Farmer Producer Organisations

A Panacea for Farmer Problems

Subhashree Sahu[1], Pratibha Joshi[1] and Sitaram Bishnoi[1]

[1]Scientist, Division of Agricultural Extension, ICAR-IARI, New Delhi- 110012

*Corresponding Author: subhashree28191@gmail.com

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Introduction

Approximately 85% of the Indian farmers are small and marginal. The Indian farmers are generally hindered with high transaction costs, low credit access and weak market linkages. One stop solution to deal with all these problems and enhance the bargaining power of the farmers is their aggregation. There are various forms of collectivization like farmer cooperatives, farmers' clubs, farmer interest groups, etc. Such aggregates of farmers are called Farmer Producer Organizations (FPO), which can be registered under various legal forms like cooperatives, producer companies, Section 8 company, societies or public trusts. In

India, two types of legally registered FPOs are commonly found i.e. Farmer Producer Companies (FPCs) and Cooperatives (SFAC, 2019). A part of the profit is shared amongst the producer members and rest of the surplus is added to its owned funds for business expansion.

Present Status of FPOs

At present, there are about 7374 Farmer Producer Companies (FPCs) in India which cover about 4.3 million farmers. Almost all states and union territories have registered producer companies. However, a large number of companies are concentrated in four states, Maharashtra, Uttar Pradesh, Tamil Nadu and Madhya Pradesh, accounting for half of producer companies registered in India (Govil et.al., 2020). In India, the FPOs are largely promoted by Small Farmers' Agri-Business Consortium (SFAC), National Bank for Agriculture and Rural Development (NABARD), State Government (Funded by leveraging RKVY or the World Bank funds), NRLM Programme (MoRD) and Other Organisations/ Trust/ Foundations like Bill & Melinda Gates Foundation, TATA Trust, Reliance Foundation, Ambuja Cement Foundation, HDFC Foundation, C&A Foundation, HSBC CSR, Axis Bank Foundation, Jindal Steel &Power Ltd. and Syngenta foundation (NABARD, 2015).

Case Studies

Sahyadri Farms, the farmer producer company (FPC) set up in 2010 in Nashik, Maharashtra, has grown to become the largest FPC in the country, with a membership of over10,000 farmers and a turnover of Rs 300 crore. It has become India's largest grape exporting company, and it has now entered into the business of fruits and vegetables also.

Sahyadri FPC

Wholesale counter at Rajatalabmandi, Varanasi

Rameshwar Farmer Producer Company Limited in Varanasi has set up a wholesale outlet at Raja talab mandi for vegetable sale and has proved to be a more remunerative marketing channel for the farmers. At the local mandis, the farmers needed to pay 6% as commission to the wholesalers to sell vegetables. The company decided to charge 5% as the commission for selling vegetables and at the end of every month 2% of the commission will be returned to the shareholder farmers as a loyalty bonus. Thus effectively, the farmers paid a commission of just 3% as against 6% charged by wholesalers. Major vegetables supplied by farmers include cabbage, cauliflower, radish, pea, brinjal, tomato, cucumber, bottle gourd, lady finder and other seasonal vegetables. The FPO has appointed one counter Sales Executive and 1 supporting staff on a monthly remuneration for managing the operations. The vegetables are transported to the counter in a common vehicle from the villages and only one farmer visit the mandi and returns with the sale amount. This way, the rest of the farmers save their time. The farmers have hired a permanent vehicle to carry vegetables to the mandi and the transport cost has reduced by 20%. During 13 months, the wholesale counter has sold varieties of vegetables worth Rs25.50 lakhs. The average value of vegetables sold is Rs6500 per day with 15-20 quintal of vegetables (SFAC, 2019).

