

FPO CAPACITY BUILDING: NEED, APPROACH AND WAY AHEAD

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Acknowledgements

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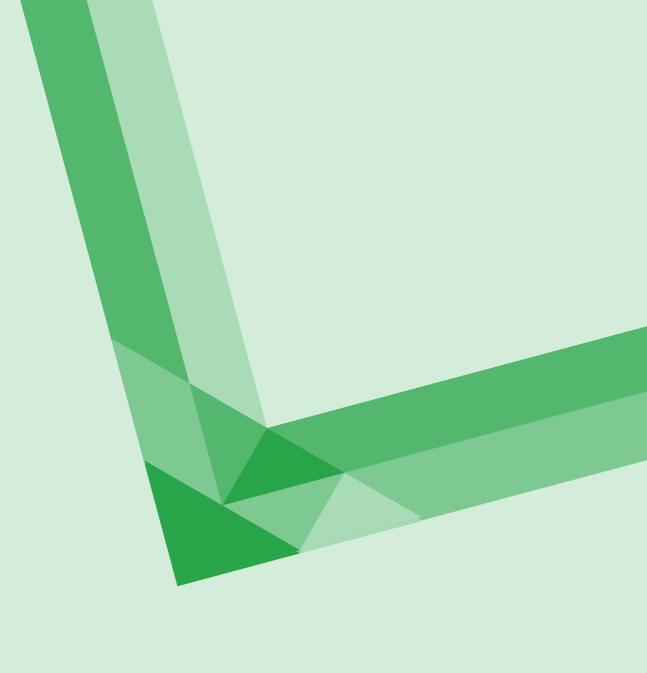
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Glossary

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



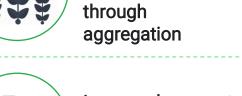
FPOs play an important role in addressing the key constraints of smallholder farmers.

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.

> **Key Objectives** of Farmer Producer **Organisations**



Leveraging economies of scale through aggregation







Improved transaction costs and reduced overheads for farmers



Improved bargaining power

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.

Value Chain

Inputs and **Production** Distribution and Transportation, **Post-Production** Processing and Handling Retailing and Selling

Challenges Faced by Farmers

- Smallholder farmers are unable to access critical inputs such as quality seeds, fertilisers, irrigation, machinery and technology due to limited financial capacity (lack of savings).
- Smallholder farmers have poor access to credit due to lack of collateral.
- Farmers are unaware of efficient use of fertilisers, leading to lower soil quality.
- · Lack of awareness and access to governmental schemes.
- Lack of primary value addition like sorting, cleaning, grading can lead to low price realisation.
- LTL increases transportation costs for smallholder farmers.
- Low volumes and liquidity needs prevent smallholder farmers from using warehouses and cold storage, resulting in high post-harvest losses and lower price realisation.
- Small farmers cannot afford to invest in processing infrastructure for producing value-added products.
- Lack of information on pricing.
- Limited access to premium markets small farmers usually sell produce to middlemen in the village or local mandis at lower prices.
- returns.

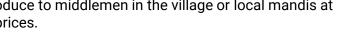
How Can FPOs Solve This?

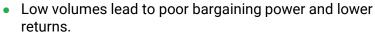
- Bulk input orders reduce input costs; FPOs can procure tractors and machineries at subsidised group prices and rent assets to small farmers through custom hiring model.
- FPOs can gain access to formal sources of credit, collateral-free loans and government schemes.
- FPOs can organise training on improved farming techniques and provide extension services.
- FPOs facilitate communication for dissemination of information regarding various government schemes and entitlements.
- FPOs will suffer reduced risk through technology interventions and insurance.
- FPOs aggregate and in some cases store the produce to demand better prices.
- Bulk transport (FTL) reduces transportation costs.
- Joint access to warehousing and cold storage facilities (renting or owning) reduces cost for individual farmers – thereby reducing post harvest losses.
- FPOs can invest in and leverage schemes to set up processing and valueaddition infrastructure for higher price realisation and lower post-harvest losses.

FPOs can

- Use technology solutions for better price- and buyer discovery.
- Gain improved bargaining power and social capital building.
- Access distant and premium markets.
- Bring about advantages of economies of scale for both farmers and traders. Farmers sell in bulk and at good prices and big traders reach out to FPOs to buy in bulk.

