

Small farmers institutions: What next ?

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Introduction

In November 2014 over 1,000 participants representing small farmers and officials of the government, financial institutions and donor agencies of Nepal met in Kathmandu for two days to reflect on the achievements made in Nepal in 40 years since the initiation of the small farmers development programme (SFDP) and to deliberate on the opportunities and challenges that the small farmers face in terms of access to financial services, agricultural and information technology, agro-processing and marketing services, and the governance of the institutions of the rural poor. The deputies of small farmers attending the meet represented over 377 thousand small farmer members organised into 440 small farmers co-operatives spread over 55 of country's 75 districts. These co-operatives have provided over 11.9 billion Rupees (€95 million) to the small farmers, over 55 percent of which is financed from the resources generated internally by these co-operatives. The [Small Farmers Development Bank](#), the sponsor of the meet, exclusively serves these co-operatives as a financier. Credit risks have been contained to a very low level both at the levels of the cooperatives and the SFDB, since repayments rates are very high at 98 and 99.5 percent, respectively.

Origin of small farmers groups methodology

The small farmer's co-operatives as we know today had a modest beginning. It started as a field action research project of [Food and Agriculture Organization](#) (FAO) of the United Nations in 1974 in Tupche in Nuwakot and Mahendranagar in Dhanusha with the [Agricultural Development Bank of Nepal](#) (ADB) as the implementing agency. The project had a total target of reaching to 6,000 families over a period of about 3 years.

Principles governing the small farmers groups development methodology

The modest beginning, however, was underpinned by principles and processes that were revolutionary in the backdrop of development ethos prevalent in 1970s. First, the new concept was built on the premise that priorities of the small farmers, small fishermen, and peasants – identified together as the disadvantaged people - are distinct from the priorities of the whole communities or villages. With this premise, the field action research project aimed at promoting and protecting the interest of the

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disadvantaged people in particular. Their development was to be achieved neither through violent conflicts nor by perpetuating a patronizing relationship between haves and have-nots. This clearly represented a middle-road between socialistic-conflictual and feudal-paternalistic paths. The new thinking therefore argued for 'higher production with social justice'.



With the fundamental shift towards a far more empowering and equity-oriented approach to the development of small farmers, changes in the *modus operandi* were inevitable. The disadvantaged people were to be consulted at each stage of planning, implementing and evaluating the development actions. Micro-planning and planning from below were identified as essential elements of the new methodology. The days of top-down approach to development were thus over. The action research project put heavy emphasis on building the delivery and receiving mechanisms. The need for building of the delivery mechanisms - the support system for services, credit, inputs etc. created by the government - was realized even in earlier times and the *mantra* of 'development of administration' was in vogue then and is so even now. Building of receiving/ utilizing mechanism - the process of seeking, planning, receiving and utilizing the services provided by the delivery system - was an altogether new idea, however. It was based on the premise that 'the individual rural poor are too weak and resource-less to be enterprising'. So it argued for formation of small production groups – consisting of 8 to 20 members - which would give them a 'group personality' and thus a 'stronger and a more viable position in rural society'. Any group action was to take place through direct participation, not by representation.

Initial performance and scaling-up

The pilot project implemented by FAO and ADBN achieved resounding success. To illustrate, an evaluation undertaken by FAO in 1977 concluded by quoting a small farmer leader, "the project is like a full moon in a dark night". Consequently, ADBN decided to extend the pilot to 22 sub-project areas using its own resources. Among international development agencies the [International Fund for Agricultural Development](#) (IFAD) was quick to realize the opportunity the new concept offered



and designed a project with a total cost of US\$ 16.1 million in 1980 which would allow ADBN to increase the number of project offices from 30 to 120 and number of families covered from 5,000 to 50,000 within 5 years. A second project designed in 1985 with a cost of US\$ 14.4 million allowed ADBN to bring additional 58,000 families under the

programme. At its peak in early 1990s, practically all integrated rural development projects funded by major donors in Nepal had small farmers development programme as a significant constituent element. More importantly, SFDP helped popularising the concept of small group-based development methodology.

