

Farmer Producer Organization: A Potent Tool for Paradigm Shift in the Farm Sector

Shiwani Bhadwal¹, Rajesh Kumar Thakur² and Virender Kumar³

Abstract

Since independence, Indian agriculture has progressed from chronic food scarcity to self-sufficiency. With an average holding size of 1.08 ha, approximately 86 per cent of farmers fall into small and marginal categories. Small and marginal farmers are uncompetitive in terms of getting the best value for their produce due to their fragmented holdings and disorganization. To overcome these constraints and make small holding farming a viable option, farmers need to integrate as farmer collectives. Farmer Producer Organizations (FPOs) are one of the most important institutional innovations for empowering alleviating poverty, and advancing farmers. The primary goal of FPOs is to provide farmers with a sustainable business sense and better market access. However, in order to realize their full potential, FPOs must be encouraged by policymakers and other stakeholders, as well as scaled up across the country to benefit smallholders. In addition, government and extension organizations can focus their efforts on capacity building to ensure proper operation and success of FPOs. To make available market and price data to FPOs, they must be linked with input companies, technical service providers, marketing/processing companies, etc. Besides, India's emerging market and policy concerns offer potential aggregation benefits that accrue from production to any other activity feeding into the value chain. As a result, FPO is unquestionably a powerful institutional tool for a paradigm shift in the farm sector.

Keywords: Farmer Producer Organizations, FPOs

^{1,2&3}Department of Agricultural Economics, Extension Education & Rural Sociology, COA CSK Himachal Pradesh Krishi Vishvavidyalaya (CSK HPKV) Palampur

Introduction

Indian agriculture has come a long way since independence, from overcoming chronic food scarcity to achieving self-sufficiency in food grain production. Currently, agriculture employs 45 per cent of the workforce (MoSPI 2018-2019), while its share in the Gross Domestic Product (GDP) is 19.9 per cent in 2020-21, at constant (2011-12) prices (Economic Survey 2020-21). Around 86.21 per cent of farmers fall under small and marginal categories with an average land-holding size of 1.08 ha (Agriculture Census 2015-16). The fragmented holdings and disorganization of small and marginal farmers render them uncompetitive in getting the best value of their produce. The lower scale of operations, poor access to cheaper credit, inadequate access to market information, inadequate farming and extension services, low level of technology adoption, lack of capital and poor business skills, inadequate storage and transport facilities are the key concerns related to small farm holders (Dev 2005, NABARD 2018).

The future of the Indian farmer depends on rejuvenating the entire process of the agriculture production cycle along with upgrading the quality of products while maintaining cost competitiveness. A variety of approaches have emerged over the years to address this issue. The very first approach was agricultural cooperatives under the Co-operative Credit Societies Act, 1904, further modified as the 1912 Cooperative Societies Act, facilitating the formation of cooperative societies other than credit. With several modifications over the years, the Multi-State Cooperative Societies Act 2002 came, which was extended to the whole of India. However, the experience with cooperatives points to many limitations, amid few successful exceptions in the field of dairy farming. Lack of financial resources, inefficient management, untimely payments to farmers, inadequate credit facilities, the predominance of vested interests, undue government interference are some reasons for the poor performance of cooperatives in the country (Singh 2016).

Origin

With economic liberalization, policymakers and cooperative sector leaders started to rethink how to reorganize producer organizations, to make them more market-oriented and infuse professionalism in them. Hence, the Indian Companies Act, 1956, was amended in 2002-03 on the recommendations of Y.K. Alagh Committee with a provision for setting up Farmer Producer Companies, primarily to address the challenges faced by the small and marginal farmers, paving a way for the integration of farming with business.

The Department of Agriculture and Cooperation (DAC), launched a pilot programme for promoting member-based Farmer Producer Organizations (FPOs) during 2011-12, in partnership with state governments. The result was such that more than 3.00 lakh farmers were mobilized into village-level Farmer Interest Groups (FIGs), which were further federated into registered FPOs. Further policy guidelines for Farmer Producer Organizations were laid out in 2013 to encourage the formation of FPOs. It put forward the role of the center and state government in promoting FPOs and declared FPOs equivalent to co-operatives. A Producer Organization (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. The Farmer Producer Organization (FPO) is one type of PO where the members are farmers (NABARD 2015). In India, FPOs can be registered under the Cooperative Society Act 1904, Indian Companies Act 1956, or the Indian Trust Act 1882.

