The Cooperative Model of HOPCOMS in Karnataka: Achievements and Challenges

Kedar Vishnu [1]

Abstract

Empirical studies have largely focused on capturing the benefits of contract farming on farmers' net income and yield. However, not many studies have examined the impact of the cooperative model on farmers' net income and yield based on primary surveys. To address this research gap, an attempt is made here to analyze to what extent the HOPCOMS has helped farmers increase their income and yield compared to independent farmers (APMC farmers). The analysis is based on a primary survey of 150 chilli growers in the Kolar district of Karnataka, including 100 independent farmers and 50 cooperative farmers from HOPCOMS. Our empirical findings show that HOPCOMS members achieve more remarkable financial outcomes, with gross revenue and total profit per acre reaching ₹98,762 and ₹42,020, respectively, compared to ₹82,810 and ₹34,288 for independent farmers (IF).

Compared to independent farmers, HOPCOMS members have seen increased income and yield; however, the organization & #39;s growth has fallen short of projections, as turnover for fruits and vegetables has lagged behind that of commercial retailers. Increased competition and insufficient investment in modernization have made it more challenging for HOPCOMS to attract customers and improve the quality of its products.

Key Words: *HOPCOMS, APMC, yield, infrastructure*

1. Introduction

Due to factors such as increased marketed surplus, increased urbanization, and changes in the type and extent of government engagement in agricultural markets, India's agricultural marketing framework and system have seen significant changes over the past 50 years. The federal and state governments have taken several actions to alleviate farmers' difficulties, such as regulating market activities, building infrastructure, offering support prices, and establishing an input support program. As a result, significant changes have been made to farmers marketing strategies and the marketing system. There

[1] Associate Professor of Economics, Department of Liberal Arts, Humanities, & Social Sciences, Manipal Academy of Higher Education, Manipal.

has been a decline in village sales, which has increased sales at the market. This has reduced pricing risks for food and non-food crops to some extent, increasing marketable surplus compared to market fees that farmers must pay.

Nevertheless, certain practices that existed in the past periods continue to a great extent. These include continuous immediate post-harvest sales, the absence of cleaning, grading, and packing facilities accessible at the farm level, and an emerging monopoly of agricultural produce market committees in providing marketing services (Acharya, 2004).

Between 1951 and 2021, there were 6920 regulated marketplaces in India, up from 236 in 1951 (Patnaik, 2011). Despite the increasing number of APMCs, there is much controversy regarding their effectiveness due to market malpractices that hurt farmers. Many existing studies have shown that dealers' and commission agents' manipulations of regulated markets are the primary cause of these shortcomings (Acharya, 2006; Meeta, 2008).

The union government has undertaken several initiatives to address the issues mentioned earlier, such as encouraging contract farming (CF), allowing commodity exchanges, establishing direct markets, private markets, and public-private partnerships under the Modern Agricultural Marketing Act. Numerous state governments have tried to support cooperatives in increasing their production of horticulture and vegetables. Karnataka is one of the Indian states that began promoting cooperatives in 1965.

In order to give farmers access to marketing facilities in the 1970s and 1980s, the government promoted the formation of marketing cooperatives. The expected benefits included strengthened farmers bargaining power, enhanced members financial security through product marketing, eliminating intermediaries, and direct customer sales. The cooperatives contribution to fruit and vegetables (F&V) marketing has not been fully captured in the existing literature in India. First, it appears that the omission has happened because scholars have been more interested in and focused on how globalization and economic liberalization have sparked a boom in contemporary private retail investment and multi-nationalization. According to Reardon and Minten (2011), the state's declining and cooperative food retail segments in different countries also contributed to the neglect. A brief introduction of cooperatives in India is provided in the following parts.

In India, Mother Dairy and Amul cooperative chains are well-known; they have succeeded and are frequently used as role models. The National Dairy

Development Board (NDDB) established Mother Dairy to provide milk to city dwellers in Delhi in 1974. Under the brand name Safal, NDDB launched the Mother Dairy F&Vs initiative in Delhi in 1988 due to its success in the dairy sector (Reardon & Minten, 2011).

The first cooperative chain in India to launch a F&V company was Mother Dairy. Safal also played vital role in India. The chain has rural collection-cum-grading centres, each serving eight to ten communities. Produce is supplied by farmers either individually or through associations.