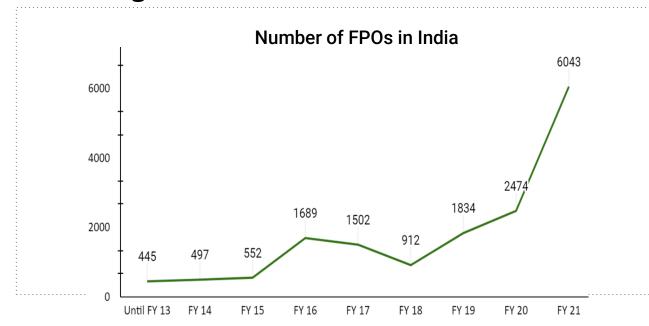








The FPO sector has witnessed significant momentum in the last decade.



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 DPIP

Strengthening of FPO Ecosystem

2013-19

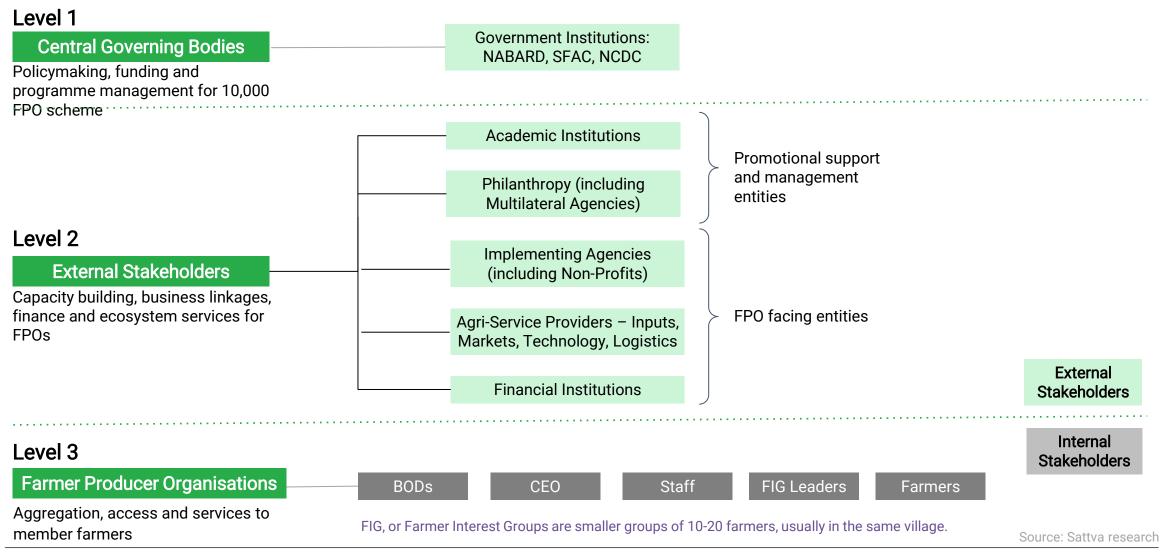
- Involvement of SFAC, NRLM, NABARD and other statelevel programmes
- Incubation programmes and soft loans for FPOs, helping them attract donor grants
- Increasing FPO engagement with financial institutions and agri-business
- Formation of the NAFPO

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.



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 FPCs 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.



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



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

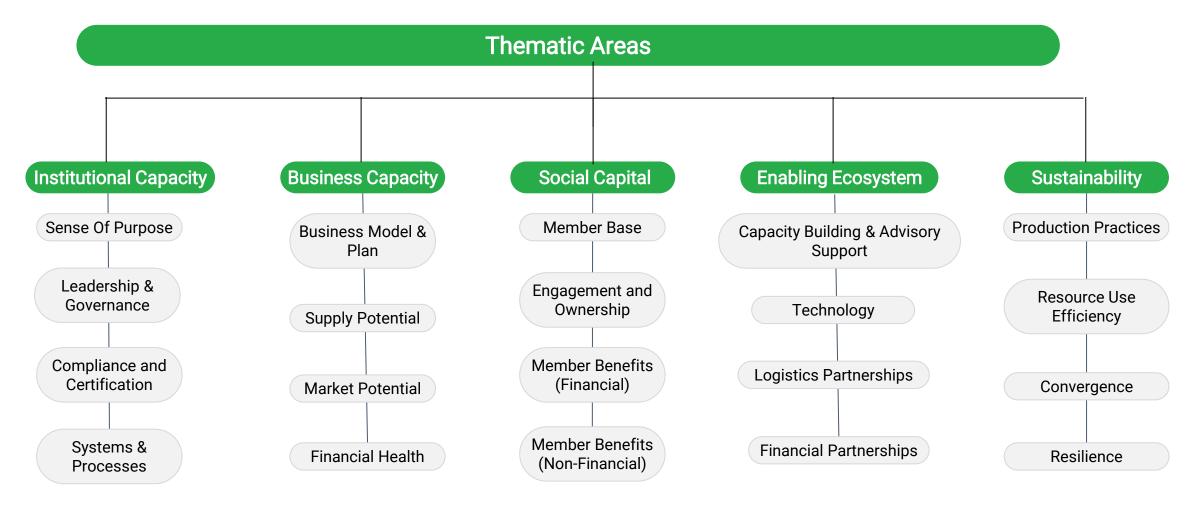
plays a role in tracking the capacity building activities and accounting their impact on the FPOs' progress.

