Farmer Producer Organizations (FPOs) Role as Collectives, Present Status, Challenges Faced by FPOs in India and Way Forward (A Review)

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Abstract

Agriculture is vital for India's economy, employing 56 per cent of the work force. However, 87 per cent of farmers are small and marginal, facing challenges like limited technology access and low incomes due to market inefficiency. Collectivization through Farmer Producer Organizations (FPOs) aims to address these issues by providing inputs, credit, and facilitating collective marketing. This paper addresses the potential of FPOs, the challenges faced by them and the way forward through capacity building. Linking FPOs with KVKs /Agricultural Universities for technical guidance and facilitating regulatory compliances would strengthen the functioning of FPOs.

Key words : *FPOs, economic viability, challenges, potential*

1. Introduction :

Agriculture is India's primary sector and the main source of livelihood for around 58 percent of the population. This sector contributed the most to India's Gross Domestic Product at the time of independence. However, its contribution is decreasing year by year. The sector, which is the largest employer of workforce, accounted for a sizeable 18.3 per cent GDP to the overall GDP of India during 2022-23 (Economic Survey, 2023). In India, 87 per cent of farming households are small and marginal producers cultivating small plots, resulting in low returns and economically unviable farming due to their meager incomes (NSSO 2014). These farmers face challenges such as limited access to modern technology, insufficient extension support, lack of financial aid, and low incomes due to market inefficiency (Dubey, et. al., 2016). Small and marginal households face vulnerability due to their small scale, lack of information, limited access to affordable credit, and exploitation by intermediaries (Charyulu, 2019).

This results in reduced bargaining power for these farmers during both crop sales and input purchases (Bishnoi and Kumari, 2020). FPOs provide policy guidance, technical knowledge, and financial resources. They aim to enhance farmers' market access and create investment-friendly policies.

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Challenges faced include low farmer participation, financial issues, lengthy documentation, and dependency on supporting organizations for funds and services. Currently, India has more than 10,000 FPOs under different legal structures (Ranjit Kumar, et al. 2022).

To enhance small producers' financial status, policymakers and practitioners are promoting producer collectives. These groups facilitate bulk input purchases, information sharing, cost-effective value addition, marketing, and risk reduction. This collectivization aims to reduce transaction costs and provide scale advantages. Collectivization is expected to enhance the collective bargaining power of small and marginal farmers compared to large buyers and well-funded companies (Govil, et. al., 2020). Various efforts, including agricultural cooperatives and self-help groups, have been made in India, but the success has been limited. To address these challenges, the Indian Government introduced the Farmer Producer Company (FPC) concept (Babu and Patoju, 2021). The Primary Agricultural Cooperative Society (PACS) is a traditional form of producer organization in India. Additionally, there are other forms like Self-Help Groups (SHGs), Federation of SHGs, Common Interest Groups (CIGs), Joint Liability Groups (JLGs), and Farmers' Clubs. The Companies Act of 1956 was amended in 2002 to include a new section, Part ISA, for "Producer Companies".

These companies were established on principles of 'Mutual Assistance' and 'Patronage', merging cooperative and corporate elements for the benefit of primary producers, especially small and marginal farmers (Alagh, 2019). The Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture, Government of India, initiated a pilot program to promote Farmers Producer Organizations (FPOs) during 2011-12. In collaboration with state governments, the Small Farmers' Agribusiness Consortium (SFAC) implemented the FPO promotion initiative. Initially, the Ministry of Agriculture and Cooperation appointed SFAC as the nodal agency for promotion FPOs in India. In 2013, the India Government issued guidelines for FPO formation and designated 2014 as the "Year of Farmers Producer Organizations (FPOs)" with a special allocation of INR 200 crores to NABARD as PRODUCE FUND for FPO promotion. This funding support from NABARD and Small Farmers Agribusiness Consortium (SFAC) significantly boosted FPO formation. Subsequently, many states aligned their schemes with FPOs, involving agriculture, horticulture, and animal husbandry departments in their promotion. NGOs and state agricultural/horticultural/animal husbandry departments, along with agricultural universities and ICAR institutes, actively supported FPO formation, primarily through their KVKs (Ranjit Kumar, et. al., 2022). FPOs aim to collectivize small farmers for essential inputs and services like seeds, fertilizers, credit, insurance, and knowledge, as well as facilitate collective marketing, processing, and market-led agricultural production (Chopade, et. al., 2019).

