



Policy Paper

FPOs in India:

Creating Enabling Ecosystem for their Sustainability



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FPOs in India: Creating Enabling Ecosystem for their Sustainability



ICAR-NATIONAL ACADEMY OF AGRICULTURAL RESEARCH MANAGEMENT
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Executive Summary

Farmers Producers Organizations (FPOs) are considered to be one of the most imminent tools of intervention for upliftment of the farmers' condition in India. When more than 85 per cent of the farmers are smallholders, it becomes quite challenging for them to access the modern production technologies, access and use the market information for their advantage, transact the commodities in input or output market on their own terms, and ultimately keep their farming profitable. The collectivization of farmers through FPOs help in bringing economy of scale in different on-farm as well as off-farm activities at all three stages- pre-production, production and post-production levels. The Government of India is promoting the formation of FPOs through different programmes & schemes, since last one decade. The organizations like SFAC and NABARD have specific schemes to promote the formation of FPOs in India.

Currently, there are more than 10,000 FPOs in India registered under different legal structure. Majority of them are registered as a company under the Companies Act, while second largest category are under Cooperative Societies Act of respective states. Some are also in the form of Society or Trust. The Producer Companies are designed on 'mutual assistance principles' and 'patronage' basis, to bring together desirable aspects of the cooperative and corporate sectors for the benefit of primary producers, especially small and marginal farmers. In several case studies/literatures, success stories have been documented demonstrating the benefits realized by the farmer-members from the FPOs in the form of reduced input cost and market linkage as aggregation allows better bargaining power for the FPOs. Advisory services and value addition services offered by the FPOs have also benefitted the farmers in timely decision making. However, there exists many challenges for the long-term growth and viability of FPOs or when the scale of operation increases. Majority of the FPOs are new and small in terms of number of producer-members and their own equity capital, which makes them less attractive for funding by the financing agencies. Lack of understanding about business plan, lack of funding support for many FPOs, less importance towards hiring of skilled persons with managerial abilities, poor governance structure, difficulty in regulatory compliances, and marketing difficulties need proper attention to provide enabling ecosystem for the FPOs.

In 2019, Government of India has announced formation of 10,000 new FPOs on cluster basis under Central Sector Schemes (CCS). These FPOs get supported by the promoting agency (NABARD/ SFAC/NAFED/NCDC) in terms of technical, managerial and financial aspects. However, the challenges with the existing FPOs and/or many other FPOs formed outside the ambit of CCS remain the same. They are not able to move to next stage of their lifecycle to become economically viable business unit to create value for their shareholders and the society as a large.

To ensure the economic viability and long-term sustainability of FPOs, the present policy paper offers following recommendations:

1. It is proposed to **set up a National Board of FPO (NBFPO)** on the pattern of MSME and different commodity boards which can promote, impart necessary skills, provide network and monitor the progress of all the FPOs.
2. There should be a **provision of assured Seed Fund** as one-time grant for all the registered FPOs on pre-decided criteria. It may be done by creating Special Purpose Vehicle (SPV) with a corpus fund entrusted with the NBFPO.
3. **Customized financial products** may be created with the banks for the FPOs to enable them easy access of short-term loans at subsidized rate. The funding may be done based on the cash flow of the FPOs, rather existing provision of asset-based financing.
4. **Linking of each FPO with KVK/ agricultural university/ development institutions:** To provide continuous technical support and guidance, the FPOs should be closely linked to any agricultural university/KVK/ICAR institutes or any other development organization in the region, which may act as an Incubation/ Facilitation Centre for the FPOs.
5. For regulatory compliances, a **pool of empanelled chartered accountants (CAs)** in each state shall be created, who can serve the FPOs for regulatory compliances, the expenses of which may be borne by the government during initial 3-5 years.
6. Setting up **common post-harvest infrastructure facilities at district level** would encourage rural micro-entrepreneurs and reduce the burden on individual FPOs to have their own infrastructure at initial stage.
7. The marketing problems can be addressed to certain extent by extending **preferential treatment to the FPOs** in schemes like MSP-based procurement, relaxing *norms* of APMC for transacting agricultural commodities, Mid-day Meal Scheme, *Poshan Abhiyan*, etc.

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1. Background

Indian agriculture has made a significant progress over last several decades, mainly due to improvement in technologies (seeds, fertilizer, plant protection chemicals, etc.), practices (line sowing, mono-cropping, mechanization, irrigation, etc.), and policy environment (price support, input subsidy, market infrastructure, credit, insurance, etc.). Consequently, the total production of food grains has increased by 5.6 times, fruits by 16 times, vegetables by 11 times, oilseeds by 6 times, milk by 10 times and so on in last 70 years (1950/51 to 2019/20). During the same period, the number of farm households has also increased significantly, leading to fragmentation of land holdings and declining size of average land holding. Currently, more than 85 per cent of the farmers are smallholders cultivating on an average about 1.01 hectare of land. They own only 47% of total cultivated area. According to Situation Assessment report (NSS 77th Round), average monthly income per agricultural household is ₹10,218 only in 2018-19 (NSO, 2021). It becomes quite difficult for individual smallholder farmers to ensure their livelihood besides coping with climate change impacts and market risks. Small holders do not have enough bargaining power to negotiate in input or output market in their favour. Small landholdings also increase

the transaction costs for the producers as well as for the bulk buyers, like processors, retailers, traders, etc.

Earlier, farmers were brought together in co-operatives to counter some of the above challenges due to aggregation/ collectivization of inputs. These co-operatives were in the form of 3-tier structure, Primary Agricultural Co-operative Societies (PACS) at village level, which were federated at district and state level. These co-operatives mainly focussed on providing easy credit and/or inputs like fertilizers and seeds to the farmer-members. Moreover, over the years due to in-built governance structure, these co-operatives provided significantly more management control and power to local influential persons without contributing to the business of the co-operatives. Over time, they used their influence for self-serving interests, leading to in general disenchantment among the farmer-members. Consequently, except for dairy sector cooperatives and to some extent in sugar sector which became highly successful at grass root level, by-and-large cooperatives in agriculture sector have failed. Moreover, Shah (2016) argued that had there been such strong member-controlled cooperatives in agriculture sector, like in case of dairy and sugar in western India, the agrarian distress would have been far less severe.

