

Farmer Producer Organizations (FPOs) for Linking Farmer to Market

Neelam Kumari¹, Joginder Singh Malik² and Dangi Pooja Arun³, Manjeet Singh Nain

¹Research scholar ²Professor, Department of Extension Education, CCCSHAU, Hisar, ⁴Principal Scientist (Agril Extension), ICAR-IARI, New Delhi-110012

ARTICLE INFO

Key words: Farmer Producer Organisation, Primary producer, Members and Income

ABSTRACT

Farmer Producer organization is a cooperative form of business organization. It is registered under Indian Companies Act. Department of Agriculture and Cooperation (DAC), Ministry of Agriculture & Farmers Welfare, Government of India launched a pilot programme for promoting member-based Farmer Producer Organisations (FPOs) during 2011-12, in partnership with state governments, which was implemented through the Small Farmers' Agribusiness Consortium (SFAC). It is an organization of the producers, specifically the primary producers. All primary producers residing in the relevant geography, and producing the same or similar produce, for which the FPO has been formed, can become member of the FPO. Membership is voluntary. The procedure for obtaining FPO membership depends on the bye-laws of the FPO. The founder-members are those who were there at the time of formation of the FPO. However, all members enjoy equal rights. A primary producer can become member of a FPO by submitting an application and a nominal membership fee. The FPOs are dealing with operations viz., procurement, production, processing, marketing of the commodities or products and also financial management.

Introduction

Large population in India is still dependent on agriculture for their livelihood. Agripreneurship is emerging as solution to many economic problems like poverty, unemployment, migration towards urban areas and rural youths disenchantment with agriculture. Developing agri-enterprises and making our farmers entrepreneurial is needed urgently to pave the way for evergreen revolution.

Earlier the development was production oriented where technologies were the drivers of the process. Better technologies resulted in higher yields and incomes thereby; but at present, imperatives suggest market oriented production for higher farm profitability. Post-harvest management, value addition and effective marketing to earmarked clients are also needed at the farmers' level. Available opportunities and special government promotional efforts have helped in agri-enterprises being developed.

^{*}Corresponding author.

E-mail address: kumarineelam440@gmail.com (Neelam Kumari)

Received 02-01-2022; Accepted 22-03-2022

Copyright @ Journal of Extension Systems (acspublisher.com/journals/index.php/jes)

FPO is a means to bring together the small and marginal farmers and other small producers to build their own business enterprise that will be managed by professionals. FPO offers small farmers to participate in the market more effectively and helps to enhance agricultural production, productivity, and profitability (Krishna 2018). A Farmer Producer Organisation (FPO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. A FPO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members (Kirsten & Sartorius 2012). The main aim of FPO is to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale (Trebbin 2014). Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value that the ultimate consumer pays (Reardon *et al.* 2013). Through aggregation, the primary producers can avail the benefit of economies of scale. They will also have better bargaining power vis-à-vis the bulk buyers of produce and bulk suppliers of inputs.

The concept behind Farmer Producer Organizations is that farmers, who are the producers of agricultural products, can form groups. Department of Agriculture and Cooperation (DAC), Ministry of Agriculture & Farmers Welfare, Government of India launched a pilot programme for promoting member-based Farmer Producer Organisations (FPOs) during 2011- 12, in partnership with state governments, which was implemented through the Small Farmers' Agribusiness Consortium (SFAC 2014). Presently, around 5000 FPOs (including Farmer Producer Companies) are in existence in the country, which were formed under various initiatives of the Govt. of India (including SFAC), State Governments, NABARD and other organizations over the last 8-10 years (NABARD Report 2015). Of these, 1877 FPO's have been on-boarded on e-NAM platform. FPOs will therefore be formed with an average of 500 farmer members in plain areas and 200 in hilly areas. Thus, 350 -500 farmers is an optimal size for formation of an FPO (DAC 2013). Mobilizing farmers into groups of between 15-20 members at the village level (called Farmer Interest Groups or FIGs) and building up their associations to an appropriate federating point i.e. Farmer Producer Organizations (FPOs) (Barman, 2019). Farmers Producer organizations are groups of rural producers coming together based on the principle of membership, to pursue specific common interests of their members and developing technical and economic activities that benefit their members and maintaining relations with partners

operating in their economic and institutional environment (Singh *et al.* 2013; Sakthi et al 2015).

