

## Case Study

### **Dairy Farming for Livelihood Development- Women SHGs form FPO for aggregation and marketing**

#### **Abstract**

*Collectivization and marketing of produce by organising into farmers' organisations, helps in addressing many challenges of agriculture faced by small and marginal farmers, like access to investments, technology, inputs and markets. Farmer Producer Organisations is regarded as the most appropriate institutional form to mobilize farmers and build their capacity to collectively leverage their production and marketing strength.*

*A Producer Organisation (PO) is an entity formed by primary producers, namely, farmers, milk producers, fishermen, weavers, rural artisans, craftsmen etc. and can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members. In Producer Companies, institutions formed of primary producers can also become members. The main aim of a PO is to ensure better income for the producers through economies of scale in input procurement, availment of various services and marketing of produce. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to a situation where the producer receives only a small part of the value that the ultimate consumer pays. They will also have better bargaining power vis-à-vis the bulk buyers of produce and bulk suppliers of inputs.*

#### **1. Introduction**

1.1 Dairy farming was a traditional activity in Naherbari, Nalbari (Assam) for the villagers, in addition to agriculture. While the men tend to the fields cultivating paddy, maize or pulses during the different crop seasons, the women folk would engage themselves in rearing cattle. When Sumi Bordoloi came to the village after her marriage, the first gift she received from her in-laws was a female calf, and she was expected to supplement her husband's meagre income rearing it. She, like most of the households in the village, reared a cow of indigenous non-descript variety yielding less than 4 litres of milk per day. It would just suffice the domestic requirements, and she could barely manage to sell a litre or two to the nearby tea shop. The price she could get was low as there was not much demand for milk in the village, and there was no organised milk collection centres for collection and marketing of milk. But rearing costs were also low as the cattle were fed only green grass available in plenty in their agricultural land. There was no supplementary feeding as the purchased feeds were costly and were not easily available in the village.

#### **2. Empowerment through self help**

2.1 Self-help movement made inroads into Naherbari village due to the efforts of Janashakti Bikash Mancha, an NGO. The NGO which was active in Nalbari district in social development activities, expanded their horizon to livelihood development of

poor people through involving in the SHG Bank Linkage Programme. Sumi Bordoloi was one of the first persons to volunteer for organising an SHG under guidance of Janashakti Bikash Mancha. She along with 12 other women engaged in rearing of cows decided to form an SHG. They were to meet every week and mobilise Rs. 50 as compulsory savings. Over a period of time the membership grew to 20. The first bank loan they got was Rs. 1 lakh from Assam Vikas Gramin Bank, which was availed by four members for acquiring an additional cow each. Repayment of loan was regular, and the bank was happy to sanction further loan to the group.

**2.2** The success of the SHG triggered formation of more SHGs in the area. Women saw it as an opportunity for not only emancipation and empowerment, but an effort towards achieving their aspirations of giving good education to children and attaining higher standards of living. About 30 more SHGs were formed in the 4 neighbouring villages under guidance of Janashakti Bikash Mancha. Number of milch animals increased many fold, and many of the households could afford a marketable surplus.

**2.3** Lack of marketing networks and storage facilities were the major bottle neck which constrained realisation of remunerative prices for the women. Tea shops, hotels and few households remained as the customers, and as there was no facilities for storage, entire milk had to be sold-off at lower prices. The initial enthusiasm in undertaking dairy farming as a livelihood activity, was seriously constrained by lack of marketing possibilities.

### **3. Aggregation and marketing by farmers**

**3.1** Formation of a second tier institution for the SHGs promoted by them, was under serious consideration of Janashakti Bikash Mancha for some time in order to attain sustainability of the SHGs, acquiring bargaining power, social networking and for marketing of produce. The new and innovative model of Producer Organisations was found to be the ideal model to achieve all these, and the NGO embarked on formation of a producer co-operative to address issues of aggregation and marketing.



3.2 The Producer Organisation Promotion and Upliftment Corpus (PRODUCE) Fund was announced by Government of India in the Central Budget of year 2014-15 with a corpus of Rs. 200 crores to be placed with NABARD for promoting formation of 2000 FPOs in the country. Janashakti Bikash Mancha, with their background of successfully participating in the Farmers Club Programme and SHG- Bank Linkage Programme, was found to be suitable by NABARD for availing assistance under the Fund for formation of an FPO. Representative of the NGO participated in the Awareness Meet organised by DDM, Nalbari and obtained preliminary knowledge regarding the concept of Producer Organisations.

