

## Collectivization of Agricultural Produce for enhancing Farmer's Income

### 1. Background

Agriculture sector is the mainstay of the Indian economy, contributing about 15 per cent of national Gross Domestic Product (GDP) and more importantly, about half of India's population is wholly or significantly dependent on agriculture and allied activities for their livelihood. The growth of agriculture sector has been fluctuating, it increased from -0.2% in 2014-15 to 6.3% in 2016-17, and then declined to 2.8% in 2019-20. The decline was mainly due to a decrease in share of Gross Value Added (GVA) of crops from 11.2% in 2014-15 to 10% in 2017-18 due to relatively higher growth performance of non-agricultural sectors.

In the same line agriculture is a significant contributor to Uttarakhand's Gross State Domestic Product (23.4%). The state with a population of 100.86 lakhs comprises 13 districts, 95 blocks and 15745 inhabited villages. Agriculture is the chief source of livelihood for over 70% of its population. The predominant population (70%) resides in rural areas. With majority of the areas (88%) of the state being hilly terrain with forests & wastelands cover, only 12% of the geographical area is available for cultivation. As per the report of the Agriculture Department, Govt. of Uttarakhand, the total operational holdings in the state (2015-16) is as follows; Hilly areas of Uttarakhand: 585022 Ha, Plain areas of Uttarakhand: 497682 Ha.

The main crops which are cultivated are wheat, sugarcane, paddy, maize, manduwa and sanwa in food grains; urad, gram, pea, masoor & rajma in pulses; mustard, soybean, groundnut in oil seeds and Apple, Mango, Leechi, Papaya, Guava and vegetables in Horticulture produce. Rice and sugarcane dominate the agricultural realm from one corner of the region to the other. Cropping pattern also varies with the variations in the climatic conditions and cropping seasons.

Physiographic Zones of Uttarakhand (based on altitude from sea level)

Sr.No	Zone	Region and Area	Agricultural Diversity
1	Valley (upto 1000 m)	Tropical Zone, Plains, Terai, Shivalik Hills & Valleys. Haridwar, US Nagar and parts of Dehradun district	Paddy, wheat, maize, sugarcane, soybean, oilseeds and pulses are mainly grown. Fruit such as mango, leechi, papaya, and guava
2	Low Hills (1000 to 1500 m)	Subtropical zone largely unirrigated. parts of Dehradun, Nainital, Pauri-Garhwal districts and Tehri-garhwal	Pears, apricot, mandua, Millets and other stone fruits. Vegetables are also grown here.
3	High Hills (1500 to 2400 m)	Cool Temperate zone. Uttarkashi, Nainital, Rudraprayag, Pauri-Garhwal, Bageshwar, Champawat, Almora and parts of Chamoli Districts.	Fruits and off-season vegetables are intensively cultivated here. Generally kharif crops are grown in this zone. Apple from this area is very famous and offseason vegetables such as tomatoes, peas, cauliflowers,

			cabbage and hill capsicum are commonly grown.
4	Alpine Zones (Above 2500m)	Sub alpine, alpine zone. Parts of Uttarkashi, Pithoragarh and Chamoli districts.	Only pastures are available which are suited for rearing sheep and goats. In this area medicinal plants and herbs are available.

*Source: Agricultural Policy Document GoUK, 2018*

Uttarakhand has very vivid topography and due to highly fragmented & heterogeneous landholdings the average size of farm land holdings is a mere 0.95 ha. This has resulted in rising cost of cultivation, inadequate market infrastructure, increasing risks due to climate change, limited access of farmers to public resources, modern technologies and affordable credit. Also, due to adverse climatic conditions and lack of livelihood opportunities, the hilly districts of the state face outward migration problem. During last few years around 968 villages encompassing 2.85 lakh households have turned into ghost villages.

These constraints have resulted in stagnant growth of Agriculture in the state and poor attitude of rural youth towards agriculture as a means of livelihood, who prefer to migrate towards urban areas to take up low paying jobs instead. This situation calls for major structural reforms and transformational initiatives towards the revitalisation of agriculture both by way of stepping up of investments for creation of infrastructure for productivity enhancement and post-harvest agri logistics.

