

India Global Leaders Programme 2019

# ENHANCING VALUE CHAINS TOWARDS SUSTAINABLE AND ECONOMICALLY VIABLE AGRICULTURE

Executive Summary





## INDIA'S AGRICULTURAL DEVELOPMENT

70% of India's rural households rely directly on farming and agriculture for their livelihood. Despite this, agriculture's contribution to GDP is decreasing, from 42% in 1960 to 15% today. But unlike other developing economies who go through this transition, India's agriculture still employs largely the same number of people. Difficulties with Indian agriculture are not just faced by smallholder farmers: only a third of India's agricultural companies have turned a profit in the last five years.

## THE PROBLEMS OF SMALLHOLDER FARMERS

Farmers in the Satara region, and across India as a whole, face numerous challenges. These include:

- **Small holdings:** The average size of Indian farms is 1.16 hectares, less than half the size it was forty years ago.
- **Infrastructure:** The region has no storage, packing or processing facilities. This means farmers must sell their produce quickly, without added value and at risk of wastage.
- **Fragmented Value Chain:** Much of the margin between farm-gate and end-consumer is captured by the many traders and distributors in the current value chain.
- **Poor Information:** India's farmers have poor access to market information, relying entirely on past performance and word-of-mouth when making planting decisions.
- **Environment:** Farmer incomes strongly depend on water availability. Over-exploitation has dramatically reduced water tables throughout the Mann region, leaving poorer farmers with unproductive land.

## FARMER PRODUCER COMPANIES

One mechanism to improve the livelihood of farmers is to organise them into a Farmer Producer Company, which would improve access to inputs, markets, capital and technology.

Organising farmers helps farmers by increasing their market power. As a collective, farmers can purchase inputs at reduced prices, and demand higher prices for their produce. They can also pool resources to achieve economies of scale, purchase equipment, and share expertise.

A Farmer Producer Company provides a structure for farmer organisation by providing tangible benefits to organisation: increased produce prices, access to lower-cost inputs and equipment and most importantly dividends from the Company. As shareholding members, farmers have a direct stake in the success of the FPC.

INDIA

70% of India's rural households rely on agriculture



INDIA

Average farm sizes are 1.16 hectares



MARKET ACCESS

Closer access to markets, in a pilot programme by Mann Deshi, improved farmer incomes by 5-10%.





The Mann Deshi Kisan Producer Company will target the multitude of challenges faced by smallholder farmers throughout the Mann Taluka region.

The first objective of the Company is to develop the local economy, ensuring that local production and consumption needs are met. Once those are fulfilled, the second objective of the Company will be to transport the remaining surplus to external markets in Maharashtra and beyond.

By purchasing goods at a previously-agreed upon price, the Company can guarantee a measure of income stability for its members. Future investments in processing and packaging will allow farmers to increase the value of their surplus produce.

Farmers cannot succeed in the long-term if the trend of local environmental degradation continues. Thus, the Company must include environmental restoration as part of its core initiatives.

## THREE PILLARS: DEMAND FORECASTING, PRODUCTION PLANNING, ECOLOGICAL RESTORATION

### Demand Forecasting

Farmers currently make planting decisions based on past performance or word-of-mouth, not on good market signals.

Thus, the Company will develop a **technology-based** and **data-backed** model of the local agricultural sector. This model would give a full indication of where market prices are currently, and how they might change in the future.

This data will be delivered to farmers in order to make more informed planting decisions. The Company will also use this data in its operations: specifically, it will use the demand forecasts to set the minimum guaranteed price it will offer to member farmers. This price guarantee will act as an additional signal to farmers to determine what and how much produce they should plant.

### Production Planning

Even when farmers can make well-informed decisions about what, when and how much to plant, they still require access to the tools and frameworks that can help them farm efficiently, effectively and sustainably.

These tools and frameworks will assist farmers in creating, among others:

- A financial plan and household budget
- A schedule for purchasing and using inputs, such as seeds, fertilisers, and pesticides.
- A calendar with important dates for input application, harvesting, and so on.
- A mechanism to track yield and productivity.

