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Review Article

Small Farmers and Agribusiness: Innovations and Challenges - A Note

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Abstract

In a country dominated by smallholder farmers, aggregation of them is a crucial strategy for enhancing the competitiveness and improving resilience of the agricultural sector. The aggregation enables them to pool their resources, expertise, and produce, collectively addressing challenges they face individually and gaining a stronger position in the market. While aggregation holds immense potential for the empowerment of small farmers and the transformation of agribusiness, it also faces several challenges and constraints. This review article is an attempt to address this for successful implementation and widespread adoption. The article also raises research questions for policy makers.

Keywords: Small Farmers; Agribusiness; Innovations; Challenges

Introduction

"No country has been able to sustain a rapid transition out of poverty without raising productivity in the agricultural sector" [1]. With empirical regularity, at both temporal and spatial level, it has been observed that agriculture not only played an important role in the economic development process but also explains the differences in labour productivity across regions [2,3]. The labour productivity-average sectoral value added per worker- is directly related to labour incomes, as it allows for the savings of resource inputs and contributes to poverty reduction, thus making it of great interest to policy makers. For example, in Rajasthan, India, the improved agricultural productivity due to the higher-yielding pearl millet varieties provided farmers the income stability to replace mud homes with concrete, invest in schools and hospitals, and educate their daughters [4]. Agriculture in India, however, presents a skewed sketch- almost half of the labour force is engaged in the sector (which itself is dominated by small landholders as roughly 85 per cent of total holding are less than 2 ha, with average landholding is only 0.5 hectares per household as per NSO [5], with a contribution of less than 20 per cent in the overall GDP in the Indian economy. No wonder, the World Development Report 2008 re-emphasised that 'a key issue for development is enhancing the participation of smallholders and ensuring the poverty reducing impacts of agricultural growth' (World Bank 2008: 12). Thus, fostering rapid growth in the sector remains a crucial policy concern in India.

Background

Agriculture, in recent time, has undergone a rapid transformation - from a subsistence activity of production agriculturalists (or crudely called farmers) involving crop and livestock production to agribusiness, including co-ordination of production activities to processing, distributing, and marketing of agricultural produce [6]. majority of the small and marginal farmers in India practice subsistence agriculture for their livelihoods, and face innumerable challenges and constraints in their transition towards commercial agriculture in comparison to large farmers, especially related to product and financial markets [7,8]. On the product markets, they face high transaction cost in marketing their produce due to combination of low marketable surplus and low market density [9], while on the financial markets, commercial banks and other financial institutions have little confidence or reluctant in providing loans to smallholders because of the higher transaction costs and associated lending risks of asymmetric information [10].

The palpable pathway to overcome these constraints is to increase smallholder participation in markets and ensure that they realize the benefits of market participation. One mechanism re-emerged in recent decades to address these issues are to aggregate the farm produce through institutional arrangements such as formal or informal producers' associations, viz., Farmers Producers Organisations (FPOs) [11,12]. The instrument of Farmer Producer

Company (FPC) [11], registered under Companies Act, is emerging as the most effective means of FPOs in linking these groups to an integrated value chain that brings chain actors including farmers, aggregators, traders, processors, and financial institutions together to gain control over the processes of production, marketing, processing, and distribution to reduce transaction costs and enhance the competitiveness of the entire value chain [14]. There is an increasing evidence from both practice and research that smallholders, by organizing themselves into producer collectives, can effectively participate in the market by reducing transaction costs for their market exchanges [15,16]. Acting collectively, smallholders may be in a better position to reduce transaction costs for their market exchanges, generate economies of scale, better harness the necessary market information, secure access to new technologies, and get better access to inputs and or tap into the high value markets.

Complexity

This led to the question of social dilemma, the human society faces since its existence of cooperation - why do disparate *Homines economici* or self-interested individuals come together and accord on rules and decisions to engage with other individual in cooperation to form a long-term collective self-interest? The twin thesis of Olson's *The Logic of Collective Action* (1965) and Hardin's *Tragedy of Commons* [17] provide powerful insights into the dynamics of cooperation, where individuals acting independently and instrumentally rational according to each's self-interest behave contrary to the best interests of the whole group making cooperation difficult. Juxtaposing the question of instrumental rationality in an evolutionary framework sharpens the puzzle because it supports that the people, considered as self-interested 'pleasure machine', are concerned only with its own satisfaction, any notion of moral motivation is adequately absent. In this regard, [18] took the explicit position of uncritically identifying and explaining economic behaviour by recognising the 'moral utility' in conjunction with 'pleasure utility'. He suggests that morality has an exclusive utilitarian character and different moral values can be traded off with each other along a utility function [19]. He further links this with communitarianism, the belief that a person's social identity and personality are largely molded by community relationships: communities need to be embedded socially and morally in more encompassing entities if violent conflict among them is to be avoided. In other words, all contractual negotiations in business and trade as 'communicative' acts in Habermasian [20]. sense, that is 'honest', 'participatory', 'true', 'sincere', and 'normative in dialogue'. This warrants individuals to have clear, unfettered access to their own reasoning, possessing clear preference rankings and defendable rationales for their goals and values. This may help to align self-interest with social interest. Wilhelm Ropke, a German intellectual in 1960s, visualised a system with wide ownership of property, decentralized decision making through market exchange and the preservation of local institutions [21].

Challenges

Social dilemmas are pervasive and bothersome feature of human society because acting in one's immediate self-interest is tempting to everyone involved, even though everybody benefits from acting in the longer-term collective interest. For example, relationships are healthier if exchanging partners do not ignore each another's preferences, organizations performs better if employees spontaneously exchange expertise, and earth's ecosystem fare better when everyone voluntarily reduce their carbon footprint. In respect of both voluntary and statutory forms of association, smallholder collective action, unsurprisingly, has been a troubled past and continue to face following key cardinal challenges of mobilizing resources, both financial and non-financial.

