

## **Farmer Producers' Organizations (FPOs): Status, Issues & Suggested Policy Reforms**

### **1.0 Background**

Agriculture in India is predominantly production- oriented confined in large number of fragmented small holdings and plays a pivotal role in the Indian economy. It provides employment to around 56 per cent of the Country's workforce, contributes to overall growth of the economy and reduces poverty by providing employment and food security to the majority of the population. However, due to highly fragmented, scattered and heterogeneous landholdings, rising cost of cultivation and limited access of small/marginal farmers (SF/MF) to public resources and markets, etc., the small holding-based agriculture has gradually become unviable. Low marketable surplus, lack of farmers' access to public resources; lack of access to quality inputs, credit facility, modern technologies, etc. and frequent crop failures, lack of assured market, income safety, lengthy and fragmented supply chain, etc., have resulted in high dependency of farmers on the exploitative intermediaries and local money-lenders. Small and marginal farmers constitute around 85% of the total land holdings and hold around 44% of the land under cultivation. Major concerns relating to small farm holders include:

- Inadequate farming and extension services and low level of technology adoption
- Lack of capital and poor business skills
- Low income due to poor infrastructure and low market efficiency

The above situation calls for major structural reforms and transformational initiatives towards the revitalisation of Indian agriculture both by way of stepping up investments for productivity enhancement as also reforms in agricultural marketing and post-harvest agri logistics for boosting agricultural growth. In this context, a sustainable solution lies in collectivisation of agricultural produce and value addition/ marketing by achieving the economy of scale and creating commodity-specific agri value chains with participation of agri entrepreneurs and primary producers on the equitable terms.

### **2.0 Benefits of Farmers' Collectives**

Some of the important benefits of organizing farmers into collectives, as demonstrated through various pilots, are as under:

- Optimizes cost of production by procuring all necessary inputs in bulk at wholesale rates
- Reduces marketing cost through aggregation of produce and bulk transport and thus, enhance net income of the producers.
- Produce aggregation enables to take advantage of economies of scale and attracts traders to collect produce at farm gate

- Facilitate access to modern technologies, capacity building, extension and training on production technologies and ensuring traceability of agricultural produce.
- Minimize post-harvest losses through value addition and efficient management of value chain
- Enable regular supply of produce and its quality through proper planning and management
- Manage price fluctuation with practices like contract farming, marketing agreements, etc.
- Provide access to information about price, volume and other farming related advisories
- Access to financial resources against the stock
- Easy access of funds and other support services extended by the Government / donors / service providers
- Help to improve bargaining power and social capital building.

### **3.0 Current Status of FPOs**

Parmers' Producer Organizations (FPOs) are farmers' collectives with membership mainly comprising small/marginal farmers (around 70 to 80%). Presently, around 6000 FPOs (including FPCs) 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. Of these, around 3200 FPOs are registered as Producer Companies and the remaining as Cooperatives/ Societies, etc. Majority of these FPOs are in the nascent stage of their operations with shareholder membership ranging from 100 to over 1000 farmers and require not only technical handholding support but also adequate capital and infrastructure facilities, including market linkages for sustaining their business operations.

