

Promoting Socially Inclusive and Sustainable Agricultural Intensification in West Bengal and Bangladesh

# Developing Socially Inclusive Value Chains in West Bengal: Role of Farmer Producer Organizations

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*For the Study*

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## 1. Introduction

It is well recognized that facilitating inclusive growth requires appropriate institutional structure, particularly in providing access to various resources and public services to the commons and protecting their rights. Experiences across countries show that institutional environments have significant influence on socio-economic development of a nation (Acemoglu et al., 2002, Acemoglu and Robinson, 2008 and 2012, Rodrik et al., 2004). This is so because large-scale social, economic and political inequalities have led to development of institutions and social arrangements that are highly biased in favour of the *elites*. Evidences suggest that capturing political, economic, and legal institutions by the *elites* can ensure that the benefits of public policies, investments and services are accrued to the most favoured aggravating the initial inequality in endowments and opportunities (Bourguignon et al., 2006; Rajan and Zingales, 2007). Besides, the role of the institutions of property rights and collective actions in natural resource management is also well-recognized (Ostrom et al., 2001; Baland and Platteau, 1996; Bromley, 1992). While property rights would provide income streams along with incentives to invest in productive technologies and sustainable practices, collective actions are needed, especially for the small and marginal farmers to enhance their bargaining power, increase the scale of production and share the operational risks.

Given that Indian agriculture sector suffers from the problem of small and fragmented land holdings leading to high concentration of small and marginal farmers, especially in the densely populated states like West Bengal, appropriate institutional arrangements are necessary. It is expected that appropriate institutions would help in formation of collectives and thus in enhancing the scale of production and bargaining power. Besides, institutional arrangements are needed for removing market imperfections and developing socially inclusive value chains in the sector.

The Farmer Producer Organisations (FPOs) supported by the National Bank for Agriculture and Rural Development (NABARD) can play crucial roles in this regard. Since the small and marginal farmers do not have sufficient scale of production, they often end up with lower returns but high production and market related risks. Besides, the presence of intermediaries in the value-chains frequently makes it difficult for these small and marginal farmers to get the appropriate price of their produce, even though the consumers pay higher price for the same. Thus, due to their lower scale of production and associated opportunity costs, the small and marginal farmers generally rely on the intermediaries to sell their produce, whereas presence of these middlemen prevents these farmers from reaping the appropriate price. In addition, lack of adequate demand for high value crops in the local market also forces the small and marginal farmers to rely on the intermediaries aggravating the problem further.

In this perspective, with the formation of the FPOs, the farmers are expected to organise themselves for enhancing the sale of production through resource pooling and have collective bargaining power in the market which would enable them to get a better deal from the

traders. They can also apply their collective bargaining power while purchasing bulk amount of inputs from market at relatively lower prices. These organisations can provide greater access to input and output markets by developing forward and backward linkages through the related value chains. Overall, such institutional arrangements have the potential to help the small and marginal farmers in overcoming the underlying challenges and facilitating inclusive development.

## 2. Farmer Producer Organisation (FPO): An Overview

In order to facilitate transfer of agriculture technology to the farmers, orienting them to establish better relationships with banks and reap the benefits of collective bargaining power in both inputs and output markets, the **Vikas Volunteer Vahini (VVV) Programme** was launched by NABARD in late 1982. The “VVV Programme” was rechristened as the **Farmers’ Club Programme** in 2005<sup>1</sup>. The Farmers’ Clubs are local level informal organisations formed by the rural branches of banks with the financial assistance from NABARD for the mutual benefits of the banks concerned and the rural people. The main aim of this programme is to promote socio-economic development in rural areas in general and agricultural intensification in particular through the supply of easy credit, transfer of technology, create awareness among rural people and capacity building.

In addition to NABARD, farmers’ club can also be promoted by the commercial banks, regional rural banks and cooperative banks in their operational areas. However, all the clubs should have savings bank account with the respective promoter bank.

The broad activities of Farmers' Club include the following:

- Coordinating with the banks to ensure credit flows among the members and foster better bank-borrower relationships;
- Organising minimum one meeting per month with the members (the non-members can also be invited to attend these meetings);
- Organising interactive sessions with specialists from various fields of agriculture and allied activities such as extension personnel of agricultural universities, government departments and other related agencies for updating technical knowhow and other required knowledge and skills;
- Inviting experienced farmers who are non-members from the same village and/or neighbouring villages for sharing their experiences;
- Developing linkages with the input suppliers to purchase inputs on behalf of the members;

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<sup>1</sup>The Farmers’ Club Programme is still on along with the initiatives to transform these farmers groups to FPOs, especially since 2011. Initially, farmers’ club (with minimum 10 members and financial support of Rs. 10000.00 from NABARD in first three years) were formed to create awareness and develop skills of the farmers, ensure loan from banks, and dissemination of technologies. Subsequently, initiatives were taken to combine number of farmers’ club into FOPs to avail the benefits of economic of scale and enhance farmers’ bargaining power. Available data shows that NABARD has promoted as many as 1.48 lakh farmers’ club in the country by the end of March 2016.

