

## Farmer Producer Organization: Empowering Small and Marginal Farmers through Collectivism

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### Introduction

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, Government of India launched a pilot program 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). The central government launched a new scheme "Formation and Promotion of Farmer Producer Organisations (FPOs)" on February 19, 2020, to set up 10,000 new FPOs with budgetary support of Rs 6,865 crore from FY20 to FY28. The objective is to provide small and marginal farmers "better collective strength for better access to quality input, technology, credit and better marketing access through economies of scale for better realization income. Presently, there is no accurate information on FPOs or their members (Govilet *al.*, 2020). Two central agencies promoting FPOs, Small Farmers' Agri-Business Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD), have their separate lists as per which there are 5,116 (881 in the SFAC list and 4,235 in the NABARD list) FPOs out of which 1877 FPOs are on the e-NAM platform. A 2020 study by the Azim Premji University, "Farmer Producer Companies: Past, Present, and Future", found 7,374 producer companies (FPCs) registered between January 1, 2003, and March 31, 2019, under the Companies Act, in which 4.3 million small farmers are members (Netiet *al.*, 2019)

### Advantages of FPOs for small and marginal farmers

Farmer Producer Organizations (FPOs) offer several advantages to small and medium farmers. The biggest of them is that FPOs enable these farmers to attain economies of scale.



While a small farmer cultivating 2-3 acres of land does not possess significant bargaining power either for purchasing input or selling produce, when a large number of such farmers come together to form an FPO, it increases their collective bargaining. It allows them to buy inputs in bulk at lower prices and sell their produce to the market at fair prices through collective bargaining. Further, purchasing all necessary components in bulk at wholesale pricing helps lower production costs, and aggregation of produce and bulk transportation lowers marketing expenses thereby increasing the producer's net profitability. Building scale through produce aggregation allows for economies of scale to be realized and draws traders to pick up produce at the farm gate. Moreover, it allows farmers to get into contract farming and ensure price security. FPOs also enable easy access to funds and other support services by the government and non-government financial institutions as collectivism increases their risk-bearing ability and repayment capacity. This is an important benefit as a lot of small and marginal farmers face the issue of credit crunch during the peak seasons. The FPOs just like cooperatives encourage the habit of savings and thrift among their members. This help FPOs achieve self-sustainability after the period of government support is over. Moreover, FPOs through their economic activities improve the financial conditions of their members by increasing their income, which in turn contributes to rural development and growth. Social capital also develops in the form of FPOs, as it leads to improved gender relations and decision-making of women farmers in FPOs. This also reduces social conflicts and improves food and nutritional values in the community.

### **Challenges to FPOs**

Although well-run and stable FPOs have the potential to improve farmers' incomes and reduce their exposure to economic risks. There are multiple challenges to the success of FPOs such as a small number of shareholders, low procurement volumes, sub-scale operations, limited value addition capabilities, poor marketing linkages, inability to attract talent and lack of strategic thinking and planning, etc., which makes it very difficult for an FPO to successfully manage its operations. The NABARD published a paper "Farmer Producers' Organizations (FPOs): Status, Issues & Suggested Policy Reforms" in 2019 listing the challenges: lack of technical skill and awareness about the potential benefits from FPOs, lack of professional management, weak finances, inadequate access to institutional credit (banks doubt their ability to pay back, the members being mostly small and marginal



farmers), inadequate access to markets and infrastructure, etc. as major constraints in the success of FPOs. Also, around 70-80% of FPOs (including FPCs) members are small and marginal farmers, and that membership ranges from 100 to 1,000 (Lalitha *et al.*, 2022). It is unrealistic to expect poor farmers to contribute large sums as share capital that would make FPO financially robust. The average paid-up capital of FPOs ranges from a few thousand to several lakhs across states but only 90 out of 7000 active FPOs have paid-up capital of Rs 50 lakh or more, while 86% have less than Rs 10 lakh. Moreover, it is ironic that while agricultural loans are available at 7-9% interest rates, FPOs have to borrow largely from microfinance institutions (MFIs) at about 18% interest. The central government's new scheme does provide a credit guarantee that covers up to project loans of Rs 2 crore, but more needs to be done, especially for working capital and lower interest rates.

