

Case Study

Sustainable Agricultural Supply Chain

Chetna Organics Farmers Association (COFA) & Chetna Organics Agriculture Producing Company Ltd.

February 2011

Governance Knowledge Centre

Promoted by Department of Administrative Reforms
and Public Grievances
Ministry of Personnel, Public Grievances and Pensions,
Government of India
<http://indiagovernance.gov.in/>

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Executive Summary

The absence of robust growth in Indian agriculture is at the forefront of public discourse today. There are various reasons for poor performance of agricultural sector including the high cost of chemical inputs, lack of efficient market and limited access to credit. The recent farmer suicides indicate that agriculture continues to be a challenging livelihood option to many Indians. With 70 percent of rural population being engaged in agricultural activities, there is an urgent need to implement new ideas to improve the status of farmers.

This best practice documentation intends to highlight one such initiative known as Chetna Organic and Fair Trade Cotton Intervention Programme. The programme assists farmers in growing organic cotton and systemising the agricultural supply chain to create a niche market. The programme currently works with cotton producing farmers in Telangana (Andhra Pradesh), Vidharba (Maharashtra) and Western Odisha.

At the operational level, the programme has organised its members as Self-Help Group, Cooperatives, Chetna Organics Farmers Association (COFA) and Chetna Organics Agriculture Producing Company Ltd. Creation of SHGs and cooperatives is rooted in the belief that it facilitates efficient micro level monitoring and increases transparency.

Implementing the programme was a challenge in Western Odisha as the meagre returns on cotton made the farmers quit production in 2006, particularly in remote areas like Lanjigarh block. It took two years to inspire farmers to get involved in this programme. The present success of the programme is because of the assured financial benefits that come from improving the supply chain.

Background

The Chetna programme aims to promote a sustainable, ecological and profitable farming that helps in resolving the agrarian crisis among farmers with small and marginal land holdings in India. The programme uses an innovative approach that combines the strengths of collective action and niche market to develop a supply chain completely owned by the farmers.

The project was initiated in 2004 as a pilot in cotton growing areas in the state of Andhra Pradesh and Maharashtra. The initiative was facilitated by Solidaridad, a Dutch NGO, as “Organic Cotton Production Project” with a vision to stimulate small and marginal farmers to produce organic and fair-trade cotton. The pilot was designed with the intention of transferring the ownership to farmers over a period of time by promoting farmer Self Help Groups

federated into cooperatives at district level. All the eight district level cooperatives promoted Chetna Organic Farmers Association (COFA) in 2007 to facilitate technical and social extension to farmers and involve in advocacy on the issues related to rain fed agriculture.

Same year, Chetna also expanded its operation in Kalahandi and Bolangir districts of Odisha state. These are not traditional cotton growing areas and the farmers started cotton cultivation only in the 1980s. The initial high yields supplemented with chemical inputs were encouraging but the absence of profitable returns and exploitation by farmers in the local markets eventually made cotton cultivation less profitable and forced at least 90 percent of the cotton growing farmers to switch to food crops like Ragi, Maize and Red gram. On an average, input worth Rs. 2000 would only get a farmer Rs. 1500 in return. Chetna's team decided to reintroduce cotton to the region because the soil and climatic conditions are conducive to growth of organic cotton.

The challenge in implementing the project was to motivate the farmers to cultivate cotton again. First two years Chetna worked with limited number of farmers to demonstrate the benefits of organic farming. Only when the long-term benefits of organic farming became visible through increasing yield, and fair price for the produce through Chetna supply chain, other farmers were motivated to adopt organic farming. Membership in cooperatives of Chetna Organics Farmers' Association in Odisha began with 11 members and has now grown to include 2995 farming households in Odisha organised in 188 self-help groups and 3 cooperatives.

In addition to promoting organic farming, Chetna has successfully developed a complete farmer owned supply chain. In this respect, Chetna Organics Agricultural Producing Company Limited was formed in 2009 to represent farmers in the market. COAPCL, as a business entity, engages in creating market for the agricultural produce. Through COFA and COAPCL, farmers have control over the entire supply chain from seeds procurement to selling product directly to buyers.

