Building a Farmer-Owned Company and Linking it to International Fashion Houses under Fair-Trade Arrangements

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Abstract

In India, notably Andhra Pradesh and Maharashtra, an organic farmers' producer company — aiming to have in 2011 between 10,000 and 20,000 small and marginal cotton farmers as members — has been in the process of development since February 2004. This producers' company is build on farmers' groups (about 20 members) and will be established and owned by Mutually Aided Cooperative Societies (about 500 members each), which have clusters of farmers' groups as their members (about 24 Farmers Groups each).

The self-financed farmers' producer company will have a training unit, a marketing unit and a credit unit. It will trade in organic cotton and other organic products. The trainers of the training unit will be farmers who get special training for this purpose (about three weeks a year over a three-year period) and who have participated in a season-long FFS (Farmers Field School, 20 sessions of four hours) and the Participatory Technology Development (PTD) program. Credit is mobilised from the banking sector and loaned to Farmers' Groups. Agricultural products are certified organic and 'fair-trade'. The products are bought at a premium. Cotton will be used by Made-by — a fair-trade label — and a variety of other labels in which a number of fashion houses participate. They sell clothes that are, partially, made using fair-trade and organic cotton.

Setting up a farmer owned company that trades in organic and fair-trade cotton is not a simple exercise. It has many dimensions. The 'fair-trade' aspect of the program creates many challenges: we have to work with 70 per cent small scale farmers, labour relations have to change. The fact that we need to work with 70 per cent small farmers increases operational costs, as only small acreages will be changed into organic farms by training large numbers of people. Literacy rates under this type of farmers are low (about 40 per cent) and thus finding qualified people for functions in the OCGrA is not easy and learning periods are long.

The functions of OCGrA are similar to those of the present moneylender cum trader but have to be provided cheaper and better. The credit arrangement for 2005 shows the farmers that they can access cheaper credit and get their quality inputs in time at reasonable costs.

The criteria set for organic certification, mainly the fact that no parallel production is allowed on a farm, are challenging. Most farmers would want a second year of parallel production to find out whether organic farming works out well for them. On the other hand, they would like to avail of the premium as soon as possible.

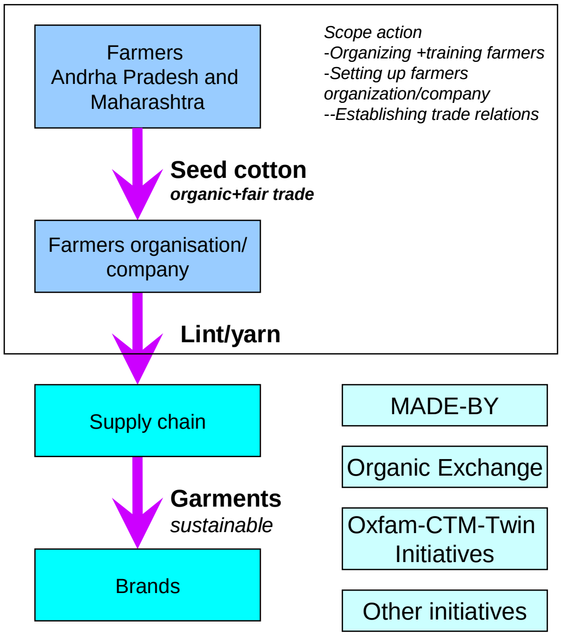
Technically the farmers are challenged because the huge quantities of organic manure required under organic farming. They are willing to plant trees but face difficulties in mobilising the required quantities of organic manures until the trees start providing sufficient pruning materials for compost making. This too would suggest that some extra time should be given to change-over or extra support should be given to the farmers to mobilise the inputs.

There are major volume issues in building up the OCGrA. At ginning level at least 800 acres of cotton should supply one gin. In order to influence the textile chain and get fair-trade issues being debated and action taken, very substantial quantities of cotton have to be produced and traded (at least 850 metric tonnes of lint). Clearly the market in the Netherlands (Made-by label) is too small to absorb these quantities and other markets have to be developed.

Fair-trade premiums should be 30 per cent, organic premiums about 20 per cent of the prevailing market prices and certification costs should be born by the buyers (another 20 per cent). This means that buyers should be prepared to pay 70 per cent more (or 0.65 euros per piece of garment) to the farmers to create the required conditions for progress.

Establishing a producers' company

We want to establish a farmers-owned company primarily producing and marketing organic cotton but also trading in organic non-cotton produce. This will be done under fair-trade arrangements in international and domestic markets.



Why a farmers-owned company?

We are of the opinion that farmers should get a better share of the profits realised in the cotton and food chain. By making farmers owners of the company, they can take margins usually taken by others and they will enhance their bargaining power, especially when the company is a big player in the market. They can also be competitive in the market as many of the functions can be carried out by farmers themselves and not by paid executives, thus keeping operational costs down. The challenge is to find excellent executives who are willing to work under a farmer dominated board.

What kind of farmers?

Fair-trade certification requires that over 50 per cent of the total production originates from small scale farmers, defined as farmers who do not structurally depend on labour. Hence the program aims to have about 70 per cent of small-scale farmers in its fold. It would also be possible to get fair-trade certification under plantation scheme, but that would require that laborers are permanently employed and are provided with a host of facilities, like for example pension schemes. This however is not possible for the farmers in the area where we are operational.