1.1 Genesis of Farmer Producers Organizations (FPOs)

Currently, farmer organisations in India has various legal forms – as a Producer Company (under Companies Act, 2013), as a Cooperative (under Cooperative Societies Act), as a Non-profit entity (under Companies Act, 2013) or as a Trust (under Indian Trusts Act, 1882). The Primary Agricultural Cooperative Society (PACS) is one of the oldest forms of producer organizations in India. In addition to these, there are many other forms of producer organizations catering to specific or multiple function(s) such as self-help groups (SHGs), Federation of SHGs, Common Interest Groups (CIGs), Joint Liability Groups (JLGs), Farmers' Club,

etc. However, failure of collectivization of farmers through co-operatives in agriculture sector, growing agrarian crisis and simultaneously rapid growth in private sector through corporatization led to beginning of new thinking of bringing best attributes of co-operatives and the corporates together. In the year 2000, the concept of producer companies was recommended by a committee chaired by Prof. Y. K. Alagh.

In 2002, the Companies Act of 1956 was amended and new section 'Part IXA' was inserted for '**Producer Companies**', a new form of corporate entity (MCA, n.d.). These companies were designed

Main Features of Companies Act Amendment (2002)

- The Producer Company can have unlimited number of shareholder members unlike any other company or form of business but with a condition that the member should only and only be a primary producer / farmer.
- It can operate throughout India with single registration, including exporting business in contrast to co-operatives.
- It can enter into JVs, alliances and also have subsidiaries which is not the case for a society.
- It can distribute its earnings back to members (need not plough back the profits unlike Non-profit organization / Section 8 companies) in the proportion of contribution and not necessarily as per the share holding pattern.
- Every member has one vote irrespective of number of shares held by him/her.
- An independent expert/ professional can be part of the board which is not the case for a society.

on ‘mutual assistance principles’ and ‘patronage’¹ basis, to bring together desirable aspects of the cooperative and corporate sectors for the benefit of primary producers, especially small and marginal farmers (Alagh, 2019).

Initially, Small Farmers’ Agribusiness Consortium (SFAC), a Society promoted by Ministry of Agriculture and Cooperation, Govt. of India was designated as the nodal agency for promotion of FPOs in India. In 2013, FPO Formation Guidelines were issued by Government of India and next year i.e. 2014 was declared as “*Year of Farmer Producer Organizations (FPOs)*” by the Ministry of Agriculture, Government of India with special package allocation of ₹ 200 crores to NABARD² as PRODUCE Fund³ to promote FPOs. Consequently, the

formation of FPOs got further boost through funding support from both the agencies- NABARD and SFAC.

Apart from this, agriculture departments of most of the states also took keen interest in aligning their schemes through FPOs and in turn the departments of agriculture, horticulture and/or animal husbandry also got involved in formation and promotion of FPOs. Apart from this, several FPOs are self-promoted by progressive rural youth or NGOs, while agriculture/horticulture/animal husbandry departments of several states are also promoting the formation of FPOs. Many agricultural universities (SAUs) and some ICAR institutes are also helping the farmers in mobilization for FPO formation through their KVKs.

2. Current status of FPOs

2.1. Number and distribution of FPOs in India

Several studies have been conducted by many researchers in India which gave different estimates about the total number of FPOs in India. Since the FPOs

are promoted by different agencies, there is no single unified source of information about all the existing registered FPOs in the country. These

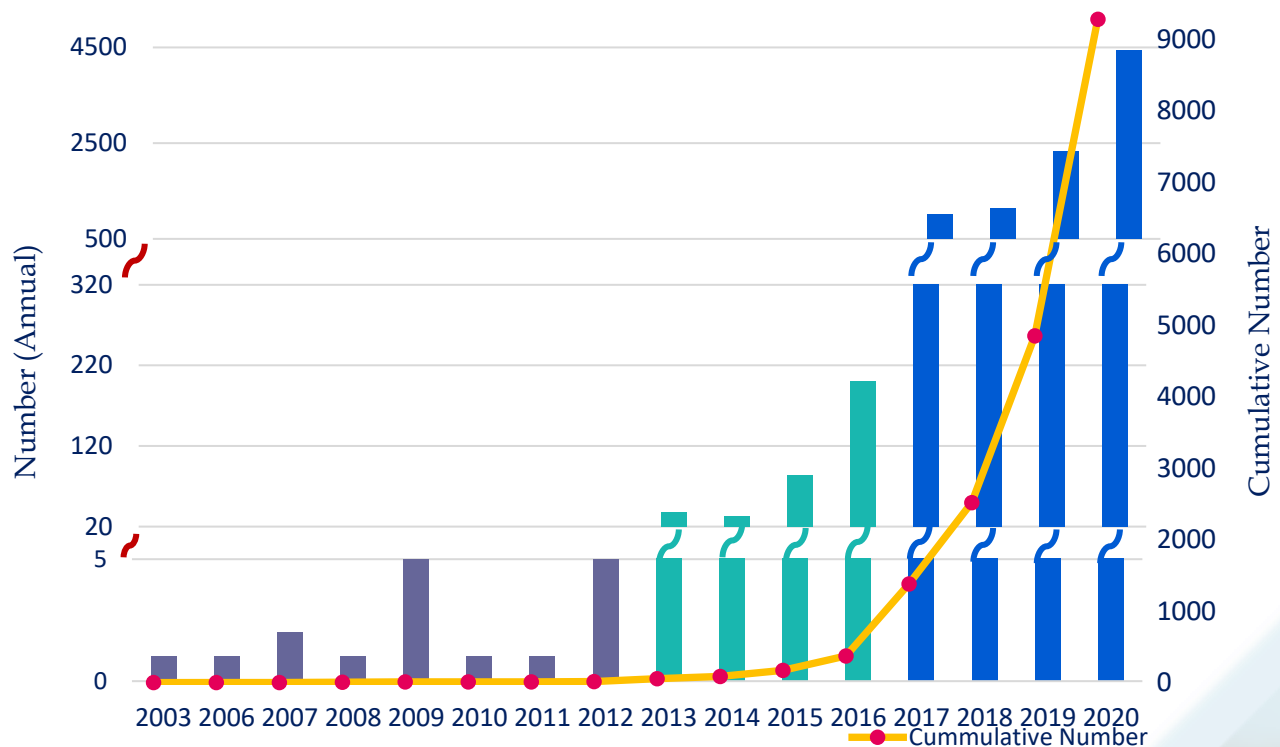
¹Patronage means the use of services offered by the Producer Company to its Members by participation in its business activities.