Institutional support

Various central government institutions such as the Small Farmers Agribusiness Consortium (SFAC), National Cooperative Development Corporation (NCDC), and National Bank for Agriculture and Rural Development (NABARD), etc. are providing institutional support to FPOs. Along with this various state governments, domestic and world aid agencies, corporate sector and NGOs are also providing financial or technical support to Resource Institutions (RIs) for promotion and hand-

holding of an FPO. Resource Institutions (RIs) are those which provide various inputs of training and capacity-building to FPOs. SFAC is the nodal agency for the identification of RIs. RIs can directly approach SFAC to submit a project proposal to take up FPO promotion. Over the time, SFAC and NABARD have facilitated training to the Board of Directors (BoDs), Chief Executive Officers (CEOs) of FPOs to enable them to function effectively. The Indian Council of Agricultural Research (ICAR) is also providing technical support to FPOs through the Krishi Vigyan Kendra in the form of capacity development of its members. Besides, FPOs can also avail assistance under various schemes of the Government of India such as Agricultural Marketing Infrastructure (AMI), Venture Capital Assistance (VCA), and Mission for Integrated Development of Horticulture (MIDH) scheme for promoting their agri-business activities.

The Government of India, in the Union Budget (2013-14), announced two major initiatives to support FPOs: Equity Grant Fund Scheme, to support FPOs by providing an amount equivalent to the equity contribution done by the member FPOs, and Credit Guarantee Fund Scheme to provide a credit guarantee cover to eligible lending institutions to enable them to provide collateral-free lending to FPOs. In 2018-19, The Government of India launched "Operation Greens" for onion, potato, and tomato crops with an allocation of Rs. 500 crore to address price fluctuation in vegetables for the benefit of farmers and consumers by promoting FPOs and creating agri-logistics, processing facilities, and professional management systems. In addition, 100 per cent tax exemption was granted for FPOs with an annual turnover of up to Rs. 100 crore for 5 years. In 2019-20, GOI announced a Central Sector Scheme for the promotion and nurturing of 10,000 FPOs across the country.

Present Status

As far as the current status of FPOs is concerned, 7157 FPOs have, so far, been promoted by various agencies like SFAC, NABARD, State Government departments, etc. in the country and a majority of them are farmer producer

companies. Out of these, NABARD has promoted around 2066 FPOs under its various initiatives and the total number of targeted farmers is 9,50,118 followed by SFAC (898 FPOs).

No doubt the outreach of the initiatives towards the promotion of FPOs has been taken up in almost all the States. But the Western region has performed exceptionally well in the promotion of FPOs. This is attributed to state government patronage, particularly in Maharashtra through the World Bank aided Maharashtra Agricultural Competitiveness Project (MACP) along with the largest self and NGO promoted FPOs in Gujarat. As per the report of the Ministry of Agriculture, Govt. of India, there are around 146 million operational holdings in the country (2015-16), out of which 86.21% of land holdings relate to small and marginal farmers (SF/MF). Considering average membership of around 2500 per matured FPO including the scope for future expansion in the membership, there exists a scope of promoting around 50,000 FPOs in the country (National paper-PLP 2021-22).

Structure of FPOs

The structure and organization of FPOs vary from country to country depending upon the legal and policy framework of the country. The range of members of an FPO varies from 100 to over 1000 farmers. Farmer-members cohesively located, with almost the same interest, are to be mobilized to form a group of 15-20 members, calling the group a Farmer Interest Group (FIG). Such 20 or more groups from a produce cluster area or cluster of neighbouring villages are put together to form an FPO. The FPOs can federate at the district level as well as state level based on their needs of processing, branding, and marketing of produce/trading of commodities. They can even federate at the national level to promote packaging/branding and domestic/international trading of quality produce. The performance and viability of POs depend upon the group attributes, governance structure, network with external agencies, access to capital and technology, member producers' contribution in business, and

financing decisions (Bernard and Spielman 2009; Markelova et al 2009; Dey 2018).