2. Methodology and Objectives :

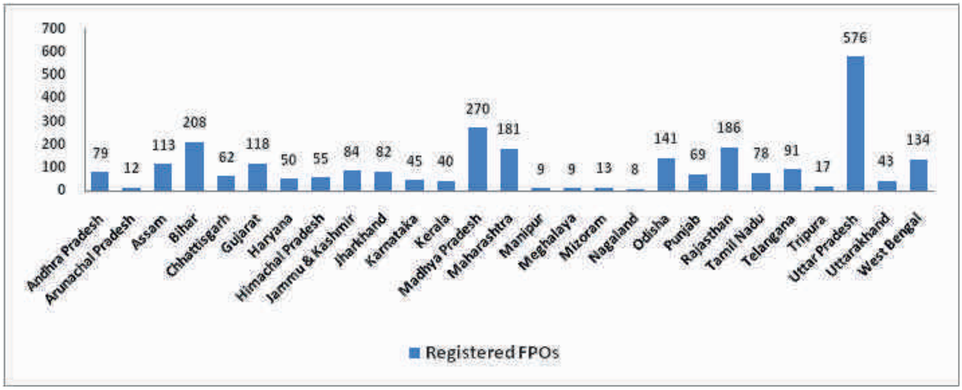
This paper is based on the secondary data and largely uses qualitative analysis through review of literature to understand the functioning of FPOs. Data was also collected by FPOs registered by SFAC and by NABARD. The main objective of the paper is to analyze the status of FPOs in India, their role, and potential. The challenges faced by FPOs are also observed. The paper finally attempts to suggest policy measures to strengthen FPOs and role of government in this direction.

3. Current Status of FPOs in India :

As of August 2023, SFAC registered 2,773 FPOs, with the highest number in Uttar Pradesh, followed by Madhya Pradesh and Bihar. NABARD, by March 2023, registered 5,606 FPOs, with Maharashtra leading, followed by Tamil Nadu and Andhra Pradesh.

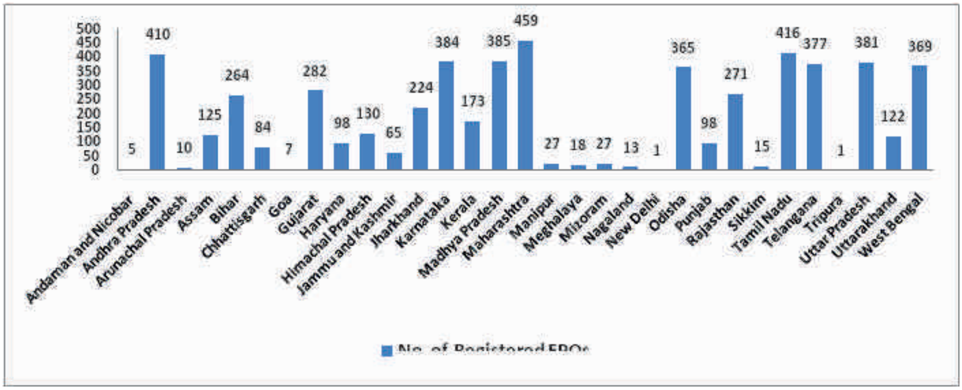
Over 60 per cent of Famer Producer Companies (FPCs) are located in states like Maharashtra, Uttar Pradesh, Tamil Nadu, Madhya Pradesh, Rajasthan, and Karnataka. Notably, states such as Haryana, West Bengal, and Maharashtra have seen a significant increase, with nearly 50 per cent or more of their FPCs added in the last three years. However, many of these states lack specific FPO policies (Shanbhu Prasad, 2019). SFAC, with 901 FPOs, has enrolled 8.92 lakh farmers as registered members, while NABARD, with 2062 FPOs, has covered 9.61 lakh farmers (SFAC, 2022; NABARD, 2022). Presently, India has over 10,000 registered FPOs operating under various legal structures. The majority are registered as companies under the Companies Act, with the second-largest category falling under the Cooperative Societies Act of their respective states. Some FPOs are also established as Societies or Trusts (Ranjit Kumar, et al. 2022). In the figures 1 and 2, the total number of FPOs registered by SFAC as on Aug, 2023 and NABARD as on March, 2023, is 2773 and 5606, respectively are indicated.