Farmer Producer Company organization is nothing but a cooperative form of business organization (Singh 2012). It is registered under Indian Companies Act. It allows producers 10 or more to form an organization to transact business in which surplus is distributed among its members as per its Memorandum of Association and Articles of Association. The Small and marginal farmers participate in FPOs to improve their access to credit, storage, output and input markets and their bargaining power vis-à-vis traders (Van der Meer 2010). Keeping in view the major role played by these farmer producer organisations in improving the financial conditions of small and marginal farmers this paper is designed to highlight the services model of FPO, emerging marketing models and avenues of FPO and the critical areas covered during training/ capacity building of FPO members. In order to enumerate the services and marketing model of Farmer Producer Organisation to study highlight the challenges perceived by the Farmers Producer Organisation, the present manuscript was taken up.

This manuscript is based on data collected from secondary sources viz., annual reports, research papers, articles, newspapers etc. Further, this paper explores that how FPOs benefited the primary producers and balance the share capital. It also compiles information from various stakeholders in FPOs, including state level producer companies, government officials and resource institutions responsible for establishing or facilitating FPOs.

Framework and Discussion

Service model of Farmers Produces Organisations

The FPO provided loans for crops, purchase of tractors, pump sets, construction of wells, laying of pipelines. The FPO also provide low cost and quality inputs to member farmers. It will supply fertilizers, pesticides, seeds, sprayers, pump sets, accessories, pipelines. The FPO procure agriculture produce from its member farmers, will do the storage, value addition and packaging (Mondal 2010). FPO do the direct marketing after procurement of agricultural produce. This will enable members to save in terms of time, transaction costs, weighment losses distress sales, price fluctuations, transportation, quality maintenance etc. The insurance like Crop Insurance, Electric Motors Insurance and Life Insurance were also offered. FPO will promoted practices of farming, maintain marketing infor-

mation system, diversifying and raising levels of knowledge and skills in agricultural production and post-harvest processing that adds value to products (Kathiravan 2017). Making channels of information (e.g. about product specifications, market prices) and other business services accessible to rural producers was also facilitated. Facilitating linkages with financial institutions, building linkages of producers, processors, traders and consumers, facilitating linkages with government programs is also taken up (Singh and Singh 2013).

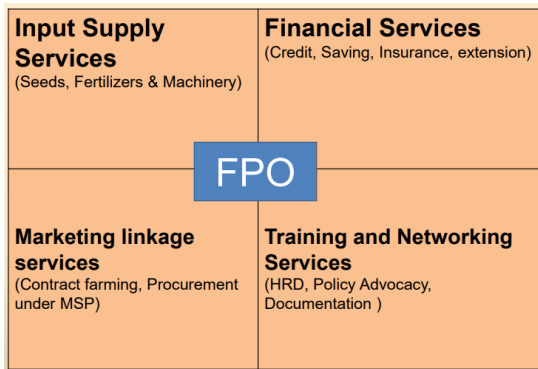


Figure 1. FPO services model (Source NABARD Annual Report 2018)

Critical areas covered during training/ capacity building of FPO members

The vision and mission of the FPO is very important for the Board Directors as well as other staff. Creating value to the members by solving existing problems in the value chain, marketing and reasonable share of price realisation in the rupee spent by the consumer on the members’ produce, should be the focus. All other activities / services are to engage the members comprehensively throughout the year and to reduce their expenditures and increase their welfare (The Hindu 2020).