Objective

The ultimate objective of the Chetna Organics & Fair Trade Cotton Supply Chain Program is to improve the livelihood options of Indian small farm holding households through making their farming systems more sustainable and more profitable. These goals are planned to be achieved by undertaking the following:

- A 30-50% increase in the returns to farmers by: :
 - stabilizing the yields,
 - increase in base price of the agriculture produces,

- reducing cost of cultivation and reducing the costs of institutional credit
- Establishing and strengthening a self-sustaining farmer owned and managed association/company, responsible for trading of cotton;
- Up-scaling the production of organic/NPM and fair trade cotton and rotational crops by small holder farmers such that volumes become a significant part of mainstream trade. A stable growth rate of 20% per year;
- 100% fields of Chetna farmers under the project have improved conditions for labor;
- Policy advocacy relating to institutionalization of responsible credit, insurance and market policies

Working Design

At present, the initiative functions at two levels:

- Chetna Organics Farmers Association (COFA) – as a not-for-profit it engages in dissemination of technical and social extension activities, co-operative and SHG building support, facilitating water sheds and NREGS activities for the members, promotion of CSR¹ investment in local level communities for infrastructure building owned by farmer communities and policy work on behalf of organic agriculture in India.
- Chetna Organic Agriculture Producer Company Ltd (COAPCL) - a farmer owned commodity trading company that is focused on developing market linkages for farmer's produce in national and international markets. COAPCL is also involved in training and capacity building of farmer communities on issues such as quality management, local level market development, maintenance of organic standards and certification.

¹ Corporate Social Responsibility led investment programs by European and American brands that want to invest in cotton farmer communities that contribute to their own supply chains.

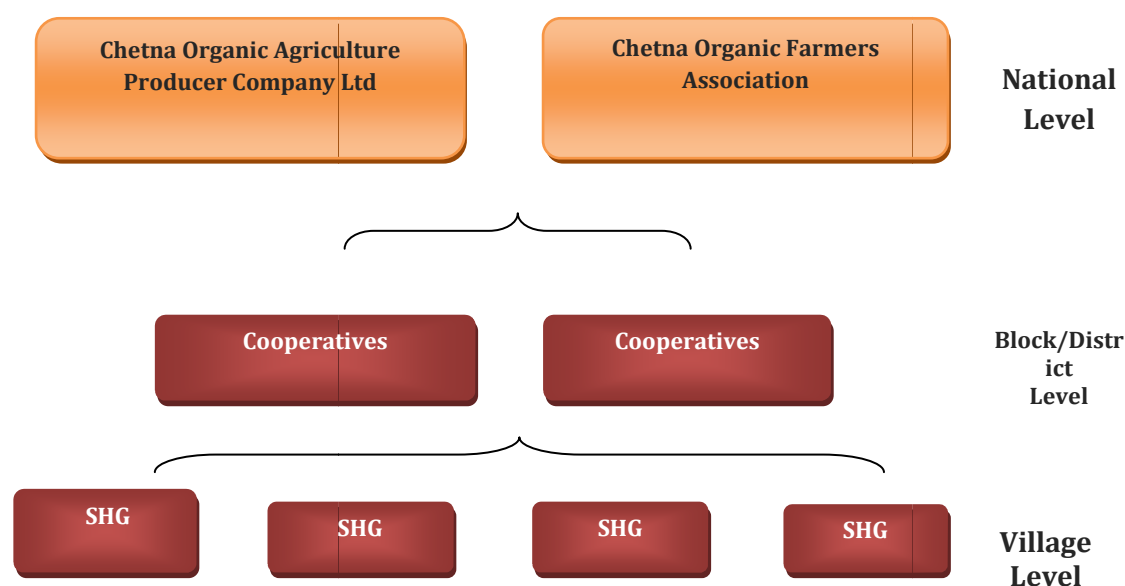


Figure 1: Organisational Structure for Chetna Programme

Self-Help Groups and Cooperatives

An individual farmer is simultaneously a member of Self-Help Group, Cooperative, COFA and COAPCL. A democratic structure is followed by Chetna to make sure that the ownership and decision-making remains with the farmers and they participate in the monitoring process.

Primary level engagement starts in a village with a group of 10-20 interested farmers forming Self-Help Group (SHG). The meetings are facilitated by the Chetna programme team. In the first meeting, the farmers are informed about the initiative, introduced to concept of organic farming and fair trade practices. The village group is recognised as an SHG to be able to perform their task of initiating and monitoring group activities. Each tier has specific roles and responsibilities that help the programme in achieving its objectives.

- **Self-Help Groups**

Interaction among farmers' group signifies the social/technical information exchange among the members. Group of farmers meet every month to discuss issues related to input procurement, finances, adherence of organic and fair trade standards and marketing of agricultural produce. Since the group comprises only 10-20 members they

are able to meet every month. SHG is also responsible to monitor that the organic farming norms are being followed by the farmers.

