style="list-style-type: none"> Indicators should be relevant and customised to value chain context.



Monitoring must involve a checklist mechanism for both FPOs and the external ecosystem. Integration of feedback loop can create better impact and make the process outcome-oriented.



A life cycle-based contextual capacity building approach would require **buy-in, funding, support and adoption from policymakers, donors, NGOs and academic institutions.**



ANNEXURE



One key determinant of FPO sustainability is the weightage given to determinants as per maturity.

Determinants	Weightage		
	1-3 years	4-6 years	Over 7 years
	Nascent	Emerging	Mature
A. Institutional Capacity	30%	25%	20%
B. Business Capacity	20%	25%	30%
C. Social Capital	20%	20%	20%
D. Enabling Ecosystem	25%	20%	20%
E. Sustainability	5%	10%	10%
Total Weightage	100%	100%	100%

Eminent organisations and academic institutions are providing capacity building programmes to strengthen FPOs through various models.

Train-the-trainer Model



Direct Training



Onsite training and handholding support



Refresher and specialised courses



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