Governance which is responsible, transparent and keeping the interest of the members of the FPO above all the considerations is a must for the success of a FPO. Various aspects of good governance to be covered (Murray 2015). Another most important aspect to be covered in the training is that the FPO should not venture into unsustainable ventures which may create short term profits and harm the long term interests / welfare of the community. The success of a FPO depends on the networking and continuous interactions with various stakeholders. The BODs and staff should have the understanding and importance of networking to obtain maximum benefits to their members under convergence mode (Bhosale 2014). The training should concentrate on making the FPO relevant to the members at all times, which creates social capital and

trust. The BOD and staff should have an understanding of the constitution of the FPO, statutory provisions under which it is formed, various other requirements under the statute and compliance thereof. The training should also cover aspects of business planning to maximize benefits as well as to reduce the business risks.(Nain et al ,2019). The aspects like DPR preparation, Balance Sheet Analysis, simple financial ratios for profitability, ratios that are seen by banks for financing, need to be covered. The management of the finances like maintenance of books of account, Management Information System, share capital, borrowings, savings, loans, cash flow, funds flow, receivables management, payables management, investments etc. are equally important. The BOD module should have various aspects of monitoring to ensure that the business goals are achieved and the business is carried out in a professional manner.

Role of NABARD in linking FPOs with market

NABARD provides support to the FPOs to access markets for their produce. Some of these activities include; credit and/or grant support for setting up of marketing infrastructure facilities for sale of produce, support for marketing through rural *haat* and rural mart which had already been established through NABARD support, facilitation tie-ups with buyers for Producers Organization’s produce and support through existing schemes of National Horticulture Mission and Ministry of Agriculture for creation of infrastructure wherever possible.

Emerging marketing models and avenues of FPOs

The successful models of FPOs entering into the agriculture marketing space as follows:

Government supported pulses price stabilization scheme: Central Government is doing pulse procurement through SFAC under Pulses Price Stabilization Scheme (PPSS) of Government of India. SFAC does the procurement in partnership with the FPOs working in different pulses growing area of various States of India, either directly through FPO or through state federation of farmer’s producer Companies who is coordinating the procurement activities in partnership with different member FPC. This programme benefits the farmers in terms of better price realization, timely payment and also provides a branding for the FPCs through coverage of maximum farmers of the area without any restrictions and any risk of market price fluctuation.

On-door procurement model: This is a traditional and most popular model of commodity trading. This is a very good model of spot procurement where farmers get better price and save transportation cost. However, this requires a forward marketing tie up for the FPOs. Also requires good amount of working capital. The State Federation can provide market linkage, working capital and logistical support to the FPOs especially where the FPOs are in the nascent stage.

FPO led localized seeds production and marketing model: Seeds production and marketing has emerged as one of the potential business activity for the FPO, particularly in States where seeds replacement rate is poor and/or farmers are using composite and synthetic crop varieties.

Credit linked Production and Procurement Model: This is an emerging model, which helps both farmers and FPC by involving a Micro Finance Institution in the process. This is a very good model provides end-to-end solution to the farmers from inputs and field preparation to crop husbandry service to the buy-back guarantee. On the other hand it expands the scope and importance of the FPC for its members and in the local context.

Challenges and issues in building FPOs

Farmers' Organizations are required to be efficiently managed by experienced, trained and professionally qualified CEO and other personnel under the supervision and control of democratically-elected Boards of Directors. However, such trained manpower is presently not available in the rural space to manage FPO business professionally (FAO 2010). FPOs are mostly represented by small/marginal farmers with poor resource base and hence, initially they are not financially strong enough to deliver vibrant products and services to their members and build confidence. Lack of access to affordable credit for want of collaterals and credit history is one of the major constraints, the FPOs are facing today. Further, the credit guarantee cover being offered by SFAC for collateral free lending is available only to Producer Companies (other forms of FPOs are not covered) having minimum 500 shareholder membership (GOI 2013). Due to this, large number of FPOs particularly those, which are registered under other legal statutes as also small size FPOs are not able to access the benefits of credit guarantee scheme. Presently, while the risks related to production at farmers' level are partly covered under the existing crop / livestock / other insurance schemes, there is no provision to cover business risks of FPOs (NABCONS 2011). Marketing of produce at remunerative prices is the most critical requirement for the success of FPOs. The input prices are largely fixed by