²National Bank for Agriculture and Rural Development (NABARD) is an apex regulatory and financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas in India.

³Producers Organization Development and Upliftment Corpus (PRODUCE) Fund of ₹ 200 crore was created with NABARD for 2014-15 for the building and promotion of 2000 FPOs in next 2-3 years. The objective is to build, promote and nurture FPOs by way of extending the required financial & non-financial support during the nascent/formative stage.

FPOs are registered under different legal structure- mostly are either under Companies Act or Co-operative Societies Act, while some are also as Mutually Aided Cooperative Society (specially in Andhra Pradesh and Telangana), as Trust or Section 8 company. The list of FPOs registered under the Companies Act⁴ can be found with the Ministry of Corporate Affairs (MCA), Government of India however, there the list includes all the producer companies (PCs) registered which may

include non-farm producer companies as well. In case the FPO is registered as a Trust or a Society registered under section 12AA of the Act, or in the case of Sec 8 Company, the income earned cannot be distributed to its members. Therefore, majority of the FPOs are registered either under Companies Act or under Cooperative Society Act. The recent report by Govil *et al* (2020) observed that there were 7,374 registered Producer Companies (PCs) as on March 31, 2019.



Source: Authors' estimation using data from mca.gov.in

Figure 1. Farmer Producer Companies (FPCs) incorporated with MCA

⁴The FPOs registered under Companies Act have their names ending with 'Producer Company Ltd', and are commonly known as Farmers Producer Companies (FPCs).

However, from recent records of MCA, there are 9239 active Producer Companies as on 31st Dec 2020, who are engaged in agriculture and allied activities. It can be seen from the graph below, more than 80 per cent of these PCs have been registered in last 3 years only. Among all the promoting agencies, NABARD claims to promote almost 5100 FPOs across different states, majority as Producer Companies and about 10-15% as Co-operative Society. Similarly, SFAC has registered total 897 FPCs as on 31st March 2021. Therefore, we may assume that currently there are about 10,000 registered FPOs operating in India in different forms and supported by different agencies.

2.2. Policy ecosystem towards FPO promotion

For success of farmer producer organizations, they need formalization, standardization, and access to credit and markets. The government has in recent years brought in several policy measures to create enabling environment for FPO formation and promotion. Since, by legal structure, producer organizations are not allowed to raise capital from the equity market or any other private investment, mobilizing equity from members make the organization more patron-oriented. However, it becomes difficult for the smallholder farmers to contribute good sum of money as equity, which can be helpful for the FPOs to create facilities at

Although, several of these FPOs might be in dormant stage.

Currently, almost 60 per cent of total registered FPOs are located in only four states (Maharashtra, Uttar Pradesh, Haryana, and Bihar), and another 30 per cent in seven states (Tamil Nadu, Andhra Pradesh, West Bengal, Telangana, Odisha, Karnataka, and Madhya Pradesh). Moreover, several studies also indicate that about 60 per cent of them have ≤ 500 members. Hardly, 10-15 per cent of FPOs have 1000+ members. Similarly, almost 50 per cent of the FPOs have authorized capital up to only ₹1 lakh (Raju *et al*, 2016; Govil *et al*, 2020).

initial/ formation stage. Therefore, the government in recent years have initiated several schemes to address these issues of the FPOs. The schemes are channelized through agencies like NABARD, SFAC, NCDC and others. The list of schemes available for FPO/FPCs are presented in the figure 3 (details are given in Appendix).

Apart from above, all the development schemes in agricultural and allied sectors currently being implemented by Central and/or the state governments in the country encourage the FPOs to be the beneficiaries of the programmes/schemes.

