



Farmer producer organisations: Innovative institutions for upliftment of small farmers

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ABSTRACT

Need of Farmer Producer Organizations (FPO) was felt to overcome the problems of unorganized small farmers who lack access to resources and services. FPOs emerged as an interface between small farmers and the external world by providing forward and backward linkages, giving them required voice, market access, bargaining power, economy of scale and better prices. Among different tangible and intangible benefits, marketing related benefits like access to different market channels, decrease in risk, decrease in transaction cost, economy of scale etc. were reported prominently by different studies. Some studies recommended formation of women FPO, as male dominance in mixed type of FPO reduces women's chance of equal participation. Structure and organization of FPO vary from country to country depending upon the legal and policy framework of the country. Ability of FPO to create and maintain linkages outside is linked to success of the FPO in long run. Articulation of demand, service provision, capacity building and financing are the important Extension and Advisory functions performed by FPOs. Weakness related to organization and group dynamics featured prominently in many studies, which can be overcome by enabling policy, ethics, professionalism and linkages creation for success and sustenance of FPO.

Key words: Bargaining power, Economy of scale, Farmer producer organization, Mobilization

Grass root level institutional innovations in the form of farmers' collectives had received wider popularity all over the world in last two decades. Farmer Producer Organizations (FPOs) are one of the major institutional innovations for the empowerment, poverty alleviation and advancement of farmers and the rural poor. India's National Bank for Agricultural and Rural Development (NABARD) defined Farmer Producer Organizations as one type of producer, organization (legal entity formed by primary producers viz. farmers, fishermen, weavers etc.) where the members are farmers (NABARD 2015). In India, FPOs can be registered under Cooperative Society Act or Indian Companies Act or Indian Trust Act. There are about 792 FPOs managed by Small Farmers' Agri-Business Consortium (SFAC) and about 2082 FPOs by NABARD in the country. Most of the FPOs are engaged in bulk input procurement and distribution while others are involved in aggregation and marketing of fruits and vegetables, agro processing, government procurement scheme, dairy, organic farming, seed production and marketing, fishery and other

allied activities etc.

In case of developing countries like India, where agriculture is dominated by small and marginal farmers with limited resource base, FPOs can play an important role by mobilizing and organizing them for better market access, higher bargaining power, and higher price to their produce, better information dissemination (Bachke 2009), to bring economies of scale, reduce transaction costs and risks of farmers (Markelova *et al.* 2009). Small-scale farmers can have easy access to market information, credit and input for their production, processing, and marketing activities by joining Farmer Based Organizations (Asante *et al.* 2011). However, in spite of the widespread evolution of FPOs, their success across the world had shown mixed results (Chirwa *et al.* 2005). Similar situation is also observed in India. Therefore, it is necessary to analyse the dynamics of FPOs, factors influencing the performance of FPOs and the policy requirements to overcome the weaknesses of FPOs at grass root level.

This review article throws light on various dimensions of the FPOs based on review of available literature. As literature related to FPOs is scarce in Indian situation, more reviews from global studies are included for better understanding of various dimensions of FPOs.

Need of Farmer Producer Organisations

Achieving agricultural growth through small and

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marginal farmers has been an effective pathway for poverty reduction (Evenson and Gallon 2003, Hazell *et al.* 2010). In India, agriculture is dominated by the small and marginal (more than 82%) holdings. Small holders often face the problems of poor infrastructure and limited access to assets and services leading to high transaction costs and lower market participation (Barrett 2008, Bernard and Spielman 2009, Fischer and Qaim 2012); they lack the economy of scale resulting in low bargaining power and their limited income restricts the capital for investment in the agriculture (Misra 2008). This agrarian segment lacks market access and linkages to sell their produce owing to unorganized nature (Markelova *et al.* 2007, Narrod and Roy 2007, Roy and Thorat 2008).

Even though India is the leading producer of fruits, vegetables and milk production in the world, farmers lack off-farm competitiveness (Narrod and Roy 2007) and the inability to meet food safety standards restricts the export competitiveness (Roy and Thorat 2008). For tapping the potential of small holder agriculture by overcoming its constraints, different forms of farmers' collectives were evolved across the world. Farmers' collectives in the form of FPOs are assumed to provide the small farmers, better information on modern agriculture technologies, investments, inputs, markets and government policies and the collective effort is expected to reduce the problems associated with small holdings. In longer term perspective, FPOs are essential institutions for the empowerment, poverty alleviation and advancement of farmers and the rural poor (FAO 2007).