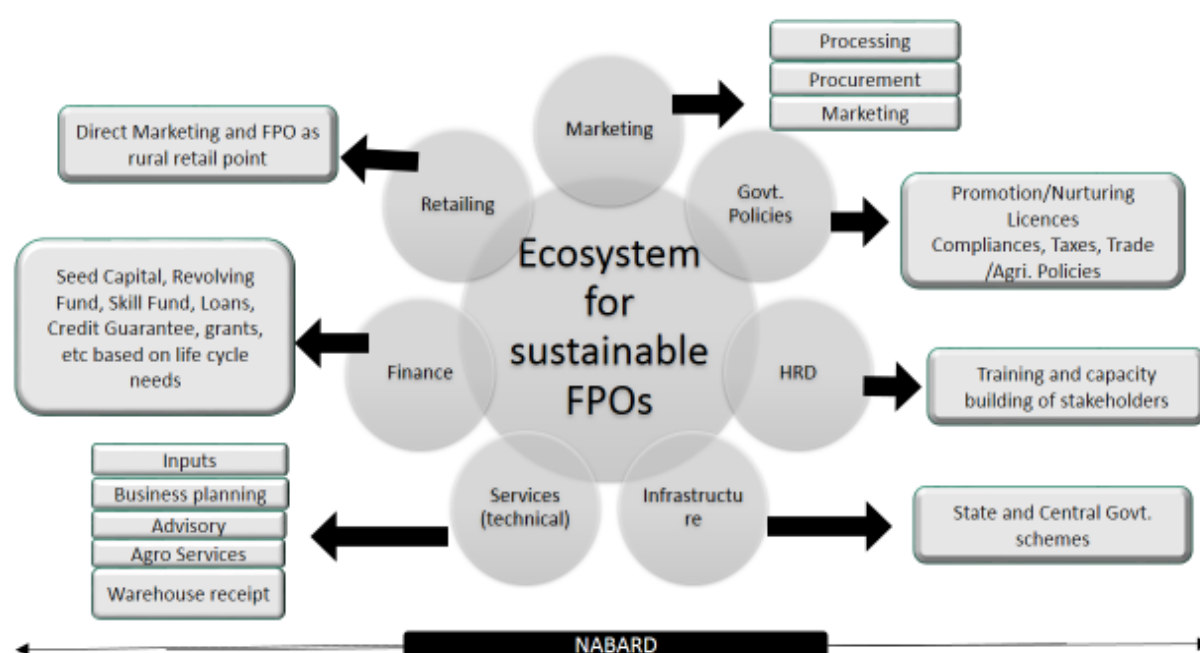
### **4.0 Critical Ecosystem for FPOs**

A congenial ecosystem is a must for development of Producer Organizations (POs) because they have to deal with the most vulnerable part of agri-value chain, which starts from the farm and goes on till processing and the far-away markets. The critical ecosystem services include emergency credit, consumption credit, production credit, retail services of inputs for agriculture and other agricultural production services required by the small and marginal farmers. Unless these services are provided by a PO, it cannot divert the surplus produce from the local trader to the producer organization. In addition, a PO can take up other services related to facilitating linkage with the banks and line departments for ensuring access to the required infrastructure for the business.

In order to build a sustainable FPO favourable ecosystem is needed, besides certain policy reforms particularly in the agricultural marketing systems. Some of the critical ecosystems include:

- (a) Policy environment-production, market and price risk mitigation, licensing, agri-logistics, infrastructure arrangements, contract farming, compliances, etc.
- (b) Technology support- Extension and advisory services, value addition, processing & marketing, etc.
- (c) Consumption/ production/ post production credit support- Banks/ financial institutions, NBFCs, Government institutions, Developmental Agencies, Corporates, etc.
- (d) Retail services/ Markets- Quality inputs, retail marketing, spot markets (eNAM, APMC), future's trading, linkages with agri corporates, exporters, direct marketing, etc.

Graphical presentation of the Ecosystem requirements is given below:



## 5.0 NABARD's Support to Farmer Producers' Organizations

### 5.1 Financial Support to Existing POs

NABARD created Producers Organization Development Fund (PODF) with initial corpus of Rs. 50 crores out of its operating surplus during 2011-12, for supporting the existing POs (including PACS) to create innovative financing models for mainstream banking. The broad objective of the Fund is to provide financial/ non-financial support to POs for facilitating improved credit access, ensure adequate capacity building, market linkages and need-based handholding services to meet their 'end to end' requirements and thereby ensuring sustainability and economic viability. Considering the success of financing to POs/PACS in terms of improved access to inputs, affordable credit, better price realization by members by building scale and enhanced skill development of farmers, NABARD created a fully owned subsidiary, NABKISAN

Finance Ltd., for meeting the credit requirements of FPOs by adopting a flexible approach based on life cycle needs, while it continues to provide promotional support towards capacity building, market linkages and other incubation services to FPOs out of grant fund. The scope of this Fund has been further enhanced during 2018-19 to provide need-based grant assistance to those FPOs also, which are financed by the Commercial Banks, Cooperative Banks and Regional Rural Banks.