- **Cooperatives**

Chetna farmers' cooperative consists of 600-700 farmers from SHGs within a certain geographical proximity. Since the government recognises agriculture cooperative as a legal entity authorised to engage in business activities and also eligible to apply for loans with financial institutions, these cooperatives act as a representative body for the farmers. The cooperatives aggregate the agricultural supply to be sold in the market through COAPCL and are also the sub licensee for organic and fair trade certification. At present, the cooperatives also procure seeds for the farmers at a discounted rate but future plans include producing their own seeds to maintain the quality.

- **Chetna Organic Agriculture Producer Company Ltd**

COAPCL is the marketing arm of the Chetna programme. It is registered as a trading company that represents farmers' interest at national and international level. All farmers are members of the company and the board members are representatives elected from each cooperative. As a company, it is able to collaborate directly with distributors/retailers to sell the produce, instead of going through government supply chain. The company holds the organic and fair trade certification for the farmers.

Supply Chain

The introduction of cooperatives and producing company has also modified the agricultural supply chain in favour of farmers. It is now easier to have control over various stages of production as everything is decided collectively by the farmers. The SHGs and Cooperatives are involved in procuring seeds, giving technical inputs and aggregating the supply from farmers for sale.

Earlier, a farmer was individually responsible for procuring the inputs and selling the produce in the government operated *mandi*. A small farmer is usually unaware of the knowledge required to sell produce and the presence of middlemen meant that farmers would often get cheated while assessing the quality, weight and price of produce.

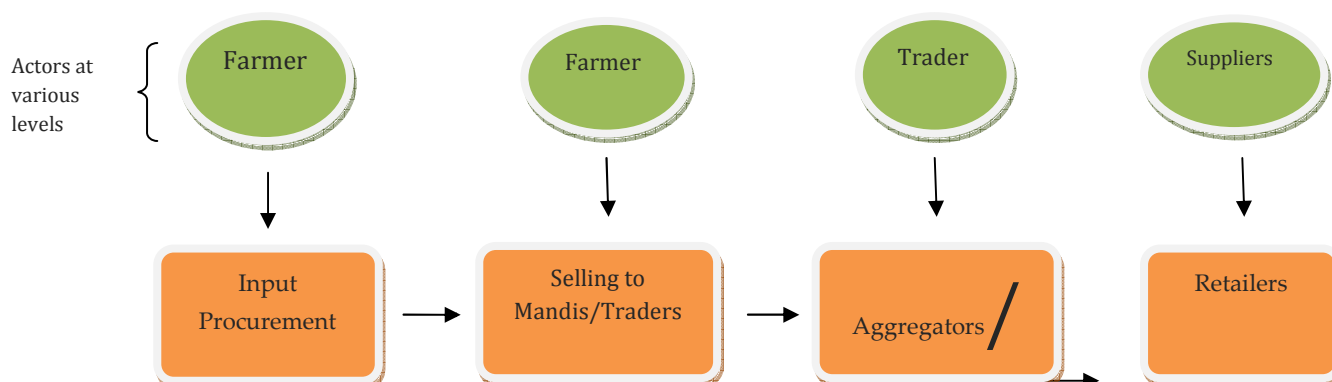


Figure 2: Traditional Agro Supply Chain in India

The recent amendment in Agricultural Produce Marketing Committee (APMC) Act allows the farmers to skip the government *mandis* and instead develop direct relationship with buyers. Chetna has taken advantage of this change to aggregate the members produce in the cooperatives warehouse which acts as mandi exclusively for cooperatives where they are able to sell the produce at a desirable price. The producing company, COAPCL has built a network with companies that are interested in Organic and Fair Trade cotton. The base price of produce is calculated by the farmers depending on the costs. The price determination by the farmers has increased their income: Chetna farmers are getting between Rs. 3950 – 4050 per quintal of organic cotton compared to Rs. 3000 per quintal market price. COAPCL strictly follows the norm of selling the produce at least at the base price..