Why cotton?

Cotton, grown on 5–6 per cent of the arable land (8–9 million hectares), consumes about 50 per cent of all pesticides used in India. It provides employment opportunities for many people in the production of raw material, ginning, spinning, weaving and apparel sector, to name a few. It is a sector where cut-throat competition takes place at each and every link in the chain. Cotton is a product that everybody uses and as such a product that can convey in the developed countries a message about fair-trade, better trade relations between countries and better sharing of profits with all who are in the chain; no exploitation, fair wages, safe working conditions, equal wages for men and women and no child labor that prevents children under 15 obtaining a proper education.

Why organic?

We want to produce organic for a variety of reasons:

- It addresses the main problem of sustainable dryland farming: the organic matter content of the soils
- It reduces the risks of those producing cotton: accidental deaths through poisoning (often young children)
- No costs for treatment of poisoning symptoms (intake surveys show that families growing cotton with pesticides spend about 1500 rupees or 30 euros a year on treatment of mild poisoning cases)
- Reduced production costs (from about 8000 rupees an acre to about 3000 rupees an acre) and thus reduced dependency on moneylenders and less risk of indebtedness
- Reducing the amount of toxic substances brought into the environment by humans
- It appeals to the customers.

Why fair-trade?

A shirt that sells in Europe for 30 euros contains about 300 grams of lint. The price farmers receive for this is about 20 rupees or 0.38 euros. This means that farmers receive a meager 1.26 per cent of the total price paid by the end consumer. This has to be distributed between the farmer, input suppliers, laborers and others. To us it seems that the farmers and laborers do not receive a fair share of the price paid by the consumers. Moreover, prices of cotton wildly fluctuate and farmers could receive as little as 15 rupees, or 1 per cent of the price the consumer pays. At most they will receive 26 rupees, or 1. 64 per cent of the consumer price.

Exploitation in the sector is rampant. The gins use unorganised labour, who are not permanently employed and do not get a decent salary, working conditions and sleeping places; many of the mills have less than desired arrangements with their workers; and the apparel sector works with cut-throat contracts forcing them to cut costs wherever they can, more often than not resulting in very poor working conditions for their employees.

Only a paradigm shift in the sector can change something. Long-term contracts with guaranteed prices (within a narrow bandwidth) between all actors in the chain could relieve each actor of the need to produce at minimum costs which invariably means that labor conditions are compromised. The proposed paradigm shift will certainly not lead to inefficiencies in the sector. However, there are serious problems of scale as can be seen in the box below. It will not be easy to get a leverage in the market unless volumes are quite substantial.

The volume problem

In order to make the program interesting for buyers, quite substantial quantities have to be grown. A typical spinning mill in India will use about 5000 bales (170 kilograms of lint each) of cotton a month or about 170 bales a day or 28,900 kilograms of lint or cotton production of about 3000 farmers a day (farmers with about 2.5 acres each and average yield of about four quintals of seed cotton — one kappa — an acre).

A typical European order will comprise about 4000 pieces of knitwear (say, 2000 kilograms of lint or about 7 per cent of a day’s spinning). The Made-by label will absorb about 50 tonnes of lint in 2005, or two days of spinning of a medium-sized spinning mill, and will produce about 100,000 pieces.

What functions?

The general principle of appropriating a larger part of the profits is to move upwards in the chain, the assumption being that each further step will have better profit margins. In the cotton chain this ‘truth’ does not seem to hold. Each of the steps in the chain works, at least in India, with very small margins, which means that only high turnover, thus large volumes, will lead to profits. The average gin will require to operate for at least 200 days in a year, ginning at least 300 quintals, or the production of more than 60 acres of rainfed cotton a day. Thus at least 12,000 acres of cotton are required to supply the gin. Under our conditions it would mean that about 5000 farmers should supply the cotton. This is presently beyond our capacity.

We might in future opt for our own gin, but presently we would aim to establish a producers' company of farmers that would limit itself to the production and marketing of quality organic and fair-trade seed cotton. We have entered into long-term agreements with spinning mills who, in turn, entered into long-term agreements with gins and CMT units (apparel units) that entered into agreements with fashion houses.