Methodological innovations across countries

The FAO action research project was piloted in five other countries of Asia in addition to Nepal. Of these, the Indonesian pilot was scaled-up by the agricultural extension system and strongly supported by the [Bank Rakyat Indonesia](#) through P4K, a successful rural credit programme, which was also funded by IFAD at initial phase. Nepal's experiment and learning were shared and implemented in India beginning 1989 through IFAD-funded [Tamil Nadu Women's Development Project](#). This experiment catalysed the development of the self-help group (SHG) methodology in India. This methodology added a critical dimension to the group-based development approach when the [National Bank for Agricultural and Rural Development](#) utilising the enabling provision made by the Reserve Bank of India, allowed the groups to directly borrow from the financial institutions. With this provision small farmers groups moved

beyond a 'pressure mechanism', mainly to ensure better repayments, to become financial intermediary between individual small farmer and the financial institution. This enabled financial institutions to externalise costs, achieve economies of scale, and reduce the transaction cost which



hitherto had acted as a major impediment in extending financial services to the small farmers. Further piloting and major expansion of this concept was undertaken under the IFAD-funded [Maharashtra Rural credit Project](#) designed in 1993. In due course the SHG methodology benefited from large scale expansion, multiple experimentations, and rapid innovations introduced by governmental, non-governmental, and civil society organizations; took shape of a movement; and developed into a major national development programme in India.

Another new dimension in the group-based development methodology was added in 1993 in Nepal when ADBN started a pilot programme to establish small farmers' cooperatives (SFCL) - a formal structure in the form of a federation consisting of informal set-up of small farmers groups - with assistance from the [German Technical agency](#), GTZ. When originally conceptualised, an association of the small farmers groups were expected to emerge over time, but the formalisation of association was not visualised. It was, therefore, an unexpected but an organic evolutionary development.

Lest we forget

In the four decades that have passed since the experimentation of the small group methodology for helping small farmers and the rural poor, literally, millions of people have contributed in introducing innovations and in scaling them up. Two names stand out: J. C. Mathur, who led the FAO team in developing the concept, piloting it and distilling through action research the basic *modus operandi*; and Shree Krishna Upadhyay, who from the very early days onwards provided intellectual and managerial leadership to the ADBN team that ensured context-specific adaptation, successful resource mobilization, massive scaling-up, and international exchange of experience.

Towards a new horizon

In the context of Nepal, the importance of the group-based methodology for assisting small farmers becomes apparent not only by its sheer success, but also by the inability to experiment and scale-up alternative institutional forms that would empower and serve the small farmers, in spite of major changes in the political system and political and bureaucratic leadership that the country witnessed in last 40 years.

The success achieved in Nepal or elsewhere so far does not allow for any complacency, however, whether in improving the operational performance of the relevant programmes, or for continuous adaptation and innovation. There are both 'internal' and 'external' reasons for this.

Internal challenges

Internally, the SFDP methodology originally conceived grassroots groups as 'multi-functional', which would 'combine planning, economic, educational and social



functions'. This implied that these groups would leverage services from an array of delivery systems such as credit, agriculture extension and research, inputs provisioning, output marketing, etc. Over time, perhaps because the program implementing agency was a financial institution, group action focussed mainly on credit and savings. As a result, the gap between the receiving and the delivery mechanisms continues to remain wide and a variety of needs of the small farmers such as for extension services, inputs provisioning and output marketing remain unfulfilled. Technological changes that drive productivity growth tend to be rather limited and even if income rises due to expansion in income generating activities initially, it plateaus-off quite quickly. Easy access

to micro-credit has helped small farmers to avoid distress sale of asset and smoothen consumption in lean period, the issue of access to agricultural credit that take the form of medium to long term investment, enabling transformative change, is yet to be resolved satisfactorily.