Benefits and impact of FPOs in small holder agriculture

FPOs emerged as an interface between small farmers and the external world by providing forward and backward linkages (Trebbin and Markus 2012). Benefits accrued to the farmers by associating themselves with FPO range from input benefits, production benefits, marketing and post-harvest benefits that can have positive and significant influence on income and welfare of farmers (Table 1). Input and information benefits are achieved through collective procurement of inputs which helps members in getting inputs at lower price with better negotiation (Herck 2014, Abokyi 2013). Extension and advisory services (EAS) provided by FPOs fulfill the information need of the farmers, reducing their transaction cost and fulfilling information need (Williamsons 1985, Herck 2014, GFRAS 2015). Most of the studies focused on the marketing benefits of the FPOs. Association with FPOs help the farmers in market access to different channels by offering larger volume which as individual farmer is not possible (Abokyi 2013, Herck 2014, Mishra *et al.* 2004, Latynskiy and Thomas 2016). As collective nature of FPOs increases bargaining power of the farmers (Herck 2014, Salifu *et al.* 2010), decreasing middlemen (Nikam and Singh 2016) giving more price to their produce (Bijman *et al.* 2012). As risk is spread over all members, there is decrease in risk in marketing (Williamsons 1985). With the help of different post-harvest operations,

vertical integration is more in FPOs by pooling their resources (Brown and Sander 2007, Ton 2008). As member of FPO, farmers often earn more income than as individual farmer (Mishra *et al.* 2004, Cazzuffi 2015). However, some studies also found decrease in price to members because of FPO (Lind 2011) and some found no evidence of vertical integration as result of FPO (Peppelenbos 2008).

Some studies also analyzed the impact of FPOs beyond farm level. It is not only farmers' producers who benefit from the FPO, but consumers also get benefits in terms of high quality produce (Shepherd 2005, Vorley *et al.* 2007, Abokyi 2013) and lower price (Wills 1985). Formation of FPOs also produces many intangible benefits to the members' viz. social cohesion, trust and partnership among members, development of specific skills like conflict resolution and reconciliation of individual interest and development of entrepreneurial culture (Williamsons 1985, Wilson 2009, Markelova *et al.* 2009). In terms of environmental benefits, functions of FPOs helped in conservation of natural resources (Abokyi 2013, Pretty and Ward 2001). At macro level, FPOs help in farmers' welfare (Bernard and Spielman 2009, Fischer and Qaim 2012) and economic development of the country (World Bank 2008).

Thus, farm level benefits of FPOs are input benefits, production benefits, marketing and post-harvest benefits; while beyond farm, they helped in providing quality produce to consumers, societal benefits, development of entrepreneurial culture, environmental benefits that helps in welfare of farmers and economic development of the country.

Role of FPOs in rural extension and advisory services

In the era of declining public extension system, FPOs can contribute to rural advisory services through plurality of advisory services (GFRAS 2015). FPOs plays important role in rural advisory services viz. enhancing capacity of human resources; linking with stakeholders from other villages; establishing legal organisations with a right to deliver services; providing forums for communication etc. (Puantani 2014). FPOs in collaboration with other actors can contribute to three element of rural advisory services viz. demand articulation, service provision, and financing (GFRAS 2015). In demand articulation they can play important role in identification of individual needs; exchanging and prioritising ideas; and formulating and articulating demands, while in supply side they provide knowledge services, economic advisory services and facilitate the supply of input services (GFRAS 2015).