- Organising/facilitating joint activities like value addition to produce, processing, collective marketing, etc. for larger benefits of the members; and
- Undertaking social, economic and environment related developmental activities

In order to take the benefits of scale (in both production and sale), a number of farmers' clubs are jointly registered as cooperative societies and producer companies and named as Farmer Producer Organisation<sup>2</sup>. The FPOs are registered especially under The Cooperative Society Act (2002) or under the Producer Company Act of 1956 (Amended in 2013) to access the facilities and schemes of the government. Thus, an FPO is a legal body formed by the primary producers like the farmers and registered within the legal provisions for sharing the profits in the form of dividends. However, the FPOs are for facilitating commercialisation of agriculture, not for subsistence farming. The main aim of this organisation is to ensure better income for the member producers through collective approach. It deals with business activities related to the primary produce/product and a part of the profit is shared amongst the producers, whereas the rest of the surplus is added to its own funds for business expansion. The FPOs can be promoted by the banks, NGOs, government departments, cooperative societies or any other association/federation.

Generally, an FPO covers around 400 to 1000 farmers and accesses market within 200 kms for viability. Development of value chains in agriculture is one of the major activities of an FPO. The farmers are benefitted by the FPOs in respect of better business processes (through aggregation, segregation and logistics), higher productivity (of human and capital resources), warehousing (in terms of space, costs and logistics), risk mitigation, etc. However, the FPO can be formed only if the preconditions of large scale production, adequate supply of produce round the year and commercial attitude among farmer members are ensured.

### 3. Experience from Visit to Nabaday Farmers' Club

As a follow up exercise of the value chain workshop held at UBKV on 20/06/2018, the study team from CDHI visited Nabaday Farmers' Club located at Mairadanga in Falakata block of Coochbehar district of the Indian state of West Bengal. This farmers' club evolved as an FPO and is registered under the Indian Society Act (1961) in 2014 with an annual transaction of nearly INR 15 lakh. There are more than 400 small and marginal farmers directly and more than 10000 farmers indirectly involved with this FPO<sup>3</sup>. The FPO maintains records of all the enlisted farmers. In addition to the general members, there are also more than 70 members who act as the shareholders of the FPO. These shareholders gain profit according to their investment. Importantly, there are 80 women members in the FPO and some of the mare also the shareholders. The FPO aims at reaping the benefits of scale economies through collective approach and value addition to the produce.

The FPO has 11 managing directors and more than ten paid staffs to carry out the day to day activities. The staff members are paid from the amount generated through membership fees

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<sup>2</sup>Generally, an FPO is formed by all the farmers located in the catchment area of one or two micro-watersheds with the farmers being the shareholders of the organization.

<sup>3</sup> Here, those having 1 to 3 bighas of land are considered as small and marginal farmers.

and profit earned by the FPO. Although this appears as a levy paid by the farmers, this cost is relatively less as compared to the rent seeking by the middlemen. Further, being a member of FPO has also helped the farmers in reducing production and market related risks. Further, the FPO has the minimum chances of elite capture as the managing directors are chosen from the experienced farmers only<sup>4</sup>. Meetings are convened in regular intervals for open discussions with all the members on issues relating to production, marketing, etc. The function of the FPO is also regularly monitored by the Producer Organization Promoting Institution (POPI) and NABARD. Procurement of inputs and selling of the same to the farmers are carried out through participatory approach without any intervention of the middlemen. A group of members of the FPO collect produce from individual farmers at prices fixed through mutual discussions. As a result, there is very little chance of price variation across producers of a product on any given day. Even when middlemen come from other places, they cannot offer lower prices to the farmers, as information on market prices are disseminated by the FPO.

The following activities have been undertaken by the FPO:

- Procurement of inputs and selling the same to the farmers at reasonable price to reduce the input costs;
- Dissemination of information on market and innovation;
- Promotion and adoption of new technologies;
- Collection and storage of produce;
- Primary processing of produce such as drying, cleaning, grading, etc.;
- Selling of produce at local market and exporting the excess to Bhutan; and
- Development of linkages with different service providers

Importantly, the FPO has taken initiatives to encourage and train the farmers towards greater use of cow dung and compost fertilizers in place of chemical fertilizers in the field. The FPO sells vermicompost pits to the local farmers at reasonable price which is lower than the existing market price. This has important implication for promotion of nutrition sensitive farming practices in the area.

Further, in order to provide easy access to irrigation, one solar irrigation system has been placed in association with NABARD. With dug well and 3 HP electrified pump, this system provides irrigation to 25 acre land through hose pipe mainly for cultivation of vegetables. The pumped water is first stored in plastic reservoir to restrict percolation and then it is supplied to the respective fields. The FPO has also been making efforts towards promoting trellis cultivation of vegetables during the off-season or monsoon for securing better returns to the farmers. It is reported that, with supports from the FPO, agricultural intensification has increased along with greater extent of crop diversification in the area.

