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 Indian 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 landholding, rising cost of cultivation and limited access of small/marginal farmers (SF/MF) to public resources and markets, the small holding based agriculture has gradually become unviable. The limited production quantities, lack of farmers' access to public resources, quality inputs, credit facility, modern technologies, etc. and frequent crop failures, lack of assured market, income safety and poorly developed supply chain, has 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 holding and hold around 44% of the land under cultivation. Some of the key 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:

- Cost of production can be reduced by procuring all necessary inputs in bulk at wholesale rates
- Aggregation of produce and bulk transport reduces marketing cost, thus, enhancing net income of the producer
- Building the scale through produce aggregation enables to take advantage of economies of scale and attracts traders to collect produce at farm gate
- Access to modern technologies, facilitation of capacity building, extension and training on production technologies and ensuring traceability of agriculture produce.

- Post-harvest losses can be minimized through value addition and efficient management of value chain
- Regular supply of produce and quality control is possible through proper planning and management
- Price fluctuation can be managed; if there are practices like contract farming, agreements, etc.
- Easy in communication for dissemination of information about price, volume and other farming related advisories
- Access to financial resources against the stock, without collaterals
- Easy access of funds and other support services by the government / donors / service providers, and
- Improved bargaining power and social capital building.

3.0 Current Status of FPO

FPOs are farmers' collectives, with membership mainly comprising small/marginal farmers (around 70 to 80%). Presently, around 5000 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

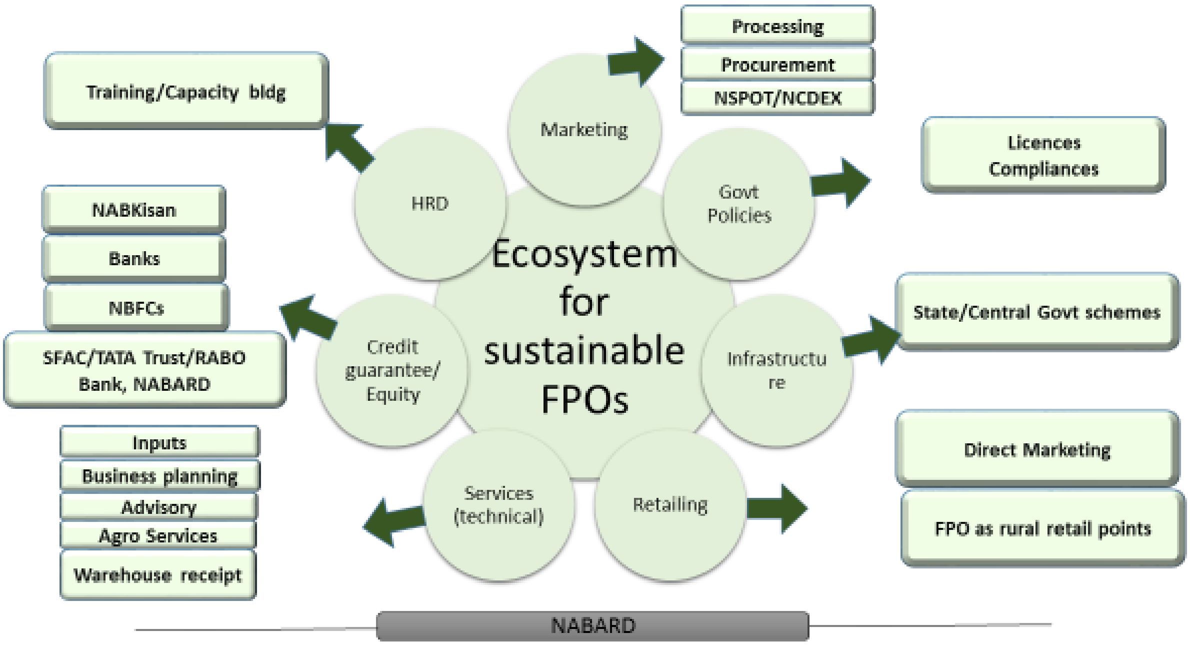
A congenial ecosystem is a must for development of producer organizations because they have to deal with the most vulnerable part of agri-value chain, which starts from the farm and goes on till processing and the far-away markets. The critical ecosystem services include emergency credit, consumption 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 producer organization, it cannot divert the surplus produce from the local trader or shop keeper to the producer organization. In addition, the producer organization can take up other services related to facilitating linkage with the banks and line departments for ensuring the infrastructure access 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-Risk mitigation, licensing, agri-logistics, infrastructure arrangements, contract farming