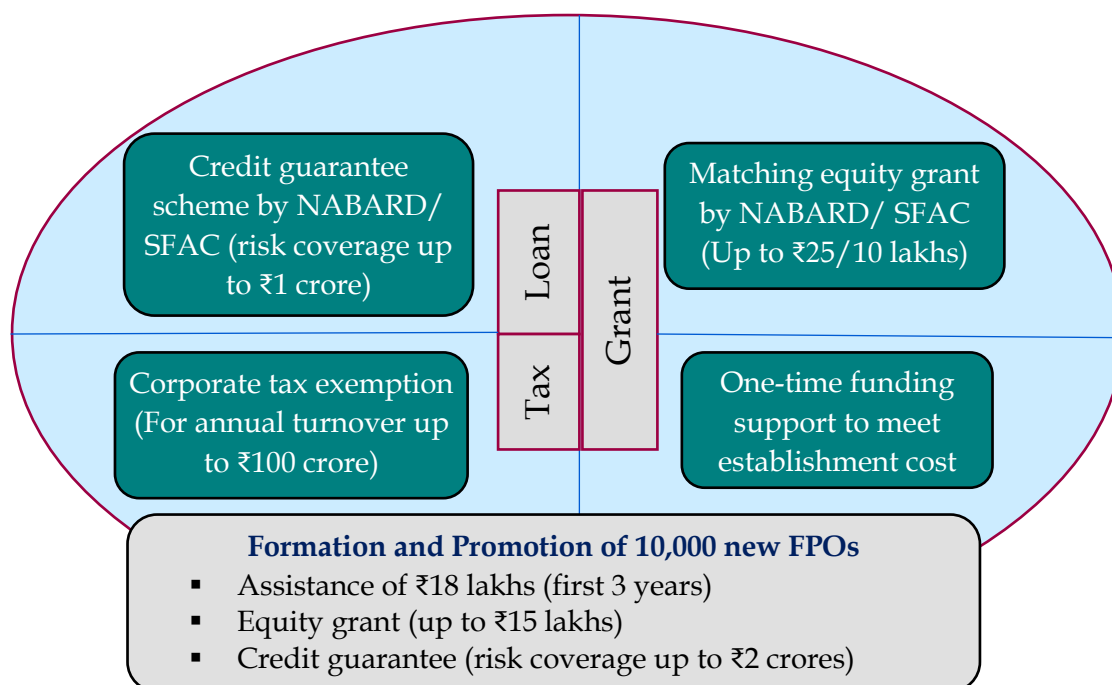


Figure 2. Government Schemes related to financial support to the FPO

3. Benefits and challenges faced by FPOs

3.1 Perceived benefits of FPOs

Producer organisations, a member-based organization is considered to be a pathway to successfully deal with several challenges smallholder farmers face in India. They attain a common interest through collectivisation and try to achieve economies of scale by reducing transaction costs (Manaswi et al., 2019). Bizikova et al. (2020) in their scoping study highlighted that farmers organization provided various kinds of services to their members world over, which may be categorized as ‘marketing services to facilitate product sales’ (market linkage, transportation, storage, establishment of contract, etc.);

‘providing access to market information’ on product prices and trends, seasonality, etc.; ‘extension and educational services’ promoting improved production and marketing practices, and building financial literacy. FPO members can leverage collective strength and bargaining power to access financial and non-financial inputs, services and appropriate technologies, reduce transaction costs, tap high value markets and enter into partnerships with private entities on more equitable terms (Nadiia, 2011; Raju et al., 2017; Dey, 2018; Bizikova et al., 2020).

Creation of basic infrastructure like storage and warehousing or purchase of value addition equipment become easier through FPOs, which otherwise is not possible for individual farmers. Demonstration of modern technologies in agriculture, weather & crop advisory, market intelligence, access to quality farm inputs & services at cheaper rate, access to credit and insurance and other government schemes, etc. are some of the potential interventions through which FPOs can transfer the benefits to the smallholder farmers in big way (Prasad, 2019). The business activity of most of the FPOs promoted by NABARD is found to be produce marketing, followed by input supply, aggregation and processing, whereas SFAC promoted FPOs are engaged mostly in processing, cold storage and custom hiring (Subhash et al., 2019). Thus, FPOs offer the farmers advantages

that come from higher scales of operation at various stages of the agricultural value chain from pre-production stage of quality input purchase to collectivization of outputs, value addition, storage and transportation, and marketing. Smallholder farmers get linked up with the financial institutions (Das and Mandal, 2021). In the process, the FPOs earn from a range of activities and services. Depending upon the commodities produced by the farmer-members, the FPOs can earn revenue/profit by bulk buying and selling of seeds, fertilizers, pesticides and facilitating in custom hiring services of farm implements. They also earn income by way of providing primary processing (cleaning and grading) and/or value addition and levying auction fee from buyers for selling the produce (Figure 1).

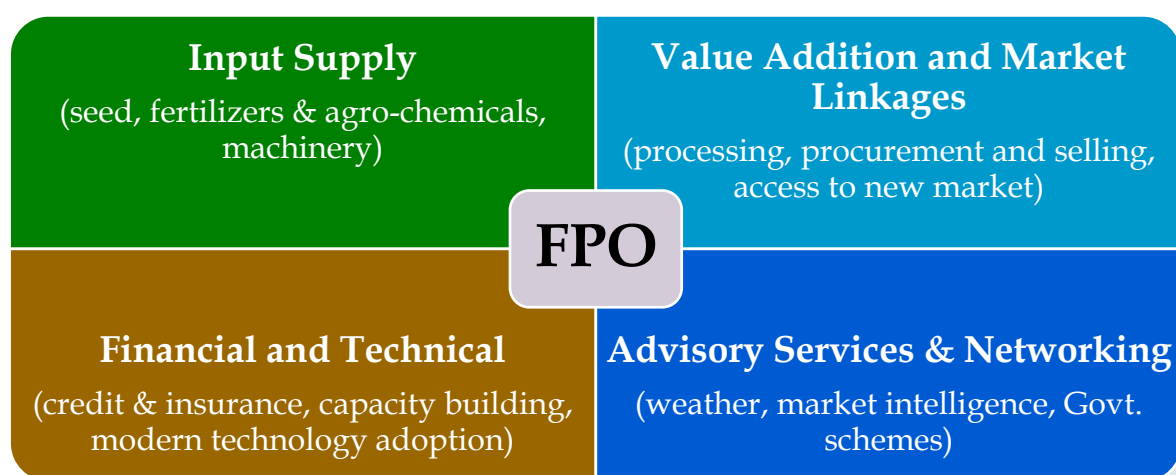


Figure 3. Major activities undertaken by the FPOs

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 with the bulk buyers of produce and bulk suppliers of inputs. As per Situation Assessment Survey conducted in the year 2019, the proportion of the farmer households selling their produce to government-run procurement agencies are very low, even if they are aware of the Minimum Support Price (MSP) and the procurement agency. A larger share of surplus produce is sold in open local markets. For instance, about 15% of paddy farmers sold their produce to procurement agencies, while the corresponding number for wheat farmers was just about 10% (NSS 77th Round). At national level, 60% of the summer paddy growing farmers, 47% of winter paddy growing farmers and 63% of wheat farmers were aware of MSP.