3.3 The NGO organised a meeting with all members of the various SHGs formed by them which were engaged in dairy farming. The idea of a farmer collective was mooted, and the women members were agreeable and enthusiastic about the concept. In order to gain clarity on the concept, the NGO organised an exposure visit of selected members to government owned dairy plants and few of the dairy farms in nearby Nagaon and Tezpur districts. They say 'seeing is believing..' and truly so about 200 women members from the SHGs came forward to join the proposed producer co-operative. These volunteers were given the task of securing membership of more dairy farmers, and in order to ensure genuineness, a nominal membership fee was insisted on by the promoter NGO.



3.4 The membership at the next focussed meeting was 305. NGO representative explained the benefits of producer collective to the dairy farmers and the activities that can be taken up for price maximisation to members and profitability for the producer organisation. Accordingly, the bye-laws of a Dairy Co-operative Society was drawn up. The Radha Krishna Dairy Co-operative Society was registered during early part of year 2015, and initial part of grant support from PRODUCE Fund for formation, establishment and capacity building was also received.

3.5 The initial efforts of the Society was to facilitate collection of milk from the producers and supply to hotels in nearby talukas and at Nalbari. In due course milk supply was facilitated to the Milk Union namely West Assam Milk Producers' Co-operative Union Ltd. (WAMUL). The Co-operative Society also undertook the function of supply of inputs like oil cake and cattle feed to the farmers. Inputs were purchased, in bulk, directly from the dealers, stored at the store room attached to the rented office of the Society and supplied to farmers on a no-profit no-loss basis. As payments from

WAMUL were being received on a weekly basis, payment to dairy farmer members were being made in a period of every 10 days.



#### 4. Producer Company

4.1 Formation of the Producer Company was not a very tough task for the promoters, Janashakti Bikash Mancha; as the prospective members were well aware of the benefits of working as a group up the value chain. The NGO organised a meeting of all members of the Co-operative to introduce the concept and to motivate them to become shareholders of the proposed Company. Objectives and business ideas of the Producer Company were discussed and decided. The Memorandum and Articles of Association of the company was finalised and approved at the Focussed Meeting of shareholders. The authorised capital was decided as Rs. 5,00,000 to be issued at share value of Rs. 1000. The Nalbari Dairy and Agro Producer Company Ltd was incorporated on 09 February 2016 with registration no. N-131/ 2015-16 with about 150 members of the Co-operative Society. The membership soon grew with addition of more members of the Society, and few other dairy farmers also joined to take the membership to 227 as at present.

4.2 The initial efforts of the Company was to increase the quantity of milk marketed to attain scale by bringing as many number of milk producers into their fold, which included not only the members of the Producer Company and the Co-operative, but also other dairy farmers. In order to increase the production potential of shareholder members, the Company facilitated bank loan of Rs. 40,000 each to interested farmers for purchase of cross bred milch cattle to supplement the animals already owned by them. Sumi Bordoloi, along with many other women farmers; availed the loan to purchase one milch cattle each. The goodwill created by Radha Krishna Dairy Co-operative with Assam Vikas Gramin Bank, enabled sanction of dairy loans and subsidy assistance from Dairy Entrepreneurship Development Scheme (DEDS) of Government of India. The input store of the Co-operative ensured easy availability of feed and other inputs to the farmers at reasonable prices. The milk production per farmer, which was earlier at just 3 to 5 litres, almost increased 3 times to 12 to 15 litres.



4.3 The first milk collection centre was started at the premises of the Producer Company itself with facility for testing. Two more collection centres were established to take care of farmers located at the two neighbouring villages. A Bulk Milk Chilling (BMC) of 500 litres capacity was added to store additional quantities collected to be stored overnight. Two e-autorikshaws were purchased and suitably modified for transportation of milk from collection centres to a centralised point, and further supply to Purabi Dairy established by West Assam Milk Producers' Co-operative Union Ltd. (WAMUL). The Company collects and markets 450 to 500 litres of milk valued at about Rs. 23,000 per day. All common infrastructure of the Producer Company were met through member's capital and term loan from Assam Vikas Gramin Bank.

