Sattva Knowledge Institute SKI perspective

FROM THE GROUND UP: STRENGTHENING FARMER PRODUCER ORGANISATIONS THROUGH LEADERSHIP DEVELOPMENT AND GOVERNANCE

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Acknowledgements

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Disclaimer

About Sattva Knowledge Institute

Sattva Knowledge Institute (SKI), established in 2022, is our official knowledge platform at **Sattva**. The **SKI** platform aims to guide investment decisions for impact, shedding light on urgent problems and high potential solutions, so that stakeholders can build greater awareness and a bias towards concerted action. Our focus is on offering solutions over symptoms, carefully curating strong evidence-based research, and engaging decision-makers actively with our insights. Overall, **SKI** aims to shift intent and action toward greater impact by influencing leaders with knowledge. All of our content proactively leverages the capabilities, experience and proprietary data from across **Sattva**.

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Executive Summary

By their design and intent, Farmer Producer Organisations (FPOs) have great potential to address several constraints of smallholder farmers and can prove crucial in doubling farmer incomes. However, they are a relatively nascent concept with limited success to date. FPOs face several internal and external challenges in their growth path. Their leadership consists of farmers who lack the business acumen and management skills to effectively govern and manage the enterprise, and they require dedicated capacity building support to transform these institutions into sustainable, scalable and impactful entities.

FPO promotion and capacity building have gained traction in recent years with more than 16,000 FPOs promoted and more than 700 resource institutions present in the ecosystem. This consists of non-governmental organisations (NGOs), consultancy firms, government agencies, as well as other private sector entities such as financial institutions, agri-business and agri-tech companies.

In order to sustain and scale up FPOs, it is critical to focus on effective leadership and governance, while addressing the key challenges and constraints pertaining to these aspects. These include the lack of competent and motivated human resources and the skewed focus of most of the capacity building programmes in terms of content, output orientation, delivery models, and more. These can be addressed through strategies such as the careful selection of leaders and managers, life cycle-based customised capacity building, decentralised leadership through Farmer Interest Groups (FIG) and sub-committees developing a pipeline of future leaders, managers and trainers locally. Finally, external experts could be leveraged as independent directors, advisors, fellows and volunteers in FPO management and leadership positions.

Unlocking the Full Potential of Farmer Producer Organisations

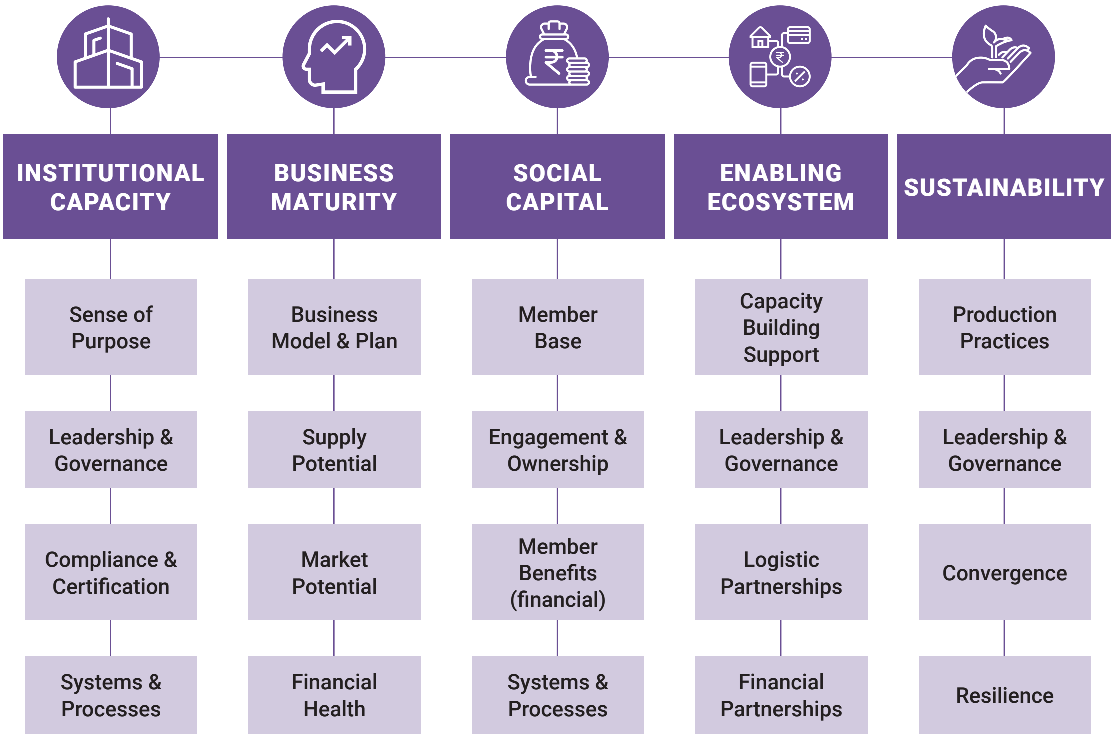
Collectivising small and marginal farmers has been an effective pathway to improve their access to agricultural inputs, credit, markets and technology. The Government of India, as per the recommendations of the Y. K. Alagh Committee (2000) introduced the concept of Farmer Producer Companies (FPC) by merging the community ownership of co-operatives with the corporate governance of The Companies Act. In addition to bringing small and marginal farmers together to unlock barriers to credit and markets through product aggregation, input distribution, an extension of services and more, FPCs are also designed to address the challenges and constraints of co-operatives (Singh 2016) such as political interference, access to finance, and government control. Farmer Producer Organisations (FPO) which include both FPCs and co-operatives are key to the government's strategy for doubling farmers' incomes.