Resource mobilisation (Subdued Capital Base)

Majority of the FPOs sell their produce without value addition due to inadequate working capital, information asymmetry on demand supply gaps, and lack of post-harvest infrastructure facilities. The proximate challenge smallholders facing is mobilisation of resources as FPOs necessitate initial high capital investment in the initial years. Even though, the promoters succeed in group formation, often these groups' members are reluctant to contribute share capital and thus suffer from inadequate working capital. Small and marginal farmers carry a poor balance sheet, with lower disposable household incomes as well as poorly documented assets that are hard to use as collateral for seeking loans from financial institutions. Further, credit guarantee cover of free lending from the Small Farmers Agribusiness Consortium (SFAC), an Autonomous Society promoted by the Ministry of Agriculture, Cooperation and Farmers' Welfare, Government of India, is available only to the FPOs with a minimum membership of 500 and above. It's important to address the following twin question in this regard,

- How to address the issue of low capital base by smallholders?
- How to address the major challenges FPOs face in soaking up financial resources from various Centrally sponsored and State-funded schemes?

Professional management adequacy

The national policy highlights the role of coalition of partners, for example, business development service providers, knowledge partners and technical institutions in helping, nurturing and fostering FPOs. On operational side, on one hand, smaller FPOs struggle in hiring full-time staff, making it difficult to focus on brand building, marketing and consumer outreach, or navigating e-commerce platforms like e-National Agriculture Market, on other hand, the FPOs struggle to comply with statutory norms viz., audited financials and filing Goods and Services Tax (GST) returns due to lack of skilled manpower, expertise and other resources. In this regard, it's important to address the following questions,

- How to improve the ability of small-sized entity to engage with these service providers on fair terms?
- How to enhance the managerial and entrepreneurial skills, or in other words, the commercial and financial viability among the smallholders?

Leadership and Governance

Another important challenge FPOs confront is on the leadership and governance, where it continue to be a den of male domination. While women constitute around 40% of agricultural workers in the country, however, currently only 2.4% of FPCs are women-only. Though multiple studies on SHGs have shown that the performance of all-women SHGs is better compared to the performance of mixed-gender SHGs comprising both men and women, in terms of their financial management practices, savings activities and repayment rates, and overall sustainability of the groups. However, in case of FPOs formation, women farmers have lesser access to information, and typically face barriers to participation, mainly due to social mobility and norms, in FPO meetings, farmer gatherings, knowledge exchange visits or residential trainings. Again, as FPOs are member-driven collective enterprise, thus centrality of the farmer member is vital for its existence, further accentuated by 'liability of newness' in their formative years. Thus FPOs are required to strengthen their governance mechanism, engagement with producer members, and liaising with external agencies (like buyer, and input providers) for securing resources, etc. At the same time they also face infrequent patronage of members, for example, while seasonal crops might have infrequent cash flows as well as interaction with the group members, dairy, small ruminants, and vegetables might have regular cash flows which enable the members' continuous patronage and the group's solidarity. In this context, it's important to address the following questions,

- How should the internal governance be structured?
- What rules should these FPOs be based on?

The way forward

Moving forward, it is pivotal for FPOs to have a Diagnosis Study at the Individual Farmer Shareholder Level as it may help them identify each farmer shareholder's strengths, weaknesses, opportunities, and threats (SWOT) [22]. This may be instrumental in addressing challenges at FPO levels, particularly in aggregating data on farmers' shareholders and facilitating easy access to markets and finance. This information can then be used to develop targeted interventions, including support services to help farmers improve their productivity and profitability.

- **Diagnosis Study for Individual Shareholders:** This may involve examining financial aspects, crop-related activities, allied activities, and services.
- **Diagnosis Study for FPO:** This may encompass analysing partnerships and alliances, interventions, and conducting a SWOT analysis.

Currently, many FPOs lack this critical data, making it challenging for them to achieve sustainability.

Conclusion

In summary, aggregation of smallholder farmers has the potential to transform their marginal and small farms from subsistence farming to market-oriented commercial farms provided that the promotion and nurturing of FPOs is implemented. Government of India's efforts in the promotion of FPOs are laudable in coverage, the FPOs, however, suffers from lack of commercial viability, financial sustainability, including professional adequacy. Thus, it is important for practitioners and policy makers to address these challenges and constraints to strengthen FPOs and realize their potential.

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13. The Department of Agriculture and Cooperation, Ministry of Agriculture and Farmer Welfare, Government of India has identified FPO registered under the special provisions of the Companies Act, 1956 (As amended in 2002), now Companies Act, 2013, as the most appropriate institutional form of aggregation of farmers. The main objective of mobilizing farmers into member owned producer organizations, or FPCs, is to enhance production, productivity and profitability of agriculturists, especially small farmers in the country. (Dept. Of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India (2013).

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17. The biologist Garrett Hardin tells a parable of how self-interest causes herders to add cattle to the shared grazing lands without limits, insisting that "freedom in the commons brings ruin to all". Dasgupta (1982) in his book, *The Control of Resources*, counters Hardin's powerful narrative as misleading. Using a simple model he shows that herders do not have incentive to add to their herders without limit. There comes a point where even the private cost of adding an animal to the commons exceeds the private benefit. This need not be a point of ruin.

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19. The idea is well illustrated by Marx, 'Men make their own history, but they do not make it just as they please, they do not make it under the circumstances chosen by themselves.

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