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FPO: Strengthening Agriculture

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Agriculture plays a pivotal role in developing economies with the contribution to 17.4% to the country's Gross Value Added and about 54.6% of the population is engaged in agriculture and its allied activities. The small and marginal holdings taken together (0.00-2.00 ha) constituted 86.21% in 2015-16 against 84.97% in 2010-11 while share in the operated area stood 47.34% in the current census as against 44.31% in 2010-11. Under the exploitation of formal contracts, the small farmers with the weak bargaining powers suffer from greater dependency in the cultivation. To minimize the gap between the farmers and consumers, Government of India aimed at new institutional options which can provide the farmers, a level playing field to compete in the modern agro-food networks. With the recommendations of Y K Alagh Committee in 2001, amendments were brought to the Companies Act, 1956 which paved the way for the concept of 'Producer Companies' (PC). PC can increase the skills, revenue and bargaining power of the small holder farmers in the production and marketing of the produce.

They disseminate technical knowledge to its beneficiaries, improve their production efficiency, reduce the transaction costs, market the final produce and are even successful in capacity building thereby, fabricating the social capital. In the era of globalization and climate change, producer organizations are regarded as the only institutional option to safeguard the best interest of the farmers and facilitate them to reach a higher level of profits through novel agro-food networks (Trebbin and Hassler, 2012). SFAC is the nodal agency which coordinate between the states and single window for the technical advice and investment needs. Producer Organization Development Fund (PODF) has been created by NABARD to specially promote the FPOs (Farmer Producer organizations) which lies outside the ambit of SFAC. As a major reform, GOI has announced cent percent tax holiday for all the FPOs below 100 crores up to five years. Producer organizations can evolve as a major step toward doubling the farmers' income.

Concept and Need of FPO

FPO is a legal entity formed by group of farmers or primary producers, viz: agriculture farmers, milk producers, fisherman, small Tea growers, weavers, craftsman etc. 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. The FPO was formed 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. 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. 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.

STEPS IN ESTABLISHING FPO

The steps involved for establishing FPOs as per the policy and process guidelines for Farmer Producer Organizations issued by Department of Agriculture and Cooperation in 2013 are as follows:

a. Cluster Identification– Cluster areas are to be selected by the Resource Institutions (RIs) in consultation with the respective State Government departments. However, it should be ensured that a cluster of 8,000-10,000 farmers should be formulated, within one or two blocks, identifying 80 to 120 contiguous villages of a particular district.

b. Diagnostic Study– A Diagnostic Study is to be conducted by the RI in the selected cluster area. The Diagnostic Study is conducted to assess the preliminary situation of the farmers and level of agriculture in the area. The study will also help in identifying the potential interventions required and understand the specific project implementation context.

c. Feasibility Analysis– Feasibility Analysis for the formation of FPCs should be carried out by RIs and then appraised by hired external experts in various technical areas. A normal feasibility study should cover aspects such as financial, technical, legal, political, socio-cultural, environmental, economic and resource feasibility. The Feasibility Analysis will establish a case for promotion of FPCs in the prevailing specific regional environmental context of the FPOs.

d. Baseline Assessment– Baseline Assessment, to be carried out by RI, will help in generating data related to the current prevailing situation of farming and small, marginal and tenant farmers. Baseline assessment will cover a variety of factors to identify the potential interventions, to plan development and business plans and to establish the base figures based on future outcome indicators that can be measured to understand the change contribution. The assessment shall be conducted using stratified random sampling through structured household-level interviews and open-ended focus group discussions with a variety of stakeholders.

e. Business Planning– Business Planning will be carried out by RIs with the help of selected farmers' representatives. Business planning is a process through which the strategic and operational orientation of an emerging FPO is shaped. While baseline assessment figures will be important inputs to understand the level from which products and services for farmers' members should be developed, more important will be the collective visualization of the future of the FPO. Using a variety of tools and systematic collective reflections, a business plan with proper projections on various aspects needs to be developed. The key is to develop business plans in detail with at least 10 percent of FPO farmer members to provide clear vision.

f. Mobilization of Farmers– Once a strong case has been established by spearhead team (SHT) with the help of a selected group of farmers through the business planning process, it is time to mobilize farmers into Farmers Interest Groups (FIGs) and eventually as farmer-members of FPOs. Mobilization of farmers should be done with a variety of communication aids like – pamphlets, documentary movies, posters, regular village-level meetings, proper vision development of promoter farmer-members. Promoter farmer-members are those who are eager to form a FPO on voluntary basis, having understood the importance and potential benefits of forming FPOs, obtained through training programmes and exposure provided by SHT of RIs.

g. Organizing and Formalizing– FIGs in an aggregated cluster together form FPOs. Typically, around 50-70 FIGs can come together to form an FPO. FPOs can be registered under the Producer Company provision under the Companies Act. However, it must be clarified that the purpose of mobilizing farmers is not merely to achieve the target of registering a formal entity. The final form which the FPO assumes (i.e. cooperative, producer company, multi- state cooperative etc.) must be a decision taken by FIG members at an appropriate time. It is important to stress that the process must not be hurried in any manner and there is no "right time" by which the FPO must be registered. Any period between 18 months to 24 months may be necessary for the FIGs to settle down and understand the implications of aggregation. Only then should the FPO registration be attempted.

h. Resource Mobilization– Before initiating the operations of an FPO all required resources should be mobilized by the RI with the help of FPO representatives and board of directors. Financial, human (staff), technical and physical resources should be developed during this particular step. Based on the business plan the RI should liaise with various financing agencies and mobilize resources for hiring/purchasing and developing various resources.

i. Management Systems Development– RIs should facilitate the development of management systems in the FPO. Guidelines for management systems should be able to address all requirements related to financial services, input and output management services. Systems related to management of finance, human resources, stock and inventory, procurement and quality management, marketing, internal audit, internal conflict resolution and other important functional areas should be developed. Standard operating procedures for the same should be established.

j. Business Operations– Business operations is the commencement of procurement, production, processing, marketing and financial service activities of a FPO. RIs should carefully train both the governing and operational structures of the FPO in order to ensure smooth functioning of business operations. The entire value-chain related to various agriculture and allied products and commodities needs to be managed.

k. Assessment & Audit– RIs should facilitate constant assessment of performance of various stakeholders like farmer members, governing board of directors and service providers. They should also help FPOs to reflect using Institutional Maturity Index to understand areas of improvement. Internal process and accounting audits will help maintain both transparency and accountability.

As majority of the marginal and small farmers are facing a great suppression by the middle men/ commission agents for remunerative price and profitable income, FPO could be an ultimate solution to the problem. More and more contribution from the promoting institutions is of utmost need for education, business planning and market linkage with various national and international companies. A support from the policy makers in running the FPO will be a great boon to the farming community. The farmers must encourage their children to involve more in agriculture to induce a loving spirit and passion for agriculture.