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FPOs: New age instrument for sustainable agriculture

Shridevi Valamannavar, Bammidi Ujjwala **and** K.C. Gummagolmath
[1]National Institute of Agricultural Extension Management (MANAGE), Rajendranagar, Hyderabad (Telangana) India
(Email : shreedevisv2010@gmail.com)

The instrument of Farmer Producer Company (FPC), registered under Companies Act, isemerging as the most effective means of Farmer Producer Organization (FPO) to cater to the needsof farmers at the grass root level. FPCs offer a wide range of benefits compared to other formats of aggregation of the farmers as collectivization is leading to reduction in transaction costs. Though formation of FPCs in India started way back in the year 2002, the momentum took place only after the year 2013. The recent data suggest that there are more than 25000 FPCs registered across the country. However, over a period of time, it is found that the formation of FPOs across the country is not uniform. Studies have indicated that only around 25% of the FPOs are running successfully in a sustainable manner. Several studies have revealed that around 50% of PCs are in just 4 states and 25% of PCs are in just 20 districts. Ironically only 14% of PCs have paid-up capital of 10 Lakh or more and 49% of PCs have paid-up capital of 1 lakh or less (Azim Premji University Report 2020).The basis for running them as a business entity and sustainability are crucial for success of FPCs. This under cartelization is in no way helping to inculcate business among vast majority of FPCs. Efforts of promoting FPOs could be successful only when they sustain in long and serve the purpose of formation. For this, Integrated Value chain approach, FPC Incubator Agencies, Leveraging ICT through Agri-tech Startups, Customized Capacity Building, Promotion of Social Capital, Developing FPO specific loan products for easy access, Convergence of Govt. schemes and initiatives, Promotion of women FPO are suggested.

The growth of Indian agriculture sector has witnessed an impressive growth in the last few decades except few years of dismal growth. With advent of technology and inputs there is an increase in production of agriculture commodities. India currently produces about 726 million tons of food to meet the demand of 1.3 billion of Indians (Press Information Bureau, GoI, MA and FW, 2019).

The growth in agriculture is illustrated by the fact that India is either number one or number two in production of several commodities in the world. Thanks to green revolution and other flagship programmes and policies of government of India and federal governments.

However, the major constraint of Indian agriculture is diminishing size of land holdings (Singh, 2017). The proportion of small and marginal farmers is more than 85 per cent of total land holdings in the agricultural economy of India. These small holders, with 44 per cent of the total land, involved in the production of around 60 per cent of the total food grain production (Agricultural census, 2014). As a result, the problems of small and marginal farmers are of prime concern for the sector. The concern is even more pronounced on the marketing front due to inherent limitations prevailing in the agricultural marketing sector. Thus, there is a need to aggregate these farmers for accessing land, water, inputs, credit, technology and markets which in turn will help in attainingthe economies of scale. Aggregation of output empowers the farmers to overcome distress sale by enabling them to access better marketing practices such as cleaning, grading, packaging and transportation. Under such dispensation, farmers are empowered to participate in scientific price discount.

This is a win-win situation where on the one hand, undue margin taken away by intermediaries can be leveraged for paying better price to the producer and on the other hand, consumer will have access to food at a reasonable price.

In the past, several attempts were made to collectivize the farmers into FPOs by extension agencies both by public and private sector in form of Self Help Groups (SHGs), Commodities Interest Group (CIG), Farmer Interest Group (FIG) Cooperatives etc.

Though, organizing small holders into cooperative groups is more than a century old initiative, yet, due to inherent constraints, the success achieved by them was limited. The performance of other forms of aggregations which were introduced subsequently was also not satisfactory. The reason being, these aggregations tools addressed one or two components of supply chain in

agriculture. For example, co-operatives confined their activities in the distribution of credit input, relegating the postharvest activities at the back burs. Similarly, the aggregation tools like CIGs, FIGs and SHGs were also involved in performing activities relating to production only. Here and there, some interventions emphasized on postharvest activities, marketing and processing. However, the scale of intervention was on miniscule and thus we could see few successes in the form of sugar cooperative, Amul, HOPCOMS, MAHAGRAPES and Mulukanoor Dairy Co-operative etc.

Against this backdrop, government of India has come up with the new tool of aggregation *i.e.*, Farmer Producer Companies on the recommendations of Prof. Y K Alag. In order to incorporate farmers groups in the Companies Act, 1956, an amendment was effected during the year 2002. A separate chapter of IXA was included for this purpose covering legal provisions governing Farmer Producer Companies.

The instrument of Farmer Producer Organization (FPO)is emerging as one of the most effective tool, of aggregationof small, marginal and landless farmers. They are professionally managed and are able to take care of total supply chain including marketing problem. FPOs will help enhance economic strength and market linkages of farmers for enhancing their income. Keeping this in mind, The Department of Agriculture, Cooperation and Farmers' Welfare (DAC and FW), Ministry of Agriculture, Government of India launched a pilot programme for promoting Farmer Producer Organizations (FPOs) during 2011-12. Later Government of India has launched a new Central Sector Scheme titled "Formation and Promotion of 10,000 Farmer Produce Organizations (FPOs)" with a clear strategy and committed resources to form and promote 10,000 new FPOs in the country.As these collective enterprises formed by farmers to enable better connect between agricultural produce and market.The main aim of the FPOs is to ensure a better income for the producers through an organization of their own and the goal is to enhance the farmers' competitiveness and to increase their advantage in emerging the market opportunities. The major operations of FPO include the supply of seed, fertilizer, machinery, market linkages, training, networking, lending and borrowing and technical advice (Phapale *et al.*, 2021).