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	Setting expectationsBaseline studiesMobilisation	GovernanceRoles and responsibilitiesStrengthening FIG and subcommittees	ComplianceLicensesRegulations	 Business operations Standard operating proced and policies MIS and data management
		Business Capacity		
Sub-Indicators	Business Models & Plans	Supply Potential	Market Potential	Financial Health
Content	Market researchDetailed business planningRisk managementOperating strategies	Production dynamicsProcurement and quality controlRisk management	Market dynamicsBuyer linkagesProduct-market fitCompetitive advantageProduct diversification	 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	RegistrationMobilisationBoD selectionFIG formation	Engaging with FPO in business and servicesOwnership in operations	Patronage bonusPrice premiumDividendsReduced costs	Resource availabilityInput availabilityAccess to assets and serv

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).



Enabling Ecosystem					
Sub-Indicators	Capacity Building & Advisory support		Technology	Logistics Partnerships	Financial Partnerships
Content	 Capacity building & advisory support across lifecycle Exposure visits 		Adoption and usage - collective modelsFinancing technologyIT and machineries	WarehousingValue additionTransportationProcessing	 Venture capital or debt financing Collective and innovative financial models
			Sustainability		
Sub-Indicators	Production Practices	•	Resource use Efficiency	Convergence	Resilience
Content	 Promotion of sustainable production practices Decentralised input production and marketing 		 Water efficient technologies Water management Soil conservation Energy efficient technologies and processes 	 Leveraging Government schemes and subsidies Leveraging financial products and risk guarantees 	 Climate change adaptation and mitigation Crop Insurance

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.



Delivery Model 1 Delivery Model 2 Delivery Model 3 Delivery Model 4 Delivery Model 3 Delivery Model 4 Pefrecher and

Train the Trainer Model

- Trainers of FPOs and NGO professionals are trained to create a local cadre of trained resources to support FPOs.
- This model is costeffective and has the potential for quick scale up.

Direct Trainer

- RIs directly train FPO directors and staff.
- This model leads to faster turnaround and provides potential for customisation.

Onsite Handholding Support

- The training is provided through regular or constant engagement over a period of time with customised support.
- This is a high cost model with low scaleup potential but can be highly effective.

Refresher and Specialised Courses

- Academic institutes provide training on specific modules.
- Participants can choose topics of their choice.
- This model provides possibilities for peer learning and interaction.

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

Importance

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.
- Use Case

 Monitoring is required for constant KPI monitoring and progress tracking to achieve intended targets.

Evaluation

 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.

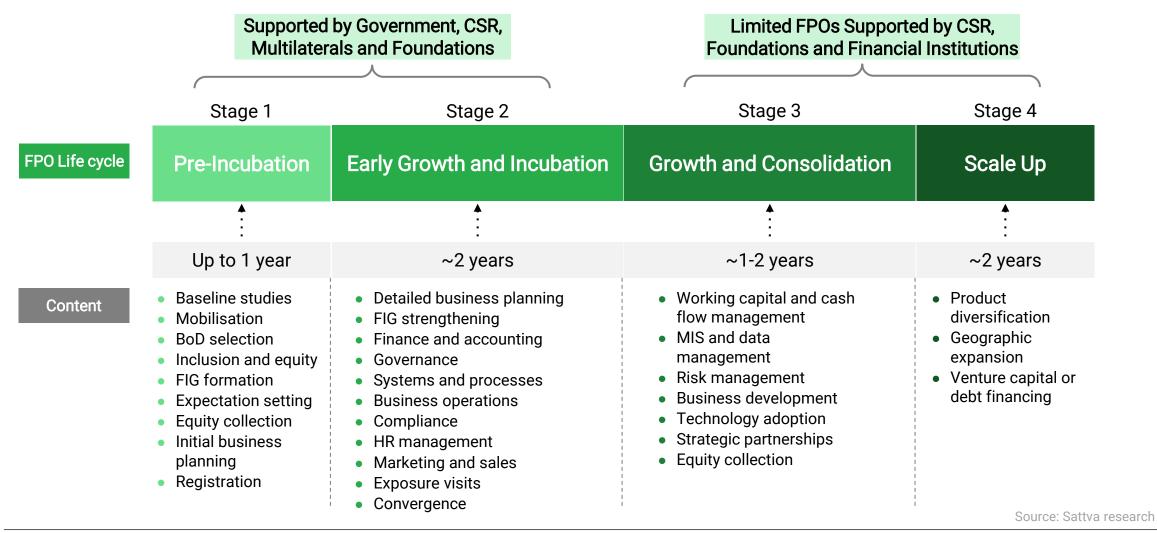
 Evaluation is required to enhance FPO performance and to set targets for next levels.