Fig 1. Statewise details of FPOs under Central Sector Scheme for Formation and Promotion of 10,000 FPOs by SFACason 23-08-2023.



Source: SFAC (2023)

Fig 2. Number of FPOs registered by NABARD as on 31 March 2023



Source: NABARD (2023)

4. Potential of Farmer Producer Organizations (FPOs) for Farming Community:

The role of Farmer Producer Organization (FPO) is to promote economically viable and democratic organizations. This involves supporting the promotion of FPOs by qualified Resource Institutions (RIs) and providing necessary assistance for policy guidance, technical knowledge, financial resources, and infrastructure. The goal is to facilitate farmers' market access through their FPOs as buyers and sellers, and create a favorable policy environment for investments, leveraging their collective production and marketing strength (Shwati and Bisen, 2021).

Farmers Producer Organization is a legal entity formed by farmers which provides for sharing of profits/ benefits among the members (Adhikari et. al. 2021). To improve the bargaining power of agricultural producers through collaborative farm and marketing practices, farmer producer companies and farmer producer organizations (FPOs) were introduced in India during 2011-12 (Singh and Vatta, 2019). FPO's are collectivization of producers, especially low and marginal farmers, into the producer organization which has come out as one of the most efficient pathways to address the many challenges of agriculture, but more significantly, improved approach to investments, technology, inputs and markets (Sawairam, 2015). Farmers participate in FPOs to avoid market risk; and to get extension and technical knowhow, improved inputs, credit, storage and processing facilities (Singh and Vatta, 2019). The success of producer companies, however, depends on the farmers' commitment to the company (Sawairam, 2015).

Households associated with FPOs have a higher level of income, consumption and investment and a lower incidence of indebtedness. Success of FPOs would crucially depend on the provision of an assured market, post-harvest credit and extension support (Gurupreet and Kamal, 2019). Due to increase in income, savings and employment opportunities producer-members of FPOs stable with better economic status in community on comparing with non-members. The commercialization and diversification of agricultural practices followed by availability of quality inputs and services and easy and better access to market information were some variables which show that farmers become more economically empowered after joining the producer organization (Kujur et. al. 2019). Aggregation and outright purchase of produce from shareholders and sold in local mandi or to wholesaler thus minimizing or completely wiping out middleman is a significant market linkage service provided by ten (77%) sampled FPOs. Thus FPOs as producers, processors, wholesale supplier, retail seller, sell to own members and strengthen the value chain significantly (Badatya et. al., 2018).

A prominent example of a successful FPC is that of Sahyadri Farmer Producer Company Ltd (commonly known as Sahyadri farms) based in Nashik district of Maharashtra. The membership of the FPC comprises of more than 8,000 farmers, mainly those who are resource poor and marginal. Established in 2011, this FPC has state-of-the –art infrastructure in the form of cold storage, pre-cooling, as well as ripening chambers and pack houses. It is also equipped to process fruits and vegetables. In addition, there is backward linkage through which advisory services and inputs are provided to farmers. A robust supply chain ensures delivery of farm produceto consumers that is traceable, hygienic and affordable. The FPC also makes us eof e-commerce platforms, social media, mobile applications and websites to create a link between the rural farmer and the urban consumer. As this FPC operates on a large scale with no intermediaries, it is able to reap the benefits of economies of scale and reduced transaction costs (Shroff 2020). Besides, Sahyadri Farms there are several other FPOs/FPCs which provide forward and backward linkage to farmers.