Extension services provided by the FPOs have advantage over public and private extension services in many ways. FPOs enable cost-effective delivery of extension services to the members (Salifu 2010). FPOs can be effective alternatives where private and public provisions of agricultural services have failed (FAO 2007). However, there cannot be complete separation of extension services provided by FPOs and public extension system as most FPOs suggested that their members received more training from agricultural extension agents (AEA), as AEAs specifically

Table 1 Benefits and impact of association with the Farmers Producer Organisation

Category and types of benefits	Effect (positive/negative/no effect)	References
Input supply and assistance in quality control	Positive	Abokyi 2013
Price negotiation for the input	Positive	Herck 2014
Extension and advisory service provision	Positive	GFRAS 2015
Agricultural productivity changes	Positive	Abokyi 2013
Market access	Positive	Williamsons 1985, Herck 2014, Abokyi 2013, Mishra <i>et al.</i> 2004, Latynskiy and Thomas 2016
Increase in price to farmers' produce	Positive	Herck 2014, Bijman <i>et al.</i> 2012
	Negative	Lind 2011
Bargaining power	Positive	Williamsons 1985, Herck 2014, Salifu 2011
Risk management	Positive	Herck 2014
Decrease in transaction cost	Positive	Williamsons 1985, Herck 2014, Latynskiy and Thomas 2016, Bernard and Spielman 2009
Economy of scale	Positive	Herck 2014
Vertical integration	Positive	Brown and Sander 2007, Shepherd 2005, Humphrey and Memedovic 2006, Ton 2008
	No Effect	Peppelenbos 2008
Post-harvest technology	Positive	Kurien 2007
Processing and value addition	Positive	SFABC 2013, Nyang <i>et al.</i> 2010, FAO 2012
Grading, hygiene	Positive	SFABC 2013
Joint use of equipments and storage	Positive	Nikam and Premalata 2016
Consumer price	Positive	Wills 1985
Quality	Positive	Abokyi 2013, Brown and Sander 2007, Shepherd 2005, Vorley <i>et al.</i> 2007
Social cohesion	Positive	Williamsons 1985
Trust and partnership among members	Positive	Williamsons 1985, Wilson 2009
Development of specific skills like conflict resolution and reconciliation of individual interest	Positive	Williamsons 1985
Entrepreneurial culture	Positive	Barman and Chitemi 2009, Markelova <i>et al.</i> 2009
Conservation of natural resources	Positive	Abokyi 2013, Pretty and Ward 2001
Increase in farmers income	Positive	Mishra <i>et al.</i> 2004, Cazzuffi 2012
Farmers welfare	Positive	Bernard and Spielman 2009, Fischer and Qaim 2012
Economic development	Positive	World Bank 2008

target FPO (Salifu *et al.* 2010). Benefits of FPOs can spillover from agriculture to other sectors also, therefore many governments establish FPOs to improve rural service delivery to enhance economic growth and reduce poverty (World Bank 2008).

FPOs have been seen as important medium for increasing social capital of the farmers in the village. Social capital is one of the factors that can create a foundation for mobilisation in the organisations which may stimulate participation (Storbakk 2013). Society where the physical distances between people are long and trust seems low, understanding and building social capital to enhance cooperation is important (Storbakk 2013). Networks, trustworthiness, and rules will make farmers in a FPO work more towards collective action and mutual benefit (Ostrom *et al.* 2003). Along with policy and advocacy function of

FPO, they can be effective medium for articulating farmers demand and representing to the government, thus acting as pressure groups by empowering its members to influence policies affecting their livelihoods (Salifu *et al.* 2010, Jere 2005). FPOs with solid membership base, coherent set of objectives derived from member's core interests, set of successful economic activities can increase the voice of farmers which in turn influence not only on public and private sector organisations but also on agricultural policy (Hussein 2001).

A comprehensive list of functions of FPOs is given by Trebbin and Markus (2012) which consists of organizational, production, marketing, financial, technology and welfare services (Table 2). Bosc *et al.* (2001) discussed five different functions of FPOs viz. economic, cultural, representation, information sharing and coordination. Abokyi (2013) found

Table 2 Important services/functions provided by FPOs to the members

Broad categories of services	Services/functions	References
Production services	Input supply, facilitation of production activities	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Abokyi (2013)
Marketing services	Transport and storage, grading, processing, market information, branding, certification	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Abokyi (2013)
Financial services	Savings, loans, and other forms of credit, financial management	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Abokyi (2013)
Technology and educational services	Extension, research, certification of groups, organizational skills, training information sharing	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Bosc <i>et al.</i> (2001)
Welfare services	Health, safety nets, drinking water, community development, awards	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Bosc <i>et al.</i> (2001), Abokyi (2013)
Linkages and coordination	Creating linkages, coordination with various actors	Bosc <i>et al.</i> (2001)
Representations and Policy advocacy	Defense of group, advocacy at different level	Trebbin and Markus (2012), Bosc <i>et al.</i> (2001)

that most common collective activities of FPOs included production, processing, marketing, procurement of inputs, and community development. Latynskiy and Thomas (2016) found that FPOs served different functions to the members viz. provision of planting material, seasonal credits, market information, transportation of farmers' produce, milling, group certification and awarding the farmers. Thus, FPOs functions include mobilization of members and articulation of their demand; provide them economic, social, financial, technical support, input provision; marketing and post-harvest operations; creating linkages with outside organizations and representation of group's articulated demands.