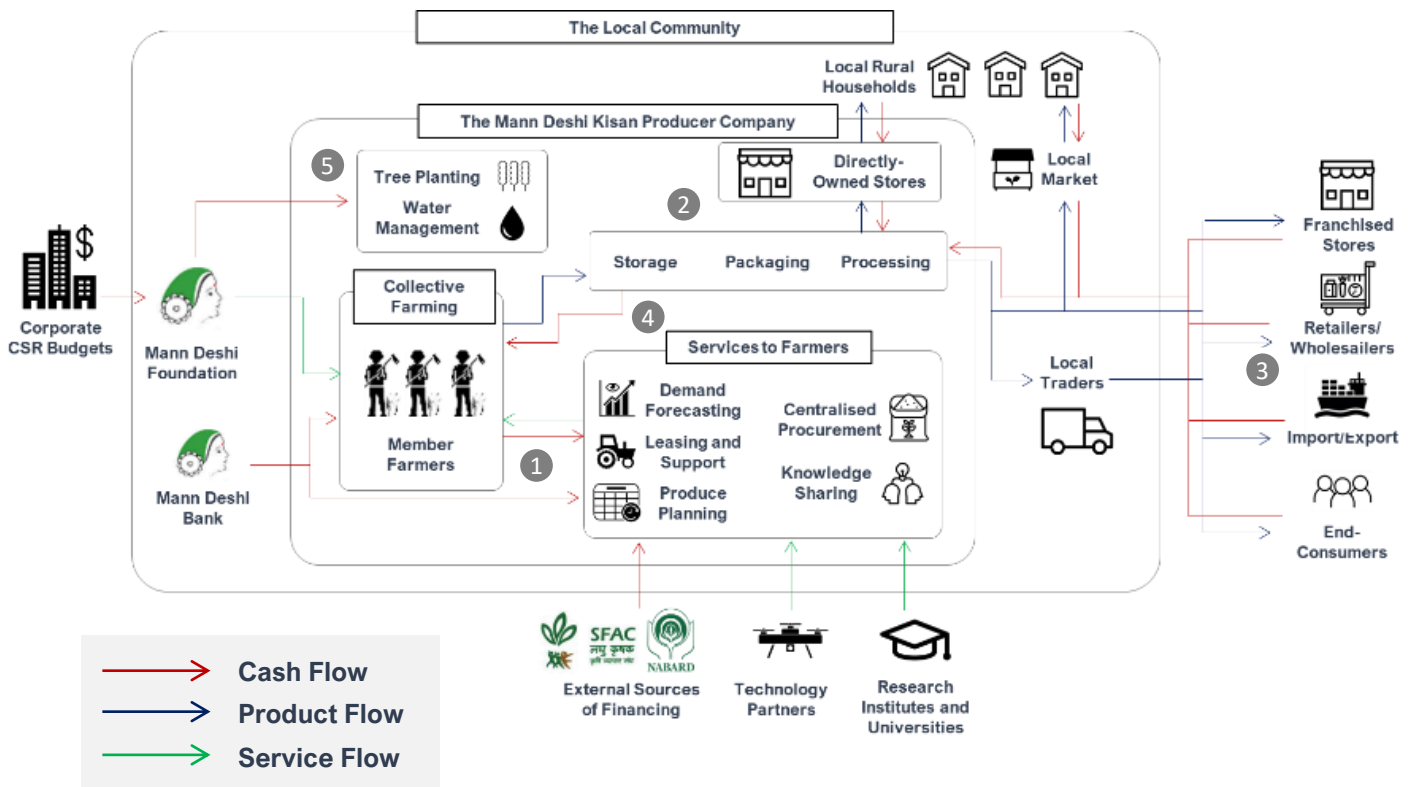
The planning tools will be motivated by the understanding that **farmers know what they are doing, they just need assistance to implement what they already know.**

### Ecological Restoration

The Company will engage in the following restoration initiatives to ensure the long-term viability of the community. These will include:

1. A multi-year **tree-planting scheme** where farmers must, as a core obligation of their membership, plant ten trees in a month either on their land or in locations designated by the Company. After a measure of success is achieved, the Company will reach out to financial institutions, using the tree-planting scheme as a basis for favourable lending terms for both the community and Company.
2. A communal **water-management scheme** with aggressive targets for water table restoration. Member farmers must adopt strict guidelines on water usage if they are to benefit from the Company's services.