corporate producers. The cultivators loose through the complex gamut of market processes in the input and output prices. There are more market opportunities; if FPOs can identify local market needs of the consumers and have tie-up for sale of its produce (Dev 2012). The linkage with Industry/ other market players, large retailers, etc. is necessary for long term sustainability of FPOs. The producers' collectives have inadequate access to basic infrastructure required for aggregation like transport facilities, storage, value addition (cleaning, grading, sorting, etc.) and processing, brand building and marketing (FICCI 2020). Further, in most of the commercial farming models, the primary producers are generally excluded from the value chain. Inadequate awareness among the farmers about the potential benefits of collectivization & non availability of competent agency for providing handholding support. Further, lack of legal and technical knowledge about various Acts and Regulations related to formation of FPOs and statutory compliances thereafter.

Conclusion

A FPO is a collective of farmers (and non-farmers) who are the primary producers of a product (an agricultural produce or a manufactured product). It, therefore, can work as a platform to facilitate better access to government services. It can liaison with the Government Departments for convergence of programmes, like drinking water, sanitation, health and hygiene. FPOs will support the members in getting more income. By aggregating the demand for inputs, the FPO can buy in bulk, thus procuring at cheaper price compared to individual purchase. Thus reducing the overall cost of production. Similarly, the producer organizations may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce. The FPO can also provide market information to the producers to enable them hold on to their produce till the market price become favourable. All these interventions will result in more income to the primary producers.

References

- Agricultural Census (2010-11). Department of Agriculture and Co-operation, Ministry of Agriculture & Farmers Welfare, Retrieved from [http:// agcensus.dacnet.nic.in/](http://agcensus.dacnet.nic.in/).
- Barman U. (2019). Producer Organisations and Extension: Performance and Sustainability, Taking Stock and Shaping the Future: Conversations on Extension, Agricultural Extension in South Asia (aesa), 474-478.