Legal framework of FPOs in various countries

There are wide variations in the organizational structure of FPOs across countries (GFRAS 2015). In case of India, the newly proposed framework of FPOs include, Farmer Interest Groups (FIGs) at grass root level which need to clustered into Farmer Producer Companies/Cooperatives. FIGs include 15-20 farmers whereas the FPCs include 50-70 FIGs (SFAC 2013). In India, Small Farmers Agri-business Consortium (SFAC) and NABARD are mainly involved in formation of FPOs. FPOs can be registered under Society Registration Act 1860, or Indian Companies Act 1956 or Indian Trust Act 1882 (Table 3). Institutions registered as cooperative societies and producer companies have legal provisions for sharing of profit earned by the FPO by way of dividend. Institutions can be formed under the acts governing non-profit institutions for promoting common interests of members/producers (NABARD 2015).

In case of developed countries like UK, most of the FPOs or cooperatives are registered under the Industrial and Provident Societies Act and Companies Act whereas in US, most cooperatives are registered as limited liability companies (Onumah *et al.* 2007). In case of Uganda, FPOs operate in a two level structure where the Producer Organizations with 10-40 members are present at the village level which are further federated into Depo Committees at county or sub county level. They operate under the legal

framework of cooperative law (Latynskiy and Berger 2016). In Vietnam, farmers' organization exists in the form of associations or cooperatives. The new generation cooperatives of Vietnam possess legal status to perform economic activities (Moustier *et al.* 2010). In Southern Africa, producer groups are far more likely to take the form of farmer unions, associations, or cooperatives (Jere 2005). While in Bolivia, FPO are registered under Bolivian law as non-profit organisations with social goals; they are units of family farmers who have come together for buying, selling and marketing of their produce (Storbakk 2013). Thus nature and structure of the FPO vary from country to country depending upon legislative and policy framework of the country.

Organizational aspects of FPOs

Major organisational aspect of FPO involves size, structure and stakeholders involved in it. Does size of FPO affect its performance and efficiency? Many studies have tried to answer this. Some studies found no significant relation between size and profitability or efficiency as result of the large size (Herck 2012, Ling 2012, McKee 2008). However, Herck (2012) argues that most of the evidence suggests significant economies of scale. Thus, larger FPO are found to be more profitable as they can spread their fixed costs over larger sales volumes and offer better prices to members (GFRAS 2015). There are four major stakeholders involved in the activities of the FPOs viz. farmers, private sector, NGO and public sector with different interest (Chirwa 2005). Farmers aimed to improve livelihood opportunities and security; private sector for knowledge and business opportunities to increase profit; while NGO and public sector eyed on improved rural service delivery, economic growth, welfare and poverty reduction (Chirwa 2005).

Linkages of FPOs can be direct or indirect depending upon context. Hussein (2001) observed that the most significant and successful institutional linkages tend to be formalised and established through direct bilateral contractual linkages or involve a third partner which is frequently a development project. Fostering strong

Table 3 Comparative chart for non-profit legal forms in India

Parameters	Section 8 Company	Society	Trust
Objectives	Non-Profit activities	Charitable, Literary, Scientific, etc.	Charitable, Socially beneficial
Statute/Law	Indian Companies Act, 1956	Societies Registration Act 1860	Indian Trust Act, 1882 or Bombay Public Trusts Act
Alternations of objectives	Complex legal procedures	Simple procedure	Normally only settlor can modify
Formation	Complex procedure, 3-6 months	Simple procedure	Simple and easy
Management	Formalities of Company law have to be observed	Few restrictions imposed under the Act	Very few restrictions under the Act
Meetings	To be held as per provisions of law which are quite extensive	Annual Meeting as per law and Rules of the society	No provisions laid down
Penalties	Various offences and lapses attract serves penalties	Few offences and penalties have been prescribed	Very negligible
Legal status	Full legal status	Legal status with certain limitation	Legal status with limitation
Statutory regulation	Exhaustive but mature	Very limited	Nominal
Removal of members	Not possible without consent	Possible without consent	Not applicable
Dissolution or takeover by state	Very difficult	Possible	Possible