Benefits of FPOs

The cost of cultivation is reduced when the necessary inputs are procured in bulk at wholesale rates, and also through custom hiring of agricultural machineries and farm equipments. There will be ease in availing farming-related advisories and market related information about prices and volumes in different locations, participation in commodity exchanges, thus reducing information asymmetries and strengthening the market intelligence. Post-harvest losses can be minimized through joint storage and undertaking primary and secondary processing activities. Aggregation and bulk transportation of the produce reduce the marketing cost and also attracts traders, processors, and retailers. Adverse price fluctuations and distress sale can be managed or avoided with scale and ensures greater bargaining power of the farmers. There can be strong marketing linkages through networking with institutional buyers. It becomes convenient and profitable to go for Branding, Packaging, Labelling and Standardization of the agricultural produce. The farmers can have access to hassle-free institutional credit against stock, without collateral by virtue of joint liability. The farmers can think of diversification towards the unconventional cash crops and have greater quality orientation in production and processing activities. They can also go for export of commodities, by following the quality specifications. Also, it is more convenient to adopt digitization and reap the benefits of various government policies, such as the Equity Grant Fund Scheme, the Scheme for Creation of Backward and Forward Linkages, the Credit Guarantee Fund Scheme, and the National Rural Livelihoods Mission (NLRM).

Government initiative for promotion of FPOs

- Government of India has launched a new Central Sector Scheme entitled "Formation and Promotion of 10,000 Farmer Produce Organizations (FPOs)" to form and promote 10,000 new FPOs in the country in five years from a period of 2019-20 till 2023-24 with budgetary provision of Rs 6865 crores.
- FPOs will be provided financial assistance up to Rs 18 lakh per FPO for a period of 3 years. Also, a provision has been made for matching equity grant up to Rs 2,000 per farmer member of FPO with a limit of Rs 15 lakh per FPO and a credit guarantee facility up to Rs 2 crore of project loan per FPO.
- 09 Implementing Agencies (IAs) have been finalized for formation and promotion of FPOs viz. Small Farmers Agri-Business Consortium (SFAC), National Cooperative Development Corporation (NCDC), National Bank for Agriculture and Rural Development (NABARD), National Agricultural Cooperative Marketing Federation of India (NAFED), North Eastern Regional Agricultural Marketing Corporation Limited (NERAMAC), Tamil Nadu-Small Farmers Agri-Business Consortium (TN-SFAC), Small Farmers Agri-Business Consortium Haryana (SFACH), Watershed Development Department (WDD)- Karnataka & Foundation for Development of Rural Value Chains (FDRVC)- Ministry of Rural Development (MoRD)
- The Implementing agencies will engage cluster-based business organizations (CBBOs) to aggregate, register and provide professional handholding support to each FPO for a period of 5 years.
- FPOs are to be developed based on “One District One Product” cluster to promote specialization and better processing, marketing, branding & export.

- Priority will be given to the Aspirational Districts by way of forming at least one FPO in every block of aspirational districts of the country.

(Source: DAC&FW, 2020)

Operational constraints for FPOs

- The policy push has been for increasing the number of FPOs. Now, the number of FPOs
- are being used as a proxy for agricultural development. Though there has been a drastic increase in the number of FPOs registered 2012 onwards, many actually exist on paper only.
- Most of the established FPOs are still at a nascent stage and sustaining on grants.
- There is no provision in the current programmes and schemes to cover business risks of FPOs.
- Building member trust is hard for new FPOs.
- The present guidelines do not treat FPOs and farmers at par with each other.
- Difficulty in securing institutional finance. The banks are usually wary of granting loans to the FPOs as they do not have assets of their own to serve as collaterals. Consequently, the FPOs have to rely on loans from non-banking financial companies or micro-finance companies. While agricultural loans are available at 7-9%, FPOs have to borrow largely from microfinance institutions (MFIs) at about 18% interest.
- Even the facility of cheap bank loans with liberal interest subvention by the government that is available to individual farmers is denied to the FPOs.
- Moreover, many other concessions, tax exemptions, subsidies and benefits provided to cooperatives, start-ups and the like have not been extended to the FPOs.
- Process of opening trading account with commodity exchanges like NCDEX is very lengthy and cumbersome for FPOs.
- Farmers Producers Organization usually faces difficulties in operating at the regulated Mandis because of the resistance offered by the licensed traders. It is because these traders have a significant hold over the markets.
- Lack of legal recognition under the contract farming regulations.
- Lack of technical skill and professional management to manage the operations of FPOs
- Small number of shareholders, low procurement volumes, sub-scale operations, limited value addition capabilities, poor marketing linkages, inability to attract talent and lack of strategic thinking and planning etc.