### **Government Support to FPOs**

Under the central government scheme “Formation and Promotion of 10,000 Farmer Producer Organizations (FPOs)”, the produce cluster area approach and specialized commodity-based approach are being adopted. In adopting the cluster-based approach, the formation of FPOs will be focussed on “One District One Product” for the development of product specialization. As of February 2021, nine IAs has been finalized for the formation and promotion of FPOs which includes Small Farmers Agri-Business Consortium (SFAC), National Cooperative Development Corporation (NCDC), National Bank for Agriculture and Rural Development (NABARD), National Agricultural Cooperative Marketing Federation of India (NAFED), North Eastern Regional Agricultural Marketing Corporation Limited (NERAMAC), Tamil Nadu-Small Farmers Agri-Business Consortium (TN-SFAC), Small Farmers Agri-Business Consortium Haryana (SFACH), Watershed Development Department (WDD)- Karnataka and Foundation for Development of Rural Value Chains (FDRVC)- Ministry of Rural Development (MoRD). These implementing agencies (IAs) engage Cluster Based Business Organizations (CBBOs) to aggregate, register & provide professional handholding support to each FPO for a period of five years. Further, NAFED would form the specialized FPOs which should necessarily be forwardly linked to the market and agri-value chain. NAFED also provides market and value chain linkages to the FPOs formed by other Implementing Agencies. Moreover, FPOs are being provided with financial assistance up to Rs 18.00 lakh per FPO for a period of three years. In addition to this, provision has been



made for matching equity grant up to Rs. 2000 per farmer member of FPO with a limit of Rs. 15.00 lakh per FPO and a credit guarantee facility upto Rs. 2.00crore of project loan per FPO from the eligible lending institution to ensure institutional credit accessibility to FPOs.

### **Way Forward**

Some studies show that we need more than one lakh FPOs for a large country like India while we currently have less than 10,000. In this context, the government has taken several steps to promote FPOs. Addressing Structural Issues with the formation and functioning of FPOs is also important. Many FPOs lack technical skills, inadequate professional management, weak financials, inadequate access to credit, lack of risk mitigation mechanisms, and inadequate access to market and infrastructure. The issues such as working capital, marketing, and infrastructure have to be addressed while scaling up FPOs. Getting credit is the biggest problem. Banks must have structured products for lending to FPOs. They have to be linked with input companies, technical service providers, marketing/processing companies, retailers, etc. They need a lot of data on markets and prices and other information and competency in information technology. Collective farming model where FPOs can be used to augment the size of the land by focusing on grouping contiguous tracts of land as far as possible can also be an effective measure for the successful operation of FPOs. More focus should be on creating a supply chain and finding new markets. Women farmers will play a major role in collective farming.

### **Conclusion**

Indian agriculture is held in its roots by the farmers, which is production-oriented coupled with fragmented landholdings, increased costs on cultivation and transportation, limited access to markets, low level of technology adoption, less bargaining power, higher transaction costs, migration due to indebtedness, and unemployment, poor infrastructure, and low market efficiency. Hence, the need of the hour is to promote collective action in the procurement and distribution of inputs, aggregation, grading, and marketing of the products through economy of scale and ensure the participation of agri-entrepreneurs and smallholder producer farmers. Therefore, by organizing farmers into collectives as a Farmer Producer Organization (FPO), the benefits of economies of scale and collective bargaining could be achieved. The principle of the clustering approach is used in the functioning of the FPOs. FPO shifts the focus from the resources and capabilities of the farmers to providing agri-input



services and technical services, creating market access, and generating employment. Despite many benefits, FPOs are facing multiple challenges. Among them, mobilization of share capital is a significant challenge followed by mobilizing the farmers with diversified experiences. Government agencies should support small and marginal farmers by assuring financial assistance in order to enable them to organize themselves in FPOs.

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