

## **Present Status, Role and challenges of Farmer Producer Organization**

### **Abstract**

Farmer's income can be increased by increasing the productivity, by decreasing the cost of cultivation, by ensuring competitive price with transparent price discovery mechanisms and by integrating allied activities, organizing the farmer producer organisations (FPOs) will be a suitable solution for attaining this target. Farmer Producer Organizations, (FPO) consists of collectivization of Producers especially small and marginal farmers so as to form an effective alliance to collectively address many challenges of agriculture such as improved access to investment, technology, inputs and markets. Farmer producer organization, ensure better income for the producers through an organization of their own. Its main purpose to enhance the productivity of the farmers by providing the linkages where the members will be more benefitted. This review article throws light on various dimensions of the FPOs based on review of available literature. As literature related to FPOs is scarce in Indian situation, more reviews from global studies are included for better understanding of various dimensions of FPOs.

**Keyword:** farmer producer organization, small and marginal farmers, income, productivity.

### **1. Introduction:-**

Agriculture, with its allied sectors, is the largest source of livelihoods in India. 70% of rural households still depend primarily on agriculture for their livelihood, with 82 percent of farmers being small and marginal (FAO), Small and marginal farmers constitute the largest group of cultivators in Indian agriculture; 85% of operated holdings are smaller than or about two hectares and amongst these holdings, 66% are less than one hectare (Singh, 2012). However, the increasing number of agricultural suicides among small and marginal farmers (National Crime Records Bureau, 2011) is an indication that these farmers are struggling to survive. Farmer produce organizations can play a important role by mobilizing and organizing them for better market access, higher bargaining powers, and getting higher price for their produce, better information dissemination (BACHKE,2009). Farmer producer organization is a one type of Producer organization or Producer companies.

Producer Companies are also considered to be institutions that have all the significant features of private enterprise while incorporating principles of mutual assistance in their mandate similar to cooperatives (Pustovoitova, 2011). Producer Organizations therefore are supposed to be non-political entities aimed at providing business services to smallholder farmer members, founded on the principal of self-reliance (Onumah et al., 2007). Producer Organization (PO) is defined as a formal rural organizations whose member organized themselves with the objectives of improving farm income through improved production, marketing and local processing activities (Rondot and Collion, 2011) its provide sustainable supply chains to connect smallholders farmers to markets. The success of producer companies, however, depends on the farmers' commitment to the company. The integrity and quality of the leadership, its acceptance within the community, as well as the market environment are the most crucial factors for a successful production company (Sawairam 2014).

The Food and Agriculture Organization (FAO, 2007 as cited in FAO, 2013) notes that “Farmers’ and Rural Producers’ Organizations (FOs) refer to independent, non-governmental, membership-based rural organizations of part or fulltime self-employed smallholders and family farmers, pastoralists, artisanal fishers, landless people, women, small entrepreneurs and indigenous peoples.” The concept behind Farmer Producer Organization (FPO’s) is the farmers, who are the producers of agricultural products, can form group and register themselves under the Indian companies Act. The year 2014 was observed as the “Year of Farmer Producer Organizations” and slowly the concept is catching on. Farmers’ Producer Organizations and Producer Companies are very much beneficial to improve the value chain of agricultural produce and thereby proved to be useful in getting good prices for their produce. Voluntary member-owned, financed and controlled producer groups and farmer cooperatives have a central role to play in enabling their members, and the wider rural community, to take an active part in their own development (Millns & Juhasz 2006), basic purpose envisioned for the FPOs is to collectivize small farmers for backward linkage for inputs like seeds, fertilizers, credit, insurance, knowledge and extension services; and forward linkages such as collective marketing, processing, and market-led agriculture production (Mondal, 2010).

This review article throws light on various dimensions of the FPOs based on review of available literature. As literature related to FPOs is scarce in Indian situation, more reviews from global studies are included for better understanding of various dimensions of FPOs.