Functional Domain of FPOs

FPOs offer a variety of services to their members, covering almost all the aspects of cultivation, providing economies of scale by collective purchase and sale (Markelova et al. 2009; Venkattakumar and Sontakki 2012; Singh and Singh 2013; Herck 2014; Venkattakumar et al. 2017). They provide linkages between farmers, processors, traders, and retailers to coordinate supply and demand, thus acting as an interface between small farmers and the external world (Trebbin and Markus 2012). FPOs also help members to access key business development services like market information, collective procurement of inputs which helps members in getting quality inputs and information at a lower price with better bargaining and negotiation (Murray 2008; Abokyi 2013; Herck 2014; NABARD 2015; Venkattakumar et al. 2017), enhance producers' share in consumers' rupee (Venkattakumar and Sontakki 2012; Trebbin 2014). As the risk is spread over all members, there is decrease in risk in marketing also. FPOs provide social cohesion, trust and partnership among members and develop conflict resolution skills (Markelova et al. 2009; Wilson 2009; Markelova et al. 2009). FPOs help in farmers' welfare (Bernard and Spielman 2009; Fischer and Qaim 2012) and economic development of the country (World Bank 2008). Such collectives empower small and marginal farmers economically and socially (Murray 2008; Venkattakumar et al. 2017). FPOs help members in availing technological and educational services like certification of groups, organizational skills, and training, information sharing (Bose et al. 2001; Trebbin and Markus 2012; Latynskiy and Thomas 2016).

FPOs also contribute to rural advisory services viz. enhancing the capacity of human resources, linking farmers with other stakeholders, providing forums for communication, demand articulation, service provision, and financing (Puantani 2014; GFRAS 2015). FPOs enable cost-effective delivery of extension services to the members (Salifu et al. 2010). Along with the

policy and advocacy function of FPO, they can be an effective medium for articulating farmers' demand and representing before the government, thus acting as pressure groups by empowering its members to influence policies affecting their livelihoods (Salifu et al. 2010). Bose et al. (2001) discussed five different functions of FPOs viz. economic, cultural, representation, information sharing and coordination. Abokyi (2013) found that the most common collective activities of FPOs included production, processing, marketing, procurement of inputs, and community development. Thus, FPOs along with providing farm level and post-harvest benefits, help in the development of entrepreneurial culture, environmental benefits that help in the welfare of farmers and economic development of the country.

Success Stories

There are several examples of the success of FPOs in different parts of India. Starting with Devbhumi Natural Products Producer Company Limited (DNPPCL), which is operational in 6 districts of Uttarakhand presents a great example of successful women-owned FPOs in India. DNPPCL's pioneering efforts to develop infrastructure in its operating areas enabled the primary producers to actively move up the value chain and also enabled the company to post a turnover of Rs. 1.7 million in 2011-12. The company has created a strong marketing network across the country and has brought rural produce from the remote hill regions to the mainstream market.

Bhangar Vegetable Producer Company Ltd. (2012) located in West Bengal has 1751 members. All the FIG members pooled their land for the production of vegetables which led to economies of scale and enabled the FIG to opt for high-tech farming methodology. A direct tie-up has been made with the Indian Farmers' Fertiliser Cooperative Ltd (IFFCO) for the procurement of fertilizers. The company has also established links with Mother Dairy for the direct supply of vegetables to their outlets and is supplying vegetables to seven corporation markets and three wholesale markets. This highlights the impact of institutional support that has been instrumental in the success of this FPO.

Comparative Economic Analysis of FPO Member-Farmers and Non-member Farmers

A study entitled Comparative economic analysis of tapioca production through FPO member farmer versus non-member farmer in Karur district of Tamil Nadu (Kavibharati et al. 2020) showed the following results.

S.No.	Particulars	Member Farmer	Non-Member Farmer
1.	Cost of cultivation per hectare	Rs. 46708.58	Rs. 49323.14
2.	Gross returns per hectare	Rs. 105000	Rs. 90432.07
3.	Net returns per hectare	Rs. 58291.42	Rs.41108.93
4.	B:C ratio	1.20	1.04

Another study entitled, "Institutional innovation in the marketing of fruits: A case of FPO of fig in Raichur District of Karnataka" (Hiremath et al. 2020) revealed that the members saved maintenance costs up to 7.73 per cent over non-members due to the reduction in input cost. The improved production technology and better technical know-how of the member farmers helped in the better realization of yield up to 27.66 per cent over non-members.