In the above context, a sustainable solution lies in collectivisation of agricultural produce, value addition and collective marketing through organising farmers into Farmer Producer Organisation. The most common form of collectivisation that farmers of Uttarakhand have adopted over the years are Self Help Groups (SHGs), Joint Liability Groups (JLGs), Farmer Clubs, Livelihood Collectives and Federation. The ultimate objective was livelihood enhancement approach, which involves the upgrading of livelihoods through environmentally sustainable agriculture. Gradually, the groups started focusing on promoting micro enterprise development which finally lead to Rural Business Development Centres (RBDC). This has motivated the groups to start collective enterprise by using local resources and various capacity building support imparted by experts in the form of trainings and orientation program. Finally, collectivisation for sustainable agriculture growth and food security came into effect. It encouraged and build the ability of farmers to invest in storage, crop protection and value addition infrastructure. Also, leverage farmers' collective strength to create local level commodity-specific agri value chains to enable small/ marginal farmers realise optimal value of their produce.

## 2. Current Scenario and scope of collectivisation through FPOs

The most common form of collectivisation which prevailed in Indian scenario has always been inward oriented, i.e. focusing on the requirements of farmers and acting as a facilitating organisation to them.

To tackle the outward orientation, i.e. the market needs, suppliers and end consumer demands and changes accordingly, the formation of FPO, with amendments in the Indian Companies Act, 1956 came into effect.

Over 108 FPOs have, so far, been promoted by various agencies like SFAC, Horticulture Department and NABARD, over the last 8-10 years in Uttarakhand. Around 200 Livelihood collectives, 215 Federations and 4681 organic farmers groups are promoted by agencies like Uttarakhand Gramya Vikas Samiti and LOFG-PGS.

- Out of these, NABARD has promoted around 97\* FPOs in Uttarakhand State under its various promotional initiatives (52 FPOs under PRODUCE, 38 under PODF ID, 02 under UPNRM and 05 under PODF).
- 04 FPOs are promoted by Department of Horticulture, Uttarakhand
- 07 FPOs are promoted by SFAC, Uttarakhand
- Around 200 Livelihood Collectives, 215 Federations & 30 PSWMD are being promoted under Uttarakhand Livelihood Improvement Project for the Himalayas/Integrated Livelihood Support Project.
- 4681 Organic farmers groups are promoted under LOFG-PGS Uttarakhand.

Sr.No.	District	No. of FPOs*	No. of SF/MF Members
1	Almora	7	522
2	Bageshwar	5	2049
3	Chamoli	10	2031
4	Champawat	4	838
5	Dehradun	11	2371
6	Haridwar	4	1083
7	Nainital	6	872
8	Pauri Garhwal	10	2020
9	Pithoragarh	11	1971
10	Rudraprayag	4	930
11	Tehri Garhwal	11	2441
12	Udham Singh Nagar	4	1109
13	Uttarkashi	10	2414
	<b>Total</b>	<b>97</b>	<b>20651</b>

\* FPOs promoted by NABARD under PRODUCE, PODF-ID, UPNRM and PODF

### **3. Major benefits to farmers through FPO membership**

- Cost of production can be reduced by procuring all necessary inputs in bulk at wholesale rate.
- 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. Ease 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.
- Would provide opportunities to assess the requirement of aggregation in different clusters and across various activities.

### **4. Important initiatives for promoting collectivization through FPOs**

The Govt. of India in the Union Budget (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. Accordingly, Equity Grant and Credit Guarantee Funds were created in SFAC with corpus of Rs. 50 crores and Rs. 100 crores, respectively.

The Govt. of India, in the Union Budget 2018-19, announced two important measures to promote FPOs to enable farmers to enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns of the produce. These measures are (i) launching of “Operation Greens” for onion, potato and tomato crops on the lines of Operation Flood with an allocation of Rs. 500 crores to address price fluctuation in vegetables for the benefit of farmers and consumers by promoting FPOs and creating agri-logistics, processing facilities and professional management system and (ii) granting 100% tax exemption for FPOs with annual turnover of up to Rs. 100 crores for a period of 5 years.

The Govt. of India, in the Union budget 2019-20, announced a Central Sector scheme for promotion and nurturing of 10,000 FPOs across the country to be implemented over a period of next five years. In order to facilitate adequate credit support for smooth implementation of the scheme, two separate credit guarantee funds have been created (a fund of Rs. 1000 crores in NABARD and Rs. 500 crores

in NCDC) besides further augmenting the corpus of equity grant fund earlier set up in SFAC.

Agricultural marketing is essential for the development of the agriculture sector as it provides outlets and incentives for increased production, the marketing system contribute greatly to the commercialization of subsistence farmers. With this respect APMC Amendment Act was formulated to provide for improved regulation in marketing of agricultural produce, development of efficient marketing system, promotion of agri processing and agricultural export.

#### **4.1 NABARD's initiatives for FPO promotion**

Producer Organization Development Fund (PODF) was set up in 2011 for providing promotional assistance to producers' organizations for their capacity building, market facilitation and other accompanying measures. In Uttarakhand NABARD has promoted 05 FPOs under this fund with a loan cum grant support of 215 Lakhs.