Source: NABARD (2015).

relationships between agricultural research institutions, extension bodies and FPO is an important means for appropriate and participatory technology development and dissemination in rural areas (Hussein 2001). FPOs enable private entities to deal more effectively and efficiently with smallholder farmers (Gulati *et al.* 2007); it increases their profitability by reducing transaction cost (Abokyi 2013). While studying FPOs in Maharashtra, we found that linkages of FPOs with public and other organisations were not much strong and most of them were working in isolation. Therefore, for more inclusive convergence of extension service providers at district level, FPOs should be invited in all important agriculture related meetings in the district.

Types of FPO

Many bases have been used for classification of FPOs viz. focus of service provision, nature of service provided, integration into market, degree of structuring, nature of linkages and relations etc. Onumah *et al.* (2007) made classification of producer's organization in two-first diverse service providers which provide the services to range of crops, and second focused service providers which provide the range of services for specific crop. GFRAS (2015) and Thompson *et al.* (2009) while studying FPOs in Ethiopia, Kenya, and Malawi identified four types of FPOs based on nature of services namely, market oriented, input oriented, extension oriented and policy and advocacy oriented. Based on degree of integration into the market, Bosc *et al.* (2001) distinguished two types of FPOs-firstly, those which are engaged in the integrated sectors of export products on which the national economy depends or in food crops that are of strategic importance for food security; and secondly, those which work in less strategically important or fragmented sectors like animal husbandry, market gardening, rain-fed crops etc.

Bosc *et al.* (2001) also distinguished three types of FPOs based on degree of structuring-grassroots Rural Producers Organisations, regional federations, and the national associations- which bring together several federations. Based on nature of relations and linkages, Mercoiret *et al.* (2001), gave two types of typology of the organisation: first traditional organizations whose function is to regulate the internal relations of the group; second new organisations whose function is to organise the external relations of the group and which therefore appear at the interface between producers and the public and private actors in their environment (Bose *et al.* 2001).

Hussein (2001) observed that different types of FPOs exist viz. membership based, non-membership based, project inspired or traditional groups. Based on structure and area of operation, Hussein (2001) identifies four types of FPOs viz. farmers' organisations with several levels of organisation; FPO's that assemble representatives from a number of village groups in an area or district; Farmers' organisations comprising more or less numerous structures operating solely at village level and Forms of organisation similar to base groups at village level, with no clearly defined structure. These are different bases used for classification of the FPOs.

Women and Farmer Producer Organisations

Viewing FPOs through a gender lens mainly points to the gender inclusiveness of the organization and its gender differential impacts. Issues of women participation in FPOs and their inclusion in decision making were reported in many studies across the world (Golan and Lay 2008, Mudege *et al.* 2015). Towo (2004) found clear differences between the experience of women and male farmers within producer organizations; lack of sensitization to gender issues, restricted participation of women in meetings and