4.4 The income of dairy farmers from selling of milk to teashops, restaurants and households used to be as low as Rs. 35 per litre, mainly due to lack of proper marketing network. Demand used to be erratic, and there were days together when milk could not be sold. Lack of storage facilities in the villages further accentuated the problem. Organised bulk supply to the milk union by the Company ensured on an average of Rs. 42 per litre for the farmer and Rs. 3 per litre as margin for the FPO. Payment for the farmers is made once in 10 days after deducting loan repayment instalment. The Company is only facilitating marketing of milk to the Milk Union, and the service charges take care of the expenses involved in milk testing, transportation and storage, leaving a small margin.

## 5. Impact

5.1 The major benefit to the member farmers is by way of higher price realisation for the milk. As there are no middle men or traders involved, the entire value is realised by the Company on behalf of the farmers. The marketable quantity of milk with the farmers has increased almost three times due to acquisition of high yielding milch cattle. The Company is now in a position to purchase inputs at dealers' price due to the large scale required, and the benefit of the same is being passed on entirely to the dairy farmers. As a result of these measures, the margin available for the farmers per litre of milk sold has considerably improved. The Company is offering all these services to other members of the co-operative and non-members also as a social obligation. However, additional Rs. 1 per litre is being levied from them towards service charges.

## **6. Points/ issues for discussion**

1. Short comings of Indian agriculture system
2. Problems faced by small farmers in marketing their produce
3. Value chain and role of FPO in intervening the value chain
4. Formation of an FPO by a Promoting Institution
5. Graduation of livelihood development schemes into aggregation, processing and marketing through FPOs
6. Value chain financing by Banks

## **7. Trainers' Note**

### **1. Objectives**

Farmer Producer Organisations help the farmers in graduating to the level of aggregation and marketing so as to realise highest price for their produce. Since introduction of the concept in the year 2014-15, NABARD has been instrumental in promoting more than 2000 FPOs in the country. Many of such FPOs have been formed by nurturing and handholding the existing livelihood programmes and institutions like Farmers Clubs, SHGs, JLGs already promoted by NABARD.

The case has been documented to demonstrate the path and methodology through which an existing institution (SHG) of women farmers can enter into value addition and marketing so as to enhance the income of members and control the value chain. Success achieved in a relatively less developed area by an economically deprived group of farmers belonging to a less advantaged gender, could give adequate confidence to farmers groups and bankers on the efficacy of the model.

The case would facilitate easy understanding of the process through which an informal group of farmers can be formed into a Producer Company and the factors which can ensure the success of the FPO concept.

### **2. Target Group**

The case can be administered to trainee participants from NGOs, Community Based Organisations, FPOs and financing banks.

### **3. Session Plan and Time Required**

#### **a. Session Plan**

The faculty member, after initial briefing, may give 10 minutes time for the participants to read and understand the case and clarify initial doubts raised by participants. Then groups may be formed. It is better to have not more 8 participants per group. The groups can be advised to discuss for about 30 minutes by keeping the following points in mind.

- How the informal groups of farmers are suitably motivated to form Farmer Producer Companies
- Methodology to be adopted by a Producer Organisation Promoting Institution to promote Producer Companies
- Can Producer Company be a viable business model
- For which agricultural produces can FPOs be promoted

b. Time Required:

The time required for a batch of 25 to 30 participants, will be about 120 minutes. The tentative breakup is given below

Activity	Duration (in minutes)
Formation of Groups (3 to 4) after explaining the case by the faculty	15
Discussion in Groups	30
Preparation of Report and PPT if any	30
Presentation by individual groups followed by discussion	35
Summing up by faculty	10
Total	120

4. Trainers' inputs for discussion

- It is easier for a Promoting Institution to form a Producer Company out of an existing group/s like Farmers Clubs, SHGs, JLGs etc. which has been promoted by them
- FPCs should be formed out of natural cluster of farmers of a particular primary produce.
- Exposure visit of prospective members facilitate formation of FPCs and greater cohesion among members
- FPCs may rather facilitate aggregation and marketing of members' produce, than try to trade in the produce, so as to limit risks especially in the initial stages
- FPCs may syndicate individual loan for members from bank, rather than involve in on-lending.
- Loan for acquisition of common assets may be availed from banks by the Company or be met out of share capital of members.
- Authorised capital of an FPC may be decided based on the proposed business plan for about 5 years.