In 1959, in Karnataka, the Horticultural Producers' Cooperative Marketing and ProcessingSociety Ltd. (HOPCOMS) was established. In order to help farmers and consumers alike, the HOPCOMS was founded to provide an appropriate framework for marketing F&V. There was no proper mechanism in Karnataka for selling horticultural produce before the founding of HOPCOMS. In Karnataka, HOPCOMS operates in the districts of Bengaluru Rural, Bengaluru Urban, Chikkaballapura, Kolar, Ramanagar, and Mysore. Members' stakes and involvement in decision-making are severely restricted because the government provides a sizable portion of the capital share.

HOPCOMS is a growers' organization that only has growers as members, as it sources F&Vs from its own members. Apart from planting materials, it deals with all horticulture products. Currently, HOPCOMS has a membership of over 19,000 farmers. Karnataka now has 325 HOPCOMS stores as of 2018, compared to 237 in 2007. Due to the high demand for F&Vs, HOPCOMS centered their locations in Bengaluru, as roughly 270 shops function just in Bengaluru (Including rural Bengaluru). HOPCOMS offers medium-quality F&Vs at fair, compensatory costs because their primary target market is the middle class. F&Vs are also sold by HOPCOMS to other businesses, such as lodging facilities and eateries. Because the state guarantees their operations and bears the losses, state-supported retail chains are not always focused.

Due to the state-owned merchants ' limited operations and lack of efficiency, the government believed additional players needed to enter the retail food chains. The government gave more attention to cooperative development—which benefited both farmers and consumers—in the 1980s. In Delhi and, to a lesser extent, in Bengaluru, the cooperative retail chains had great success growing their businesses. The cooperatives could not expand their branches and business at the start of the 1990s compared to the private (Modern Food Retail Chains) MFRCs. One way to look at it is that this is primarily the result of issues with incentives to work hard, poor coordination and collaboration amongst members, and other issues.

However, cooperatives could not meet the customers' increasing standards and demands for quality. The cooperatives could not provide producers with all the necessary inputs to make higher-quality goods. As a result, they failed to establish effective vertical coordination between producers and consumers. Transparency was yet another factor contributing to cooperatives' slower growth.

2. Objectives & Methodology:

Many empirical studies have examined the benefits of contract farming for farmers in India, particularly in Karnataka (Reardon & Gulati, 2010; Singh, 2018; Chand & Agrawal,2020; Deshpande, 2019). These studies have shown that farmers engaged in contract farming experience increased income and yields. However, there have been limited studies comparing the impact of cooperatives on farmers' income relative to APMC (Agricultural Produce Market Committee) farmers. This paper aims to assess the benefits of cooperative channels on the net income of farmers in the Kolar district of Karnataka, comparing them with APMC farmers. Further, an attempt has been made to understand why HOPCOMS has recently been unable to increase its operation in Karnataka.

The analysis is based on a primary survey of 150 chilli growers, including 100 independent farmers and 50 cooperative farmers from HOPCOMS in the Kolar district of Karnataka. The authors used a stratified sampling method to select the farmers to overcome selection bias. The primary survey was conducted in 2017 in the state of Karnataka, India.

3. Results & Findings:

The results and findings of the study reveal the growth of supermarkets in Karnataka and also the benefits of different modern food retail chains with respect to chilli farmers.

3.1 Supermarket Growth in Karnataka and India:

In a recent paper, Vishnu, K. & Kumar, P. (2023) report that considerable expansion in the supermarket sector for fruits and vegetables (F&Vs) in Karnataka, particularly in Bengaluru, was observed between 2007 and 2017. After seeing tremendous growth, Reliance Fresh now has 65 stores in Bengaluru and 208 outlets throughout Karnataka, which accounts for 34.8% of its total national sales. We now have 495 supermarkets nationwide, 100 of which are in Karnataka.

According to GourmetPro (2024), the top supermarkets in India have grown significantly over the past decade, revolutionizing the retail industry. There are over 13 million grocery retail outlets in India. Food and groceries

constitute the largest segment of the Indian retail market, accounting for 65%. Government projections estimate that this sector will be valued at approximately USD 850 billion by 2025, with an expected compound annual growth rate (CAGR) of around 10% from 2022 to 2030.

HOPCOMS has around 330 stores across Karnataka, with 280 of them in Bengaluru. The state cooperative HOPCOMS remains well-established. Despite their national expansion, the reach of companies like Safal and ITC Choupal Fresh was restricted in Karnataka. During this period, Karnataka's supermarket industry grew to account for 25.9% of the country's total, indicating a healthy market. While exact information on the number of HOPCOMS outlets in 2024 is unavailable, 89 HOPCOMS outlets have closed in the past five years, and there is no clear strategy in place to reverse this trend (The Hindu, 2023).