Secondly, the issue of targeting appropriate group of people will continue to remain a challenge. In SFCLs over 72 percent of members are women, but they are woefully under-represented in the executive committees that steers and manage the institution. Lack of reliable data on the participation rate of ethnic minorities and *dalits* adds to the suspicion that whether a process of 'elite capture' has begun. Will this elitism cause 'small farmers to be elbowed out by the better-off' – a fear clearly expressed during original conceptualisation of the methodology? More broadly, are SFCLs agent of the small farmers groups, or their bosses? Has representation displaced direct participation?

Thirdly, the methodology originally limited itself to ensuring the participation of small farmers in the development process. Over time, those involved in running the programme had hoped that through this route the 'agency' of the small farmers will be strengthened and a countervailing forces would arise to negotiate with the state institutions such policies and programmes which would protect the interest of



the small farmers. Clearly, this has not happened and institutions of the small farmers continue to be sub-ordinated by state institutions. This is true not only in Nepal but also elsewhere in Asia. This, in part, is explained by the reluctance of the agencies undertaking social mobilisation of the groups of small farmers to encourage them to actively participate in the formation and management of local government institutions. Lack of clear policy objectives on the part of most donor-supported programs with respect to the role of the small farmers groups in the political process has not been very helpful either. As policy choices are made mainly through political processes, the non-participation of small farmers in such processes produces sub-optimal results for them.

External challenges

Externally, some of the old challenges continue and new challenges have emerged: first, the farm size is on constant decline and an increasingly larger number of small farms are falling into the category of 'marginal', making them 'unviable' as a full time profession.

Secondly, large scale temporary migration of male labour force has feminised agriculture. This has compelled women to modify their roles and assume responsibilities that traditionally belonged to men. This has increased their workload. Persisting gender inequality in many spheres including lower access of women to productive resources has adversely affected small farmers.

Thirdly, investment in agricultural research is increasingly being geared towards making private profit, which may not necessarily favour small farmers.

Fourthly, climate change has further increased the vulnerability of small farmers and increased environmental concerns are threatening to limit the choices of the small farmers.

Fifthly, while the small farmers in Nepal so far have been relatively immune to the effects of globalisation, this will not last long, given the rapid pace in which globalisation and urbanization are taking place. Globalization will not only determine how food is processed, stored and distributed, but also what foods are grown and how. The new system will centralise decision making and will often put small farmers into disadvantage as they lack capital and organization to meet the challenge. Small farmers will also find it difficult to meet volume requirement and the quality standards imposed, publicly as well as privately. As small farmers tend to be far from markets they need to access, they tend to be relatively powerless. This powerlessness sometimes can help them in a perverse way as they are less likely to break contracts and thus would be attractive to the companies that rely on contract farming. Such disempowerment is not only morally untenable, but also not likely to be sustainable in the longer run. In this context the need for 'group personality' that empowered the small farmers to seek benefit from largely governmental and co-operative systems so

far will be even more necessary in future when negotiation will take place mostly with private entities.

Responding to the challenges

The foremost challenge for the policy makers now is to reckon the changes is taking place in terms of ground realities and assist small farmers to come up with an institutional arrangements that would help them to meet the new challenges posed by these changing realities. Such institutional arrangements should not only empower small farmers further, but also help them to meet the demands put by the new system such as the producing in large quantity, maintaining minimum quality standards and ensuring careful phasing of production. A successful institutional arrangement would first ensure that critical delivery mechanisms, such as the agricultural extension and research, animal health, input supply etc. accompany the provisioning of institutional credit and savings services are re-oriented to serve the small farmers. Secondly, the receiving mechanism needs to be further strengthened by building capacity among small farmers not only in technological improvements, but also in managing resources and marketing products, understanding implications of major public policies and proposing policies that favour small farmers. This will require significant investment of resources, primarily from public sources.

In a globalising world, the future landscape is likely to be significantly different from what we have seen so far. In this landscape powerful private entities will co-exist side by side with governmental delivery structure. This will require a process that will empower and enable small farmers to negotiate the terms of exchange with these public and private on equal terms instead of meekly accepting the terms offered. Such an empowerment will necessary require small farmers to actively seek opportunities to participate in the policy making processes.

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N.B: *The views expressed in this article are author’s own and are not necessarily shared by FAO).*