Devesh Roy and his co-authors at the International Food Policy Research Institute (IFPRI) undertook a comparative study of FPOs in Maharashtra and Bihar. The study revealed that 98 per cent of the respondents for organically evolved FPOs observed an increase in gross income while only 2 per cent indicated a decline in the same. For promoted FPOs, 64 per cent reported an increase in gross income while 27 per cent reported no change in income. On the contrary, only 32 per cent of the non-members indicated an increase in gross income. These results showed that FPOs are doing better than non-FPO farmers and within FPOs, organically evolved FPOs are more beneficial than promoted FPOs. Therefore, FPOs are an effective institutional mechanism to help farmers in availing the benefits of their produce.

Lessons Learnt and Way Forward

Experience shows a mixed performance of FPOs in the last decade. Lack of awareness among the farmers about the potential benefits of collectivization and non-availability of a competent agency for providing support, leads to lesser mobilization of farmers into FPOs. Banks are not accustomed to dealing with entities like FPOs and are unsure of their credit worthiness. FPOs are formed and run by farmers only; having very little managerial skills and limited exposure to entrepreneurship makes them unable to create robust business plans to impress farmers. The financial support to FPOs by the government and NABARD under various schemes is provided for only the first three years. However, to grow and stabilize, FPOs need support for at least five to seven years. The credit guarantee cover offered by SFAC for providing collateral-free loans is available only to the Producer Companies having a minimum of 500 shareholder membership. Hence, the FPOs registered under other legal forms and those with a lesser number of shareholder membership, are excluded from the SFAC scheme.

State Governments can use FPOs for implementing various programmes undertaken by them. These also should be supported in evolving as nodal agencies for procurement, pooling of produce, the transmission of technology, input supply, and credit to leverage better prices. So to make FPOs effective, their tie-ups with KVKs/SAUs/NGOs etc. for training, capacity building is necessary. Along with this, continued policy support for the promotion and sustainability of FPOs is also required. The Financial Institutions and implementing agencies should extend their support to FPOs at least for a period of five to seven years. Innovative ways of providing working capital to FPOs are urgently required. The highly successful collateral-free, Self-Help Group-bank linkage program needs to be adapted for FPOs. Improving market linkages/supply chain intervention through the creation of a single-window platform can help provide information about backward & forward market linkages. The need of the hour is to provide adequate policy and institutional support to FPOs to make them productive and economically self-supporting for the sustainable livelihood of farmers.

Conclusion

To conclude, FPO seems to be a key institutional mechanism to organize small and marginal farmers. To compete with large corporate enterprises in bargaining, a systemized organization like FPO is the requisite. FPOs have helped the farmers already in the past and are surely a potent tool for exploiting the prospects of emerging market opportunities in the near future. But to achieve the full potential of FPOs they need to be encouraged by policymakers and other stakeholders apart from scaling up throughout the country to benefit particularly the smallholders. This demands good leadership at the FPO level also. Along with enabling policy environment, government and extension organizations can direct their efforts in strengthening leadership qualities for the proper functioning and success of FPOs.

Also, FPOs lack professional management therefore they do need capacity building. FPOs need to be linked with input companies, technical service providers, marketing/processing companies, retailers, etc. as they need a lot of data on markets and prices. The point is that FPOs should not be a mere grouping of individuals. Notwithstanding several constraints, the emerging market and policy concerns in India present prospective aggregation benefits that accrue right from production to any other activity feeding into the value chain. Therefore, FPO unequivocally is a potent institutional tool for a paradigm shift in the farm sector.

References:

- Abokyi MG. (2013). Exploring the farmer based organisation (FBO) extension approach. A case study of an NGO in Northern Ghana. MSc Research Project. Van Hall Larenstein University of Applied Sciences, Wageningen, the Netherlands. *Agricultural Economics Research Review* 33:178
- SFAC (2013). *Krishi Sutra 2, Success stories of Farmer Producer Organizations*. Small Farmers Agribusiness Consortium (SFAC). Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture and Farmers Welfare, Govt. of India.