Based on the primary survey and our interactions with various managers of the selected MFRCs, we classified different MFRCs based on their characteristics and operations. We observed that most MFRCs operating in Karnataka belong to MC private channels. We found little difference between MC cooperative MFRCs and MC private channels, aside from their mode of operation. Farmers can sell their products to HOPCOMS only if they own some land and are members of HOPCOMS. In contrast, for MC private channels, farmers do not need to own land or be company members. HOPCOMS makes an effort to provide its members with comparatively better pricing during extremely low prices in an effort to spur production. It can also be observed from Table 1 that MC private MFRCs have been growing significantly in Karnataka compared to cooperative channels.

Table 1: Classification of different MFRCs based on their characteristics

Sl. No.	Model Specification	Existing Players
1	Market contract (MCs Private)	Reliance Fresh, TESCO, More, Leaf, Big Bazaar, Big Basket, Metro, Ninja Cart, SPAR, Trent, Spencer's, Hyper City, Easy Day, Nilgiri's, D-Mart, Nature's Basket
2	MCs Cooperative	HOPCOMS and Safal
3	Production Contract (PC)	Namdhari Fresh and Yasu & Co iv

Source: Authors' primary survey (2017)

HOPCOMS is a cooperative society founded in 1959 and focused on poor and middle-class consumers. It handles fruits and vegetables. It works in supermarkets with 500–2,000 square feet of space and focuses on medium-quality products while giving horticulture crop growers competitive pricing.

3.2 Descriptive statistics from the primary survey:

The APMC or independent farmers (IF) and Market Contract (MC) cooperative organization's comparison offers insightful information on how various farming models influence agricultural practices and results. The way that land is managed differs most noticeably. Compared to IF, cooperative members operate on an average land area of 5.77 acres, which is significantly higher. Increased overall productivity could be a result of this bigger operational scale. For example, cooperative members earn ₹98,762 in gross revenue per acre, which is far more than the ₹82,810 that IF make. Nonetheless, the average cultivated area under chilli among cooperative members is 1.23 acres per household, while the total area farmed by IF is 1.56 acres. This implies that cooperative members might prioritize yield optimization over mere area expansion.

There is an obvious difference between the two groups' educational achievement levels. A cooperative member's average educational background is 6.30 years, significantly higher than the 2.66 years given for IF. This higher degree of education probably supports better farming techniques and more efficient application of cutting-edge agricultural technologies. Nevertheless, a notable paradox exists: although cooperative members have, on average, greater formal education, a higher proportion of their members (60%) lack literacy than the total number of farmers (26%). This could reduce the overall influence of education on farming practices because it implies that the cooperative's educational benefits are not dispersed equally.

Financial dynamics further exemplify the contrasts between the two groups. Compared to the ₹0.77 lakhs that IF receives, cooperative members receive an average loan amount of ₹4.08 lakhs per household. Members of the cooperative can now invest significantly more in farming inputs and upgrades because of their increased access to finance. That being said, their costs per acre are ₹56,742 as opposed to ₹48,454 for IF. As opposed to ₹82,810 and ₹34,288 for IF, cooperative members' gross revenue and total profit per hectare are higher due to their enhanced financial resources, coming in at ₹98,762 and ₹42,020, respectively.

There are similarities and differences in the way both cooperative members and individual farmers perceive risk. In both categories, 10% reported

feeling the risk was high, and about 48% reported feeling the risk was medium. However, compared to 8% of IF, cooperative members are more inclined to believe there is no risk (16%). This increased sense of confidence among cooperative members may result from enhanced risk management techniques or stronger support networks offered by the cooperative model, which raises their perception of overall security in farming operations. The comparison also takes into account logistical issues and infrastructure access. Input markets and highways are closer to cooperative members—7.32 km and 1.42 km, respectively—than they are to IF—12.8 km and 1.06 km, respectively. They are, however, more away from collecting centres (17.84 km) and banking facilities (4.1 km) than they are from IF (1 km and 13.52 km). While cooperative members may have easier access to certain resources, this discrepancy implies that they may encounter more difficulties in marketing and financial transactions, which may have an impact on their operational effectiveness.