3.2 Benefits realized by the members

Many studies have reported the benefits gained by the member-farmers which are mainly in the form of reduced input costs due to provision of input sale by the FPOs; market linkage as aggregation allows better bargaining power for the

Such kind of information asymmetry are expected to be minimized with the help of FPOs.

Thus, the impact of FPO on farmer-members can be grouped into six categories: income, yield, production quality, environment, empowerment, and food & nutritional security. These six categories are interrelated and one leading to another. The aggregation at the FPO level will lead to increased bargaining power which will help farmers realizing higher income. Increased income results into empowerment, and food & nutritional security at farmers' household level. The better agricultural practices/ technology-led precision farming would also result into addressing environmental concerns in the region. The role of FPO in disseminating advisory services will ensure increased yield and better produce quality. Apart from these, FPOs are also expected to assist the farmer-members to stabilize their income through access to reliable markets, higher bargaining power with buyers, and more stable prices through access to consistent and reliable markets.

FPOs. Advisory services and value addition services offered by the FPOs have also benefitted the farmers. Table 1 highlights the benefits realized by the farmers from FPOs in different parts of the country.

Table 1: Farmers benefitting from FPOs in different states

State	Member farmers' eulogistic experience
<i>Andhra Pradesh</i>	FPO engaged in procuring, processing, marketing, has helped farmer getting good income (Zachariah, 2020). Provision of agri-input, fish feed and labour has reduced the production cost along with solving labour problems of farmers (Raju et.al., 2016).
<i>Assam</i>	The members are availing the fish seeds and feed at a subsidized rate and leveraging the existing government schemes to avail inputs at a lower price. Aggregating the produce has empowered them to bargain for better profits (Deepthi et al., 2021).
<i>Bihar</i>	An FPC which is into maize aggregation and direct marketing, following off-season sale has resulted into higher price realization for member farmers (Vutukuru et al., n.d.).
<i>Gujarat</i>	<p>An FPC buying cumin, wheat, castor, isabgol, fenugreek, ajwain, fennel, and mustard from farmers and participating in futures platform for trading has resulted into nearly 20% more return to the farmers (Dave, 2017).</p> <p>Input supply and produce aggregation by the FPC has resulted into transfer of benefits to the member farmers (Nalini et al., 2015, Singh & Singh, 2014). Supply of agri-inputs like seeds, fertilizers, pesticides, farm-equipment to its members for which the margins were rather low (2 to 10%) (Astad and Sachin, 2021).</p> <p>GUJPRO's main support to its members included procurement, and processing of groundnut, pulses and oilseeds and trading of cumin. Marketing support to mango growers (Vandana and Ayush, 2021).</p>
<i>Karnataka</i>	Member farmers of FPC could be able to get inputs at lower cost along with reduction in labour problem shortage (Das, 2019). Market linkage through FPO has helped the farmer members getting better margin along with saving in other costs (RKVY, n.d.). FPC intervention in new technology adoption has resulted into doubling the farmers' income (Darshan et al., 2017). Inputs are directly procured from input dealers and sold at relatively low prices to the member farmers (Pallavi et al., 2021).

<i>Kerala</i>	Farmers are receiving higher price for the produce by selling to the FPC (Nadiia, 2011 & Sultana, 2016).
<i>Madhya Pradesh</i>	<p>FPCs Tie up with ginners in case of cotton and government procurement agencies for certified soy seed has helped the farmers getting higher price, in addition the supply of agri-inputs has reduced the input cost for them (Singh & Singh, 2014; <i>Krishisutra</i> 2, 2013; Swati, 2016).</p> <p>Input marketing support, seed production, commodity trading and supports its members through credit linkages, infrastructure development, and capacity building of FPO functionaries (Prasad & Abhishek, 2021).</p> <p>Selling branded seeds to their members and having forward contracts with a few buyers for procuring cereals, pulses, spices etc. (Abhishek, 2021).</p>
<i>Maharashtra</i>	FPCs providing input, produce buying and offering value addition services to the farmers like grading, sorting and packaging and providing market linkage has helped the farmers increase their earnings significantly (Khan, 2021; Padmanand, 2018; Trebbin & Hassler, 2012)
<i>Punjab</i>	Custom hiring centre of FPC helped farmers in getting costly machines at genuine rates in addition to market linkage (Anonymous, 2015)
<i>Tamil Nadu</i>	Input store, custom hiring centre and advisory services of the FPC has benefitted the member farmers in bringing down the input cost along with reducing unnecessary fertilizer usage (Annamalai, 2021 & <i>Krishisutra</i> 2, 2013)
<i>Telangana</i>	Cotton farmer members could be able to get premium price by selling through FPC (Nadiia P, 2011; Revathi & Sultana, 2020)
<i>Uttar Pradesh</i>	Supply of agri-input, sale of organic, various value added products resulted into significant increase in farmers' income (Khan, 2021 & <i>Krishisutra</i> 2, 2013)
<i>West Bengal</i>	Market linkage created by FPC for selling vegetables has benefitted the farmers (Majumdar, 2017)

3.3 Challenges faced by FPOs

It has been observed that the FPOs perform better when its management systems, governance and capital structure are strong. Other factors like market and financial accessibility, farmer-members' engagement plan, infrastructure development, better than existing market pricing mechanism, etc. should also be strengthened to scale up the business of the FPOs for its long-term growth and viability. Following challenges need proper attention to provide enabling ecosystem for the FPOs to function:

a) Lack of understanding about business model

The FPOs are considered to be a business entity of the, for the and by the farmers. Entire decisions from pre-production planning to marketing of the produce has to be done by the farmers themselves. Although, farmers in India are having rich experience in cultivation of crops and raising animals, however there are several issues related to knowledge about modern technologies, access to real time information for risk management, access to cheap and timely credit, marketing of the produce at best price, value addition before marketing, etc. which mar the expectations of the farmers for better income realization. They need

appropriate capacity building to develop business plan and devise strategies to extract maximum benefits from the market after formation of the FPOs to understand the intricacies of the market and consumers' demand.