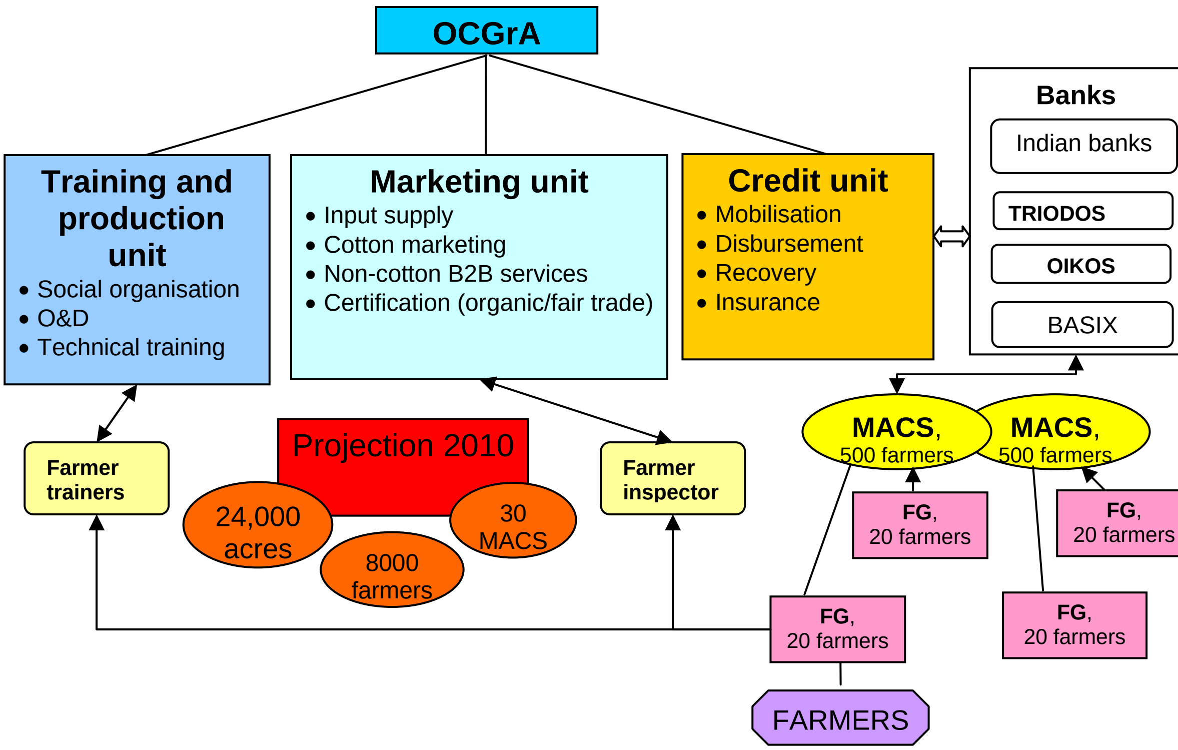


Figure 1. Sub-structures of OCGrA (by 2010)

The producers company, presently dubbed OCGrA (Organic Cotton Growers Association), will thus:

1. negotiate long term MOUs ensuring that the cotton is certified as organic and fair-trade
2. ensure bulk purchase of required inputs leading to lower prices for their members
3. provide access to cheap credit and insurances (health, life and crop) for their members
4. provide access to technical know-how through their training wing, which is staffed (90 per cent) with farmer trainers, not 'experts'
5. provide development programs in operational area under fair-trade arrangements, which stipulate that part of premium paid should be used for development purposes.

Why those functions? Training, credit, marketing/certification…?

Farmers usually get production advice from traders of inputs, mainly pesticide dealers, who provide these inputs on credit. The same dealers usually buy back the produced cotton, which they do to ensure that they can recover their loans. Thus the moneylenders are providing knowledge, inputs, credit and markets. In order for OCGrA to be successful, it has to provide the same services, better and cheaper. The main problem lies in the fact that moneylenders provide also consumptive credit. This function is not easily taken over by OCGrA. However, most of these loans are related to medical expenses and to schooling, marriage or funerals. The first can be tackled with insurances, the second group through savings in Self Help Groups (farmers groups).

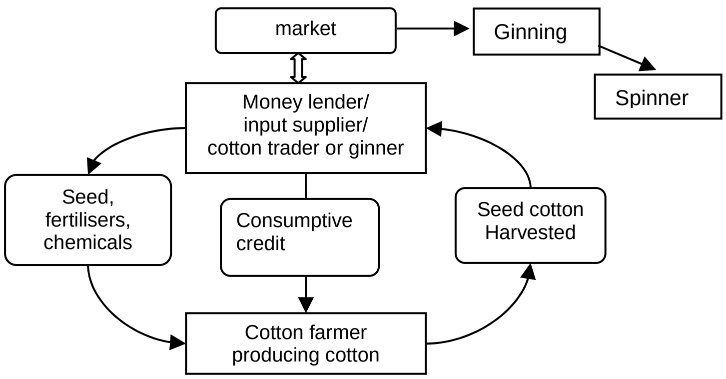


Figure 2. The process of money lending for farmers

The arrangements between the trader and the farmers are not very favorable for the farmers. Interest on credit is usually about three per cent a month. Money lenders decide when cotton has to be sold to them. This is effected at the moment the prices are lowest. Thus farmers end up paying between 36 and 87 per cent interest, depending on the money lenders they deal with. Arrangements OCGrA can make with the banks will enable it to provide credit against 11 per cent inclusive of crop insurance. This has been done for the 2005 season. This results in a major saving for the farmers. Life and health insurances will form part and parcel of the services offered, thus providing access to money at moments of urgent needs.

OCGrA will provide intensive production training to its members: about 20 sessions of four hours each throughout the season. Farmers will thus acquire skills to such an extent that they in turn can train other farmers. Thus we have started training Farmer Trainers who will support farmers that want to join OCGrA. These Farmer Trainers will form the backbone of the training unit which will also employ a few professional agronomists and social organisers.