5. Challenges

The success of producer companies, however, depends on the farmers' commitment to the company. The integrity and quality of the leadership, its acceptance within the community, as well as the market environment are the most crucial factors for a successful production company (Preeti Sawairam, 2015). Poor professional management, shortage of working capital, inability to access loan from financial institutions, awareness of producer- members, insufficient directions and visions from Board of Directors and poor infrastructure facilities were major hurdles for better performance of Producer Organizations (Kujur et al. 2019).Badatya et al. (2018) conducted an exploratory study on Farmer Producer Organizations (FPOs) in Maharashtra, revealing a notable lack of shareholder participation, ranging from 25 to 70 percent. The connection between FPOs and their shareholders/farmer members was found to be weak. Moreover, within the sampled FPOs, three of them exhibited a lack of awareness among members regarding the organization's long-term vision. In a similar view, Charyulu et al. (2019) investigated the status of Farmer Producer Organizations in Andhra Pradesh. Their findings highlight a wide range of membership sizes, with a minimum of 58 farmers and a maximum of 1,671. However, the majority of FPOs in the study had memberships ranging from 200 to 500 farmers.

The sampled FPOs encountered numerous challenges over time. Some significant hurdles included the persistent dominance of traders and middlemen in the markets, difficulties in expanding their businesses from one commodity to others, the absence of formal credit and insurance facilities, lack of support for working capital, and high interest rates from banks (Charyulu et al., 2019).Chopade, et al. (2019) studied the constraints faced by the members of Farmers Producer Company. It was observed that out of the total farmers sampled among them 72.86 per cent respondents reported the non-inclusion of local leader in FPCs, lack of coordination for different group activities was reported by 69.28 per cent respondents, near about 55.00 per cent of respondents suggested that lack of government support after establishment of FPC's, there is political affiliation of member reported by 40.00 per cent respondent, banks not aware or familiar with the concept of FPCs because of this FPCs have limited access to banks reported by 30.71 per cent respondent, there is inadequate profit to individual members and about 10.71 per centrespondent reported that village level worker do not give sufficient information about the schemes related to FPCs.

Saravanan and Jyoti (2018) studied the Farmer Producer Organization - Chaitanya Agriclinics-Service providers for Farmers Producers Organization, as a case study. It was observed that to mobilize the farmers into community organizations is very big task. To convince the farmers / producers to form organizations requires a special skill. An important challenge that was observed after incorporation of companies was to raise share capital and develop a business plan. Dash and Mazhar (2021) studied the impact of Farmer Producer Organisations on its member respondents in Puri district of Odisha. The results showed that the member respondents faced major marketing challenges followed by technical constraints and economic challenges. Because of the major marketing constraints, the farmers still did not get remunerative prices for their produce.

The farmers normally participate in FPOs mostly to avoid market risk, get extension and technical knowhow, availability of improved inputs, credit and storage and processing facilities. Generally, the small and marginal farmers who participate in FPOs are relatively younger, educated and more informed (Singha and Vatta 2019).

The overall participation of members in various FPO activities is much lower at 29.85 per cent. The factors responsible for the non-participation of the farmers in FPO were its location, land requirement for the membership and the higher membership fee (Manaswi, et. al. 2020). Babu and Patoju (2021) studied the impact of Farmer Producer Companies on marginal and small farmers: A study on Osmanabad district of Maharashtra, India. It was found that the services provided by FPCs like value addition, pre harvest services, and marketing services, technological services were satisfactory but the services like agricultural advisory services, credit access and capacity building services were poor.

