Farmer Producer Organization - Boon for Farming Community

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Abstract

Individual smallholders in developing countries face a number of constraints in marketing their products because of high transaction costs in the market chain, due to the gap between income and consumption. They are also unable to invest in efficiency-increasing and value-adding technologies, limiting their opportunities to increase their scale of production and effectively market their products. They also lack bargaining power. A variety of approaches have been tried, for collectivizing farmers. This paper focuses on Farmer Producer Organizations (FPOs), the objectives, structure, activities, challenges, support from the Government and presents some success stories. FPOs represent the interest of their members and have the potential to articulate their needs. However they need support to develop their capacity to serve farmers better say the authors.

Keywords: Farmer Producer Organization, Challenges

Introduction

Agriculture is the backbone of the Indian economy and about two-thirds of the people are dependent on agriculture as a source of livelihood. The sector contributes to 13.7 per cent of the GDP and provides employment to 58 per cent of the population of our country. In the present context of rapid changes, in India, the agriculture sector is facing several challenges like declining per capita agriculture land availability (due to increased fragmentation of landholdings), decline in natural resources, increased demand of land for

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non-agriculture use due to urbanization and industrialization, disinterest of youth towards agriculture etc.

In India a larger group of cultivars (85%) are small and marginal farmers. The average size of holdings has declined to 1.16 hectares from 2.28 hectares. The small holding character of Indian agriculture is much more prominent today than ever before. However, the increasing number of agricultural suicides among small and marginal farmers (National Crime Records Bureau, 2011) is the indication that these farmers are struggling to survive. While indebtedness is often cited as the immediate reason for distress, deeper issues are related to vulnerability to risks in agricultural production. Small and marginal farmers contribute significantly to the total value of crop output. The Situation Assessment Survey of Farmers (National Sample Survey 59th round) data showed that marginal farmers account for 29 per cent and small farmers account for 22 per cent of the total output. Small farms are characterized by low capital input and high labour and other inputs, with a higher index of cropping intensity and diversification.

Individual smallholders in developing countries, however, face numerous constraints in marketing their products because of high transaction costs in the market chain due to the gap between income and consumption. They are also unable to invest in efficiency-increasing and value-adding technologies, limiting their opportunities to increase their scale of production and effectively market their products. Furthermore, because of information asymmetry, farmers lack bargaining power as a result of which there is unequal distribution of value-addition among actors in the market chain, particularly in the case of those producing seasonal and highly perishable agricultural products.

A variety of approaches, including cooperatives, have been tried for collectivizing farmers. Despite the previous experience of the performance of traditional cooperatives in India, there was still a need to give more freedom to cooperatives to operate as business entities in a competitive market. This in turn led to the formation of Farmer Producer Companies with the amendment of Section 581 of the Companies Act 1956 on the recommendations of Y. K. Alagh Committee. The Companies (Amendment) Act 2002 came into effect from February 2003 onwards. According to Reference section 465 (1) of the Companies Act 2013, farmers register their farmer producer company. The basic purpose envisioned for the FPOs is to collectivize small farmers for backward linkage for inputs like seeds, fertilizers, credit, insurance, knowledge and extension service and forward linkages such as collective marketing, processing, and market-led agricultural production (Mondal, 2010). On July 5, 2019, the centre announced a plan to promote 10,000 new farmer producer companies with a total budgetary provision of Rs. 4,496.00 Cr. for 2019-2024.

Objectives of FPOs

1. Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of members or import of goods or services for their benefit.

2. Processing (preserving, drying, distilling, brewing, venting, canning) and packaging of produce of the members.

3. Rendering technical and consultancy services, training, education, research and development and all other activities for the promotion of the interests of the members.

4. Generation, transmission and distribution of power, revitalization of land and water resources, their uses, conservation.

5. Manufacture, sale or supply of machinery, equipment or consumables to the members.

6. Promoting mutual assistance, welfare measures, financial services, insurance of producers or their primary produce.

What is a Producer's Organization?

A producer organization is a legal entity formed by primary producers, viz., farmers, milk producers, fishermen, weavers, rural artisans and craftsmen.

What is FPO?

It is one of the types of producer organizations where the members are farmers. Small Farmers Agribusiness Consortium (SFAC) is providing support for the promotion of the FPOs.

Registration of an FPO

A producer company is basically a corporate body registered as a producer company under the Company Act, 1956 (as amended in 2002). Now the Company Act, 2013 is the most appropriate institutional form of aggregation of farmers. These companies were designed to bring together desirable aspects of the cooperative and corporate sectors for the benefit of primary producers, especially small and marginal farmers (Alagh, 2019).