## 5.2 Promotion of New FPOs

While NABARD has been promoting farmers' collectives for the past several years, such as Farmers' Clubs, Joint Liability Groups (JLGs), Self Help Groups (SHGs), Watershed Groups, etc., to nurture the collective strengths and empowering the farmers, it took special initiative to promote and nurture new FPOs out of Producers' Organization Development and Upliftment Corpus (PRODUCE) Fund created in NABARD by the Govt. of India during 2014-15, for the promoting 2000 FPOs. From this Fund, NABARD has promoted 2154 FPOs as on 31<sup>st</sup> March 2019, of which, around 70% FPOs are registered as Producer Companies and the remaining as Cooperatives/Societies. These FPOs are in incubation/ emerging stages & engaged in initial business activities like input distribution to members, produce aggregation & direct marketing to retail units, local mandis or institutional buyers, etc., except around 45-50 FPOs which have also commenced processing, branding and direct marketing of their produce with turn over exceeding Rs. 100 lakh.

Considering the experience gained and lessons learnt from operating PRODUCE Fund, NABARD has introduced a scheme for promoting 3000 FPOs during next 2-3 years by leveraging financial resources under its various promotional and developmental programmes/ schemes. As on 31<sup>st</sup> March 2019, around 2070 new FPOs have been promoted across India under this initiative.

## 5.3 Important measures initiated by NABARD

- In order to oversee the promotional efforts and provide policy inputs for creating appropriate ecosystem for FPOs to sustain their business operations, NABARD has constituted a **National Advisory Committee**, headed by its Chairman and members from the Finance and Agriculture Ministries of the Govt. of India, SFAC, Academic Institutions, Professional agencies, Agri Corporates, leading Producer Organization Promoting Institutions (POPIs), etc. Similarly, State level Consultative Committees have been formed by the Regional Offices of NABARD to provide necessary guidance to the implementation of the scheme and ensuring desired synergy between the efforts of various stakeholders for building sustainable FPO.
- Considering the need for a centralized data base on FPOs, NABARD has launched a dedicated web portal and digitized the data in respect of all its FPOs including profile of the shareholder members and uploaded on its website for use by the

stakeholders.

- A Performance Measurement (grading) Tool has been developed, in consultation with key stakeholders, for the assessment and monitoring of overall performance of FPOs. The tool serves as an aid in designing need-based nurturing interventions for building a robust organization and facilitating credit linkages.
- With a view to supplementing the efforts of the Govt. of India, particularly in 115 Aspirational districts for holistic development, NABARD is implementing “Integrated Water Management Scheme” through watershed approach, covering more than 40 such districts to address issues relating to availability and efficient usage of water through FPO/ community participation. Besides, NABARD, through its State offices, has launched a massive awareness campaign on the role of FPOs in building farmers’ resilience against climate change, increasing agricultural productivity and bringing optimal efficiency in the agri value chain through achieving the economy of scale for ensuring enhanced income to the farmers, particularly small producers.
- NABARD, with support of Bankers Institute of Rural Development (BIRD), Lucknow has designed three separate training modules for capacity building/ training of Board of Directors and CEOs of FPOs, and for the capacity building of POPIs. Further, in order to develop a cadre of local professionals, a short-term certificate course on FPO Management for the existing/ aspiring CEOs has been designed and the same is being organized through 10 Regional level reputed Anchor Agencies.
- A National Seminar on ‘Linking Farmer Producers’ Organizations (FPOs) with Commodity Exchanges’ was organized in association with SEBI and Commodity Exchanges and a road map for increasing farmers’ participation on trading platforms was suggested. As a follow-up of the seminar, series of district/state level training programmes have been organized in association with commodity exchanges for the benefit of farmers, besides initiating certain policy/procedural modifications by the commodity exchanges particularly for reducing the lot sizes, streamlining account opening procedure and creating adequate number of delivery centres, etc.
- NABKISAN Finance Ltd, has introduced a number of innovative loan products for directly supporting FPOs, besides creating a digital platform for on-line submission of loan applications. To provide lending comforts to its subsidiaries, NABARD has introduced a Credit Guarantee Scheme, on a pilot basis, to provide guarantee cover to its lending subsidiaries.
- Reserve Bank of India has approved Rs. 173.95 crore for augmenting PODF corpus out of interest differential under RIDF, up to March 2019, for supplementing NABARD’s efforts in promotion and nurturing of new FPOs.
- A National Seminar on Collectivization of Agricultural Produce and Market linkages through FPOs was organised on the occasion of 37<sup>th</sup> Foundation Day of NABARD. A booklet titled “Farmer Producers’ Organization- Empowering Small Producers” containing success stories of select FPOs was released on the occasion.