The financial performance was a big issue due to dependence on supporting organizations for funds and services i.e., lack of working capital, after successful operation, availability of credit up to three years and collateral security issues. Other constraints were the registration and establishment procedures which were very difficult, complicated and taking a long time. Hence, there is necessity to simplify the registration procedure and capacity building of stakeholders of producer companies on these directions (DSC, 2007). The producer companies face difficulties in getting Agricultural Produce Marketing Committee (APMC) licenses for processing and trading because traditional cooperatives already having licenses in many places. A weak position in terms of competing with the existing market, negotiating prices, volumes and delivery terms was found due to dependency for marketing on a few select buyers rather than alternative parallel channel to market (Venkatesan and Sontakki 2017).

6. Conclusion and Policy Issues:

In India 87 percent of the farmers is small and marginal, cultivating the small size of land, resulting in low returns and economically unviable farming due to their meager income. These farmers face challenges such as limited access to modern technology, insufficient extension support, lack of financial aid, and low incomes due to market inefficiency. Small and marginal households face vulnerability due to their small scale, lack of information, limited access to affordable credit, and exploitation by intermediaries. This results in reduced bargaining power for these farmers during both crop sales and input purchases. This collectivization aims to reduce transaction costs and provide scale advantages. Collectivization can enhance the collective bargaining power of small and marginal farmers compared to large buyers and well-funded companies. Farmer Producer Organizations (FPOs) helps to collectivize the small and marginal farmers for essential inputs and services like seeds, fertilizers, credit, insurance, and knowledge, as well as facilitate collective marketing, processing, and market-led agricultural production. Presently, India has over 10,000 registered FPOs operating under various legal structures.

FPOs are also playing various roles like policy guidance, technical knowledge, financial resources, and infrastructure. The goal is to facilitate farmers' market access through their FPOs as buyers and sellers, and create a favorable policy environment for investments, leveraging their collective production and marketing strength, etc. FPOs facing various challenges like lack of actively participation of farmers, financial problems, funding issues, lengthy documentation process, marketing challenges, lack of managerial capability, dependent on supporting organization for the funds and services, lack of working capital, etc.

FPOs enable economies of scale across pre-production, production, and post-production stages (National paper-PLP, NABARD, 2019-20). Challenges faced by the FPOs are mainly lack of understanding about business model, poor capitalization and funding, managerial capability, regulatory compliances, ownership and controls, business plan and scalingup opportunities, and difficulties in marketing of the produce, etc. (R., Kumar, et. al. 2022). New technologies and marketing practices have not been practiced by most of the FPOs in India.

In order to cope up with the above challenges the government can mandate agricultural and cooperative institutions to provide training for FPO members. FPOs should be linked with KVK / Agricultural universities, and auditors should be empanelled for regulatory compliance (Ranjit Kumar, et al. 2022). Policy interventions are crucial to sustain FPOs and their members.

The government is also making all round efforts for marketing the products of FPOs through its platform-Open Network for Digital Commerce (ONDC). More than 7000 farmers' collectives across various states are able to sell unique agricultural products through ONDC. This has empowered them with direct access to digital marketing, online marketing, business to business and business to consumer transactions. Hence on boarding digital platforms is likely to increase the scale of marketing of FPOs which will enable them to meet their challenges and become economically viable (Financial Express, May 20th 2024).

FPO is one of the most important tools for addressing several farmers' problems and issues related to agricultural growth. As was observed, FPOs have many challenges and they majorly surround around the management capacity, financial weakness and needs training for the members of the FPOs. So, in this respect action must be taken to overcome these issues. Government can give a mandate to agricultural and cooperative institutions to conduct capacity building training programs for the FPO members. Linking of each FPO with KVK / agricultural universities and empanelled auditors to facilitate regulatory compliances will help to strengthen FPOs (Ranjit Kumar, et al. 2022). When all issues facing FPOs are addressed, they will emerge as a strong support system for farmers and they will not only survive but also augment the incomes of farmers through backward and forward linkage.

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