b) Poor capitalization and funding scope

There is a provision of funding support under various government schemes to the FPOs promoted by NABARD and/or SFAC to build capacities, technical assistance and develop innovative financial systems for sustainability of FPCs. However, such financial assistance is not available to all the FPOs, particularly outside the ambit of NABARD/SFAC. The average paid-up capital (PUC) of majority of the FPOs are between ₹1.0 to 3.0 lakhs. Due to lack of any collateral assets with the FPOs, financial institutions are hesitant to finance the FPOs, unless the latter is well-capitalized (Nikam et al., 2019). These FPOs find huge challenge in managing their working capital requirements as well. Running a business organization with such small capital base is a daunting task.

c) **Managerial capability**

Like any other businesses, the FPOs also require technical and managerial expertise to carry on their business operations, including forward-backwards linkages, bringing best agriculture practices, seed production, providing value addition services like retail services of inputs, storage, transportation and other agricultural production services required by the small and marginal farmers etc. to make their business operation sustainable and more profitable for all shareholders. Apart from these, the organization also require other ancillary services like credit facilitation, advisory services, furnishing regulatory requirements, etc. All these operations can be conducted by professionally skilled persons. However, majority of the FPOs ignore hiring such professionals due to lack of financial capacity and/or lack of awareness (Trebbin, 2014).

d) **Ownership and controls**

It has also been observed that many FPOs have been formed by few progressive farmers or rural households. These individuals have good intent to support other smallholder farmers in their locality by collectivizing the operations. However, it becomes difficult for such persons to maintain balance between personal interest and the interest of the farmer-members. They

also hesitate in handing over the charge of management to democratically elected person within the FPO. This conflict leads to poor governance structure of the FPOs, and over time other members loose interest in participating in the business of the FPOs.

e) **Regulatory compliances**

The FPOs registered under Producer Companies Act are currently treated in the same manner as any other large companies. The regulatory compliances like book keeping, accounting, taxation, obligations of directors of the board, etc. are highly demanding for the farmers, who have never come across such things. On the other hand, these compliances become essential requirement to access financial support offered under different government schemes. Therefore, unless complete handholding of the FPOs in these areas are not provided in initial years, it would become difficult to sustain the operations of the FPOs.

f) **Business plan and scaling opportunities**

A well-defined business plan is essential element for success of any business organization. It becomes more imminent when all the executive members are farmers, who are unskilled about different aspects of any business. The business plan provides rail-guard to the organization to navigate within the

boundary and take to desired goal. It also helps the FPOs to diversify and scale up their business activities in well-planned manner. Currently, majority of the FPOs lack such business plan, and therefore they limit their activity to merely bulk buying and selling of the inputs and/or farm produce.

g) Difficulties in marketing of the produce

FPOs are being recognized on various platforms for procurement by private companies and government agencies in few cases (Dey, 2018; Mathew, 2020; Saini, 2021; Abrar, 2022). Private

companies find FPOs as a better source for procurement of vegetables which helps them cut down the procurement cost and ensure quality to a greater extent. But the practice is limited to few FPOs. In fact, FPOs are found to be more successful in establishing backward linkages than forward linkages like disposal of agricultural produce in larger volume (Das & Mandal, 2021). However, for long-term sustainability of the FPOs, there is a need of strong market linkage for the farm produce or its value-added products (Anonymous, 2020).

4. Way forward

The Doubling Farmers Income (DFI) Committee report propounds that the FPO is one of the most important tools for addressing several farmers' problems and issues related to agricultural growth. Consequently, Government of India has also launched several supporting schemes to support the promotion and growth of these farmers' organization under different legal structures. The recent Central Sector Scheme of promoting 10,000 new FPOs also allocated significant amount of budget for the activity. However, the challenges before the existing FPOs are still quite large and varied. Several studies have reached to similar

conclusions that these FPOs need constant handholding support on at least three key fronts- **managerial support, financial support, and capacity building**. The funding support for existing FPOs varies widely. The FPOs promoted by NABARD and SFAC get about ₹6-10 lakhs over three years, while other FPOs struggle to get even smaller amount.

Therefore, following recommendations are made for ensuring the economic viability and long-term sustainability of FPOs in India:

a) Setting up of National Board of FPO

(NBFPO): There is a need to form a National Board for promotion of FPOs, on the pattern of MSME (Micro, Small and Medium Enterprises) and different commodity boards, which can monitor the progress of all the FPOs and provide similar support to all the FPOs irrespective of promoting agencies. It would also help in collating the information related to all the FPOs in the country, which is currently ambiguous. Such Board through their empanelled agencies would be able to provide technical guidance to the FPOs working at different levels of growth. (The broad framework of NBFPO is given on page 15-16).

b) Minimum assured seed funding support as grant:

Several FPOs are located in remote areas and do not get support from any promoting agencies like NABARD/ SFAC/ NCDC, etc. due to geographical location or otherwise. Therefore, there must be a provision of minimum seed fund as one-time grant for all the registered FPOs with pre-decided criteria such as number of farmer-members, diversity in Board, business plan for next 3 years, etc. The seed fund may be in staggered manner, which may be released based on progress on the milestones achieved by the FPOs.

c) Special provision for working capital

finance for FPO: All the FPOs at initial stage require working capital to conduct the business for their members- purchasing inputs in bulk or procuring output from them to provide market linkage. Due to low capitalization initially, these FPOs face huge challenge in getting institutional credit at affordable rate to meet the working

FPOs have potential to act as a catalyst of change in rural economy in India. However, to realize that aspiration, they need initial handholding for managerial capacity building as well as easy access to working capital.

capital requirements. Therefore, customized financial products may be created for the FPOs to enable them to access easily the short-term loans at subsidized rate.

