Partnering for Rural Prosperity, *with business rigour!*
A joint initiative of Farmer Trusts, Social Investors, Private Sector, Motivators and Knowledge Institutions

Concept Paper

Possibilities for replication to advance India's rural development

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Introduction

Since 2006, a new approach to local (economic) development has been pilot tested in India, by setting-up farmer-lead companies. New in this approach is that farmer organizations become equal business partners with private sector parties and a social investor. This social investor (SHGW) is willing to invest in setting-up of agro-businesses, which can create sufficient value addition to the farmer's products in order to become healthy, self-sustaining farmer owned companies. The farmers, through their organization, become shareholder in these companies, alongside private sector parties, that secure the interest of the social investor and the business rigour. The ultimate aim of this approach is that the economic benefits of the company are plough back to the participating farmers, mostly in the form of premiums over their supply (based on quantity and quality), while the investments made by the social investor are fully repaid on commercial terms, for reinvestments in new social ventures. Upon repayment of investment farmer organizations eventually get shareholding in the companies.

To what extend is this a new approach? Similar to the self-help groups and cooperatives in India, the aim is to set-up healthy business in handling, processing and trading farmer's commodities on a commercial basis. The main difference of the new approach is that the farmers, along with social-conscious corporate partners, become equal business partners of the investor. No paternalistic government or political influence but a competitive market driven partnership building. Instead, the company is run by a professional management and professional board to secure business rigour and hence the long term interest of the company. Similar to the cooperative model, the farmers have full rights to the economic gains of the company, but in this new approach they have no direct control over the daily management and governance, which is in the hand of professionals that reports to the Board of Directors. In this Board, the farmers are represented, but a majority is in the hands of professionals and representatives of the private sector parties, alongside the social investor. The farmers will gain full economic ownership, once the investment is repaid fully, but the management and BoD remains with professionals.

No paternalistic form of aid, but a sound economic partnership between an investor and a farmer-owned trust, supported by experience social business entrepreneurs.

This new approach is pilot tested with apple growing farmers in Uttrakhand since 2006. A more detailed description of the approach is given in the paper "Fostering farmer organization with business rigour", by the same authors. Based on this experience, it is the intention of this paper to explore how the approach could be replicated in India.

Although India is positioning itself as a worldwide leading economic power, it is still home to one-third of world's poorest people, concentrated in its rural areas. In contrast to the strong urban-based economic development, rural development is lacking behind as farmers are caught in traditional trade relations with middlemen for finance, trading and price setting. The growth potential of rural India however, is enormous with an increasing concern about food security and increasing food prices. The new approach could well capitalize on the immense potential of rural India and break through the inefficiencies of the current rural production-trade relations.

It is the intention of this paper is to engage in a broader debate in India with different actors, ranging from banks, knowledge institutions, government, finance institution, private sector businesses, NGOs, committed individuals and others: how can we built on the lessons learned from the new approach, implemented on a relatively small scale? Can it be used as a basis for new, innovative collective initiatives to advance India's rural development? Let's first take stock of some of the lessons learned in implementing the new approach so far.

Lessons learned:
The Intention

The project with apple growing farmers was started with the intention to set into motion a self-perpetuating model to assist small scale apple growing farmers in Uttrakhand and Himachal Pradesh states of India. To do so, the social investor SHGW (a Netherlands-based private foundation), Fresh Food Technology (FFT, a Dutch private company) and SJS (an Indian NGO based in Rishikesh) started with the farmers, to have them organized in trusts, which would become their legal business partner in the new business. Subsequently, joint venture companies were formed for value addition at primary level (sorting, grading, packing and pre-cooling at orchard level) and later also at secondary level (for long-term storage of premium apples, for off-season sales, as well as for juice processing of inferior quality apples). These joint venture companies are collectively owned by the investor, the private sector partner and the farmer trusts. Special provisions are made, to ensure that:

- The investments and provisions for working capital are to be fully repaid to the investor, from the profit that these joint venture companies make from business operations.
- The farmer trusts have full economic rights to the additional income that the company is able to generate in terms of gradual increase in shareholdings and premium payments proportionate to supply of produce.
- The joint venture company is sufficiently capitalized for its long-term survival and expansion.

Lessons learned:
Actors & their Roles

Essential for the new approach as described above, is that the actors involved are mutually supportive and complementary in terms of territorial expertise, experience, commitments, networks and access to external resources. These actors, in this paper collectively referred to as the "Social business consortium", to create multiple values primarily for farmers and collectively for each other's should obviously have a shared vision on social/economic development as prime drive to participate in this approach. At the same time, these actors come from "different perspectives" and backgrounds. They can be categorized in four clusters:

- *Farmer representation:* particularly the farmer groups (as primary producers) and supporting NGOs with thorough understanding of market-driven businesses & entrepreneurship.
- *Inclusive development*: particularly knowledge/training institutions, government and (international) development agencies, supporting the farmer groups and the joint venture company with their knowledge, support programs and network.