Structure of a Farmer Producer Company

- Minimum directors - 5 and maximum directors - 15
- Minimum members required- 10
- Minimum paid-up capital of the company should be Rs. 10,000/-
- The registered office has to be situated in India
- Election- within 90 days of registration for the period of 1 to 5 years.
- At the end of the name of the FPO, Producer Company Limited to be added.
- At least one meeting should be held in a year

(Source: Paty, B.K. and K.C. Gummagolmath, 2018)

Table 1. Differences between Farmer Producer Company and Co-operative Society

Farmer Producer Company	Co-operative Society
Formed under Companies Act, 1956 and governed by Company Laws	Formed under State Co-operative Act and governed by Co-operative Laws
Area of Operation covers the entire nation and also foreign trade is possible	Area is restricted to a particular state or few states
No Veto Power to the Government in case of voting	Government and Registrar have Veto power in case of voting

(Source: Ullane, 2020)

Table 2. State-wise distribution of FPOs

S. No.	State/Union Territory	Number	Share of total PCs
1	Maharashtra	1940	26
2	Uttar Pradesh	750	10
3	Tamil Nadu	528	7
4	Madhya Pradesh	458	6
5	Telangana	420	6
6	Rajasthan	373	5
7	Karnataka	367	5
8	Odisha	363	5
9	Haryana	300	4
10	West Bengal	274	4
11	Andhra Pradesh	238	3
12	Kerala	215	3
13	Gujarat	183	2
14	Jharkhand	133	2
15	Chhattisgarh	114	2

16	Assam	112	2
17	Delhi	57	1
18	Punjab	56	1
19	Uttarakhand	37	1
20	Manipur	30	<1
21	Himachal Pradesh	22	<1
22	All other	101	1
	Total	**7374**	**100**

(Govil et. al., 2020)

Table 3. Number of registered FPOs in Maharashtra

S. No.	Name of the Division	Name of District	No. of FPOs
1	Nagpur	Bhandara	22
		Chandrapur	23
		Gadchiroli	9
		Gondia	22
		Nagpur	39
		Wardha	47
		Total	**162**
2	Amravati	Amravati	73
		Akola	32
		Buldhana	51
		Washim	28
		Yevatmal	51
		Total	**235**
3	Aurangabad	Aurangabad	80
		Beed	62
		Hingoli	26

		Jalna	45
		Latur	102
		Nanded	30
		Osmanabad	78
		Parbhani	21
		Total	**444**
4	Nashik	Ahmednagar	116
		Dhule	28
		Jalgaon	46
		Nandurbar	14
		Nashik	111
		Total	**315**
5	Pune	Kolhapur	46
		Pune	154
		Sangli	45
		Satara	37
		Solapur	57
		Total	**339**
6	Konkan	Mumbai suburban + Mumbai city	20
		Palghar	5
		Sindhudurg	16
		Thane	29
		Raigad	16
		Ratnagiri	15
		Total	101
	Grand Total		**1596**

(Source: SFAC, 2018)