OCGrA will market both internationally and locally. It will negotiate good input prices and premium prices for quality organic and fair-trade cotton. Long-term agreements with prices fixed within a bandwidth are aimed at. We intend to sell food items mainly on the domestic market. This because food items contain large amounts of nutrients. Exporting those would create a need to import similar amounts of nutrients in other forms. We also would like to develop awareness with the consumers on health aspects of especially vegetables (in big cities more than half of the vegetables marketed are found to have higher than WHO standards of acceptable levels of pesticide residues). Facilitating certification as OCGrA and implementing Internal Control System through farmer inspectors, will cut down its costs per farmer making the usually expensive exercise bearable for the farmers.

How will it become financially sustainable?

For OCGrA to become financially sustainable it needs to generate money through the services it supplies. The banks allow a franchise organisation to levy a surcharge of 3 per cent on interest charged by the banks. We expect the outflow of credit to reach 72 million rupees, which will attract 2.15 million rupees (40,000 euros) of surcharge for operation of the OCGrA.

The farmers who apply membership will have to pay for the induction training they need to complete for access into the OCGrA. This and paid emergency services by farmer trainers will form the basis for financial sustainability of the training unit.

The marketing unit however will earn the main income for OCGrA by sharing the premium earned with the farmers. The farmers, however will be free to sell their produce on their own. They will however not be able to avail the organic and fair-trade certificates for their produce as these are held with OCGrA. Use of the same will attract a percentage of the sales price. The turnover of cotton will be, with a membership of 12,000, about 234 million rupees. It is expected that about 10 per cent could be levied for the OCGrA or about 12 million rupees (460,000 euros) on cotton. A lower amount, say about 20,000 euros could be expected as a revenue from sales of non-cotton products as margins are small. Membership fees to are supposed to be part of the income.

In toto we expect that about 600,000 euros yearly can be self-generated by OCGrA. When value additions and input supply production are also taken up, this figure could go up with another 100,000 euros.

How profitable is it for the farmers to join OCGrA?

The direct saving would be 1500 rupees per family on treatment of mild poisoning cases. We can assume that each family will avail about 2000 rupees per acre of loan, on average farmers have five acres, thus about 10,000 rupees per farmer loan will be taken annually. The saving realised because farmers get, say, 15 per cent interest instead of a minimum of 36 per cent is at least 2100 rupees. An average farmer will sell ten quintals of cotton with a premium of, say, 200 rupees per quintal (after subtraction of the share of OCGrA) for quality, fair-trade and organic, thus another 2000 rupees is earned. The direct earnings are thus 5600 rupees or 106 euros a year.

Table 1. Overview of other organic cotton projects

Are there any other organic cotton projects and what makes this program special?

Name	**Farmers owned**	**Number of farmers**	**Gin ownership**	**Spinning**	**CMT**	**Fashion brands**
Amit Spinning	No	?	yes	yes	yes	?
Prathiba	No	1500	yes	yes	yes	?
Maikal BioRe	Partly, some farmers own a total of 10% of shares	2000	Yes, SA 8000 certified	No, contract	no	yes
Organic farms	No	500	yes	no	no	yes
Green Acres	No	?	yes	no	yes	yes
Eco farms	No	1000	lease	no	no	yes
Agrocel	No, contract farming on demand of buyer	700	no	no	no	yes
OCGrA, ETC — Solidaridad	Yes in formation	500	no	no	no	Yes, Made-by label and others
OXFAM	Yes in formation	200	no	no	no	No

Table 2 shows a comparison of yields and profits of conventional and organic cotton. Last year's season (2004) was very bad in terms of rainfall distribution in the area where these data were collected. The rains stopped in early October when boll setting is in full swing.

Table 2. Comparative table of yield and profitability of short and long term fallow with conventional farms (Karimnagar, Andhra Pradesh), 2004 season, rainfed***

Particulars	**Organic fields**		**Conventional**	**Remarks**
	Long-term fallow (n=12)	**Short-term fallow (n=17)**	**(n=11)**	
Seed cotton Yield, (kg/acre)	224**	240 **	205	Thus income from cotton alone not significant different
Total income per acre (rupees/acre)	4617**	5233**	4105	Income of cotton and intercrop
Total costs (rupees/acre)	4212 * ($p < 0.005$)	4517 * ($p < 0.04$)	5412	
Net income (rupees/acre)	402* ($p < 0.035$)	716* ($p < 0.008$)	-1307	

* Significant

** Not significant

*** Yield of irrigated organic cotton was about 600 kg/acre (n=1).

This year's data suggest that an additional income of 1000 to 2000 rupees per acre can be realised by shifting to organic production of cotton. The effect is mainly through the intercrops that are grown, yields of seed cotton are not significantly different. The increased income per acre would mean another 2500 rupees income at farm level as each farm has about 2.5 acres of cotton. Thus another 50 euros would be earned at farm level. The total extra earning could thus be about 160 euros per farming household per annum. This seems small but is substantial for the type of farmers we are working with. The fact that crop, health and life insurance are also provided means that risks of getting heavily indebted are reduced.

How will farmers be able to get sufficient organic matter and nitrogen to apply to their soils?