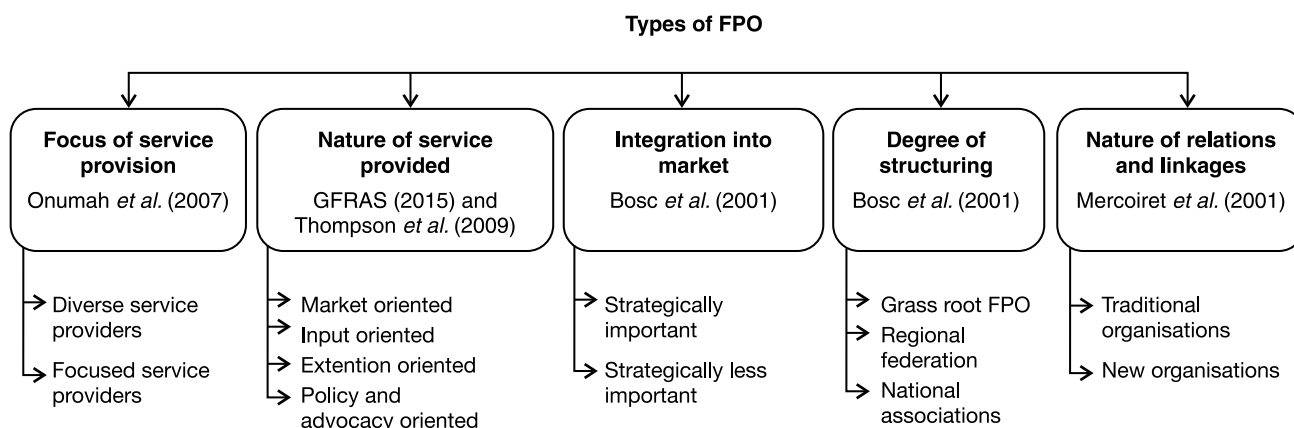


Fig 1 Different bases for classifications of FPO

the difficulties in balancing heavy domestic workloads were major factors behind the low female participation in producer organizations. Men dominance in the mixed gender FPOs reduced equal participation of FPO members, as the female members are mostly quietened (Mudege *et al.* 2015). Most of the organisations lacked the necessary lobbying and advocacy skills to encourage the participation of women. To, overcome this problem some studies suggested exclusive FPOs for women (Abokyi 2013, Towo 2004). Single gender FPO was more helpful to each other than the mixed gender FPO (Abokyi 2013). The women showed more commitment to the FPOs than men in the groups (Mudege *et al.* 2015). Male outmigration and feminization of agriculture witnessed in country. A key understanding of societal issues underlying the gender inequality is essential to achieve gender inclusiveness in FPOs. According to Chamala (1990), extension agents and agencies can play role, viz. empowerment, community organizing, human resource development, education and problem solving for strengthening the women producers' organizations.

SWOT analysis of Farmer Producer Organisations

SWOT analysis of FPOs helps in introspecting what are the internal and external factors that are favourable and not favourable to them. Strength of FPOs includes resilience and determination of smallholder farmers, committed leadership available at grass root, networking and linkages among farmers' organisations and credibility with the stakeholders (Chirwa *et al.* 2005, Jere 2005). Most of the reported weakness of the FPOs are related to the organisational and leadership aspect of the FPO, viz. divergent interest, low involvement, little rotation of leadership, lack of professional managers, lack of training, poor accounting system, poor internal communication etc. (Chirwa *et al.* 2005, Storbakk 2013). Some socioeconomic problems like poverty, low literacy rate, lack of access to resources etc. are the major weaknesses of the FPOs (Chirwa *et al.* 2005, Jere 2005). Because of poor financial situation, many farmers are not able to pay membership fee (Abokyi 2013, Jere 2005). Collectivising thousand farmers in diverse socioeconomic and political setting of rural areas is indeed a herculean task.

There are large numbers of opportunities before FPOs. Along with enabling policy environment, multiple service providers are available (Jere 2005). If FPOs are working on the major crops of the region, they can help in procurement of major crops and can exert some influence on the government as pressure groups. Market opportunities in the form of domestic, regional and international markets are available to the FPOs. At the same time to strengthen the leadership qualities and organizational development of the FPOs, research, extension and training institutes are available (Jere 2005). Environmental and contextual problems that lead to crop failure or lowering market prices was one of the important threat to the FPOs (Chirwa *et al.* 2005). High tax rate by the government, political interference, poor infrastructure and unpredictable weather and forecasting are the major threats to the sustainability of FPOs (Carney 1994, Chirwa *et al.* 2005, Jere 2005, Aditya 2015).

Reality of structural weaknesses of fragmented landholding and prevalence of large number of small and marginal farmers cannot be ignored and altered, and FPO can help in overcoming such problems. It has been seen that through the process of feedback by FPOs about quality and standard, farmer's behavior can be mended for better compliance of the standards resulting in more prices to the farmers and quality products to the consumers. Through SWOT analysis we can see that there are many constraints and challenges before the FPOs. Owing to this, sustainability of FPOs in long run is compromised. Four things will help FPO for better performance and sustenance- enabling policies, ethics, professionalism and linkages. As FPOs don't have proper structure and hierarchy, ethics can glue together all actors in FPO. Linkages with private firms, market, government institutes, research and extension organisations will help FPOs to remain dynamic and competitive.