Policy changes and large-scale programmes around FPO capacity building undertaken by government agencies, philanthropic foundations, multilateral agencies and corporates (through their CSR programmes) have strengthened interventions in the FPO ecosystem in recent years, leading to exponential growth in the number of FPOs. The implementation of the central sector scheme, 'Formation and Promotion of 10,000 new Farmer Producer Organizations (FPOs)', with a budget allocation of ₹6,865 crores is a testament to the Government's focus on these community institutions. Half of the 16,000 FPOs promoted across the country have been promoted between 2019 and 2021. The FPO incubation ecosystem has also flourished with more than 700 NGOs, consultancy firms, government agencies, as well as other private sector entities such as financial institutions, agri-business and agri-tech companies, engaged in FPO promotion and capacity building across the country.

FPOs are being touted as the panacea to all the woes of small farmers. However, a nascent company governed by farmers and managed by locally hired and poorly incentivised executives, cannot be expected to sustain and scale on its own, with access to limited capital and competencies. It requires a favourable ecosystem, intensive capacity building and handholding across various stages of its life cycle. This is similar to the startup ecosystem with incubation and acceleration programmes, which help the organisation meet stakeholder expectations and realise its full potential.

FPO success stories, though few and far between, have highlighted the possibility of developing these institutions into market-ready, creditworthy and impactful organisations when they are provided with customised and relevant support during their formative years. **Institutional capacity, business maturity, social capital, enabling ecosystem and sustainability** are the core pillars that define and determine the success of an FPO. Therefore, developing FPO capacity would involve strengthening all these aspects. Sattva Knowledge Institute's FPO capacity building framework categorises the key indicators and underlying components of capacity building under these five focus areas:

Figure 1: The FPO Capacity Building Framework



(Sattva 2022)

However, not all aspects of capacity building are given due importance. Their weightage may also vary at different stages of the FPO's growth. Some aspects, like institutional capacity and social capital, maybe more relevant during the formation stage. Business maturity and an enabling ecosystem are critical in the growth stage. Sustainability can be prioritised after the FPO has achieved stability in operations during the consolidation and maturity stages.

The Role of Effective Leadership and Governance in Strengthening FPOs

FPO leadership is responsible for decision-making, strategy, governance and hiring of key management personnel. They are accountable to the shareholders and are the face of the FPO when dealing with external stakeholders like financial institutions, buyers, input dealers, technology and logistics service providers and government departments.

During the mobilisation phase, FPO leaders can engage with farmers in their village or community in a timely and cost-effective manner by leveraging their trust, relationships and local presence. They can better align members to the objectives of the FPO and develop a shared sense of purpose, compared to external resource persons or staff from outside the community. In the absence of a dedicated CEO or managers, it is the directors who also lead day-to-day operations and business decisions. Hence, they must be equipped to take timely and fair decisions and have a risk appetite for scaling the enterprise. They must be competent to understand and adopt the business plan and provide oversight and course correction to the FPO management. Leaders with long-term perspective are better equipped to ensure that the FPO is able to sustain and scale.