Interventions for improving functioning of FPOs

- Government support in the form of grants during the early stages of the FPOs needs to be strengthened.
- The Annual General Body meetings of FPOs need to be attended by all the farmers. The active participation of the farmers needs to be ensured for sustainability of these organizations.
- The FPOs need to choose their activity portfolio carefully keeping in mind the member centrality. However, they need to diversify fast, adopt business-cum-activity-mix strategies to increase turnover. It is possible to identify new activities in local areas which are valuable for small farmers e.g. custom hiring of farm machinery and equipment which they can't afford to buy but can rent in.
- The FPOs practicing organic farming can be designated as certifying agencies for third parties and individual growers by the union government agencies like APEDA.
- Banks give collateral free loans to Small and Medium Enterprises (SMEs) which can also cover FPOs.
- Greater investment through PPP mode to create innovative and cost-effective platforms to connect FPOs to regulated

markets, private markets, big retailers, commodity exchanges and corporate markets.

- System of issuing various licenses for undertaking business activities by FPOs may be simplified to make it a single state wide license.
- Innovative financial instruments for FPOs like warehouse receipt financing, increased first loss default guarantee, risk funds, impact bonds should be promoted to strengthen the FPOs capabilities.
- Acknowledging FPOs as Micro Small and Medium Enterprises (MSMEs): Inclusion of FPOs in definition of MSME will open up new avenues of support for FPOs in raising capital for business operations. Additionally, FPOs will also become eligible for exploring opportunities of benefits from various government schemes which identify MSMEs as primary beneficiaries.
- Bringing in private investment like Foreign Direct Investment (FDI) would help in building better organizational capabilities for the FPO.
- Regular capacity building of FPO board members and other key appointments on Management Practices.
- External factors like infrastructure development, market and financial accessibility, credit affordability, efficient commodity pricing mechanism etc. need to be managed by government at equitable pace.
- Measuring and recording data points all that happens in field, market, storage area, and in meetings for transparency and future strategy building.
- Partnerships, linkages with wholesale purchasers, suppliers, financial institutions, transporters, storage facility, agriculture universities, management institutions, agriculture department in government, and other government institutions to make FPOs sustainable in long run.
- Increase role of FPO in social development activities. Social responsiveness (identifying and working for the common social problems in the community) should be attached to these institutions from evolution phase.

Opportunities for FPOs in farm bills

The Farmers Produce Trade and Commerce (Promotion and Facilitation) Bill (FPTC) allows the creation of 'trade areas' where any corporate buyer, processor, private trader, or agri-entrepreneur can buy directly from farmers. Referred to as the 'Contract Farming Bill', Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill (FAPAFS) allows for non-compulsory written contracts between buyer and seller across the country, beyond the purview of APMCs (Economic Times, 2020). Farmer producer organizations (FPOs) can benefit from the marketing opportunities that will unlock from the farm bill 2020, allowing for income and welfare growth. FPOs/Agriculture Cooperative Society can act as a trader and can buy or sell across Trade Area throughout India like farmers. FPOs can create their own electronic platform for trade and commerce of scheduled farmers' produce. The easing of market restrictions will result in a private sector response in agricultural value chains. Cold chains, better connectivity, the establishment of grades and standards, and storage infrastructure will be in the private sector's best interest while linking directly to farms. But without strong FPOs, FAPAFS and FPTC will do little to improve smallholder market access by themselves.

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