This demands a good leadership at FPO level. Leader, who can secure trust of members, bring ethics in organisation, capable of creating linkages, motivate them to direct energy for quality production, act in the ambit of legal framework, will help in success and sustenance of the FPOs. Government and extension organisations can play important role in leadership development through quality training.

Table 4 SWOT analysis of Farmer Producer Organisations

Strength (Internal, positive)	Weakness (Internal, negative)
Resilience, determination of smallholder (Chirwa <i>et al.</i> 2005)	Low literacy rate (Abokyi 2013)
Committed leadership (Chirwa <i>et al.</i> 2005)	Poverty (Chirwa <i>et al.</i> 2005)
Extensive networking and linkages among farmer organizations (Ling 2006)	Divergent interest (Chirwa <i>et al.</i> 2005)
Credibility with government and other stakeholders (Jere 2005)	Limited financial resources (Jere 2005)
	Liquidity (Latynskiy and Thomas 2016)
	Lack of access to resources (Chirwa <i>et al.</i> 2005)
	Transportation and limited storage facility (Latynskiy and Thomas 2016)
	Low involvement by the members (Storbakk 2013, Elsner 2005, De Morrée 1998)
	Little rotation in leadership (Storbakk 2013, Elsner 2005, De Morrée 1998)
	Less external linkages (Storbakk 2013, Elsner 2005, De Morrée 1998)
	Lack of professional managers (Aditya 2015)
	Insufficient training and services (Aditya 2015)
	Membership fee-difficult for poor farmers (Abokyi 2013)
	Lack of adequate accounting system (Jere 2005)
	Inadequate promotional activities, marketing (Jere 2005)
	Poor internal communications in large organisations (Carney 1994)
Opportunities (External, positive)	Threats (External, negative)
Availability of multiple service providers-private, NGO, public sector (Jere 2005)	Environmental and contextual problems (Chirwa <i>et al.</i> 2005)
Enabling policy environment (Jere 2005)	High level of taxes (Chirwa <i>et al.</i> 2005)
Procurement of major crops (Aditya 2015)	Political interference (Chirwa <i>et al.</i> 2005)
Dealing with key crops and products in the economy (Jere 2005)	High interest burden from financial institutes (Aditya 2015)
Existence of domestic, regional and international markets (Jere 2005)	Trade liberalization (Jere 2005)
Availability of support structures such as government research stations, extension and training institutions (Jere 2005)	Poor infrastructure (roads, hospitals, electricity and schools) (Jere 2005)
	Unpredictable weather and unreliable forecasts (Jere 2005)
	Statutory barriers (Carney 1994)

Along with enabling policy environment, policy makers should also direct their efforts in strengthening leadership qualities for proper functioning and success of FPOs in India. Information Communication Technology (ICT) revolution can be effectively harnessed for the effectiveness and success of FPOs. Mobile, internet etc. are the effective medium to reach out all members, providing advisory, solving their production related problems. In marketing also members / FPO can be linked to buyers and consumers through websites, mobile based app or calling facility. ICT can even link all FPOs in virtual federation where they can interact and learn from experience of the successful FPO. FPOs even help in overcoming low mechanization in country by either by acting as custom hiring centre or providing machines to members at reasonable rate.

Way forward

Farmer Producer Organisations (FPOs) are found to be an effective institutional mechanism for linking small farmers to the external world and it help farmers to reap many tangible and intangible benefits including improved market access, reduced transaction costs, achieving economies of scale, better quality and price realization for the produce

and reduced risk. But, only establishing more number of FPOs will not serve the purpose until efforts are made to sustain the same. There are several barriers that have to be overcome. First and foremost is the capital constraint. FPOs are initially not able to raise share capital from their member-farmers. Most of the FPOs in India are all taking the only route available- aggregating raw produce and selling it to the private sector, which then takes away the lion's share of the profits. The next barrier is working capital. FPOs have to buy in cash as their member-farmers need the money desperately at harvest time to repay crop loans and run their households. They initially cannot demand cash from the buyers who often take a few months to pay. So FPOs need higher working capital. Given current banking norms, crops based FPOs are simply unable to raise loans, as they lack an equity base and cannot provide collateral. The next barrier is managerial capability. It is unreasonable to expect farmers to run the everyday business operations in an FPO. This necessitates hiring well-paid professionals if they reach a certain scale like large, successful co-operative dairies have done.