Governance includes monitoring, periodic meetings, designing FPO policies, and establishing transparent systems and management processes. The leaders are also responsible for ensuring that the FPO is compliant with all legal and regulatory requirements and that its business licenses, tax certifications, and books of records are up to date. Gaps and delays in compliance could lead to penalties and operational risks for the FPO and incur unnecessary costs for the organisation. Thus, effective leadership and governance models can lay the foundation for sustaining, strengthening and scaling FPOs.

Challenges and Constraints in FPO Leadership and Governance

FPO leadership and key management personnel require a range of skills and competencies to engage with and manage both internal and external stakeholders for effective operations. Inefficient management due to gaps in capacity, lack of long-term perspective and the inability to align its members towards a common vision are intrinsic causes that prevent an FPO from sustaining and scaling. The skewed focus of capacity-building programmes regarding content and outcomes is an external constraint which leads to gaps in leadership and governance.

Lack of competent and motivated leaders and managers.

It is hard to find qualified staff in rural areas where FPOs are located. The few qualified persons in these communities also prefer to migrate to urban centres for better job prospects. Attrition among FPO CEOs and managers is also high due to low wages, high expectations, limited support staff and high visibility to stakeholders, resulting in long working hours for low pay. The Government's flagship programme, the formation and promotion of 10,000 FPOs budgets up to ₹25,000 as the monthly salary for an FPO CEO (SFAC, 2020). Institutions like the Institute of Rural Management Anand (IRMA) were formed with the purpose of developing managers and leaders for cooperatives. However, given the low salaries in the cooperative and FPO sectors, and the high cost of education, most graduates prefer corporate roles with agri-business companies instead of working in the development sector.

Even directors of FPOs are not motivated or incentivised to grow the business. In the initial years, it is usually the staff of resource institutions (RIs) and promoting agencies who drive the business and decisions in the FPO. Without leadership competencies like ownership, autonomy, timely decision-making, risk appetite, strategic future-ready outlook and alignment of member expectations, scaling up business operations becomes tough. Most FPOs tend to focus on low-risk, low-margin business verticals like agricultural input business and public procurement, thus limiting their revenues, profit margins and cash flows. Limited reserves and surplus put their growth and financial sustainability at stake. They may not be able to effectively engage with their members and offer relevant services, resulting in loss of trust and members opting out or not using the FPO's services altogether. There have been instances of FPOs ceasing vegetable trading after making losses in a few initial trades and limiting themselves to low-risk input business. These were primarily due to the directors' sense of accountability for the mobilised equity capital, and their apprehension about further losses and backlash from farmer members on losing the FPO's capital. Thus, a low-risk appetite amongst directors can limit the FPO's revenue potential.

A lack of co-ordinated and data-driven decision making can even lock up the available working capital in the form of excess input stock, which cannot be liquidated and may expire in a couple of seasons resulting in huge losses for the FPO. Delayed decision making due to internal conflicts or lack of seriousness can result in sub-optimal operations. These include delays in procurement, vendor selection, accounting and invoicing, as well as poor logistics management. All of these can result in post-harvest losses, delayed payments, low price realisation and missed sales opportunities.

The skewed focus of capacity building programmes and RIs on content and delivery.

RIs tend to focus more on the business maturity aspect, since it has the most direct and tangible outcomes for FPOs in terms of revenue, customers, and profitability. Most FPO capacity building programmes run in project mode, with payments or grants to RIs and promoting agencies linked to project deliverables and business indicators. Thus, it is only natural for the RIs to focus their efforts on select aspects like member base, business revenues, profitability, financial linkages and compliances, that have a direct bearing on the FPO's business and growth indicators.

However, neglecting other aspects such as leadership development, governance, social capital, and ecosystem partnerships poses a risk to the growth and sustainability of FPOs. This could also result in higher cost of operations, sub-optimal performance and missed opportunities. Therefore, the capacity of FPO leadership and key management personnel needs to be developed across all key pillars, instead of just focusing on business maturity.

Lack of participatory or innovative training methods and field visits can also result in poor learning outcomes, with participants losing interest in the topic. A one-size-fits-all approach to capacity building will not work. Each FPO is unique and factors such as maturity, value chain, demography or geography should be taken into consideration. This will ensure that training modules are customised to suit the context of a given FPO, and enable more effective learning outcomes. Rather than just monitoring the number of trainings and participation to assess impact, the onus should be on measuring the learning outcomes of the beneficiaries, especially leaders and managers.