Ultimately, productivity measures highlight how well the cooperative model works to improve agricultural output. Our results show that the yield for the IF farmers was reported lower at 4.92 kg/ha, compared with cooperative members yielding 6.29 kg/ha. Additionally, they negotiate a higher price per kilogram of ₹20.86 as opposed to ₹18.38 for IF. Because of these characteristics, cooperative members have a far higher overall profit per acre of ₹42,02 as compared to IF (₹34,288). The cooperative model shows significant economic benefits through enhanced productivity and profitability, emphasizing its potential benefits in boosting agricultural returns, even in the face of more significant operating costs.

Table 2: Attributes of Different Modern Food retail Chains (MFRC) Chains and Independent Farmers (IF) –The case of Chilli crop

Sr	Variable	IF	MCs' cooperative
1	Land area (acre)	3.84	5.77**
2	Age of head of household (HH), in years)	48.12	45.5
3	Farming experience of HH (years)	4.80	4.28
4	Household size (number)	4	5
5	HH member, education (in years)	2.66	6.30***
6	Loan amount (Lakhs Per HH)	0.77	4.08***

Sr	Variable	IF	MCs' cooperative
7	HH member, illiterate (%)	26.00	60.0***
8	HH member, primary education (%)	48.00	25.0
9	HH member, secondary school education (%)	26	5.00**
10	HH member, Tertiary education (%)	0.0	10
11	HH member, perceiving high risk (%)	10.00	10.0
12	HH member, perceiving medium risk (%)	48.00	44.0
13	HH member, low risk (%)	34.00	30.0
14	HH member, perceiving no risk (%)	8.00	16.0
15	Distance to input market (in Km)	12.8	7.32***
16	The nearest road distant from the agri. Field (in km)	1.06	1.42***
17	Distance to banking facility from Agri. field (km.)	14.1	4.91
18	Distance of collection centre from Agri. field (km.)	13.52	17.84
19	The total area under chilli (acres per HHs)	1.56	1.23***
20	Total production of chilli in tons (per HH)	7.65	7.75
21	Yield (Kg. per acre)	4.92	6.29**
22	Price received (₹ per kg)	18.38	20.86
23	Total gross revenue per acre (In ₹)	82810	98762**
24	Total cost per acre (In ₹)	48454	56742**
25	Total profit per acre (in ₹)	34288	42020*

Note[1] Based on the perception of the farmers related to the financial investment * Significant at the 10% level, ** Significant at the 5%level & *** Significant at the 1% level

Source: Authors Primary survey (2017)

4. Major Findings and Policy Recommendations:

HOPCOMS has undoubtedly helped its members increase their income and yield compared to the IF. However, HOPCOMS has not grown as per our expectations. The turnover of HOPCOMS for fruits and vegetables has not increased significantly compared to private supermarkets. HOPCOMS has faced many challenges in expanding its business in Karnataka. Since the wave of supermarkets started mainly in South India, many international firms have begun operations in the Bengaluru district. Many domestic firms have also introduced fruits and vegetables in their shops to attract customers. Due to the high competition, HOPCOMS could not attract more consumers, leading to lower demand for HOPCOMS products. It is harder for HOPCOMS to draw in and keep consumers when competing supermarkets have a greater range of goods and employ more sophisticated marketing techniques. Additionally, due to limited investment, HOPCOMS could not modernize its warehouses and storage facilities like other supermarkets, preventing them from focusing on improving the quality of their offerings.

HOPCOMS also has internal issues to deal with, like properly managing the supply chain and collaborating with a broad set of farmers. The chain did not improve the efficiency of its supply chains over time and lacked effective strategies among its staff for promoting the organization. Due to inadequate infrastructure, they could not reduce waste in the supply chain compared to private modern food retail chains. Many independent farmers may lack the resources and expertise to meet market needs regularly. Due to this fragmentation, HOPCOMS may find building a trustworthy brand image more challenging, which may cause product quality and supply variations. To increase operational effectiveness and establish a more substantial presence in Bengaluru, HOPCOMS must address these internal

issues.

HOPCOMS should concentrate on enhancing infrastructure in order to expand operations. This may be achieved by investing in cutting-edge logistics and warehouses, which will lower waste and improve product quality. Operations can also be streamlined by educating employees and farmers on best practices, expanding the range of products to include processed and seasonal goods, and integrating technology for online and inventory sales. In conclusion, implementing methods for gathering customer input will enable HOPCOMS to gain a deeper comprehension of customer preferences and make well-informed modifications to satisfy market demands efficiently.

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