So what is the way out? While initial share capital from farmers is very difficult to mobilise, it can be raised over

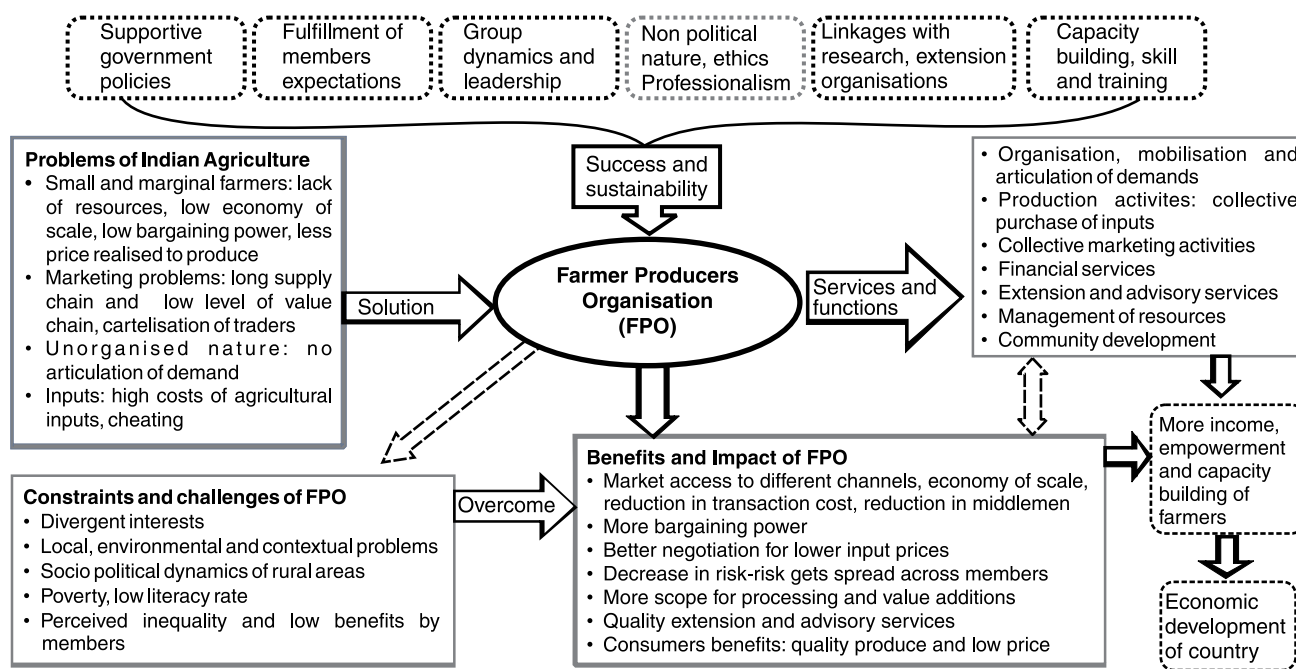


Fig 2 Framework for the Farmer Producer Organisation.

three to five years as profits come in. Benefits accrued to the farmers by associating themselves with FPOs ranging from bulk input procurement to post-harvest benefits and marketing may be ploughed back to farmers themselves. But meanwhile there are fixed investments, working capital and interest costs, and costs of professionals which draw attention for bridge financing. An interesting idea followed in other countries allows cooperative-corporation joint ventures and different classes of share capital (joint ventures permitted in the Indian Producer Company Act allow very little outside share capital). Hence, innovative ways of providing working capital to FPOs are urgently needed. The highly successful collateral-free, Self-Help Group-bank linkage program needs to be adapted for FPOs, based on a case-by-case business analysis and cash flows, rather than on collateral. This would also help in reducing interest burden on FPOs. RBI has to categorise lending to FPOs as a priority sector, but banks are not willing to come forward without collateral. An alternative is a special fund outside the banking system. The regulatory burden at the grassroots is far too cumbersome needing more number of permissions which need to be waived by giving Special Economic Zones (SEZ) type privileges to FPOs. The clarion call is to provide adequate policy and institutional support to FPOs to make them productive and economically self-supporting for sustainable livelihood of farmers.

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