Focusing on short-term outputs rather than the outcomes or process.

RIs, promoting agencies, FPO shareholders, FPO leaders and even funding agencies are all prone to developing a short-term output perspective, instead of focusing on longer-term farmer impact and sustainability of the FPO.

FPOs tend to function in project mode, with payments linked to deliverables or outputs. This results in the promoting agencies and RIs being focused on short-term results, FPO business indicators and monthly or quarterly reporting. Instead of following robust processes for mobilisation and capacity building, to enable long-term outcomes and FPO sustainability.

With this myopic focus on output, FPOs are at a high risk of ceasing operations after the project period, since the leadership and management have not developed the required capabilities to govern and manage the FPO effectively. During the project period, it is mostly the RI that drives business and decision making, through their own staff instead of fully developing the capacities of the FPO directors and staff. The perception is that this would incur more time, cost and effort, while still not guaranteeing successful business outcomes for the FPO. This cycle of withdrawing capacity building support after the project phase, coupled with not developing the capacity of leaders, essentially sets up FPOs to fail.

Merely focusing on capacity building of individuals instead of developing and operationalising institutional systems and processes is also disadvantageous. It can result in loss of learning and competency building, poor on-ground implementation, ownership, motivation and accountability, and may even prompt leadership attrition.

Building institutional maturity takes time, which is more so for an institution governed and managed by farmers with limited or no business competencies. The very nature of agri-business, with two to three crop cycles in a year due to environmental dependencies, makes planning and implementation stretch over the year. Hence, it is unrealistic to expect FPO directors and management staff to generate transformational business results within a year or two. They would need to apply the learnings of capacity building programmes over multiple crops or business cycles, and learn from their experience on the job, to grow and scale up their business year on year.

Credit linkages, buyer linkages, procurement planning, input planning, technology adoption, convergence and engaging with 500-1,000 members with limited staff and resources are no easy task and are time-intensive. Mobilising hundreds of farmers itself would require nine to twelve months or even longer, depending on practical situations. Often, in the race for achieving deliverables and business targets, member expectations are managed poorly and they may not be aligned with the FPO's long-term vision. This threatens the very building blocks of the FPO, putting its sustainability at risk.

Most FPO incubation programmes are designed for 2-3 years, with the first year focusing on social mobilisation and FPO registration, and the subsequent years focusing on capacity building. The structure and schedule of the modules may also be determined and driven by donor priorities. It is important to ensure that FPO business indicators should not just end up becoming marketing milestones for political, corporate or philanthropic purposes, without actually delivering impact for its farmer members.

Strategies for Effective Leadership and Governance

An analysis of twenty successful FPOs by the National Bank for Agriculture and Rural Development (NABARD) revealed three dominant leadership models (Nayak 2022):

- Professional managers where directors were not too involved.
- One or two active and entrepreneurial directors.
- Board of Directors who were actively involved in business decisions and management.

The first leadership model showed the best results in terms of business metrics, but fared low on long-term sustainability. The second model had a higher risk of exclusion and elite capture by a section of the Board members. The third model showed the highest member engagement, which was low in the first two models. An ideal FPO should have both professional management, as well as an active and competent Board of Directors to ensure accountability, transparency, inclusion, member engagement, business outcomes and long-term sustainability.

Leadership development strategies for FPOs should cover the whole spectrum of activities, from director selection, orientation, CEO recruitment, capacity building and handholding, in line with the growth of FPOs and their specific requirements. It is also critical for policymakers, RIs and funding organisations to come out of a deliverables-based project mindset to ensure that FPOs can sustain and scale up on their own, much beyond the project period.

Some crucial strategies and models for effective leadership and governance are:

- Selection and orientation of FPO directors during the mobilisation phase.
- Hiring and retaining motivated and committed FPO managers.
- Developing the second tier of decentralised leadership.
- Life cycle- and context-based capacity building.
- Leveraging external experts as advisors and independent directors.

Selection and orientation of FPO directors during the mobilisation phase.