- Under PRODUCE Fund NABARD has promoted 52 FPOs (promoted through 36 NGOs/02 RSA/ POPIs) comprising of 17578 farmers (mostly SF/ MF) covering 705 villages in all the 13 districts in the State and are registered & functional under Coop Act/ Companies Act. The existing FPOs are pursuing successful activities, viz., agriculture, marketing, apiculture, dairying, organic farming, food processing, etc.
- To promote collectivisation in state total 53 workshops were conducted in year 2018-19 by NABARD in campaign mode. 01 State level meet, 13 district wise workshops and 39 cluster level workshops were conducted. The successful workshops across the state resultant to setting up of 38 new FPOs in the state. Also, increasing the membership of existing FPOs, thereby increasing the total membership of existing FPOs to approximately 1.5 lakh farmers. Under PODF-ID Fund NABARD has promoted 38 FPOs and 20 POPIs so far. Out of 38 FPOs 24 has been registered under Coop Act/ Companies Act.
- To assess the progress and to resolve the policy level issues at a state level, NABARD convene SLCC regularly with state level authorities and other partners in the FPO ecosystem. As a result number of issues resolved like credit availability, eligibility for government sponsored schemes, registration and other statutory measures. This helps FPOs to directly interact with the policy makers and implementing institutions. Considering the need for a centralized data base on FPOs for better planning and monitoring, NABARD has created a dedicated web portal (NABFPO) and digitized the data in respect of all its FPOs including profile of the shareholder members for seamless communications among the stakeholders. The portal could be accessed through anywhere from the globe. The subsidiary of NABARD namely, NABKISAN Finance Ltd. was strengthened with adequate financial resources and manpower support to provide life cycle-

based credit facility to FPOs. Further, in order to provide lending comfort to its subsidiaries and mitigate the credit risks, a credit guarantee scheme was designed for accelerating flow of credit to FPO sector.

Depending on the scope of business activities and organizational capabilities, various model projects for financing FPOs were prepared and shared with the concerned stakeholders to facilitate credit support from banks/ financial institutions.

NABARD, with support of Bankers Institute for Rural Development (BIRD)/ Resource Support Agency (RSA), has been organizing regular capacity building/ training programmes for FPOs (CEO, BODs and POPIs) on promotion and building of sustainable FPOs. At present NABARD has promoted 02 RSAs, One each for Garhwal and Kumaon region of Uttarakhand. For Garhwal region, agency Appropriate Technology India (ATI) has been identified as RSA to provide capacity building support to all the FPOs. Similarly, Neo Integrated Development of Himalaya (NIDHI) has been identified as RSA for Kumaon region.

For mature FPOs NABARD has provided marketing support through Rural Marts (RM) and to enhance their understanding of marketing trends also provides various national level platforms like exhibitions and fairs to the mature FPOs.

NABARD is also supporting FPO by providing seed money assistance for business expansion on the basis of member base share capital of the FPOs.

#### **4.2. Small Farmers Agribusiness Consortium (SFAC)**

- SFAC is implementing the Equity Grant and Credit Guarantee Fund Scheme (EGCGFS) for Farmer Producer Companies. The Scheme is operational across the country.
- SFAC has promoted 07 FPOs in Uttarakhand.
- SFAC is implementing a Central Sector Scheme for Agribusiness Development through Venture Capital Assistance (VCA) to qualifying projects, which promotes linkages with farmers for procurement of their produce as raw material and provides employment in rural areas.

#### **4.3 Agriculture Marketing Infrastructure in the State**

Uttarakhand Krishi Utpadan Mandi Parishad (UKUMP) is the nodal agency responsible for agricultural marketing in the state. UKUMP has created state-wide network for marketing of agricultural produce with 25 Principal Market Yards, 31 Sub Market Yards and 27 Weekly Markets. To ensure marketing of horticulture produce, 18 separate marketing yards have been established in the state.

Under RKVY, 3 Farmer Consumer Markets have been setup in Dehradun viz Majri Grant in Doiwala Block, Danda Lakhond and Nanurkhera in Raipur Block. Government of Uttarakhand has established a separate Uttarakhand Horticulture Marketing Board to assist farmers of the state in Marketing of horticulture produce.

**Status of APMC Act:** The state government has amended the APMC Act, in line with Model Act 2003. The amended Act facilitates setting up of private markets, farmer consumer markets, reduced fee on perishable horticulture produce, contract farming, e NAM for e-trading etc.