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.



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	 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. 		
Direct Training	 Higher budget. Lower scalability. Peer interaction possible only in group trainings and exposure visits. 		
Onsite Handholding Support	Involves high costs.Poor scalability.		
Refresher and Specialised Training	 Limited FPO-level customisation of content. Scheduling constraints. 		

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.

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



Lack of Monitoring Systems



Lack of Uniform and Universal Metrics



Subjective Nature of Feedback



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:

Risk of highlighting bottlenecks

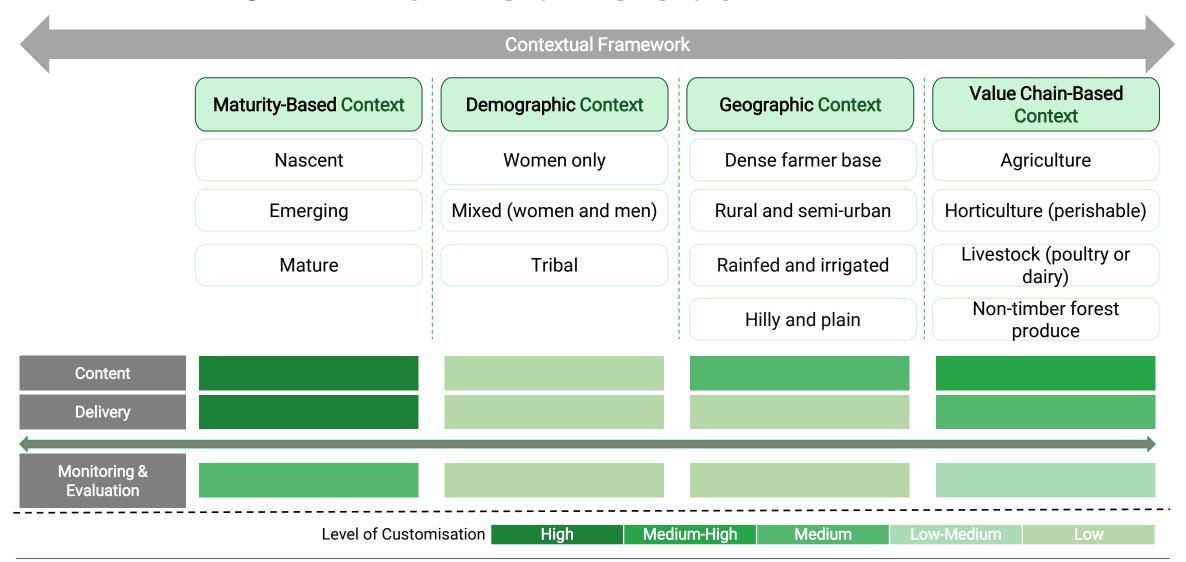
2 Backlash from donors or the government

Additional overhead costs on cashstarved 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.

Value Chain-Based **Maturity-Based Context Demographic Context Geographic Context** Context Social Capital **Business Capacity, Business Capacity, Key Areas for** All Topics and Institutional **Enabling Ecosystem and Enabling Ecosystem and** Customisation Capacity Sustainability Sustainability Examples of Content must be customised Content needs to include Customised content for Smart aggregation models customisation in as per the FPO maturity. topics such as gender equity are required to ensure the particular crops and value delivery models survival of FPOs in remote and strategies on inclusion chains is needed to · E.g. nascent FPOs need according to the of vulnerable and strengthen business areas. more hand-holding whereas context marginalised communities. segments and product mature FPOs need more E.g. models for hilly and diversification. specialised training. remote FPOs to build • This will improve the business ecosystem and focus on sustainable business ecosystem and sustainable practices across practices. 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.