- Operational Guidelines for implementing a scheme for promotion and nurturing of 3000 FPOs out of PODF were issued. Under the scheme, grant support is provided for promotion & nurturing of new FPOs over a period of 5 years besides, Rs. 5.00 lakh additional support for business development.
- NABARD supported for organising state-wise FPO campaign in Andhra Pradesh, Punjab, Odisha, Gujarat and Karnataka state for creating mass awareness on the benefits of FPOs among farmers.

## **6.0 Schemes of Govt. of India/ SFAC for FPOs**

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 grant and credit guarantee support for facilitating collateral-free lending to FPCs.

### **6.1 Equity Grant Fund Scheme**

The main objectives of Equity Grant Fund of SFAC are as under:

- (i) Enhancing viability and sustainability of FPCs
- (ii) Increasing credit worthiness of FPCs
- (iii) Enhancing the shareholding of members to increase their ownership and participation in the FPC.

The equity grant support to eligible FPCs is provided on matching basis, subject to a maximum of Rs 10 lakh per FPC, provided the FPC has a minimum shareholder membership of 50 farmers.

### **6.2 Credit Guarantee Fund Scheme**

The main objective of the Credit Guarantee Fund Scheme is to provide a credit guarantee cover to eligible lending institutions to enable them to provide collateral-free credit to FPCs by minimizing their lending risks in respect of loans not exceeding Rs. 100 lakh. Under the schemes, only FPCs having minimum 500 individual shareholders are eligible for credit guarantee cover. The Cooperatives Financed by NCDC also eligible for guarantee cover. The guarantee cover is restricted to the extent of 85% of the eligible sanctioned credit facility or Rs. 85 lakh, whichever is lower.

## **7.0 Union Budget, 2018-19: Focus on FPOs**

The Govt. of India in the Union Budget 2018-19, announced the following measures to promote FPOs for a prosperous and sustainable agriculture sector that enable farmers to enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns for their produce:

- (i) Launching of “Operation Greens” for onion, potato and tomato crops, on the lines of Operation Flood with an allocation of Rs. 500 crore. The initiative aims to address



price fluctuation in the above vegetables for the benefit of farmers and consumers. It will promote FPOs, agri-logistics, processing facilities and professional management.

(ii) With a view to encouraging enabling environment for aggregation of farmers into FPOs and take advantage of economies of scale, the GoI announced 100% tax exemption for FPOs with annual turnover of up to Rs. 100 crore for a period of 5 years.

## **8.0 Challenges and Issues in Building Robust FPOs**

Some of the studies commissioned by NABARD have clearly established the positive role of FPOs in terms of increased net income of farmers through informed decision making, improved access to inputs and agro-services, institutional credit, marketing facilities and enhanced efficiency in the farming operations. However, there are challenges and policy gaps in the ecosystem. The important challenges and confronting issues in building sustainable FPOs are as under:

### **a. Lack of technical Skills/ Awareness**

Inadequate awareness among the farmers about the potential benefits of collectivization & non availability of competent agency for providing handholding support are the major constraints in the rural areas in promoting strong FPOs. Further, there is lack of legal and technical knowledge about various Acts and Regulations related to formation of FPOs and statutory compliances thereunder.

### **b. Lack of/ Inadequate Professional Management**

A Farmers' Organization is required to be efficiently managed by experienced, trained and professionally qualified CEO and other personnel under the supervision and control of democratically-elected Board of Directors. However, such trained manpower is presently not available in the rural space to manage FPO business professionally.

### **c. Weak Financials**

FPOs are mostly represented by small and marginal farmers having poor resource base and, hence, initially they are not financially strong enough to deliver vibrant products and services to the members and build their confidence.