A frequently asked question is: how can farmers get sufficient organic matter to apply to their soils? They will need about four tonnes per acre (10 per hectare) as a minimum. This can be done by devoting about

10 per cent of their farm (usually field bunds and other non-used parts of the farm) to production of *Cassia siamea* or *Glyricidia*. These can be pruned on regular basis and can be composted in situ. This will produce about three tonnes of compost per acre. Then pre-season sowing of horse-gram and high-density intercropping, followed by weeding and mulching the removed intercrop on the field, could provide some organic matter, bringing the total close to the required four tonnes.

Nitrogen is supplied through farm yard manure (FYM) enriched with neem cake, *Azotobacter* and *Azospiryllum*. Topdressings of nitrogen are applied in the form of composted poultry manure, which originates from the small poultry units promoted on the farms by OCGrA. These units will keep about 50 heads of poultry per acre landholding. So the average farmer is supposed to have 250 heads of poultry.

It is clear that these measures take some years to yield the desired amounts of organic matter and organic nitrogen. In the first three years farmers will face a major challenge to apply the required quantities of organic matter and nitrogen, this will result in higher costs or reduced yields. The discussion with the certifiers is focussing on how much of external inputs are allowed to build up the capacity of the farm to recycle nutrients.

How do farmers get the necessary skills to produce organic cotton and other products?

We have field staff responsible for two to three groups of farmers (40–60 farmers). ETC field staff is training NGO staff and farmers using the Farmer Field School method. That means that once a week (during the full season) in early morning, say 7 am, farmers come together. In small groups (see photo), they scout the fields, collect and count the insects found, draw the insects, categorise them into harmful, neutral and beneficial insects and discuss what action to take. They will also look at the general appearance of the crop and will decide whether nutrient management measures should be taken or not. This exercise will take about three hours. In the picture the women farmers are looking for *Helicoverpa* eggs, which are usually deposited in the topmost leaves. This intensive practical exercise results in deep knowledge of the crop, insects and their management.

Besides training the farmers in agricultural practices, we also train them in management of farmers' groups, accounting, record keeping, use of internal control system (which forms the basis for certification), joint storage, joint marketing, joint purchase of inputs, etc.

How do we link up with the markets?

Though one would expect that the markets would open up because we are linked with the Made-by label that sells organic clothes in the Netherlands, the reality is different. The reason is that our produce is by and large not yet organic and hence is not (yet) purchased by the Made-by label. They need fully organic and fair-trade certified products. Conversion from conventional to certified organic takes, by the rules of certification, three years. Fortunately our marketing person was able to identify buyers who were interested even in in-conversion cotton (first- and second-year organic cultivation). This has provided access to a special market for about 50 per cent of the cotton produced. He was also able to convince another spinning mill to pay a premium of 200 rupees per quintal for the cotton because of the way in which farmers handle the cotton: it is harvested into cotton bags which can contain about 40 kilograms of kappas and are then sealed. This prevents contamination with all kinds of foreign material, which would pose problems for spinners (breakages). The expected 2005 crop has already been sold to spinners who have given a MOU in which they ensure purchase of the cotton at premium prices though the actual percentage still has to be determined. The 2005 crop has been sold, despite being in conversion, because some end-users are interested in only fair-trade certification. Our program underwent a fair-trade pre-certification inspection and it is likely that the program will be fair-trade certified.

The quantities that the Made-by label will absorb in 2005 are estimated at 50 tonnes of lint. This seems substantial but can just absorb the cotton grown in one of our five clusters. Thus there is a dire need to have markets outside the Netherlands and beyond the Made-by label. These markets have been found in France, UK, US and to a very limited extent also in Australia.

Certification: what does it mean and who pays?

For the coming two years the program has agreed to pay for organic certification. The costs of small holder certification are two fold: internal certification system and external inspection to validate the findings of internal inspection.

For the internal certification farmers need to keep accounts of all they are doing on the farm: which inputs do they use, from what source, on what plot against which costs. The packets/containers and bills have to be kept as proof. An internal inspector who is not involved in the program has to inspect all these records once a year. Three rounds of visits — at sowing time, boll setting and harvesting — are required by the external certification agency. In each of these visits slightly more than one-third of the farmers will be visited to ensure that all farmers know that they could be visited either once or twice but even three times. The costs of this inspection are about 1000 rupees (approximately 20 euros) per farm per annum. External inspection and certification costs amount to about 800 rupees per farm. This means that about 2000 rupees per farm inspection costs should be counted upon for organic certification only. In our opinion it should be the buyer who pays for these costs, as he/she insists on the certification. Assuming that a farm on average sells ten quintals of cotton, the buyer will have to pay in future about ten per cent of the transaction value to obtain a certificate. In addition the buyer is expected to pay a premium price for keeping the cotton clean, having it produced organically, having it delivered in clear batches of similar quality and to have access to OCGrA as an organisation, thereby making trading easy.

Fair-trade certification is another cost that is expected to be similar to organic certification. If we assume that both have to be paid by the buyer, the costs for the buyer will be about 20 per cent of the value of cotton sold.

What will happen with premium prices paid to farmers?

Premiums paid for organic products have no strings attached. The farmers can, in principle, use it for whatever purpose they want.