- Bhosale, J (2014). 'Farmer Producer Companies Help Pool Market Produce, Resources'. The Economic Times, Sept 8 2014, <http://goo.gl/krYmMG> (Accessed on 10 Sept 2014).
- Birthal, P. S., Jha, A. K. & Singh, H. (2007). Linking farmers to markets for high-value agricultural commodities. *Agricultural Economics Research Review*, 20 (conference issue), 425-439.
- Chander M. 2019. Producer Organizations (Pos) and Extension: The Road Ahead, Taking Stock and Shaping. The Future: Conversations on Extension, *Agricultural Extension in South Asia* (aesa), 479-482.
- Department of Agriculture & Cooperation (2013). 'Policy and Process Guidelines for Farmer Producer Organizations'. Ministry of Agriculture & Farmers Welfare, Government of India.
- Department of Agriculture and Co-operation, Ministry of Agriculture & Farmers Welfare, (2013). Final Report of Committee of State Ministers, Incharge of Agriculture Marketing to Promote Reforms, Government of India. Retrieved from <http://dmi.gov.in/>
- Department of Agriculture and Co-operation, Ministry of Agriculture & Farmers Welfare, (2013). Policy and Process Guidelines for Farmer Producer Organisations. Government of India.
- Dev, S.M. (2012). Small farmers in India: Challenges and opportunities. Working paper 2012-014, Indira Gandhi Institute of Development Research, Mumbai, India.
- FAO (2010). Producer organizations: Reclaiming opportunities for development. FAO Regional Office for Africa. (Available at <http://www.fao.org/3/am072e/am072e00.pdf> (accessed on 22nd July, 2019).
- FAO (2011). Small Farmer Development in Asia and the Pacific: Some Lessons for Strategy Formulation and Planning, FAO Economic and Social Development Paper No. 87, Rome.
- FICCI (2020). Empowering FPOs, Sharpening the Saw: Preparing FPOs as an effective tool towards Aatmanirabhar Bharat. <http://ficci.in/spdocument/23272/FICCI-Empowering-FPOs-Paper.pdf>.
- Government of India (2013). Policy & process guidelines for farmer producer organisations. Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India.
- Gulati, A., Chatterjee, T. and Hussain, S., (2018). Agricultural Commodity Futures: Searching for Potential Winners, ICRIER Working Paper No-349.
- Gulati, A., Chatterjee, T., & Hussain, S. (2018). Supporting Indian Farmers: Price Support or Direct Income/Investment Support? ICRIER Working Paper No-357.
- Kathiravan, N., T. Senthilkumar and Sudeep Kumar, N.K. (2017). Identification of Bottlenecks Perceived among the Farmer Producer Organizations to Augment its Role and Function. *Int. J. Curr. Microbiol. App. Sci.* 6(9):216 -219.
- Kenderdine, T. (2018). Insurance Plus Futures: Agricultural Commodity Price Reform in China. *Asia & the Pacific Policy Studies*, 5(2), 331-346.
- Kirsten, J. & Sartorius, K. (2012). Linking agribusiness and small-scale farmers in developing countries: is there a new role for contract farming? *Development Southern Africa*, 19(4), 503-529.
- Krishna, D. K., (2018). Farmer Producer Organizations: Implications for Agricultural Extension (June 15, 2018). *Agriculture Extension Journal*, 2018, Available at SSRN: <https://ssrn.com/abstract=3663044>.
- Kumar, V., Wankhede, K. G. & Gena, H. C. (2015). Role of cooperatives in improving livelihood of farmers on sustainable basis. *American Journal of Educational Research*, 3(10), 1258-1266.
- Maijers W. Nalla V. and Commandeur D. 2016 Producer Organizations: Going into Business with Formal Markets. http://www.snv.org/public/cms/sites/default/files/explore/download/snv_pghgsf_supplier_devlopment_spread_digital.pdf (Accessed on 23th July, 2019).
- Mondal, A. (2010). 'Farmers' Producer Company (FPC) Concept, Practices and Learning: A Case from Action for Social Advancement', *Financing Agriculture*, 42(7): 29-33.
- Murray E. V. (2015). "Producer Company Model-Current Status and Future Outlook: Opportunity for Bank Finance", Research Gate. [https://www.researchgate.net/publication/228888927_Producer_Company_ModelCurrent_Status_and_Future_Outlook_Opportunities_for_Bank_Finance]. (Accessed on 20th July, 2019).
- NABARD (2015). Farmer Producer Organisations: Frequently Asked Questions (FAQs). National Bank for Agriculture and Rural Development, Mumbai.
- NABARD (2016). Resource Book on Formation and Functioning of Farmer Producer Companies, developed by Action for Social Advancement (ASA), Bhopal www.asaindia.org.
- NABARD (2019). Farmer Producers' Organizations (FPOs): status, issues & suggested policy reforms. National Paper - PLP 2019-20.
- NABCONS (2011). "Integration of Small Producers into Producer Companies: Status and Scope", NABARD Consultancy Services Pvt. Ltd. [https://www.researchgate.net/profile/Emmanuel_Murray/publication/272494774_Integrating_Small_Producers_into_Producer_Companies_-_Status_Scope/links/54e6cb890cf2cd2e02907717/Integrating-