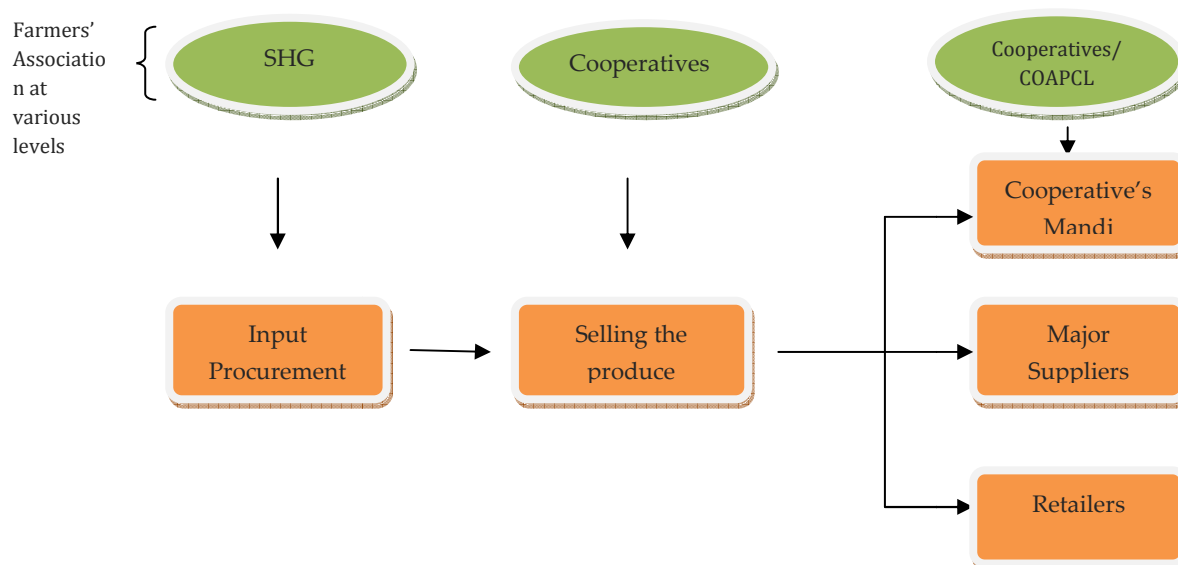


Figure 3: Chetna Organic and Fair Trade Program Agro-Supply

Organic and Fair Trade Certification

Adopting organic farming techniques is part of ecological and sustainable farming framework of the programme. The usage of chemicals for conventional/genetically modified cotton farming has deteriorated the quality of land in Odisha. The Chetna programme team guides the farmers in preparing the land and the technical expertise is provided by dedicated team members in cooperation with the local NGOs.

The team also assists in getting organic and fair trade license from respective controlling authorities. Chetna has an internal control system to ensure farmers follow all the standards. The farmers have all the documents required to monitor the quality and it is done at SHG level.

The cost of certification was initially subsidised under the Chetna programme but beginning 2009, the profits made through the trade is utilised to get certifications for the farmers.

Methodology

This documentation is based on field visit to Lanjigarh block in Kalahandi district, Odisha in January 2011. A semi-structured focus group discussion was conducted by the OneWorld Foundation India team to understand the experience of ultimate beneficiaries of the Chetna programme. In specific, representatives of Mathrubhoomi and Basumada cooperatives elaborated on the marketing supply chain.

Additionally, to comprehend the overall framework of the project, the Director Programmes, Mr. Rama Krishna Yarlagadda and Odisha's State Coordinator, Mr. Srinivas Rao, were interviewed in Chetna's field office in Bhawanipatna, Odisha.

Key Stakeholders

Apart from the Chetna Organic Farmers Association and Chetna Organic Agriculture Producing Company Limited, following stakeholders are involved in the project:

- Solidaridad – Netherlands based international non-profit organisation was instrumental in conceptualising/implementing the project and promoting the concept of fair trade.
- Inter Church Organization for Development Cooperation – Netherlands based donor organisation has offered its support to the project from 2007 to 2011
- Rabobank Foundation, Netherlands supports COAPCL to achieve institutional and financial sustainability
- Forum For Integrated Development (FFID), Hyderabad acts as guardian organization for COFA and COAPCL and implement the Chetna Organic & Fair Trade Cotton Intervention Program
- NGOs – There are nine local NGOs that work with Chetna in building relationships with government and farmers
- Farmers

Lessons Learned

Chetna's Organic and Fair Trade supply chain programme has overall proved beneficial to the farmers. It has assisted in:

- procuring seeds at a reasonable price because of economies of scale
- improving quality of land by adopting organic techniques
- developing niche markets
- assuring premium price for the specialised cotton production.