Institutional support in terms of conducting regular capacity building programmes for key executives of the FPOs, and by including experts in the management team would strengthen the business operations of the FPOs. It would also bring transparency in the governance of the FPOs.

d) Linking of each FPO with KVK/agricultural university/ institutions:

To provide continuous technical support, guidance and capacity building, the FPOs should be closely linked to any agricultural university/ KVK/ ICAR institutes or any other development organization in the region, which may act as an Incubation/ Facilitation Centre for the FPOs. There may be one representative from these organizations in the Board of Directors of each FPO to provide technical and strategic guidance for future growth of the FPO. Similarly, the executive members should be trained on different aspects of the businesses of FPO on regular basis. For this, 2-3 agencies/ institutions may be identified in each state to conduct the training programmes for the FPOs' executives.

d) Common post-harvest infrastructure facilities for FPOs:

Common infrastructure facilities like warehousing, cold-storage, sorting & grading, packaging, etc. may be created at district-level, which can be used by upcoming FPOs at initial stage on pay-and-use basis. This will also create rural micro-entrepreneurship opportunities and every FPOs need not to bother about setting up such facilities at initial stage of their lifecycle.

e) Empanelment of auditors (CAs) to facilitate the regulatory compliances:

It has been observed that compliance norms for newly formed FPOs/ FPCs are overwhelming for the management board, who have never been

exposed to such issues before. Hiring services of auditors at initial stage also become burdensome for these FPOs who struggle to generate sufficient profit to meet their essential operational expenses. Therefore, every state may have pool of empanelled chartered accountants (CAs) whose services may be taken by the FPOs for auditing and regulatory compliances. The expenses may be borne by the government for first 3 years or till the total turnover of the FPO/FPC reaches up to ₹50-60 lakhs⁵ annually for two consecutive years, whichever is earlier.

f) Preferential treatment to the FPOs: As FPOs are facing difficulty in marketing of produce, the FPOs should be given preference for procurement of agricultural commodities in all the government schemes, like MSP-based procurement, relaxing norms of APMC for selling agricultural produce outside of APMC mandis, *Mid-day Meal Scheme*, *Poshan Abhiyan*, etc. It will not only ease the procurement burden of identified commodities by the government, at the same time FPOs will get an alternative for produce disposal. FPOs can be encouraged to supply food items under *Mid-day Meal Scheme* to the respective agency. For this, FPOs can be promoted for value addition of commodities to be procured under the *Mid-day Meal Scheme*. Similarly, private manufacturers of fertilizers and agro-chemicals may be nudged to encourage direct engagement with the FPOs.

The existing mandatory regulatory compliances appear to be big deterrent for many small-scale FPOs. These need to be taken care by the state for initial years. Further, FPOs may be given preference for participation in government-funded schemes to provide market-linkage for the farm produce.

⁵ Assuming the FPOs earns 10% gross margin on the total turnover, the total income of the FPO would be ₹5-6 lakhs per annum, which may even be insufficient to meet the operational expenses like salaries of one manager and two support staffs, rent, office expenses, etc.