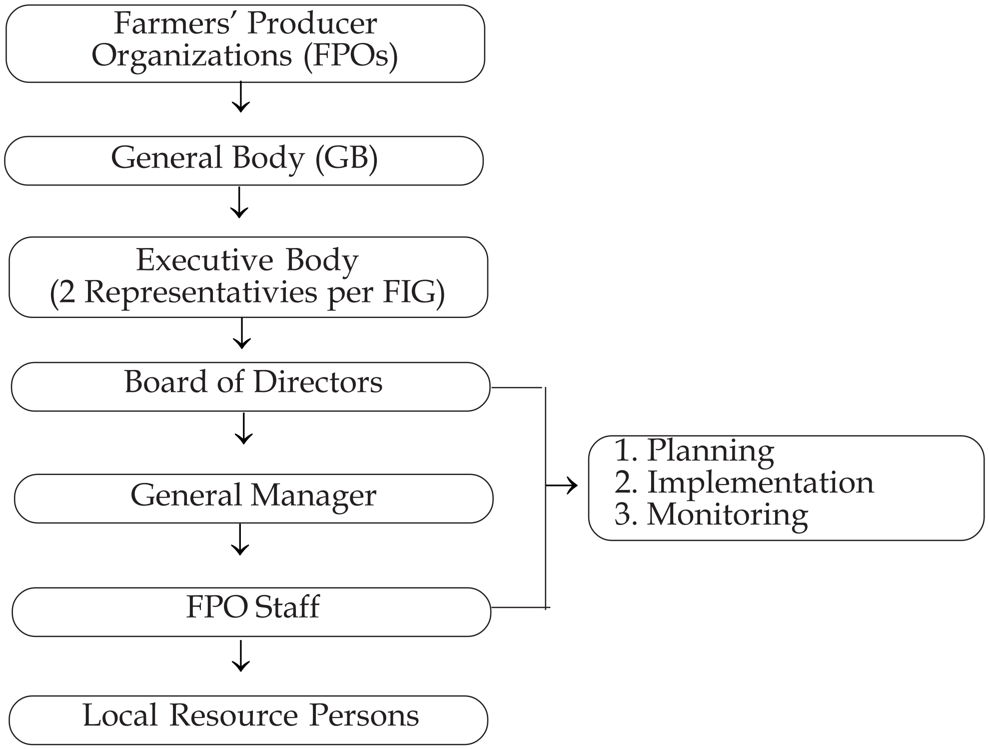

Fig. 1 Structure of FPO

(Source: Dept. of Agriculture and Cooperation, Govt. of India, 2013)

The General body is responsible for making policy and providing good guidelines to FPO and its members. The Executive body is responsible for planning day to day activities or operations. The Board of Directors, General Manager and FPO staff are responsible for the planning, implementing the planning and monitoring the FPO. Local resource persons are responsible for providing guidelines and training to members of FPO.

Essential Features of FPO

- It is a registered body and a legal entity
- It is formed by a group of producers for farm activities
- Producers are shareholders in the organization
- It deals with business activities related to the primary produce/ product

- It works for the benefit of the member producers
- A part of the profit is shared among the producers
- The rest of the surplus is added to its owned funds for business expansion

(Source: NABARD, 2015)

Name of the Institutes supporting promotion of FPOs

- NABARD
- SFAC
- Government departments
- Corporates and domestic institutions
- International aid agencies
- NGOs

These agencies provide financial and technical support to the producer organization promoting institute for promotion and handholding of FPOs

(Source: NABARD, 2015)

Important activities of an FPO

- FPOs purchase farm inputs from the market in bulk amount reducing the cost of input supply.
- FPOs disseminate the technology and innovation for betterment of cultivation of farm produce and increasing farm income of its members viz., technology like improved farm implements, machinery, Agri. Robot and Agri. Drone and Innovations like improving the crop variety, creating new business opportunities etc.
- Providing financial support to their members for increasing purchasing power of inputs in the market.
- Aggregation and storage of produce - Collecting all farm produce of its members on the farm and storing it to sell in the market and reducing damage and waste of farm produce.

- Primary processing like drying, cleaning and grading- drying the collected farm produce, cleaning it and grading it according to the size of the farm produce.
- Brand building, packaging, labeling and standardization -packing the graded farm produce under the brand name of the company, labeling and standardization.
- Quality control- Controlling the quality of the farm produce and their by-product.
- Participation in commodity exchanges and export- exporting the farm produce outside the district, within the country and outside the country.

(Source: NABARD, 2015)

FPO Measures for the welfare of its members

- FPO operatives provide education and training for their farmer-members, develop their skills, generate employment, living wages, improve the standard of living, improve health and hygiene, members provide good education to their children.
- The FPO provides loans for crops, purchase of tractors, pump sets, construction of wells, laying of pipelines for its members.
- The FPO provides various insurance like Crop Insurance, Electric Motors Insurance and Life Insurance to its members. (Dept. of Agriculture and Cooperation, Govt. of India, 2013)

Challenges of FPO

- Organizing producers, especially small and marginal.
- Hiring and returning staff
- Raising capital including working capital
- Increasing capacity of staff and board members
- Value addition and marketing

Swot Analysis of FPO

Strengths

- Direct marketing of fresh produce
- Business model
- Coordination with agencies
- Working structure

Weaknesses

- Poor infrastructure
- Lack of professional expertise
- Low level of participation
- Financial support

Opportunities

- Training for FPOs
- Better linking
- Limited government control
- Institutional support

Threats

- Competition from private companies
- Long-term sustainability
- Administrative controls

Support from Government to Farmer Producer Companies

The Union Finance Minister, in the Budget Speech for 2013-14, announced two major initiatives to support Farmer Producer Companies (FPCs) viz., support to the equity base of FPCs by providing matching equity grants and Credit Guarantee support for facilitating collateral-free lending to FPCs (Ullane,2020).

- **Equity Grant Fund Scheme:**

The equity grant support to eligible FPCs is provided by the SFAC on a matching basis subject to a maximum of Rs 10.00 lakh per FPC, provided the FPC has a minimum shareholder membership of 50 farmers.

- **Credit Guarantee Fund Scheme:**

The main objective of the Credit Guarantee Fund scheme is to provide a Credit Guarantee Cover to provide collateral-free credit to FPCs by minimizing their lending risks in respect of loans not exceeding Rs.100.00 lakhs.