Fair-trade premium has a number of strings attached. The bottom price set as fair is linked to production costs for cotton irrespective of the quality of cotton produced, so farmers should not lose money. On top of this a premium is paid. The price for India is proposed to be about 2300 rupees per quintal, which is about 15 per cent more than the prevailing average market price. This premium has to be used to equalise wages of male and female casual workers, not at once but a process has to be set in motion towards that. If there are permanently employed workers, development programs have to set up for them to provide opportunities to improve their livelihood. A general rural development program has to be funded: schools, health care, and lastly a part can be kept by the farmers.

Equalising wages of female and male workers could cost a farmer about 1500 rupees per acre. With an average yield of four quintals per acre, the additional income would be 1200 rupees. This is way below the increased costs and obviously holds no space for all the other requirements: rural development or even a small increase of income for the farmer who did all the efforts to keep records, increase wages, avoid child labor, etc.

I would argue that, given all the conditions set, the premium offered under the fair-trade arrangement is way below of what would be required. The premium should be at least doubled to 30 per cent.

Assuming that buyers pay for the certification (20 per cent), organic premium would be about 20 per cent and fair-trade would be 30 per cent, so the extra costs would be 70 per cent for the buyer. As we have seen earlier, this would enhance the price of the final product only marginally from 30 to 30.64 euros. We assume that such a price increase has no bearing on the choice of the consumer.

Immediate issues of accessing the markets

Organic ginning, which means ginning cotton in a gin that has been cleaned thoroughly to ensure that nothing is left of the conventional cotton ginned in earlier batches, poses a major challenge. Gin owners are only ready to clean their equipment and handling area if they can gin for four days in a row. This implies that 1200 to 2000 quintals of cotton has to be delivered for ginning as one batch.

We essentially have three options:

1. Bring the total production of an area
2. Bring each picking for ginning
3. Club a number of pickings of similar quality.

The total production of 300 to 500 acres would be required to meet this demand. This means the total yield of about 125 to 200 farmers. If we would chose to do this, it means that farmers have to store their cotton from October (first picking) until February (last picking). This leads to three problems: all these farmers have to grow cotton with very similar characteristics; cash flow for the farmers is non-existant between October and February; and the need for substantial storage facilities (up to 2000 quintals or about 2500 cubic metres, or a ground floor space of about 800 square metres). The storage facility would cost about 8000 rupees per square metre, or 6.4 million rupees (120,000 euros) in total.

If we would gin each picking we would require a sourcing area of at least 1200 but possibly 2000 acres (assuming a one quintal harvest per acre for each picking, which is not true for the last pickings that can be about half of this). This means that between 500 and 800 farmers would have to grow cotton varieties with very similar characteristics. The MACS that we envisage to be developed eventually should have 500 members, so it would be possible to immediately gin each picking. We would not require storage, farmers would not face cash flow problems but they would face a market price at the time of picking without an opportunity to wait for better prices.

The third option would require a smaller storage facility, say about half of the first option, and would require about 250 to 400 farmers' yields, again the problem of being forced to sell at prevailing market prices will crop up.

All options have their advantages and disadvantages, but the immediate problem is that at present we have an average of about 100 farmers per cluster, thus way below the requirement of each option. Thus we need to combine production areas and gin at one location. This means in general that transport costs of about 70 rupees per quintal have to be paid by the farmers. This is about 30 per cent of the present premium paid. Farmers are not happy about that.

Quality issues related to cotton

In order for cotton to be acceptable for the high end markets a high level of uniformity has to be attained. This requires that sizeable batches with consistent quality (staple length, micronaire, gtex, colour) have to be produced. Gins would accept batches of not less than about 30 quintals with similar grading. This would be nothing for a mill, as can be seen from the box on issues of volume presented on page 5. Uses of staple length are shown in Table 3.

Table 3. Uses of staple length

Staple length	Use
<22 mm	Reject, no immediate market, could be sanitary napkins Market to be developed
22–24 mm	Accept; socks
24–26 mm	Accept; mainly bath wear, jeans
26–28 mm	Accept; knitwear, e.g. polo shirts
>28 mm	Accept; wovens, e.g. fine shirts

Each of these uses has its own upstream production chain. There are different players to deal with.

We had our cotton tested and found that farmers from Karimnagar had a staple length ranging from 26 to 31 mm depending on the picking (early picking is 31mm and later pickings are shorter, which is because the rains stopped), 'micronaire' ranged from 3.1 to 3.4, which is below what is desired (3.5), and 'gtex' was ranging from 21 to 23, which is slightly below desired (>23). All the parameters show the effect of early cessation of the rains. Those farmers with access to supplementary irrigation got better quality parameters and higher yields (600 kilograms per acre as compared to about 250 kilograms per acre).

We have not met the quality demands in full. We also have not met at all the quantities and uniformity required. The main problem was that farmers were growing in 2004 a large number of varieties (Figure 3).