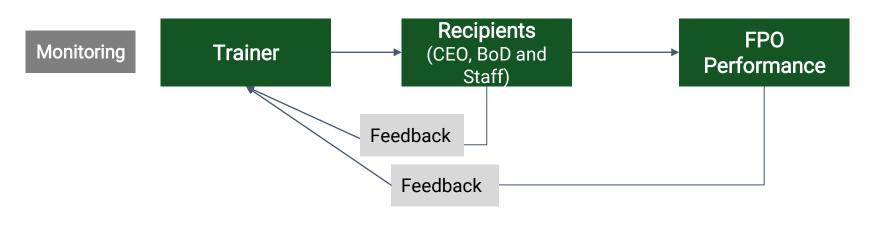
	Stage 1	Stage 2	Stage 3	Stage 4
FPO Life cycle	Pre-Incubation	Early Growth and Incubation	Growth and Consolidation	Scale Up
	≜ :	. :	A : :	A :
	Up to 1 year	~2-3 years	~1-2 years	~2 years
Content	 Baseline studies Mobilisation BoD selection Inclusion and equity FIG formation Expectation setting Equity collection Initial business planning Registration 	 Detailed business planning FIG strengthening Finance and accounting Governance Systems and processes Business operations Compliance HR management Marketing and sales Exposure visits Convergence 	 Working capital and cash flow management MIS and data management Risk management Business development Technology adoption Strategic partnerships Equity collection 	 Product diversification Geographic expansion Venture capital or debt financing

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	 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. 	There should be more women trainers in the programmes to ensure participation of women farmers and BoD.	The delivery models need geographic level selection and the methods should be incorporated as per the regional language.	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.

Value Chain-Based **Maturity-Based Context Demographic Context Geographic Context** Context Provision for customisation **Provision for customisation** Key focus areas Focus on gender and Change in weightage in business and ecosystem in business and ecosystem inclusion-related indicators (Evaluation) indicators indicators Examples of For efficient evaluation, the The evaluation process Indicators should be relevant Indicators should be relevant weightage of the success needs to include gender- and and customised to and customised to value customisation in determinant needs to match inclusion-related indicators. chain context. geographical context. M&E strategy as the maturity of the FPO. per the 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.

Policy



- Provision for customised content and delivery models to best suit the needs of the FPOs.
- Mandatory guidelines and standardised frameworks and tools for effective M&E.
- This is necessary to assess the maturity and credit rating of FPOs.

Philanthropy and CSOs



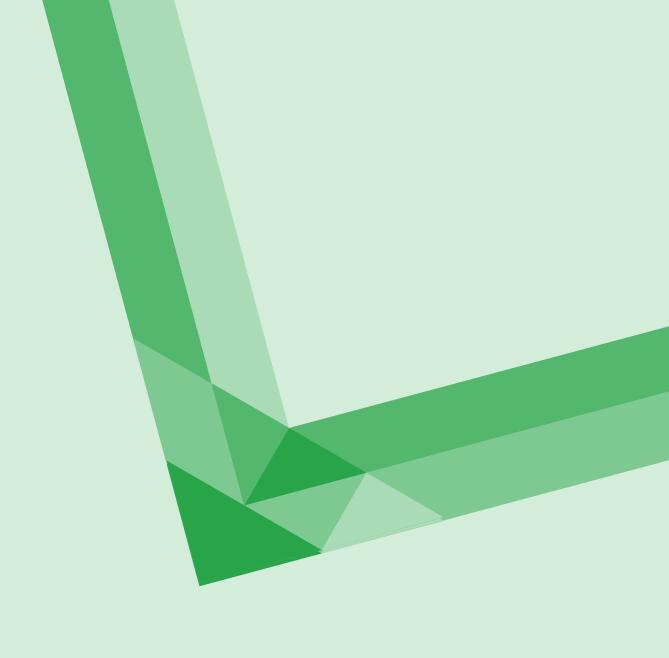
- Adoption of life cyclebased contextual capacity building framework in respective programmes.
- Adoption of standardised M&F tools and frameworks for transparency, accountability and outcome-orientation.
- Developing decentralised cadre of resource persons for FPO capacity building.

Academic Institutions



- Creation of content modules and batches on the basis of maturity, demographics, geography and value chains.
- Standardised assessments and certification for developing a cadre of local executives to be absorbed within local FPOs.
- Development of holistic approach and methods for delivery and definition of standard procedures.

ANNEXURE



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

	Weightage			
Determinants	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























TechnoServe Business Solutions to Poverty

Refresher and specialised courses











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