## **2. Status of Farmer Producer Organizations (FPOs)**

Department of Agriculture and Cooperation under Ministry of Agriculture, Govt. of India has identified Farmer Producer Organizations registered under the special provisions of the Companies Act, 1956 by incorporating part IX A, based on the recommendations of the Y.K. Alagh Committee (Mondal, 2010), as the most appropriate Institutional form around which the mobilization of farmers is to be made for building their capacity to collectively leverage their production and marketing strength. Government is promoting the formation of FPOs as a viable alternative to cooperatives to provide for producer companies controlled by primary producers which would function along the lines of corporate entities (Bhattacharjee, 2010). The Department of Agriculture and Cooperation has setup ‘Small Farmers Agribusiness Consortium’ (SFAC) as designated Agency for organizing FPOs through various schemes and projects. These projects subscribe to a broad objective of mobilizing farmers into groups called Farmer Interest Groups (FIGs), forming Farmer Producer Organizations (FPOs), strengthening farmers’ capacity through training on agricultural best practices for enhancing crop productivity in sustainable manner,

In India first producer company were promoted and supported by a state government (Madhya Pradesh) under a World Bank (WB) poverty reduction project since 2005. It provided a one-time grant of Rs. 25 lakh to each producer company as fixed deposit revolving fund for obtaining bank loan against it (K C Badatya. K.C, Ananthi S Y. Sethi (2018). Total of 6471 FPCs were formed, in which around 80 per cent i.e. 5145 FPCs were promoted by Small Farmers Agri-business Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD), 1263 FPCs were promoted by various state government and other agencies, and 63 of them were self-promoted. The number of farmers mobilised through FPCs by SFAC and NABARD were highest in the state of Madhya

Pradesh with 183517 farmer members, followed by Karnataka with 176732 farmer members (Nathan T.S et.,2021). More than 50 per cent of the FPCs are set up in Maharashtra, Madhya Pradesh, Uttarakhand, West Bengal, Karnataka, Odisha and Telangana. SFAC promoted large number of FPCs in Madhya Pradesh (149 FPCs) and NABARD has promoted large number of FPCs in Uttarakhand (362).

Interest subsidy upto a limit of Rs. 2 lakh was provided on any term loan taken by the PC and a grant of upto 75% of the cost up to a maximum of Rs. 2 lakh was given for any certification expenses like Food Products Order (FPO), Global Good Agricultural Practices (Globalgap), etc. (NABCONS, 2011). however, in spite of the widespread evolution of FPOs, their success across the world had shown mixed results (Chirwa et al. 2005). Similar situation is also observed in India. therefore, it is necessary to analyse the dynamics of FPOs, factors influencing the performance of FPOs and the policy requirements to overcome the weaknesses of FPOs at grass root level.

**Table 1: The number of FPOs promoters**

S.No.	Promoting agency	Number of FPOs
1.	SFAC	902
2.	NABARD	2086
3.	State Government (Funded by leveraging RKVY or the world bank funds	510
4.	NRLM Programme (MoRD)	131
5.	Other Organizations/Trust/Foundations	1371
	Total	5000

(source- NABARD website)

**Table 2: State wise summary of registered and the process of registration FPOs promoted by SFAC.**

S. No	State	SFAC Promoted FPOs	Non SFAC Promoted FPOs
1.	Andhra Pradesh	16	06
2.	Arunachal Pradesh	6	-
3.	Assam	18	25
4.	Bihar	38	-
5.	Chhattisgarh	26	-
6.	Delhi	4	01
7.	Goa	2	-
8.	Gujarat	25	14
9.	Haryana	23	01
10.	Himachal Pradesh	8	-
11.	Jammu&Kashmir	2	-
12.	Jharkhand	10	-
13.	Karnataka	125	-
14.	Madhya Pradesh	149	-
15.	Maharashtra	105	-
16.	Manipur	8	-
17.	Meghalaya	3	-
18.	Mizoram	1	-

19.	Nagaland	2	-
20.	Odisha	41	-
21.	Punjab	7	-
22.	Rajasthan	50	-
23.	Sikkim	30	-
24.	Tamil Nadu	13	52
25.	Telangana	26	34
26.	Tripura	7	-
27.	Uttar Pradesh	57	178
28.	Uttarakhand	7	38

Source: <http://sfacindia.com/FPOS.aspx>

It is clear from the table 2 that, highest number of FPOs registered is in Madhya Pradesh state with 149 numbers of FPOs. Followed by Karnataka (125 FPOs) and Maharashtra (62 FPOs).