- SmallProducers-into-Producer-CompaniesStatus-Scope.pdf]. (Accessed on 20th July, 2019).
- Nain, M. S., Singh, R., Sharma, J. P., Mishra, J. R. (2019) Filling the information gap through Developing and Validating Entrepreneurial Technical Information Packages (ETIPs) for Potential Agricultural Entrepreneurs. *Journal of Community Mobilization and Sustainable Development*, 14(1):44-48. <https://indianjournals.com/ijor.aspx?target=ijor:jcms-d&volume=14&issue=1&article=009>
- Onumah, G., Davis, J., Kleih, U. & Proctor, F. (2007). Empowering smallholder farmers in markets: Changing agricultural marketing systems and innovative responses by producer organizations. MPRA Paper No. 25984.
- Pingali, P., Aiyar, A., Abraham, M. & Rahman, A. (2019). Linking farms to markets: reducing transaction costs and enhancing bargaining power, 193-214. *In: Transforming Food Systems for a Rising India* (Prabhu Pingali, ed.). Palgrave Macmillan, Cham, UK.
- Raghunathan, R & Shivalika Gupta (2018). More Power to the Farmer, *The Hindu Business Line*.
- Reardon, T. & Barrett, C. B. (2013). Agro-industrialization, globalization and international development: an overview of issues, patterns, and determinants. *Agricultural Economics*, 23(3), 195-205.
- Parthiban Sakthi. R, Nain M.S., Singh Rashmi, Kumar Shiv, Chahal V.P. (2015). Farmers' producer organisation in reducing transactional costs: a study of Tamil Nadu mango growers' federation. *Indian Journal of Agricultural Science*, 85(10): 1303-1307.
- Shapland B and Kampen J (eds) 2006. Farmers' organizations and agricultural innovation: case studies from Benin, Rwanda and Tanzania, Bulletin 374. Royal Tropical Institute (KIT) – Amsterdam KIT Development, Policy and Practice.
- Singh, G., Budhiraja, P. & Vatta, K. (2018). Sustainability of farmer producer organisations under agricultural value networks in India: a case of Punjab and Gujarat. *Indian Journal of Agricultural Economics*, 73(3), 70- 85
- Singh, K. (2019). Assessing the economic impacts of farmer producer organizations: a case study in Gujarat, India. *Agricultural Economics Research Review*. 32, 139-148.
- Singh, S. (2012). New markets for smallholders in India: exclusion, policy and mechanisms. *Economic and Political Weekly*, 47(52), 95-105.
- Singh, S., & Singh, T. (2012). Producer companies in India: a study of organisation and performance. Draft report, Ministry of Agriculture, Government of India, IEG, New Delhi.
- Singh, S., and Singh, T. (2013). "Producer Companies in India: A study of organization and Performance", Centre for Management in Agriculture, Indian Institute Management, Ahmedabad, Publication No. 246, Accessed on 29 July 2019. https://www.iima.ac.in/c/document_library/get_file?uuid=6eb2a966-9b58-4a8594bdb1aa38cd98a3&groupId=62390].
- Small Farmers' Agribusiness Consortium (2014). Detailed List of Farmer Producer Organizations (FPOs-Statewise), New Delhi: Small Farmers' Agribusiness Consortium, Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India, <http://sfacindia.com/List-of-FPO-Statewise.html> (Accessed on 10 Sept 2014).
- Srinivias N., Shukla, N., Raghunathan, R., (2018). Report on Strategies for Doubling of Farmers Income, NCDEX presented to the Ministry of Agriculture and Farmers Welfare.
- Stockbridge M. Dorward A. and Kydd J. (2003). Farmers' Organisations for Market Access: Learning from Success. SDC Briefing Paper. Swiss Development Corporation: Bern.
- The Hindu (2020). Indian economy contracts by 7.5% in Q2. <https://www.thehindu.com/business/Economy/indian-economy-contractsby-75-in-q2/article33193753.ece> (Accessed on 28th November, 2019).
- The Indian Express, (2020). 67 per cent of 92 farmer-producer organisations' business hit due to COVID-19 lockdown: Survey <https://www.newindianexpress.com/business/2020/may/26/67-per-cent-of92-farmer-producer-organisationsbusiness-hit-due-to-covid-19-lockdown-survey-2148260.html>.
- The Institute of Company Secretaries of India, (2017). FAQs on Producer Companies. The Institute of Company Secretaries of India, Lodi Road, New Delhi.
- Trebbin, A. (2014). Linking small farmers to modern retail through producer organizations—experiences with producer companies in India. *Food Policy*, 45(c), 35- 44.
- Van der Meer, C. L. J. (2010). Exclusion of small-scale farmers from coordinated supply chains, 209-218. *In: Agro-food chains and networks for development* (R. Ruben, M. Slingerland and H. Nijhoff, eds.). Springer, Netherlands.