### **d. Inadequate Access to credit**

Lack of access to affordable credit for want of collaterals and lack of credit history are also 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. Due to this, large number of FPOs, particularly those which are registered under other legal statutes as also FPOs with lesser than 500 members are not able to access the benefits of credit guarantee scheme.

**e. Lack of Risk Mitigation Mechanism**

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.

**f. Inadequate Access to Market**

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 lose 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-ups for sale of its produce. A linkage with industry/ other market players, large retailers, etc. is necessary for long term sustainability of FPOs.

**g. Inadequate Access to Infrastructure**

The producers' collectives have inadequate access to basic infrastructure required for aggregation such as transport facilities, storage, value addition (cleaning, sorting, grading, etc.) and processing, brand building and marketing. Further, in most of the commercial farming models, the primary producers are generally excluded from the value chain.

**9.0 Needed Policy Support/ Suggested Measures**

Some of the critical policy reforms and other suggested measures to be initiated by the Govt. of India/ other stakeholders for further strengthening the FPO movement in the country are as under:

- Suitable amendments in the APMC Act to treat the country as a single, unified market for agri produce with no restrictions on commodity movement as also to enable FPOs market their produce directly to the consumers/ bulk-buyers, without payment of mandi fee would go a long way in strengthening FPOs. Buyers may be encouraged to set up collection centres near to FPOs /crop clusters". Provision may also be made in the amended Act to provide direct market access to FPOs, treating the FPO as a place of Gramin Agri Market (GrAM) and building up of required marketing infrastructure to be owned and managed by FPO.
- Convergence of resources for creation of farm level infrastructure at FPO level for cleaning, grading, sorting, assaying, processing, branding & transportation of agri commodities up to delivery/ market centres as also for establishment of custom hiring centres for the benefit of shareholder members. Specific fund allocation may be made under these schemes by Govt. of India for FPOs.
- Appropriate provisions may be made in the Food Grain Procurement Policy of GoI specifying procurement of agricultural commodities directly through FPOs under MSP scheme.



- Suitable amendments in the Producer Companies Act, 2013 may be made to make provision for small private equity participation/ refundable long-term capital infusion by the private investors so as to strengthen the financials of FPOs and create appropriate business model for commercial sustainability. Also, Angel/ Venture capital support to FPOs on the lines of Start-ups may be extended.
- The benefits of Equity Grant & Credit Guarantee Fund schemes of SFAC may be extended to all forms of FPOs as also to FPOs having shareholder membership of less than the existing limit of 500 producers.
- The concerned Ministries/ Departments of the Central / State Governments may be mandated to implement all “Farmer-centric Schemes” through the FPOs for efficient delivery of services and improved outcomes.
- Relief to FPOs from various statutory compliances may be provided at least during initial 5 years so as to help them adjust with the regulatory business environments and stabilize business operations as a part of “ease of doing business” concept of GoI.
- The Ministry of Agriculture & Farmers’ Welfare, GoI may act as the Nodal Ministry for mobilizing adequate financing resources and creating policy environment for promoting and nurturing of FPOs, creating linkages with input companies, technical service providers, marketing/ processing companies, retailers, etc.; whereas NABARD may act as Nodal Agency for channelizing credit through banks, implementing credit risk mitigation measures (like credit guarantees) and addressing the training and capacity building needs, knowledge management and data repository of FPOs.
- Private Institutions and Agricultural Universities may introduce special courses on FPO promotion and agribusiness management, with focus on rural youth including women, so as to create large pool of professionals in rural areas for managing FPO activities. Further, the existing scheme of Agriclincs and agribusiness Centre (ACABC) may be redesigned to create professionals for not only promoting FPOs but also acting as CEOs of the FPOs in their local areas.
- The system of issuing various licenses required for undertaking business activities by FPOs may be simplified to make it as a single window state-wide license.
- In line with the focus/ policy framework of the GoI, the State Governments may introduce appropriate flexible policy to support and strengthen FPOs to make them as a self-sustaining, commercially viable business enterprise of the farmers, particularly small producers.

*(Disclaimer: Views expressed in this paper are based on the consolidated information/ data accessed from various sources and do not necessarily reflect the official position/ views held by NABARD)*