- **NABARD**

Producer Organization Development Fund (PODF) Contribution towards share capital on a matching basis up to Rs.25 lakh per FPO with a cap of Rs. 25,000 per member, credit support for business operations, support for capacity building programmes.

- **Operation Green**

The Operation Green scheme was launched by the Ministry of Food Processing Industries, Government of India in the year 2018-19. The subsidy will be provided as grant-in-aid at the rate of 70 per cent of the eligible project cost of the farmer producer company.

- **Tools Banks**

Many tools banks have been started in the state of Maharashtra, various types of tools and equipment are easily made available to the farmers' companies on easy rental basis.

Success Stories

VAPCOL (Vasundhara Agricultural Horticultural Producer Company Ltd.)

- VAPCOL began its operations in 2008 and is operating in five states viz., Gujarat, Karnataka, Madhya Pradesh, Maharashtra and Rajasthan, with its headquarters in Pune, Maharashtra.

- Works on activities like production, processing and marketing of their products. Currently, its products include mangoes, cashew nuts, aonla and their by-products.
- These products are graded and packed under their own brand name 'Vrindavan'.
- VAPCOL has registered 13,848 members in Maharashtra alone, out of the 41,000 members drawn from 55 cooperatives.
- VAPCOL has achieved a remarkable turnover of Rs.34 million in the first year itself.

The enterprise has helped not just the farmers, but the entire village community as well. In its area of operation, the migration rate has come down. Women members are also in large numbers and are mainly organized in the form of self-help groups. (Source: Paty, B.K. and K.C. Gummagolmath, 2018)

Goda Farm Farmer Producer Company Ltd.

- Goda Farm was registered on 26 August 2016 at Kalamnuri in Hingoli district. It is the first non-subsidized farmer producer company in the district.
- Goda Farm has developed a massive warehousing and processing facility at Kalamnuri (40000 Sq Ft). The facility is capable of processing 15000+ MT of produce every month
- Goda Farm works directly with a strong and reliable network of 15,000 farmers from across the Marathwada region in Maharashtra
- Nitin Chavan is currently the Managing Director of Goda Farm. Its authorized share capital is Rs.500,000 and its paid-up capital is Rs.500,000.
- In Kalamnuri taluka, turmeric is cultivated on an average of four thousand hectares every year. Goda Farm is opening a turmeric procurement center and grading unit at Kalamnuri. About 100 tons of turmeric powder is exported annually.

- Goda Farm provided inputs like seeds, fertilizers, pesticides, drip, sprinkler sets, PVC pipes, coco peat for nursery, coco peat tray, spray pump etc.
- Goda Farm has a tie-up with Vasantrao Naik Marathwada Agricultural University, Parbhani and other educational institutions for research support on soil testing, environment updates, and advice on choosing the right seeds and fertilizers.

Sahyadri Farms

Sahyadri Farms was registered in 2010 as a Farmer Producer Company, in order to solve the issue of scalability, farmer sustainability and consumer benefit. Sahyadri Farms has registered over 7958 farmers, covered 23960 acres of farms and over 119 villages, served more than 42 countries and has over 33036 customers worldwide. Sahyadri Farms included 1007 marginal farmers as part of the company. The Company successfully shipped 625 containers of fresh grapes of a total quantity of 9,000 MT worth US $ 17 million. It also exported IQF (Instant Quick Freezing) grapes to Australia, processed products to Europe, USA & Canada and has started exporting frozen strawberries to Japan. It has expanded the cold storage facility from 2,000 MT to 5,000 MT capacity. A total quantity of over 55,000 metric tonnes of tomatoes was processed, making this FPC the largest tomato processor in India. During the Covid-19 pandemic situation, Sahyadri Farms protected the farmers and launched a B2C App for delivering boxes of fruits and vegetables to Mumbai, Pune and Nashik.

Tata STRIVE is establishing skill development centres in cities like Mumbai, Pune, Hyderabad, and Mohali. Infrastructure facility of 17,000 sq. ft. art training facility, 6 class rooms, 1 lab, and a hostel was created. Currently, 9 weather stations are functioning and there is a plan to install 100 more shortly to provide accurate weather forecasts like rainfall, humidity, temperature, evaporation, etc.

Conclusion

Organizing producers, especially small and marginal farmers, is one of the most effective pathways to address some of the most important challenges in agriculture. FPOs represent the interest of their members and have the potential to articulate their needs for agricultural services. FPOs need support to develop their capacity to serve farmers better especially in promoting the adoption of new technologies, stimulating learning and developing entrepreneurial skills.

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