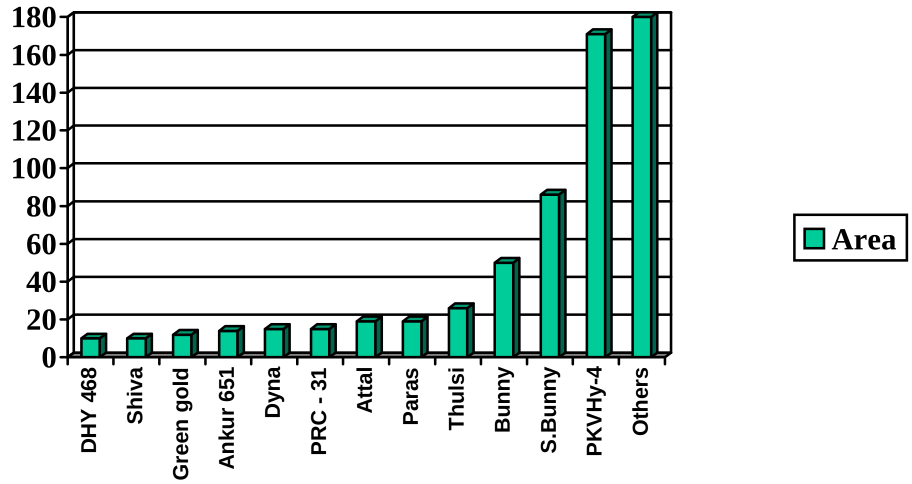


Figure 3. Area in acres of cotton varieties grown

In 2005 the number of varieties used by the farmer has been brought back to about ten, which performed well during the last season both in terms of yield and quality parameters. This hopefully enhances uniformity of the product. Convincing farmers was not easy, but also not so difficult, as farmers had seen the performance of the other varieties in their own area.

From 2005 the whole farm has to be organic

Organic certification requires that external risks of contamination are reduced. Therefore buffer zones and physical obstacles are required to separate patches of organic farming from those where conventional farming takes place. We have translated that in demanding from participating farmers that contiguous areas of about 40 acres, but at least 10 acres, would be brought under organic cultivation. Farmers have their lands not at one location; land is often spread over the territory of the village. This meant that in 2004 a large number of farmers had to be motivated to turn their land at a particular spot into organically farmed land. The first-year certifiers have allowed parallel production (conventional and organic farming) on one farm (but on plots which are geographically clearly separated with some distance). This was only allowed for non-cotton crops. From the second year, 2005, this will not be allowed anymore and the whole farm has to be brought under organic production methods.

The demand that from year 2 onwards, whole farms must be organic is posing a major challenge to our staff and the farmers. What are the risks of changing over, will we gain or will we lose income? Those questions are in farmers' minds. We have not been able to convince all the farmers, it seems that the drop-out percentage on these grounds could reach 30 per cent of the initial group, or about 80 farmers. This percentage is high not only because of this reason. Other factors underlying this are:

1. We might have miscommunicated to the farmers that in the second year the demand to turn the whole farm into organic would be made by the certifiers (we had only a very short lead time to start the program; in mid-May the staff was fielded and in July the planting was done)
2. We did not purchase the cotton as a program but mediated between buyers and farmers; in some cases this led to less than expected prices thus disappointment (some NGO staff floated a rumor that farmers would get up to 3000 rupees a quintal of seed cotton, which means 150 per cent of average prices; the real price fetched was 1950 rupees, 200 rupees above the prevailing market price)
3. Transport costs to gins were too high in certain cases
4. Cash flow was not OK as farmers had to hold their cotton to ensure that organic ginning of their cotton could take place
5. We did not purchase the intercrops and other crops grown by the farmers, though we were able to sell a substantial quantity against premium prices (15-20 per cent above prevailing market prices)
6. Social cohesion of the groups is limited due to very immature status of the groups (they were formed only in June 2004), thus peer group pressure is limited
7. Administrative issues were not in all cases properly handled by ETC and NGO staff
8. ETC and NGO staff might have over-promised in certain situations, leading to disappointment when promises cannot be kept (access to additional funds, setting up shops, getting loans for livestock development, etc.).

Farmers also ask the question: “OK, you want us to change towards organic farming on the whole farm. Now, can you provide us guaranteed access to a premium price market for non-cotton products?”

Access to premium markets for non-cotton products

In India no substantial market for organic foods exists. Only recently efforts to develop the Indian organic market have started. India’s middle class is rapidly growing and some kind of consumer awareness is starting to develop. The first ‘organic supermarkets’ are started in cities like Hyderabad, Delhi and soon also Bangalore, Mumbai and Chennai (each having populations of over 5 million people). The general knowledge is that organic producers cannot find the market and organic retailers cannot find the supplies. This is by and large caused by the sheer size of India. The above mentioned cities are at least 500 kilometres apart. But distances are typically over 1000 kilometres. Having the producers organised in smaller but still sizable clusters, like we have, will make logistics easier. In 2005 our farmers are expected to produce 375 metric tonnes of non-cotton produce, mostly pulses. Assuming that the average family will consume 35 kilograms of pulses a year, about 10,000 families or 55,000 persons in the at least 25 million living in the cities mentioned previously will have to be found to consume these organically grown products. Given the sheer size of the cities, it would seem that it is not a problem to sell the produce in the domestic market. To get it done is still difficult, as there are few retail outlets, with presently only a few hundred people patronising them. We have decided to build on the domestic market and support those ventures that are developing retail outlets. However, we might be forced to also operate on the international organic market.

Building OCGrA: What are experiences to date?