- *Business rigour*: experienced & social conscious entrepreneurs, that are to ensure the business rigour & entrepreneurship of the joint venture company is engrained for long-term survival of the value chain businesses.
- *Financial accountability*: Social investors, banks and financial institutions; making available financial resources, knowledge and experience, ensuring the economically viability and accountability of the joint venture business.

So far, in apple project the leading partners were the Farmer Trusts, the supporting NGO SJS, the private company FFT and the Social Investor SHGW, which jointly engaged in setting up the joint venture companies in a step-by-step approach; from analysis, feasibility, securing financial resources, (legal) organization, design, construction to implementation and operational management.

Lessons learned:
Step 1: Analysis & Feasibility

As a first step, it should be well understood what potential the farmers have to move up the value chain, based on the commodities or resources they have. What form of processing could add such value and how viable are they? How much value could be added based on prevailing market? What technologies are available and which investments are required? Are all the various levels of processing (primary, secondary etc.), likely to be economically viable by themselves?
This kind of quick scan should give good insight into the potential of the various value-addition options that could be explored. For these options, a more thorough assessment of the practical and economic feasibility is to be made. Given the amount of uncertainties and potential threats that surround these initiatives (often in remote, backward areas), this is not an easy exercise and is to be done with practical knowledge about the local circumstances, as well as with a good understanding of the value addition chain of the commodity involved. What technology options are available and how can the foreseen famer-led company distinguish itself in the market with this technology?
In this context, it is important that ***all*** assumptions and choices, that form the basis for the feasibility, are well substantiated (preferably based on verifiable, past data) with source references. In this manner, the feasibility can also be a good management tool during implementation, to update and actualize the assumptions to the prevailing (expected) circumstances.
In addition, the assumptions in the feasibility should at least be assessed for a worst, best and a realistic, conservative scenario. Based on this, an overall risk analysis can be made to gain insight in the financial consequences of these scenarios. Apart from the financial risks, a thorough assessment of other factors that may jeopardize the foreseen business in due course of time (e.g. openness of the market, subsidies, price inflation, harvest losses etc.), should complete the risk assessment. By categorizing these factors according to the influence the operational management of the farmer-led company may have on them, the risk assessment can be used during operation as a management tool as well.

Lessons learned:

Step 2: Securing Financial Resources

Based on the above feasibility, an investment plan is to be prepared for the social investor(s) and banks, to secure sufficient funding. Besides the social investor and the banks, also other funding options are to be explored, e.g. subsidies related to promotion of rural development or relevant clusters, export/import subsidies, grant support from development organizations, soft-loans from development banks etc.
Important to include in the investment plan, is the working capital requirements during the operational phase. Particularly for new companies, without a financial track-record, it may prove difficult to secure regular loans from local banks.

Lessons learned:

Step 3: (Legal) Organisation

Once it is clear which business is feasible and funds can be secured, the legal organization of the initiative is to be arranged. The legal organization should well integrate the key principles on which the initiative operates, such as:

- Anchoring the farmer interests as prime objective
- Business rigour, through professional management and oversight; majority of Board of Directors (BoD) is to reflect the professional disciplines, alongside (minority) farmer representatives. BoD is to appoint the company's managers and key staff positions who reports to the BoD.
- Alignment of the Articles of Association of the farmer trusts/associations, with the Articles of Association of the joint venture companies.
- Long-term, gradual ownership transfer arrangement anchored in Share Holders Agreement
- The interests of the (social) investors are to be guaranteed, e.g. through representation in Board of Directors.
- Make provisions in case one or more groups of farmers are to discontinue (e.g. when not supplying enough produce or malfunction): the continuity of the company should not be jeopardized.
- Policies and procedures for allocation of Profit of the company for the purpose:
  - Repayment of the investment to the social investor
  - Capitalization of the company
  - Premiums to supplying farmers
- Sharing of the economic benefits with the farmers (e.g. through premium payments) are to stimulate sufficient supply of good quality.

Lessons learned:

Step 4: Design, construction, team building & start-up

In the design & construction phase, to create the necessary infrastructure, the best available technologies and suppliers are to be sourced, preferably under supervision of one single responsible party with a proven & verified track record. Clear contractual agreements and payment conditions should secure efficient constructions, to be realized within the allocated budget lines.

At the same time, a professional team of qualified staff is to be recruited (from management, finance, quality to operational staff), that is able to run the company upon completion of the construction. This team is not only expected to operate the business in a profitable manner, but also to understand and cope with the complexity of the social business, in particular to involve and report to all stakeholders concerned: from farmers to the (social) investors. Particular points of attention:

- the role of the farmers should be clear and the management should make optimum use of (the leaders within) these groups
- Look for solutions that work for all partners, not just the company

