Collectivization of Small Holder Farmers (SHF)

What is the issue?

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- Innovative thinking on smallholder farmer empowerment is needed in the context of the Indian government’s push to double farm income by 2022.
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What are the problems faced by Small holder farmers?

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- They are forced to face a cycle of low investment, poor productivity, low value addition, weak market orientation and low margins.
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- Decreasing landholdings due to fragmentation adds oil to burning fire.
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- Further a post-harvest value chain coupled with inefficiencies, causes post-harvest losses (PHL) to stack up throughout the value chain.
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- These stacking up or ‘hoarding’ causes inflationary effect on the economy and strikes a blow again upon the smallholder farmer as consumers.
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- As per latest estimates by the Associated Chambers of Commerce of India, India loses around Rs. 92,600 crore ($14.3 billion) on account of PHL.
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What are the different Models of Collectivization of Famers?

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- There are two Small Holder Farmers collectivization models in India: farmer

producer organizations (FPOs) and agricultural entrepreneurs (AEs).
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- The concept behind Farmer Producer Organizations is that farmers, who are the producers of agricultural products, can form groups and register themselves under the Indian Companies Act.
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- The FPO model creates value across different post-harvest phases, including harvesting, primary processing, storage, secondary processing, and market linkages.
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- The aim is to enhance farmers' competitiveness and increase their advantage in emerging market opportunities.
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- The Agricultural Entrepreneur model is predominantly buyer and intermediary driven, with a strong profit orientation.
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- AEs are usually from the village and work independently or through contracts with companies that provide farmers inputs, equipment or procure produce from farmers.
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How can these models mitigate the problems faced by SHF?

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- Efficient farmer collectivization confers
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1. greater bargaining power
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2. better market and price discovery
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3. access to credit and insurance and
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4. sharing of assets and costs
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- It encourages private sector interest and builds the ability of farmers to invest in storage, crop protection and value addition infrastructure.
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- It also provides better access to market linkages and information through partnerships which enables farmers to reduce demand/supply imbalances and Post Harvest Losses.
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- AEs link farmers with the market, minimizing damage to their produce before delivery to buyers.
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What are the challenges associated with these models?

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- The FPO model faces challenges with respect to community mobilization, effective decision-making and governance, efficiency of promoting agency, and access to capital.
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- Constraints associated with the AE model include vastly different individual entrepreneur capabilities and lack of capital.
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What can be done to strengthen them?

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- A multi-pronged approach encompassing a series of interventions can significantly strengthen the SHF collectivisation ecosystem in the long run.
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- **Technical support facility**: can help build transition FPOs from a production-oriented model to a more value-addition and agribusiness focussed model.
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- It will offer farmers access to a range of services, including training, sourcing of inputs, mechanisation, value addition, market information and linkages.
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- **Innovative capital infusion mechanisms** : Currently, direct equity investments not being permitted in FPOs limit their capital access and growth potential.
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- Potential alternative financing structures such as guarantee fund, results-based finance and insurance structures to facilitate capital infusion into

FPOs need to be explored.
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- **Diagnostics and credit rating mechanism** :Formal financial institutions are wary of lending to FPOs, largely due to the latter’s inability to provide adequate collateral to cover the lender’s risk.
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- An FPO diagnostics and credit-rating mechanism can encourage financiers unlock credit flow.
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- **Apex body for FPOs** : A self-regulatory body designed to protect the interest of FPOs and farmer members is needed.
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- Example: Microfinance Institutions Network (MFIN) to regulate the businesses of member-MFIs in India.
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- **Data analytics platform** :An FPO data analytics platform can capture the data virtually through mobile and computer interfaces, analyse them and provide decision support to FPOs and their promoters.
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What is the way-forward?

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- According to the Department of Agriculture and Cooperation, the FPO has emerged as the most appropriate institutional model.
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- Practitioners estimate that there are over 3,000 FPOs in India
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- Strengthening FPOs would enhance the robustness of the AE model since vital complementary roles of AEs can be carved out as FPOs become successful.
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Quick Facts

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Smallholder farmers

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- According to Food and Agriculture Organization (FAO), Small-holder farmers are defined as those marginal and sub-marginal farm households that own or/and cultivate less than 2.0 hectare of land.
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- Smallholder farmers (SHFs) represent 80 per cent of India’s farming community.
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