(b) Technology Support- Extension service, advisory, value addition, processing & marketing
(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 (NCDEX), linkages with agri corporates, exporters, direct marketing.

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 Producers' Organizations 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 its own 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 2017-18 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 in the past such as Farmers' Clubs, Joint Liability Groups, Self Help Groups, Watershed Groups, etc., to nurture the collective strengths and empowering 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, to be utilized for the promotion of 2000 FPOs. Under this Fund, NABARD has promoted 2154 FPOs as on 31 May 2018 of which, around 70% FPOs are registered as Producer Companies and the remaining as Cooperatives/Societies. These FPOs are in incubation/ emerging stages & initially engaged in 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 agro processing, branding and direct marketing activities with turn over exceeding Rs. 100 lakhs.

Considering the experience gained and lessons learnt under PRODUCE Fund, NABARD has introduced a scheme for promoting 3000 FPOs during next 2-3 years by adopting low cost model and leveraging financial resources under its various promotional and developmental programmes/ schemes. funds. Up to 31 March 2018, around 1850 new FPOs have been promoted across 22 States 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 concerned Ministries of the Govt. of India, SFAC, Academic Institutions, Professional agencies, Agri Corporates, leading FPOs, etc. Similarly, State level Consultative Committees have been formed under its Regional Offices 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 (copy enclosed as Annexure) 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 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 BIRD has designed three separate training modules for capacity building/ training of Board of Directors and CEOs of FPO and also 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 road map for increasing farmers' participation on trading platform was suggested. As a follow-up of the seminar, series of district/state level training programmes are being 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, a subsidiary of NABARD, 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 further 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. Based on the success of pilot, the scheme will be extended to other lending institutions in due course for facilitating adequate credit flow to FPO sector.

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 grants and Credit Guarantee support for facilitating collateral free lending to FPCs.

6.1 Equity Grant Fund Scheme

The main objectives of Equity Grant Fund 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 their FPC.

The equity grant support to eligible FPCs is provided by the SFAC on matching basis subject to a maximum of Rs 10.00 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. 100.00 lakhs. Under the schemes, only Farmer Producer Companies having minimum 500 individual shareholders, are eligible for Credit Guarantee cover. Further, the Bank should have extended/ sanctioned within six months of the date of application for the Guarantee or /in principle agreed in writing/ has expressed willingness in writing to sanction term loan/ working capital/ composite credit facility without any collateral security or third party guarantee including personal guarantee of Board Members. Maximum guarantee cover is restricted to the extent of 85% of the eligible sanctioned credit facility, or to Rs. 85 lakhs, whichever is lower.

6.3 Scheme for Creation of Backward and Forward Linkages

The Ministry of Food Processing Industries, Govt. of India is implementing a scheme to provide effective and seamless backward and forward integration for processed food industry by plugging the gaps in supply chain in terms of availability of raw material and linkages with the market. Under the scheme, financial assistance is provided for setting up of primary processing centers/ collection centers at farm gate and modern retail outlets at the front end along with connectivity through insulated/ refrigerated transport. The Scheme is applicable to perishable horticulture and non-horticulture produce such as fruits, vegetables, dairy products, meat, poultry, fish, Ready to Cook Food Products, Honey, Coconut, Spices, Mushroom, Retails Shops for Perishable Food Products, etc. The Scheme would enable linking of farmers to processors and the market for ensuring remunerative prices for agri produce. The scheme is implemented by agencies/ organizations such as Govt./ PSUs/ Joint Ventures/ NGOs/ Cooperatives/ SHGs / FPOs / Private Sector / individuals, etc.

