



Experiences from the Field: Governance Issues and Social Inclusion in Aggregation Models

The Cooperative Societies Act of 1904, based on the principles of the hugely successful European cooperatives' movement, enabled the emergence of cooperatives in India for the first time. In the years following independence, promotion of cooperatives was seen as central to agricultural development.

Currently, various cooperatives in India have over 230 million members. However, such memberships largely belong to credit, milk, or a few marketing cooperative organizations. Farmer producer cooperatives are very few, and therefore, the impact of cooperatives on the agricultural sector has been limited. In India and many developing countries, issues of poor organization and incompetent management, political interference and elite capture, financial irregularities, and corruption within the organizations have plagued the cooperatives (Attwood 1982, 1987; Baviskar 1987; Akwabi-Ameyaw 1997; Holloway et al. 2000; Lalvani 2008).

Membership to cooperatives, along with land reforms, were the main institutional instruments for bolstering agricultural development in the post-independence period. In principle, had land reforms redistributed land among primary producers, cooperatives would have enabled greater access to inputs and markets. However, with the failure of land reforms in India, producer cooperatives faced many challenges. The major impediments were structural and incentive-based. The structural problems were political and bureaucratic interference, poor management and governance, and elite capture of the activities to their benefit. Cooperatives also faced incentive problems characterized by dormant membership and poor participation of members. This was particularly so, owing to the fact that the benefits failed to reach the people they were targeting to empower.

Since early 2000, there has been a major drive in India to promote aggregation models on the same aggregation principles of the cooperatives in the agricultural sector. The amendment of the Companies Act in 2003, which enabled the formation of Producer Companies (PCs), was a major step in this direction. PCs as aggregation models, also referred to as Farmer Producer Organizations (FPOs), serve an important function to its members at both the production stage and the marketing stage. By 2017, over 3,000 FPOs had been promoted in India, and organizations such as National Bank for Agriculture and Rural Development (NABARD) aim to promote over 5,000 by 2022. As FPO expansion continues, there is a need to assess the role, performance, and viability of FPOs thus far.

Newer aggregation models, which function on the same aggregation principle, are different from cooperatives both legislatively and in their functioning. As companies, they have legitimacy in business environments and structure, because company law regulates them. The producer-owner system increases the agency of members and reduces the role of the state and bureaucracy, preventing any power capture.

The roles of aggregation models are twofold: first, to acquire commitments of farmer members to agree to act jointly; and second, to organize together various activities, such as accessing credit, information, and input and commodity markets. Collective action begins when individuals or organizations, or a combination of both, agree to address a collective intention jointly. Once they commit to the cause, various interests and actions are organized and prioritized to attain or achieve the collective goal. Therefore, collective action consists of two components: cooperation and coordination. Cooperation is a voluntary process in which the decision to work together is made

and is guided by fully binding and enforceable commitments. Coordination is when participants, who have decided to cooperate, form concordant mutual expectations and create predictable and reciprocal behavior, in which one individual's actions are conditional and contingent on the actions of another individual. Governance of aggregation models essentially entails cooperation and coordination. In the panel on "Experiences from the Field," the main topics of discussion were issues in the effective governance and challenges to self-management in aggregation models.

Governance of aggregation models: Challenges to achieve viability

Aggregation models are institutions that are formed on the same cooperative principles of volunteerism, democracy, autonomy, and concern for the community. These community-based organizations should create social as well as economic value, and their members need to be made aware of the benefits of cooperation, incentivizing them to participate. In the earlier cooperatives, the absence of this understanding of group ownership led to dormant membership. Effective cooperation requires a level of awareness regarding rights and ownership and the distribution of benefits to all members. The major points of discussion were (1) the time it takes for aggregation models to emerge viably; (2) the capacity of supporting organizations; and (3) how to deal with heterogeneity or differences within groups.

Renewed policy interest to promote FPOs in India began in 2013, and since then, a many FPOs have been promoted. There is an absence of data on who the main promoters are, the numbers of FPOs that have been formed, and their stages of development remains unknown. However, it is understood that about 90 percent of FPOs in India today are less than three years old. There has been much focus on the numbers of FPOs registered, as a metric of success of the aggregation models. However, the quality of work of the established FPOs has not been assessed, which is an equally important metric for judging the success of the policy in developing aggregation models for aiding agriculture.

In order for aggregation models to become

self-sustaining, they need time to consolidate, identify their major roles and functions according to context-specific needs of their members, and provide those services. Due to the lack of managerial capability and financial management experience among the farmer members, enabling organizations need to play important roles in capacity building. Aggregation models with adequate investment, time, and care from enabling organizations can perform well. The well-performing FPOs are a proof of concept and provide learning and experience from the field, which can help in developing a strategy for scaling up. Therefore, NGO support is required not only as a funding organization but also as an enabling organization.