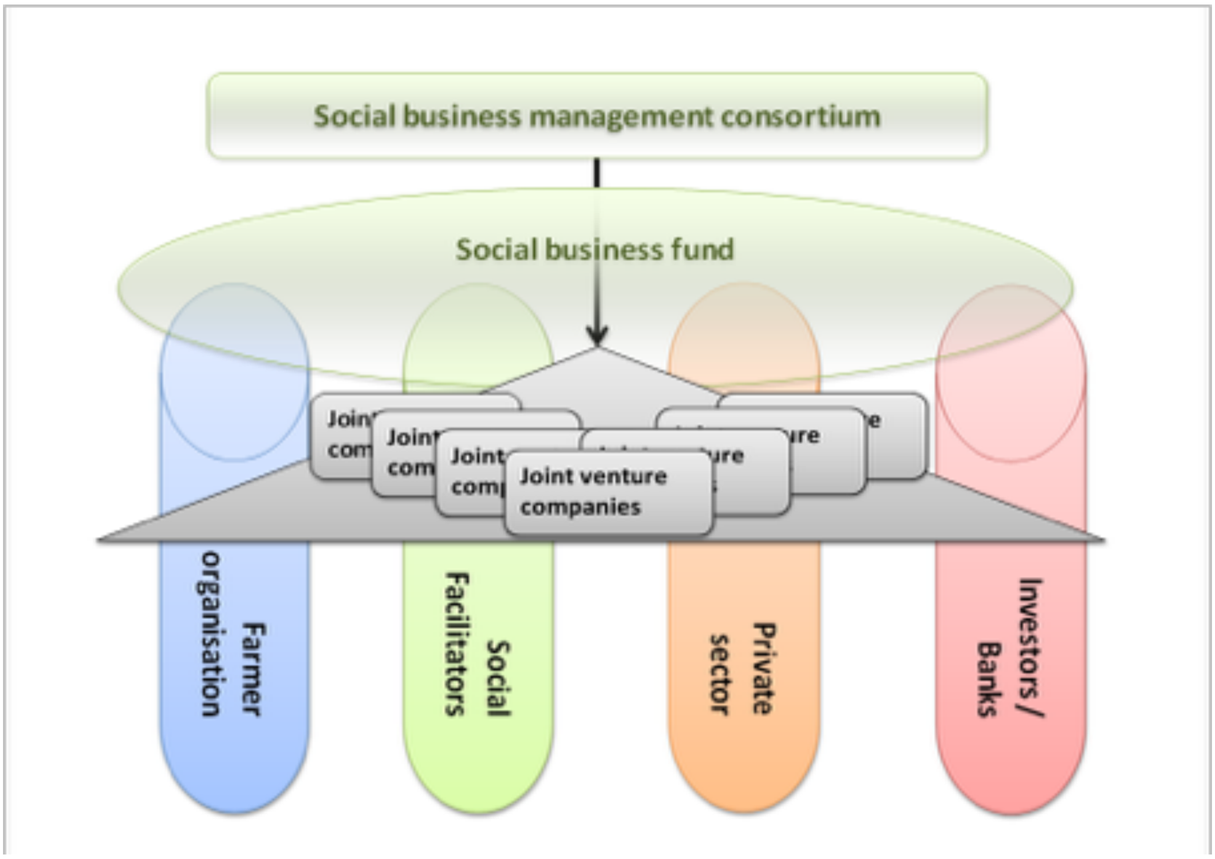
- The operational manager with his team is responsible to the board of directors at all times
- The board is to have a pro-active supportive role to the company, particularly in the start-up phase: their experience, expertise and network should be utilized optimally.
- Robust procedures and protocols are to be in place for all critical work flows of the company. Particularly on the financial side, the sufficient safeguards should be in place for maximum transparency, control and reporting to all stakeholders, including the farmers.

Lessons learned:
Results & Spinn-off

Some of the main results and spin-offs of the apple project in the Himalaya are:
- Six profitable collection points at orchard level (primary level)
- 700 MT of premium apples stored in the Long-Term Storage (secondary level) and sold off-season
- 15.000 liters of juice successfully produced as commercial test
- Many of the main apple traders have visited the collection points and/or long term storage and have become regular customer
- Farmers have seen significant increase of their income, in comparison to their traditional sales channels
- High commitment from the farmers and their representatives
- All collection points are moving into collective buying/grading/sorting/packing/ processing of other commodities as well (apart from apples).
- Much more attention to the region as a main apple growing area
- Farmers do not need to spend time on sales of their product, but can concentrate on proper picking/harvest of the apples and on their orchard management.
- Women groups have been formed, specifically for the juice manufacturing

Ideas how to move forward?

Based on the positive experience under the apple project so far, could this new approach be taken forward with more actors? We recognize that it is not desirable to set up new organizations or entities to take this initiative to a new phase. Yet, the authors believe that a group of like-minded actors or a “Social Business Consortium” could well collectively take the approach to a new and higher level and create access to a revolving “Social Business Fund”.
Essential for this, is a good mix of partners that can collectively support the establishment of new businesses, based on the above approach. As elaborated earlier, these actors can be clustered in the four groups. These four groups could form four pillars for a “Social Business Consortium” and the new joint venture companies to be established.



The challenges and areas of concern for all the partners are seen that how they can provide enough ***opportunities*** *to the farmers and rural youth by organizing them for collectively build up successful ventures of their own companies through honest, hard work and wise investments, which would allow them to flourish and become* ***economically independent****.*