RIs should identify progressive and entrepreneurial farmers who represent different sections of the potential member base, as directors for the FPO Board. They are the building blocks and initial members of any FPO, and hence their mobilisation and orientation have to follow a robust process. Leadership competencies must be assessed while evaluating the candidates; these can be further refined and developed during the capacity building phase. Even while selecting representatives from vulnerable and marginalised sections, like women, tribal members, and marginal farmers for the Board, the RI should ensure that the candidates have leadership and entrepreneurial competencies, rather than focusing only on inclusion.

Due diligence should also be undertaken to ensure that the directors have no pending legal cases, financial issues or strong political affiliations that can divide the FPO and inhibit institutional linkages. Several instances of FPOs being denied loans due to the poor credit history of directors or FPOs, or being denied preference in schemes due to the directors' political affiliations have been observed. Hence it is crucial to select the right candidates as directors.

It is critical to align the selected directors to the purpose and vision of the FPO, and enable them to think and work with long-term outcomes in mind. These directors should be leveraged to mobilise the members in their respective communities or villages, for better alignment and trust, rather than solely relying on external staff from RIs to mobilise the community. This would ensure accountability among the directors, and better expectation setting with the members. This will also address the misalignment in farmer expectations due to poor mobilisation processes where RI staff have mobilised farmers by making false promises and setting incorrect expectations, under the pressure to perform within time.

Following such a robust and decentralised process is bound to add to the time required for mobilisation. Funding agencies, including governments, philanthropic foundations and CSR should also ensure that there is no undue pressure on the implementing agencies or RIs during the mobilisation phase. They should also ensure the release of adequate funds, be it grants or consultancy fees in advance, to ensure effective and uninterrupted FPO mobilisation.

Hiring and retaining motivated and committed FPO managers.

Once the directors and members are mobilised, the RI should create a detailed job description for hiring key management staff of the FPO, such as the CEO, Procurement Manager, Marketing Manager, Finance Manager, and so on. Qualified local staff with basic experience in a relevant field and context should be given preference. Their competencies can be further developed through capacity building over a period of one to two years. Handholding them in business operations will help build their confidence to take day-to-day business decisions and manage operations in a relatively low-risk environment.

Retaining motivated staff is equally important and hence, recruitment from local sources and periodic capacity building becomes critical to ensure adequate capability and uninterrupted operations. The management must also be incentivised with an adequate base salary, coupled with bonuses linked to the FPO's performance. Rewards and recognition instituted at various levels, FPO, RI, donor, district, state, and national, will also help motivate the FPO staff to strive for further growth and scale.

Developing a second tier of decentralised leadership.

Leaders of constituent Farmer Interest Groups (FIGs) can provide decentralised leadership and coordination with the central FPO leadership at the village or FIG level. Leveraging FIG leaders will also help reduce cost and time overheads involved in the mobilisation, communication, input distribution, output procurement and other services. This is critical for any organisation with limited staff and resources. The FIG leaders can be incentivised for their efforts in the form of commissions linked to input and output business, generated from their FIG or village, or through performance bonuses and recognitions at the end of the financial year.

Capacity building programmes should also target interested youth in villages covered by the FPO to build a future pipeline of qualified leaders, managers and trainers within the FPO's vicinity. This will ensure the availability of competent local resources for uninterrupted FPO operations in case of attrition or any contingencies. UNDP's Project Disha developed a cadre of Women Sourcing Managers who were able to manage FPO operations during the COVID-19 pandemic. This resilient model focused on creating decentralised capacity among local resources instead of hiring outstation managers, who would not have been able to manage operations remotely during the government-imposed lockdown. Sattva's analysis of some successful FPOs, like the Sittilingi Organic Farmer Producer Company and the Pudukottai Organic Farmer Producer Company, with committed CEOs hailing from local communities, strengthens the case for local leadership.

Life cycle and context-based capacity building.

The focus of an FPO's leadership will vary along the various stage of its growth. Hence, the design, delivery and evaluation of capacity building programmes should factor in the maturity of the FPO and relevant contexts to remain effective.

Content design

A life cycle-based capacity approach can build effective leadership capacity and core business acumen along with functional expertise to optimise operations efficiently. While directors are not expected to be experts in all thematic areas, they must have the capability to plan, monitor and coordinate activities, take timely business decisions and reach out to relevant experts or sources for required support.

Delivery

Scheduling and sequencing training modules should also factor in the business cycle or crop cycle of the FPO so that the recipients of the training can immediately implement their learnings and skills in day-to-day business operations. The delivery models should also ensure certification and periodic refresher training sessions. RIs should deploy competent trainers and experts for FPO capacity building. Leveraging the capacity of local NGOs, or developing a cadre of local resources as master trainers can also be explored to support FPOs.