# BUSINESS MODEL



**1** The Company will attract member farmers by providing a wide array of farming services, including equipment leasing, access to storage, and a technological platform with demand forecasting and produce planning functions.

All these services will be used to build membership in the Company.

**3** Surplus left over from local sales will be sold to external markets. The Company will both transport them directly and partner with existing traders, leveraging their connections.

The Company will package and process some of the raw produce and mark it with the Mann Deshi Kisan Company logo and brand.

**4** Revenues from sales will be re-invested in new member outreach, development of new strategic partnerships, and further local processing and storage capacity.

The remaining profits will be disbursed as dividends to its member farmers. This ensures that farmers remain owners of the Company, and have a financial stake in its success.

**2** The Company will purchase produce from member farmers at no less than a minimum guaranteed price (determined by the demand forecasting model). Member farmers must sell their produce exclusively to the Company.

The Company will invest in local storage, packaging and processing. Produce will first be sold in both local weekly markets and stores directly-owned by the Company. These stores will serve the local community and ensure that local needs are met.

**6** The Company will start with sales to existing distributors, retailers and wholesalers. Future plans will include sales of both raw and branded produce to import/export companies; the establishment of franchise stores in nearby urban markets; and the development of an e-commerce platform to sell directly to consumers.

**5** As a requirement of membership, member farmers will need to engage in two ecological restoration initiatives: a tree-planting scheme and a water-management scheme.

## TREE-PLANTING SCHEME

As a condition of their membership, member farmer households must plant ten trees per month (i.e. 120 trees per year), either on their own land or on land designated by the company. Farmers will be responsible for maintenance and upkeep, and but not for paying for inputs and water. The Mann Deshi Foundation, in partnership with the Company, will seek funding from the CSR budgets of large Indian companies, leveraging the scheme's purpose of ecological restoration.

Trees will be indigenous to the area, and are meant to ensure soil and water retention during dry seasons and drought.

The tree-planting scheme can also improve the Company and community's financial standing. The scheme can act as a signal to prominent lenders, providing assurances that that the Company and community can work together to improve economic vitality and repay any loans.



## CONCLUSIONS

**The Mann Deshi Kisan Producer Company** will organise local farming households in order to tackle these challenges and support rural livelihoods. Organisation and cooperation will allow farmers to:

- Receive improved prices for their produce through better access, greater market leverage, and local processing
- Improve their production and efficiency through provided services
- Purchase higher-quality inputs at lower prices due to bulk purchasing.

This proposal expects the number of member farmers to grow from 500 at establishment to around 5,000 by Year 5. Pre-tax revenue and profit is estimated to reach INR 32,000,000,000 and INR 3,000,000,000 respectively by Year 5.

The **Global Institute For Tomorrow (GIFT)** is an independent pan-Asian think tank providing content-rich and intellectually-challenging executive education from an Asian worldview.

The **Global Leaders Programme (GLP)** is GIFT's flagship leadership experiential programme, designed for mid- and senior-level managers from leading global and regional companies to think critically about the drivers of change in the 21<sup>st</sup> Century and develop new business models that address the defining challenges of our time.

The **2019 India Global Leaders Programme** brought together twenty-six participants from thirteen organisations and twelve countries, each bringing experiences from different cultures, backgrounds and expertise. The project team worked to produce business recommendations for the Mann Deshi Foundation to create a commercially-viable FPC that could develop opportunities for the region's farmers. Highlights were presented to a crowd of stakeholders and government officials in Mumbai, Maharashtra on March 1<sup>st</sup>, 2019.

GIFT would like to extend its warmest appreciation to the Mann Deshi Foundation and all other organisations and individuals who made this effort possible.





# Tomorrow Matters.

*Published May 2019*

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