The Ministry has engaged Technical Agencies (TAs) for assisting farmer/ producer groups including Farmer Producer Companies, Farmer Producer Organization and Self Help Groups to facilitate their participation under the Scheme. The TAs are responsible for preparation of Business Plan, Detail Project Report, Capacity Building, Trainee and other related support services.

6.4 National Rural Livelihoods Mission (NLRM)

The Ministry of Rural Development, Govt. of India under its Deendayal Antyodaya Yojana-NRLM, has taken initiatives towards building value chain development interventions with focus on sustainable agriculture, livestock and NTFP to enable small and marginal farmers to gain better price realization, access to markets, improved technologies for value addition and technical support. Under this initiative, large number of Producers' Groups are being promoted and graduated into sustainable, member-owned and member-governed Producers' Enterprises (PEs). Besides issuing operational guidelines, the Ministry has initiated a number of measures to strengthen the ecosystem around these collectives so as to facilitate them become a true business enterprise of small producers.

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 of the produce;

(i) Launching of "Operation Greens" for onion, potato and tomato crops on the lines of Operation Flood with an allocation of Rs. 500 crores. The initiative aims to address price fluctuation in 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 Govt. announced 100% tax deduction for FPOs with annual turnover of up to Rs. 100 crores.

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/ Inadequate Professional Management

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.

b. Weak Financials

FPOs are mostly represented by SF/MF 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.

c. Inadequate Access to credit

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. 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.

d. 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.

e. 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 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. The linkage with Industry/ other market players, large retailers, etc. is necessary for long term sustainability of FPOs.

f. Inadequate Access to Infrastructure

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. Further, in most of the commercial farming models, the primary producers are generally excluded from the value chain.

g. 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. Further, lack of legal and technical knowledge about various Acts and Regulations related to formation of FPOs and statutory compliances thereafter.

9.0 Needed Policy Support/ Suggested Measures for Scaling up and Strengthening of the FPOs

Some of the critical important policy reforms and other suggested measures to be initiated by the Govt. of India/ other stakeholders for scaling up and further strengthening the FPO movement in the country, could be 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. Buyers may be encouraged to set up collection centres near to farmers' field/ production centre. 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 under the Govt. scheme.
- 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 funds may be earmarked under the recent schemes of the Govt. of India for this purpose.

- Appropriate provision in the Food Grain Procurement policy of the Government of India requiring procurement of agricultural commodities directly through FPOs under MSP scheme.

- Suitable amendments in the Producer Companies Act, 2013 may be introduced to make provision for private equity participation/ refundable long-term capital infusion by the private investors so as to strengthen the financials of FPOs and create more sustainable 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 smaller FPOs having shareholder membership of less than the existing limit of 500 farmers.

- The concerned Ministries/ departments may be mandated to implement all "Farmer-centric Schemes" through the FPOs for efficient delivery of services and improved outcomes.

- Suitable relief to FPOs from various statutory compliances may be provided at least during initial 10 years so as to help them adjust with the regulatory business environments and stabilize business operations under "ease of doing business".

- Private Institutions/ Agricultural Universities may introduce special courses on FPO promotion and agribusiness management, with focus on rural youths including women so as to create large pool of professionals in rural areas for managing FPO activities. Further, the existing scheme like Agriclinics/agribusiness Centre, may be redesigned to create and professionals for not only promoting FPOs but also acting as

CEO 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 a single window state-wide license.

- In line with the focus/ policy framework of the Govt. of India, the State Governments may introduce appropriate flexible policy to scale up FPO promotion and to strengthen them so as to become a self-sustaining commercially viable business enterprise of the farmers' particularly small producers.

- Since the FPO has been considered to be the way forward for enhancing farmers' income and boosting agricultural growth, future strategies for scaling up of FPO promotion by various stakeholders may focus on the following broad areas of critical support/ effective interventions;
    - Mass awareness building
    - Institution development
    - Forging linkages with the ecosystem, and
    - Digital monitoring