Figure 2: FPO capacity building content distributed over FPO life-cycle

	Supported by government, corporates, multilaterals and foundations		Limited FPOs supported by corporates, foundations and financial institutions	
	Stage 1	Stage 2	Stage 3	Stage 4
FPO LIFECYCLE	PRE-INCUBATION	EARLY GROWTH AND INCUBATION	GROWTH AND CONSOLIDATION	SCALE UP
	Up to 1 year	~2 years	~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 & 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

(Sattva 2022)

Innovative training methods, group assignments, exposure visits, buyer-seller meets and more should be organised to ensure that the participants are not subjected only to lecture-based training, which can get monotonous and cause them to lose interest in the topics altogether.

Monitoring and evaluation

Monitoring systems need to be in place to assess the training and follow-up activities undertaken by the leadership, management and staff. This will instate an effective feedback loop to capture the gaps, outputs and learnings and aid the development of quality and relevant capacity building content.

Certifications for training should be based on evaluation rather than participation, to ensure better learning outcomes and commitment.

Forming functional sub-committees for business operations.

A model FPO should have sub-committees for various business verticals such as procurement, finance, marketing and sales, human resources, compliance and so on. FPO directors, FIG leaders and progressive, entrepreneurial farmers can then be nominated as members of these sub-committees based on their relevant experience, competencies and interests.

Sub-committees can reduce the burden of decision making and any bias at a central level, and improve accountability while ensuring fair, transparent, timely and collective decision making for the benefit of FPO shareholders. Allocation and distribution of clear roles and responsibilities will minimise internal conflicts and lead to focused efforts, ensuring that FPOs are on a path towards consolidation and growth. While the CEO would be answerable to the sub-committees for enforcing final decisions, these committees can also take up some activities and reduce the burden of work on the CEO and other key management staff in resource-constrained FPOs.

Leveraging external resources as expert advisors, fellows and independent directors.

In addition to developing the capacities of FPO leaders and staff, external personnel can also be leveraged through pro bono or donor-funded models to guide and manage FPO business operations. While external individuals cannot reap the benefits of an FPO or own equity in one, qualified and experienced personnel can be leveraged by the FPO in its operations.

National Association of Farmer Producer Organisations (NAFPO) started an Independent Director Development Programme in July 2022 for its 100 all-women FPOs (NAFPO 2022). The programme invited voluntary applications from retired and working bankers, chief executives, supply chain specialists, agri-business experts, consultants and practitioners. A capacity building programme was instituted with this cohort to orient them to the concept and needs of an FPO. Each independent director would be allocated three to four FPOs based on their thematic experience, value chain and geographical proximity. It is anticipated that infusing a conventional Board comprising of farmer leaders, with unbiased industry experts can help resolve any decision-making paralysis, provide timely guidance, forge strategic partnerships and thereby facilitate the FPO to sustain and scale.

Philanthropic donors, corporates and government agencies can also institute fellowship programmes in collaboration with academic institutions, to attract motivated and qualified youth to work in FPO management and support roles for a period of one to two years. Corporates can also institute volunteering programmes to support FPOs with skilled management personnel.

Professors and students from rural management and agri-business institutes such as IRMA, National Institute of Agricultural Marketing (NIAM), National Institute of Agricultural Extension Management (MANAGE), Tata Institute of Social Sciences (TISS), Azim Premji University (APU), Kalinga School of Rural Management (KSRM), Xavier Institute of Development Action and Studies (XIDAS), Indian School of Development Management (ISDM), Development Management Institute (DMI), and so on, and top tier management schools such as IIMs can also offer advisory support to FPOs, and undertake live projects on commodity market research, value chain studies and designing FPO policies, to name a few.

Conclusion

Leadership and governance is a critical aspect for long-term sustainability and scaling up FPOs, and hence cannot be neglected or deprioritised. Competencies such as risk appetite, decision making, and long-term perspective must be developed and refined in the leaders and managers through life cycle-based customised capacity building and innovative training methods. Developing decentralised leadership and management, operationalising sub-committees and FIGs and leveraging external experts and advisors can improve the governance and strengthen FPO leadership to enable these institutions to sustain and scale, on their own.

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