#### **4.4 Horticulture Department Infrastructure in the State**

- Department have 94 Government nurseries for production of quality planting material and seeds out of these 24 nurseries developed as State of art gardens.
- 319 horticulture mobile teams (Input Centres) for distribution of horticulture inputs and dissemination of technology of the farmers.
- Uttarakhand Horticulture Marketing Board.

### **5. Key issues & challenges in building sustainable FPOs**

On the basis of performance of the FPOs, they are rated under A, B, C & D category. A diagnostic study has been conducted during 2019-20 for those FPOs which have been rated either “C” or “D”. The main aim of this study was to identify the reasons for slow growth and to find out loopholes in operations of FPOs. During the study it came out that due to following reasons the FPOs of Uttarakhand are still struggling towards sustainability.

- There is low membership base per FPO due to dispersed population resultant to low equity contribution.
- Lower production and productivity due to fragmented land holding.
- Inadequate irrigation facilities and marketing Infrastructure.
- Non availability of experienced, trained and professionally qualified CEO to manage FPO business professionally and poor decision making ability of the Board of Directors about governance, resource mobilization and business management.
- Lack of technical knowledge/awareness & risk mitigation mechanism
- Ownership issues
- Convergence of resources
- Social and economic challenges in form of entrepreneurial culture, literacy etc.
- Competition with rich middlemen and intermediaries in agricultural supply chain.

## **6. Suggested policy measures for building robust FPO ecosystem**

### **6.1 State/ Central Government**

- Creating Interest Subvention Fund for FPOs.
- Setting up of state level policy on FPOs in the line of Orissa, Tamil Nadu, A.P and Karnataka, Gujarat.
- Creating a separate Seed Money Assistance Fund to support FPOs.
- Implementing Govt. Food Procurement Scheme and Agri extension services through FPOs.

- In order to speed-up issue of various licenses to FPOs, the State Governments may adopt single window approach for meeting all the regulatory requirements relating to FPO business operations
- The State Govt may declare the WDRA-accredited warehouses and FPO collection centers as “extended designated markets”. The existing/ emerging warehouses in the rural areas may be accredited for use by FPOs.
- The State Govt. may issue advisories to district administration for convergence of resources under various farmer centric schemes for facilitating capacity building and skill development of producer members.
- Implementation of farmers-centric schemes through FPOs
- Gramin Agricultural Markets (GrAMs) may be strengthened with basic facilities for cleaning, grading, sorting, storage, etc. and the FPOs may be entrusted for their operation & management.

## **6.2 RBI/SLBC/ Banks & Financial Institutions**

- RBI may consider advising banks and other financial institutions for financing FPOs based on life cycle approach including collateral-free loans upto Rs. 20 lakhs (on the lines of loans to SHGs under SRLM) to meet their initial financial needs for aggregation and marketing of agricultural produce of members.
- Banks may develop/ innovate loan products to meet the credit needs of FPOs (adopt credit plus approach) against the available credit guarantee cover or based on business models/ cash flow of FPOs. For this, the lending agencies may collaborate with NABARD and SFAC to assess the credit needs and design appropriate loan products for FPOs as a part of their corporate business development strategy.
- SLBC may consider incorporating FPO financing as a separate sub-target under the agriculture sector and monitor the credit flow on a regular basis. Similar advisory may be issued to LDMS for monitoring at the district/ block level.

## **7 Way Forward**

- Creation of uniform formats for loan applications along with the detailed guidelines with the help of NABARD /SFAC and the banking industry along with provision of collateral free bank loans to FPOs (with the support of various credit guarantee funds).
- State Govt may adopt specific policy to promote and support FPOs and designate a nodal department for its implementation by bringing synergy among various stakeholders.
- Training, capacity building, development of professional manpower, exposure visits, entrepreneurship development programs, tie-ups with ATMA/KVKs/SAUs/NGOs etc. and handholding support to FPOs.
- FPO as implementing agencies for “Farmer-centric schemes” of Central/State Govts.

- Comprehensive early stage funding and flexible products tailored to FPO requirements by financing institutions to improve financing for FPOs.
- Improving market linkages/supply chain intervention through creation of a single-window platform to provide information about backward & forward linkages as also the market infrastructure.
- As per the report on “Doubling farmers’ Income” by NITI Aayog, there is need to involve state level agencies in creating, nurturing, establishing and up scaling the FPOs
- Extending angel/venture capital support to FPOs on the lines of Start-ups.
- Onboarding of FPOs on e-NAM platform for direct marketing of agri-produce by the FPOs may be facilitated through state nodal department and necessary back-end logistics may be provided for easy movement of the agricultural produce.
- Digital linking of FPOs with buyers, sellers and transport agencies for real time and online marketing of farm produce for better price realization may be encouraged through appropriate policy interventions.