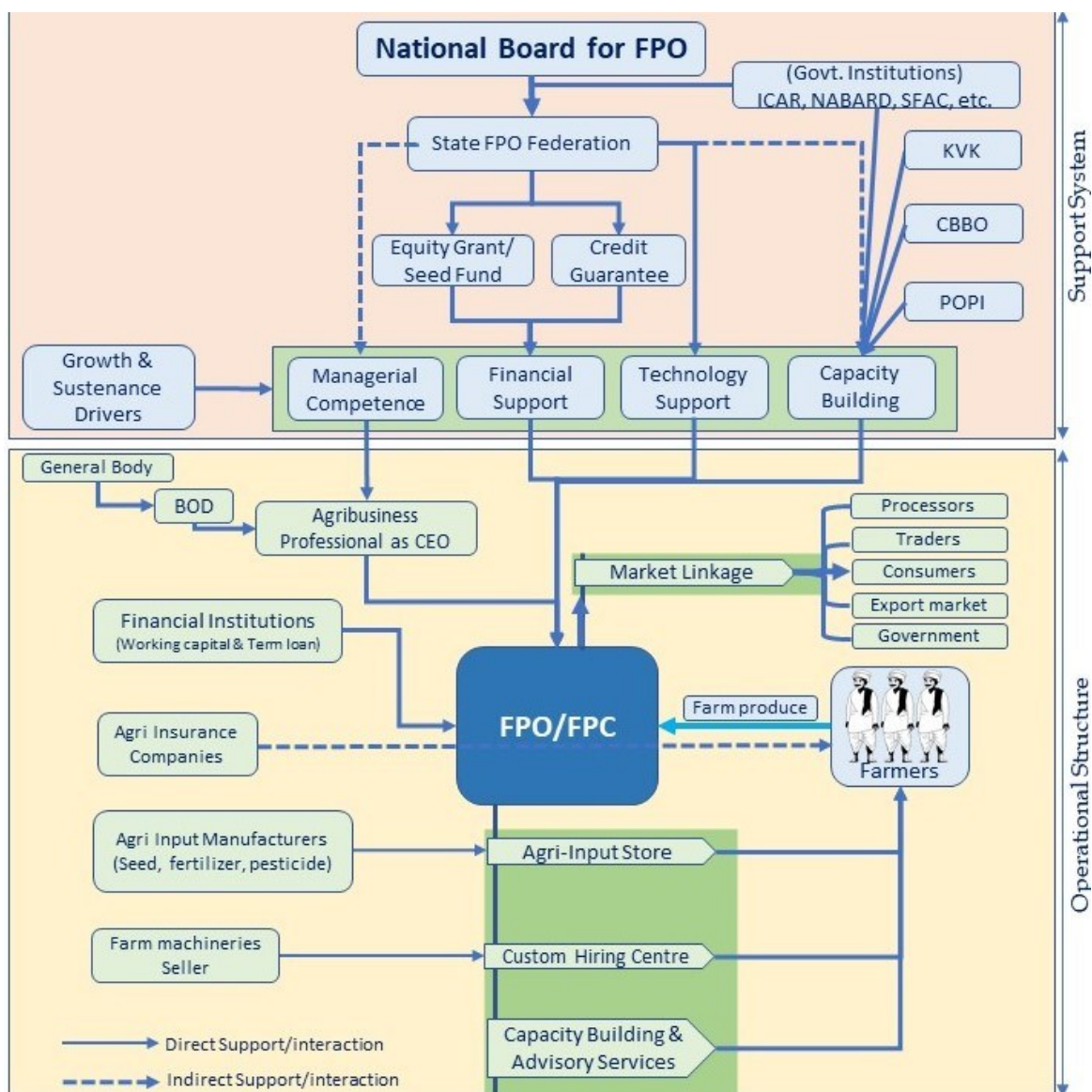


Figure 4: Proposed FPO Ecosystem Framework

Proposed FPO Ecosystem Framework

The proposed framework can be broadly categorized into two parts: first, support system which provides support in various forms to the FPO; and second, operational structure which describes the activities of the FPO.

Currently the producer organizations are getting support from multiple institutions. For instance, SFAC is promoting and supporting producer organizations registered under the Companies Act. NABARD supports all forms of producer organizations, NCDC and NAFED are supporting cooperative forms of producer organizations. Under the proposed structure, a National Board for FPO (NBFPO) would act as the apex organization for promotion and development of all forms of producer organizations in the country. There are several commodity specific boards existing in the country which are involved in development activities pertaining to the respective commodity. The National Board for FPO would also work in similar fashion. Various government institutions would work along with the national board so that there won't be any sector-wise/geographical area wise overlapping or skewed development of FPOs. All the producer organizations may be part of a state level federation.

The FPOs need four types of support which will drive growth and sustenance: Managerial competence, financial support, technology and capacity building. The financial support to the FPOs may be channelized through state level federation from various institutions. These government institutions along with CBBO, POPI and/or nearby KVKs would provide capacity building to the FPOs. The FPO federation may play active role in marketing promotion of the FPOs' products at national and international level.

In the current digital era, technology helps in improving operational efficiency and proper monitoring of the business activities. Data collection through technology can help the policy maker in taking appropriate decision. Hence, technological support to the FPOs in the form of ERP (Enterprise Resource Planning) can help achieve the above-mentioned goals. Investment can be made by the Board and channelized through state FPO federation to all FPOs.

For managerial competence, the FPOs should recruit agribusiness professional. The CEO having graduation in agriculture or allied sciences with management experiences will bring professionalism in the FPO. They may be incentivized for the positive growth of the FPO by having performance-linked compensation. The financial requirement of the FPO, both for capital investment and working capital need may be met by financial institutions with the credit guarantee of the federation/ supporting agencies.

The FPO would provide both backward and forward linkage to the farmers. Backward linkage would be in the form of input sale, provision of farm machinery, capacity building and advisory services to the farmers. FPO would acquire licence for input dealership and can procure from the manufacturers directly or their distributors. The CEO's expertise will bring professionalism in entire operation right from negotiation with the supplier, procurement quantity & frequency, inventory management and so on. FPO would provide a platform for the agri-insurance companies to connect with the farmers for crop & livestock insurance. In forward linkage, the FPO would explore value addition possibilities, while Government may recognize the FPO as collection centre as well as procurement centre for the designated commodities under different schemes.

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Appendix: Major Government Schemes for FPOs' Promotion

- **Business Development Assistance by NABARD:** NABARD provides maximum ₹5 lakhs financial assistance as grant to eligible FPOs on matching grant basis. In order to qualify for the assistance, the FPO is required to have minimum 200 shareholders and 5 years business plan along with other prerequisites. In case of more than ₹2,000 equity contribution, only ₹2,000 is being considered for arriving at the matching grant.
- **Equity Grant Scheme of SFAC:** Under the scheme, eligible FPCs (whose paid up capital is less than ₹ 30 lakh can receive a grant equivalent to their equity contribution of their shareholder members in the FPO subject to a maximum of ₹15.00 lakh in two tranches. This helps in enhancing viability and sustainability of the nascent FPCs.
- **Credit Guarantee Fund Scheme of SFAC:** Under this scheme, SFAC provides credit guarantee cover to eligible lending institutions (banks) to give collateral free credit to the eligible FPOs up to ₹100 lakh. Maximum guarantee cover is limited to 85% of the amount.
- **Exemption from Corporate Tax:** From the FY 2018-19, the producer companies have been exempted from corporate tax. Any Producer company making a turnover of up to ₹100 Crores and earning profit out of the same, need not to pay any corporate tax, 100% tax deduction has been allowed by proposing an extension to section 80P by inserting section 80PA to the Act. The benefit shall be available for a period of five years.
- **Central Sector Scheme on "Formation and Promotion of 10,000 New FPOs:** Government of India has launched this scheme in 2019 with initial financial and managerial support. The scheme is targeted for five-year period till 2023-24, with adequate handholding support to the FPOs for five years till 2027-28. It envisages to form and promote at least 15% of the targeted 10,000 FPOs in aspirational districts with at least one FPO in each block of these districts in the country. For this, 9 Implementing Agencies (IAs) have been identified, These are 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 & Foundation for Development of Rural Value Chains (FDRVC)- Ministry of Rural Development (MoRD). The FPOs under the scheme can be formed either under Companies Act or under Co-operative Societies Act. The IAs will engage specialized Cluster Based Business Organizations (CBBOs) who have prior experience of farmer mobilization, marketing of agricultural products, MIS (Management Information System) implementation and overall business development of farmer organizations. Under this scheme, the FPOs get funding support for first 3 years. Besides, it can avail Equity Guarantee of up to ₹15.0 lakhs and Credit Guarantee up to ₹2.0 crore of project loan per FPO through the IAs. Capacity building and skill development of CEOs/ Board of Directors, Accountant and other stakeholders are made through different national/regional training institutions in India



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