In addition, the cooperatives have empowered the individual farmer to improve their livelihood opportunity by disseminating information regarding technical know-how,

availability of institutional credit and government schemes. The following lessons learned through Chetna's experience can assist in replication of the programme:

Building Trust through Visible Results

In the beginning of the initiative it was challenging for Chetna to promote organic farming because the lack of immediate results. The initial yield is lower compared to the subsequent ones because the field is still being prepared for organic production. It takes at least 3 years to replenish the soils with fertility degraded because of use of chemical fertilizer in order to get optimal yields on par with intensive conventional farming dependent on chemical inputs. So for the first couple of years, Chetna's staff worked with limited number of farmers to prove that input cost of organic farming reduces over the years while the production continues to rise. Once the quantity of organic production reached similar level as the chemical dependent growth, the farmers were able to understand the long-term benefits.

Systemising the Supply Chain

The farmers were using conventional farming techniques and relied on the local mandis to sell their produce. The price received at the mandis was sometimes even less than the Minimum Support Price (MSP) guaranteed by the government. The farmers felt dejected because of the absence of efficient marketing system. Therefore, the focus was on gradual integration of cotton supply chain by eliminating middlemen in marketing. Cooperatives lobbied with the local administration for a separate market place for themselves where they could sell the cotton at desirable price to buyers. Furthermore, establishing a producing company allows the farmers to directly establish relations with distributors/retailers in India and abroad.

Developing a Competitive Advantage

Cotton is a highly competitive commodity and it can be difficult to get a good price for the produce. Chetna decided to strategise its business model to ensure that they have an advantage over their competitors. To successfully create a niche for itself, Chetna introduced farmers to organic techniques, which is relatively new concept among small farmers. The use of organic techniques has helped farmers reduce costs over time. On average, there is a saving of Rs. 4000 per acre in organic farming compared to chemical farming because of no usage of fertilisers/pesticides. In addition, it promoted fair trade practices to create exclusivity in national and international markets. The fair trade premium that is paid on top on the fair trade price also increases the overall income of the producers.

Long Term Relationship with Buyers

Effective marketing is crucial to guarantee good returns to the farmers and also to make farming a sustainable livelihood option. Therefore, Chetna prefers to develop direct relationship with retailers to guarantee market for the producers. Since the farmers monitor the inputs, there is also an assurance over quality and variety of cotton that is supplied to buyers. To gain confidence of buyers, Chetna first sends the samples of produce to the buyers and informs them about the base price. The other unique concept practiced by Chetna is providing the buyer with the option of tracing the produce. The barcode of product gives precise details about variety of cotton and place of production. Thus far, COAPCL has been successful in developing relationship with retailers like Rajalaxmi, Jackpot (Denmark), Felissimo (Japan), Marks & Spencer and H&M.

The Way Forward

Future plans for Chetna includes expanding its operations in non – cotton crops. They are in process of developing a mid-level Zero-Pesticide Brand for non-cotton products to directly sell to the consumers. The idea behind promoting it as a no pesticide product instead of organic product is because of limited understanding of organic farming and high costs associated with it. Chetna joined with consortium of 8 NGOs from different states to widen the basket of products to offer the consumers and promote the brand.

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References

Chetna Organics Farmers Association retrieved January 28, 2011 from www.chetnaorganics.org.in

Appendix A – Interview Questionnaire

1. What was the need for the Chetna Organic and Fair Trade Cotton Intervention Programme? What was the situation prior to it?
2. Chetna Organics Farmers Association (COFA) was formed in 2004 for increasing the ownership of the farmers in the above programme. What are its main objectives?
3. Apart from Chetna and the farmers, who are the other key stakeholders in this effort and what are their respective roles?
4. What mechanisms did Chetna use to enhance its identity at the field level as a farmer's support organisation?
5. Chetna became operational in A.P and Maharashtra in 2004 and decided to expand to Orissa in 2007. Can you explain to us the genesis of Chetna's operations in Orissa?
6. What are Chetna's main activities in the field? What methods does it use to promote organic farming?
7. How does Chetna ensure the proper marketing of the farmers produce?
8. Chetna hopes to influence government policies in favour of the farmers. How does it do so and how successful has it been?
9. What are the major achievements and impact of Chetna? Has Chetna conducted any impact assessment?
10. What mechanisms are in place to ensure and monitor the proper roll out of operations and ensure transparency at all levels?
11. What were the major challenges faced in due course of the program? What steps were taken to overcome them?
12. Why did Chetna decide to promote fair trade practices?
13. Are there enhancements planned for the future?

Farmers

1. What was the situation prior to Chetna's efforts?
2. What changes have you noticed by using Chetna's methods? How has it helped you?