Capacity building of the members of aggregation models is central for self-governance. As a community-based enterprise, the ability to enable cooperation or keep the commitment of members to work together is critical. Also needed are market linkages, so that farmer members can acquire quality inputs and sell their produce at fair prices. NGOs that often have community mobilization experience fall short of business acumen and building capacity of aggregation models to emerge as business entities. Therefore, it is also essential for enabling organizations to build capacity to be able to promote FPOs as business entities. Different FPOs will have varying access to resources for building their managerial, organizational, and commercial capacities. Consortia of aggregation models, or an aggregation of aggregation models, at the state level can provide expertise and opportunities for FPOs, disadvantaged by poor initial conditions.

Heterogeneity is a broad term that describes the levels of variation among group members. There are a number of factors that contribute to heterogeneity: social, economic, resources, and geographical differences among members, for instance. The issue of gender, caste, land, endowment, access to resources such as irrigation, and agroclimatic factors can all characterize a group as homogeneous or heterogeneous, which can enable or inhibit group action. Addressing the effects of heterogeneity becomes very important to make the model inclusive. Furthermore, this inclusion is important in order to prevent elite capture. Gender and caste inclusiveness further

enable small- and medium-sized farm owners to participate together.

Discussion points and topics for research

- The major issue with regard to aggregation models is the lack of sufficient data on their numbers. The FPOs that are promoted by NABARD and the Small Farmers' Agribusiness Consortium (SFAC) are reported, but data on the aggregation models promoted by international organizations, state governments, and rural development programs are not readily available. There is a need to collate information of aggregation models promoted by various organization and the stages of development they are at present.
- Another issue that came up during the discussions was the need to evaluate FPO performance. The evaluation metric needs to measure the performance quality of the FPOs. This will allow for better provision of support, depending on economic and organizational performance. It will also help differentiate between functioning and nonfunctioning FPOs.
- Despite attempts to build creditworthiness of aggregation models, difficulty in linking them to credit organizations was a common concern reported by supporting NGOs. Financial discipline and creditworthiness needs to be established in aggregation models, so group savings can be an important activity. However, financial institutions should also be sensitized to lend to aggregation models, based on their creditworthiness. Evaluation methodology should have organizational creditworthiness as an essential metric for assessing the performance and progress. Policies to better enable financial linkages also need to be in place.
- Farmers may not have any prior experience in participating in group-based activities. In some cases, farmers have had some aggregation experience in credit groups or resource management projects prior to the FPO formation, but not with economic activities or linking to markets. Leadership within groups is important to enable cooperation and coordination of market-based activities. In the absence of such capacity, the role of management through a chief executive office (CEO) becomes important. The CEO is a non-stakeholder that helps with the management of the initiative. The major issues that need to be assessed are:
 - how to identify and incentivize able individuals to take on the task
 - how can management empower stakeholders over time and build capacity for better self-governance
 - how can principal-agent problems be prevented or addressed when they emerge.
- Capacity building of the FPO needs enabling organizations for FPOs to emerge as self-sustaining over the long run. This makes gestation periods very important; aggregation models need time to build cooperation, build capacity for self-governance, manage resources, and enable coordination of various activities to support their economic intention and become viable.
- Linkages to markets are often challenging. However, accessing factor markets such as seeds, fertilizers, pesticides, and mechanization are easier if transactions costs in accessing these can be rectified through scale brought about by aggregation. Access to quality inputs can also help improve product quality and grades, improving marketability of produce, and the ability to access higher value product market options.
- Product markets' access is often conditioned on geography, which determines distance to markets, and availability of infrastructure, such as roads and irrigation, which influence connectivity and time and levels of risk exposure, respectively. Considering that these factors are exogenous influences, linking aggregation models to product markets can be harder. Hence, enabling a doorway to factor markets plays an important role in transforming production practices and building managerial capacity within

aggregation models, making it an important prerequisite.

- Heterogeneity can have a positive and a negative effect on the process of aggregation. Economic heterogeneity, in which different members have different quantities of land and resource endowments, can lead to elite capture within the group. However, these groups may also have greater motivation to participate in collective action initiatives, as their returns may be higher from the advantages of scale. Therefore, the heterogeneity may play a crucial role in holding groups together.
- Social heterogeneity, characterized by caste and gender, could lead to exclusion within groups. Aggregation, in principle, will help bring together groups of similar characteristics to achieve a similar goal. In this regard, gendered groups and caste groups may benefit. However, these groups in many situations may emerge to be small and may not reach sizes optimal for joint action. Capacity building and sensitization to enable inclusive groups may prove important, with

mechanisms to ensure non-exclusivity in the distribution of resources.

- Consortia of aggregation models have emerged in various parts of the country, and the Madhya Bharat Consortium of Farmer Producers Company Limited (MBCFPCL) in Madhya Pradesh, Maha Farmers Producer Company Limited (MAHA-FPC) in Maharashtra, and the National Association of Farmer Producer Organizations (NAFPO) are examples. The goal of forming consortia of aggregations models is primarily to form a network that will better enable access to resources, opportunities, and networks. The procuring of pulses by MBCFPCL and MAHA-FPC from its member organizations on behalf of the National Agricultural Cooperative Marketing Federation of India (NAFED) and the Food Corporation of India (FCI) is an example of such a consortium. A consortium can help build capacity of newer FPOs, identify marketing opportunities, and also help in bringing to the forefront the challenges of aggregation models and influence policy to support their emergence and sustenance.

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