The members of the FPO are also connected with other agencies in Jaigaon of Alipurduar district to supply vegetables in bulk quantity for the *Sufal Bangla Stall* – an initiative of the

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<sup>4</sup>However, the FPOs may emerge as another vehicle for elite capture if the identity as farmer is overruled by political, class or caste related identities. This is an area of concern that needs to be addressed in future research so that the FPO can emerge as an efficient institution to facilitate development of socially inclusive agricultural value-chains.

state government to facilitate marketing of agriculture produce. It is expected that the outlet will create further opportunity for the local farmers and the FOP. Efforts are also being made to set up the Farmers Field School (FFS).

This FFS is primarily envisioned as an institution for capacity building and skilling of the farmers in both technical and institutional aspects. The members of the FPOs are also planning to use the facility to train and orient the students from technical institutions and let them develop sensitivity and skills to evolve and articulate strategies and tools to be used by the small and marginal farmers for strengthening the value chains. The proponents of the school firmly believe that building and strengthening value chains must involve the farmers' as the key stakeholders.

#### 4. Some Aspects of the FPOs

Interactions with the functionaries of the FPO and the farmers during the visit suggest the following:

- The FPO plays multiple roles in respect of input sourcing, producing, packaging and marketing. This helps in eliminating the irrelevant middlemen or brokers from the value chain and augmenting the value of the contributions made by the farmer members. However, leadership of the FPO and its governance play a crucial role for its efficient functioning and success.
- The institutional arrangements have the potential to capture bigger markets in metropolitan cities, supermarket retail chains and export markets. This is so because operating in bigger markets, supermarket chains and exports market require certain standardization and certification which are not possible to comply with by an individual small farmer due to the scale and costs involved in the process. The institutional structure of FPO helps in cost sharing by the members, making the costs feasible for an individual farmer. Also, supply of quality products and with proper packaging and grading according to the needs of the specific markets round the year can also be ensured under the institutional structure of an FPO, particularly through aggregation of produce at feasible cost and dissemination of information to the farmers.
- The FPO also helps in building a fair idea about the demand in their target-markets from past experiences and thus maintaining demand driven supply responses by the farmers.
- In addition, the FPO play a crucial role in mitigating the production and market related risks by the farmers through crop specific land allocation, introduction of climate smart agricultural insurance, choosing proper cropping sequence and sustainable land and water management practices.

## 5. Potential Contribution of FPOs to SIAGI

From the above discussions it is clear that, as an institution, the FPO can play an important role in developing socially inclusive value chains at the study villages of SIAGI in West Bengal. Given that both Dhaloguri (DG) and Uttar Chakowakheti (UC) are characterized by the existence of mostly small and marginal farmers, the collectives formed with the initiatives of CDHI through ethical community engagement have so far been successful in enhancing scale of production through resource pooling and farmers' bargaining power through collective actions. However, upscaling the activities of this local level institutional arrangement and making the collectives sustainable in the long run require greater linkages with the input and output markets through development of appropriate and socially inclusive value chains. Integration of the collectives with the FPOs can play an important role in this regard by promoting organized joint activities at large scale and commercial attitude amongst the farmers.

Although there are some potential women leaders of the collectives in both the study villages, they have not evolved yet to the required level of efficiency, especially in managing the operations at large scale. Besides, existence of only one farmers' club in each of the study villages is not enough to form FPO. In order to overcome these limitations, the farmers can be linked with the FPO situated at Falakata, which is about 29km and 40km away from DG and UC respectively. The farmers' club of DG can be made a part of this FPO and initiatives can be taken to complete the official registration of the farmers' club in UC.

The proposed exposure visits of the farmers of the study villages to the FPO at Falakata and liaising with the leaders of the FPO for necessary advice, especially in respect of input sourcing, carrying out good farming practices, and packaging and marketing of produce would be of immense help. CDHI along with other extension agencies can play a crucial role in the process of linking the farmers with the FPO and facilitating hand-holding by the later. The possibility of supplying seasonal vegetables to the FPO for exporting to Bhutan can also be explored. This can create an opportunity for the farmers of DG and UC to market high-value crops such as broccoli, capsicum, etc. through the FPO as local markets do not have sufficient demand for such crops. Good farming practices like organic farming or chemical-free farming and trellis cultivation can also be initiated to export the produce to Bhutan through the FPO.

However, ensuring that the FPOs are indeed equitable, truly empowering and facilitating access to an increased bargaining power, especially for marginal farmers, would have to be anchored in the way they are set up in their Constitution. Hence, much deeper scrutiny of the constitution of the FPO, particularly in respect of their structure, functioning and liabilities/obligations is required to make more robust conclusions on the role of such institutional arrangements for promoting socially inclusive agricultural value chains.

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