- SFAC (2019). Strategy Paper for promotion of 10,000 Farmer Producer Organisations (FPOs). Small Farmers Agribusiness Consortium (SFAC). Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture and Farmers Welfare, Govt. of India.
- Bernard T and Spielman D J. (2009). Reaching the rural poor through rural producer organizations: a study of agricultural marketing cooperatives in Ethiopia. *Food Policy* 34: 60-69
- Bose PM, Eychenne D, Hussein K, Losch B, Mercoiret MR and Rondot P. 2001. Reaching the rural people: the role of Rural Producers Organisations (RPOs) in the World Bank rural development strategy. World Bank Publications. Washington, USA.
- Dev SM. (2005). Agriculture and rural employment in the budget. *Economic and Political Weekly* 40: 1410-1418
- Dey K. (2018). Farmer producer companies in India: determinants of performance and viability. *Economic and Political Weekly* 35:44-52
- Fischer E and Qaim M. (2012). Gender equality and development. *World Development* 40: 1255-68
- GFRAS (2015). Producer organisations in rural advisory services: evidence and experiences. Position Paper. Lindau: Global Forum for Rural Advisory Services
- Herck KV (2014). Assessing efficiencies generated by Agricultural Producer Organisations. EC (European Commission). Brussels, Belgium.
- Hiremath GM, Kurubar AR, Patil MG, Satihal DG and Jainuddin SM (2020). Institutional innovation in the marketing of fruits: A case of FPO of fig in Raichur district of Karnataka.
- Kavibharati SS, Gawde BB and Yadav JP. (2020). Comparative economic analysis of tapioca production through FPO's member farmer versus non-member farmer in Karur district of Tamil Nadu. *Agricultural Economics Research Review* 33:155
- Latynskiy E. and Thomas B. (2016). Networks of rural producer organizations in Uganda: what can be done to make them work better? *World Development* 78: 572-86
- Markelova H., Meinzen-Dick R.S., Hellin J. and Dohrn S. (2009). Collective action for small holder market access. *Food policy* 34:1-7
- Murray E.V. (2008). Producer company model-current status and future outlook:

- opportunities for bank finance. *Financing Agriculture* 18: 46-51
- NABARD (2015). *Farmers Producer Organizations. Frequently asked questions*. NABARD (National Bank for Rural Development). Mumbai, India.
- NABARD (2018). *Farmer Producers' Organisations (FPOs): Status, Issues and Suggested Policy Reforms*. National Level Paper, Potential Linked Plans (PLP) 2019-20. NABARD (National Bank for Agriculture and Rural Development). Mumbai, India.
- Puantani (2014). *Study on policy of rural and farmers' empowerment and the farmer organisations' role towards rural advisory services*. GFRAS (Global Forum for Rural Advisory Services). Lindau, Switzerland.
- Rangarajan C, Dev SM. (2021). How FPOs can help small and marginal farmers. <https://indianexpress.com/article/opinion/columns/nabard-agrarian-distress-farmers-protest-farm-laws-7222830> (12th March, 2021)
- Roy D, Joshi PK, Sonkar VK, Karandikar B, More A, Singh RKP and Kumar A. (2020). *Comparative Study of Farmer Producer Organizations in Bihar and Maharashtra*. TCI-TARINA Policy Brief No. 15
- Salifu A, Francesconi G and Kolavalli S. (2010). *A Review of Collective Action in Rural Ghana*. Discussion paper 00998. IFPRI (International Food Policy Research Institute). Washington, USA.
- Singh S and Singh T. (2013). *Producer Companies in India: A study of organization and performance*. CMA Publication No. 246. Centre for Management in Agriculture, Indian Institute Management, Ahmedabad
- Singh SK. (2016). *Poblems and prospects of the cooperative movement in India under the globalization regime*. *International Journal of Indian Psychology* 3:
- Trebbin A and Markus H. (2012). *Farmers' producer companies in India: a new concept for collective action*. *Environment and Planning* 44: 412-27
- Trebbin A. (2014). *Linking small farmers to modern retail through producer organizations-experiences with producer companies in India*. *Food Policy* 45:35-4
- Venkattakumar R and Sontakki BS. (2012). *Producer companies in India- experiences and implications*. *Indian Research Journal of Extension Education* 1: 154-160
- Venkattakumar R, Mysore S, Nita K, Narayanaswamy B. and Balakrishna B. (2017).

Farmers producers company and broad-based extension services: a case of Ayakudi guava producers in Dindigul district of Tamil Nadu. *Indian Research Journal of Extension Education* 17: 33-38.

Wilson GA. (2009). The spatiality of multifunctional agriculture: a human geography perspective. *Geoforum* 40: 69-80

World Bank (2008). Agriculture for Development. World Development Report.

<http://www.coefpo.org> (26th November, 2021)

<http://www.nabard.org>. (24th November, 2021)

<http://mospi.nic.in>. (25th November, 2021)

<http://sfacindia.com/FPOS.aspx>. (24th November, 2021)