### 3. Role of Farmer Producer Organization:-

In the era of declining public extension system, FPOs can contribute to rural advisory services through plurality of advisory services (GFRAS 2015). FPOs plays important role in rural advisory services viz. enhancing capacity of human resources; linking with stakeholders from other villages; establishing legal organizations with a right to deliver services; providing forums for communication etc. (Puantani 2014). Farmer Producer Organization play a important role for generating additional income by the farmers, FPO having the some important benefits for the farmers which is mainly as below-

- **Farmer Producer Organization improves value chain:**

The Farmers' Producer Organizations and Producer Companies are very much beneficial to improve the value chain of agricultural produce and thereby proved to be useful in getting good prices for their produce. Voluntary member-owned, financed and controlled producer groups and farmer cooperatives have a central role to play in enabling their members, and the wider rural community, to take an active part in their own development (Millns & Juhasz 2006). The producer company monitors and supervises the entire chain very closely and efficiently. It can estimate the daily demand of a particular vegetable and can increase/decrease its supply within 2 to 3 days. This makes the whole process very dynamic and responsive to the needs of the end- consumers (Banerjee, et al.)The Farmers' Producer Organizations and Producer Companies are very much beneficial to improve the value chain of agricultural produce and thereby proved to be useful in getting good prices for their produce. Voluntary member-owned, financed and controlled producer groups and farmer cooperatives have a central role to play in enabling their members, and the wider rural community, to take an active part in their own development (Millns & Juhasz 2006)

- **Linking small farmers to markets:**

Producer companies actually had a distinct advantage since it allowed professionals to take part in governance as directors which helped bridge the information asymmetry between the producer, directors and professional managers (Pradhan.2007). The success of producer companies, however, depends on the farmers' commitment to the company. The integrity and quality of the leadership, its acceptance within the community, as well as the market environment are the most crucial factors for a successful production company (Sawairam 2014). Small-scale farmers can have easy access to market information, credit and input for their production, processing, and marketing activities by joining Farmer Based organizations (Asante et al. 2011). Sawairam (2014) highlighted the benefits for the participating farmers to market their excess production through the company as the company was providing appropriate knowledge to generate excess production from within the community in order to

maintain linkages to the target markets. Linkages of FPOs can be direct or indirect depending upon context. Hussein (2001) observed that the most significant and successful institutional linkages tend to be formalised and established through direct bilateral contractual linkages or involve a third partner which is frequently a development project.

- **Enable vertical integration:**

Producer-owned organizations were good examples for the vertical integration based on the horizontal coordination of farmers as initiators as they proved that by co-operation there was an opportunity to significantly improve their countervailing power and to establish ownership for farmers in the upper part of the food chain if they can secure strict quality requirements, solid financing, loyalty and trust in their organizations (Gábor and Szabó, 2009). Input and information benefits are achieved through collective procurement of inputs which helps members in getting inputs at lower price with better negotiation (Herck 2014, Abokyi 2013). Extension and Advisory Services (EAS) provided by FPOs fulfill the information need of the farmers, reducing their transaction cost and fulfilling information need (Williamsons 1985, Herck 2014, GFRAS 2015).

- **Enhance income and productivity:**

A FPO will support the members in getting more income. By aggregating the demand for inputs, the FPO can buy in bulk, thus procuring at cheaper price compared to individual purchase. Besides, by transporting in bulk, cost of transportation is reduced. Thus reducing the overall cost of production. Similarly, the FPO may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce Rani Nidhi, et al., (2017) find in their study on impact in formation of FPOs on the Development of Sustainable Crop Production in Karnataka and concluded the benefits after forming as FPO's were per hectare production improved by 10 per cent by the end of the study. Minimum 20 per cent rise in net income of the FPO farmers is observed that farmer organizations create for small and marginal farmers to participate more effectively in markets (Stockbridge et al., 2003).

- **Ensure market access:**

Smallholders would be able to substantially increase their incomes from agriculture and allied activities if they participate in markets. The FPO can also provide market information to the producers to enable them hold on to their produce till the market price become favorable, as a result, the focus of development has shifted from enhancement of production to market connectivity (Shepherd, 2007). The benefits of farmer organization for market access were more evident in the vegetable sector, characterized by high transaction costs. There was less incentive for farmers producing an undifferentiated commodity such as maize to organize as the transaction costs associated with market access were relatively low. Although farmer organizations do not provide clear benefits in accessing undifferentiated commodity markets, they can still contribute to members' welfare by offering other services (Hellin et al., 2009).