Social organisation is the core of the work to build the OCGrA. Because of the requirements of certification, we could not start the work with existing farmers' groups as their members, thus farms and plots were spread over a large area of the villages where we started working. Thus, building of groups had to start from scratch. Training the farmers in organic cultivation of cotton was initially the main focus. This meant that less attention could be given to social organisation proper. Many farmers could plant their cotton only at the end of July due to late rains. This delay in monsoon dampened the spirit and made social organisation for marketing and credit very difficult. So this work started seriously only in August when pressures on farmers lessened.

The idea was that ETC India staff would provide technical inputs and NGO staff would do social organisation. It proved to be difficult to maintain this task division as turn-over in NGO staff was in many cases considerable. This made joint vision building and clear, unidirectional, support to farmers difficult at times.

Yet, the farmers groups have grown to the extent that they are able to conduct meetings, keep minutes, pass resolutions, keep financial records, maintain records of credit and repayment, maintain records of stocks of cotton, grading of cotton, prices paid by buyers and the like. They have selected Farmer Representatives (FR), Farmer Trainers (FT) and Farmer Inspectors (FI). The first special training for FR and FT has been implemented and the FI will be trained shortly. They have in most cases been able to store and market cotton as a group and purchase inputs as a group. They are in 2005 availing cheap credit from the State Bank of India, who waived the fact that some farmers are individually defaulters. The main reason for the bank to do that is because the farmers are accessing the loan as a group, the group is accountable and ETC India stands as guarantor and provides the access to the markets, thus has an ability to recover the loans.

The need to build legal entities

The farmer groups are not really legal entities. That has caused problems in financial transactions between the buyers, gins and the farmers. The banks too would be more happy to deal with a real legal entity. In order to be able to own common storage facilities, legal entities have to be created: a farmers' group cannot legally own land or a building. The first possible option would be a MACS, a Mutually Aided Cooperative Society. There are a number of requirements that have to be met, which demand that the people starting a MACS are acquainted with each other, have had financial transactions with each other and are well versed with management of a farmers' body.

These issues make it difficult to start immediately with the formation of a MACS. A program is presently developed under which FRs of the various farmer groups are made to meet each other and discuss matters related to marketing and the need to form a higher level body. A rural institution development specialist has been appointed in 2005 to take care of this issue.

Program management to foster synergy between partners

There are of course hitches in the execution of the program, which are mainly linked to undue promises made by NGO staff but also by our own staff. This surfaces as the major block for progress in certain areas, as unkept promises are judged harshly by the farmers. Other problems are linked to administrative mistakes and the clumsy handling of those; employment of Farmer Trainers by the NGO, which defeats the very purpose of training farmers to help other farmers as a service; and keeping registers in the NGO office, to mention a few. Clearly problems in social organisation are associated with insufficient synergy between ETC and the NGO partners who support this program, but also between field staff and program management staff of ETC.

Monthly joint planning meetings at cluster level, quarterly review meetings, sharing seats with farmers and NGO staff in the steering committee and sharing of all documents have not yet delivered the required synergy. Much more effort is presently put into improving the understanding by the staff of ETC of the details of the long-term goal, the quality of the meetings, setting a long-term agenda so that thematic meetings will be held, and improving and simplifying reporting procedures so that management can keep track of what really happens in the field (we should know that travel from the program office to field is at least three hours but is about ten hours to the most remote cluster, and I am based in the Netherlands).

Conclusions

Setting up a farmer-owned company that trades in organic and fair-trade cotton is not a simple exercise. It has many dimensions.

The fair-trade aspect of the program creates many challenges: we have to work with 70 per cent small-scale farmers, and labour relations have to change. The fact that we need to work with 70 per cent small farmers increases operational costs, as only small acreages will be changed into organic farms by training large numbers of people. Literacy rates for this type of farmer are low (about 40 per cent), thus finding qualified people for functions in the OCGrA is not easy and learning periods are long.

The functions of OCGrA are similar to those of the present moneylender-cum-trader, but have to be provided cheaper and better. The credit arrangement for 2005 shows the farmers that they can access cheaper credit and get their quality inputs in time at reasonable costs.

The criteria set for organic certification, mainly the fact that no parallel production is allowed on a farm, are challenging. Most farmers would want a second year of parallel production to find out whether organic farming works out well for them. On the other hand, they would like to avail the premium as soon as possible.

Technically the farmers are challenged because of the huge quantities of organic manure required under organic farming. They are willing to plant trees, but face difficulties in mobilising the required quantities of organic manures until the trees start providing sufficient pruning materials for compost making. This too would suggest that some extra time should be given to change-over or extra support should be given to the farmers to mobilise the inputs.

There are major volume issues in building up the OCGrA. At ginning level at least 800 acres of cotton should supply one gin. In order to influence the textile chain and get fair-trade issues being debated and action taken, very substantial quantities of cotton have to be produced and traded (at least 850 metric tonnes of lint). Clearly the market in the Netherlands (Made-by label) is too small to absorb these quantities and other markets have to be developed.

Fair-trade premiums should be 30 per cent, organic premiums about 20 per cent of the prevailing market prices and certification costs should be borne by the buyers (another 20 per cent). This means that buyers should be prepared to pay 70 per cent more (or 0.65 euros per piece of garment) to the farmers to create the required conditions for progress.

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