- **Marketing information:**

Even though India is the leading producer of fruits, vegetables and milk production in the world, farmers lack off-farm competitiveness (Narrod and Roy 2007) and the inability to meet food safety standards restricts the export competitiveness (Royand and Thorat 2008). For tapping the potential of small holder agriculture by overcoming its constraints, different forms of farmers' collectives were evolved across the world. Farmers' collectives in the form of FPOs are assumed to provide the small farmers, better information on modern agriculture technologies, investments, inputs, markets and government policies and the collective effort is expected to reduce the problems associated with small holdings. In longer term perspective, FPOs are essential institutions for the empowerment, poverty alleviation and advancement of farmers and the rural poor (FAO, 2007).

Provide extension services

- **Extension services provider:**

Extension services provided by the FPOs have an advantage over public and private extension services in many ways. FPOs enable cost-effective delivery of extension services to the members (Salifu, 2010). FPOs can be effective alternatives where private and public provisions of agricultural services have failed (FAO, 2007), however, there cannot be complete separation of extension services provided by FPOs and public extension system as most FPOs suggested that their members received more training from agricultural extension agents (AEA).

- **Develop market and buyer relations:**

Strong and longer-term relationships with different buyers are needed to become a reliable market partner. It also requires strong contractual arrangements and agreements with them. Market intelligence is important for making commercial decisions as FPO, as well as to transfer market signals to the members to influence their decisions on production and to define the conditions of supplying to the FPOs. Group of small producers through producer organizations were capable of making strategic investments to gain access to agro industrial markets where their produce was more profitable by establishing more complex contractual arrangements with potential purchasers (Javier and Caverio, 2012)

#### **4. Challenges and Suggestion for Building Robust FPOs:**

The size of operational holdings in India is continuously declining with every successive generation, the situation has raised serious question on the survivability of these small holders (Pandey, et. al., 2010). Some important issues include lower scale of operation, lack of information, poor communication linkages with the wider markets and consequent exploitation by intermediaries in procuring inputs and marketing fresh produce, access to and cost of credit (Dev, 2005) however, there are challenges and policy gaps in the ecosystem. The important challenges and confronting issues in building sustainable FPOs, are related to the organisational and leadership aspect of the FPO, viz. divergent interest, low involvement, little rotation of leadership, lack of professional managers, lack of training, poor accounting system, poor internal communication and also some socioeconomic problems like poverty, low literacy rate, lack of access to resources etc. are the major weaknesses of the FPOs (Chirwa et al. 2005, Jere 2005), because of poor financial situation, many farmers are not able to pay membership fee (Abokyi 2013 and Jere 2005). Collectivising thousand farmers in diverse socioeconomic and political setting of rural areas is indeed a herculean task and Sawairam, 2014 also concluded in their study that small and marginal farmers faced several constraints which included the inability to create scale of economies, low bargaining power because of low quantities of marketable surplus, scarcity of capital, lack of market access, lack of knowledge and information, market imperfections, and poor infrastructure and communications. The farmers' organization provided a wide range of services to their members related to marketing, finance, technology, production and welfare

Some of suggestion for the Farmer Producer Organization betterment, which will help FPO for better performance and sustenance- enabling policies, ethics, professionalism and linkages. As FPOs don't have proper structure and hierarchy, ethics can glue together all actors in FPO. Linkages with private firms, market, government institutes, research and extension organisations will help FPOs to remain dynamic and competitive. This demands a

good leadership at FPO level. Leader, who can secure trust of members, bring ethics in organisation, capable of creating linkages, motivate them to direct energy for quality production, act in the ambit of legal framework, will help in success and sustenance of the FPOs. Government and extension organisations can play important role in leadership development through quality training in Farmer producer Organization

### **Conclusion:-**

The role of the Farmer Producer Organizations (FPO) is critical in the development of inclusive and sustainable supply chains. FPOs emerged as an interface between small farmers and the external world by providing forward and backward linkages, giving them required voice, market access, bargaining power, economy of scale and better prices. As the majority of the farmers community is facing price suppression by the commission agents/middlemen for remunerative price and profitable income for the agro produce, FPO could be an solution to the problem. FPOs have better opportunities for direct marketing which is a need of the hour for the people of villages, direct marketing provides farmers to lessen transportation costs and permits them progress price realization. Weakness related to organization and group dynamics featured prominently in many studies, which can be overcome by enabling policy, ethics, professionalism and linkages creation for success and sustenance of FPO. FPO will be a great boon of the farming community. The farmers must encourage their children to involve more in agriculture to induce a loving spirit and passion for agriculture.

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