Different forms of FPO: FPOs in India are mainly promoted by two apex agencies *viz.*, SFAC and NABARD. A per the new guidelines of promotion of 10,000 FPOs, seven other agencies were roped in for this purpose. Besides, Non-Government Organizations and state Govt. agencies are also promoting FPOs. However, there is no harmony among the models being implemented by these agencies for promotion of FPOs. For Example, NABARD is promoting several kinds of aggregation models such as cooperative groups, farmers clubs, Self- Help Groups and FPOs registered under companies Act. While, SFAC is following a federation model in promoting FPOs. At base level, a group of farmers consisting of 15-20 members at village level are organized which are federated at block/ district level and the federation is registered as a producer company under the provisions of Companies Act, 2013.

Extension agencies like ATMAs are promoting Commodity Interest Groups (CIGs) and Farmers Interest Groups (FIGs) formally registered under Department of Agriculture. NCDC and other agencies are promoting co-operative groups, farmers club etc. For promotion of FPOs, NABARD identifies the experienced Resource Institutes and Producers Organizations Promoting Institutions (POPIs) and supports these institutions in delivering the designated responsibilities for formation and effective implementation of the FPOs. SFAC has empaneled qualified and experienced Resource Institutions (RIs) which includes, NGOs and State govt. agencies.

However, as per the guidelines of promotion of 10,000 FPOs, the formation and promotion of FPOs is done by Community Based Business Organizations empaneled by the State governments. At national level there is Project Monitoring Agency (PMA) for overall monitoring of formation of FPOs followed by the State level PMA and district level PMA. These FPOs are promoted by identifying a commodity potentially cultivated in the district under the concept of "One district One Product".

What is FPCs? : Farmer Producer Company (FPC) is a legal form of the company registered under Companies Act 1956 as amended in the year 2002 by incorporeally a separate chapter. When the companies Act 1956 was amended in the year 2013, some provisions were retained. These FPCs promoted by the farmers, will be run by farmers and for the benefit of the farmers. Paid staff can be employed to assist in the management of the company. The share capital of Producer Company shall consist of equity shares contributed by members only and member's equity cannot be publicly traded but can be transferred. The profits generated from the business of the company would be shared among the farmer members only in terms of dividends. Producer company is to have at least 10 members of which minimum five board of directors and a full time Chief Executive should be appointed by the Board of Directors who shall be entrusted with substantial responsibilities of running the FPCs professionally. The main aim of the formation of FPC is to establish basic business principles within farming communities, to bring industry and agriculture closer together and inculcate business by collectivization of the farmer's especially small and marginal farmers. By virtue of enhanced scale due to collectivization, there will be reduction in transaction cost and aggregation of produce will empower bargaining power among the farmers.

Status of FPO :

The very first producer company registered in India was Farmers Honey Bee India Producer Company Ltd. In the first financial year after notification of the amendment, namely financial year (FY) 2004 (April 1, 2003 to March 31, 2004), a total of five producer companies were registered. In the first 10 years after notification of the act (FY 2004 through FY 2013), a total of only 445 companies were registered. The pace of registration accelerated during FY 2014, when 497 producer companies were registered, a number that exceeded all previous 10 years combined. This annotation jump in registration of FPOs is mainly due to allocation of Rs. 200 crore produce to NABARD for promotion of 2000 FPOs. Besides, SFAC from different schemes 00 aggregation promoted FPOs during the same period. The number of companies registered crossed 1,000 for the first time in FY 2016. In the most recent three financial years (FY 2017, FY 2018, FY 2019), 4,190 producer companies were registered, amounting to an average of almost four companies per day with one of the four being registered in Maharashtra. This massive jump in registrations in the recent years as observed in the MCA data coincides with various State and central government schemes. Most such schemes for the promotion and support of FPOs in general and FPCs in particular, came into effect in FY 2013, FY 2014, and FY 2015. There was an observable drop in producer company registrations in FY 2018, which appears to be correlated with the completion of the term of NABARD's PRODUCE programme.

Presently, more than 30000 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 10-12 years.

Benefits of FPOs : FPO provides end-to-end support and services to the small farmers and cover technical services, marketing, processing and others aspects of cultivation inputs. Following are the major benefits of FPOs.

Advantage of economies of Scale: Cost of production can be reduced by procuring all necessary inputs in bulk at wholesale rates.

Aggregation of produce: Aggregation of farm harvest and bulk transport reduces marketing cost, thus, enhancing net income of the producer (Dubey *et al*., 2021).

Access to technology: Access to modern technologies, facilitation of capacity building, extension and training on production technologies and ensuring traceability of agriculture produce.

Reduced losses : Post-harvest losses can be minimized through value addition and efficient management of the value chain (Bishnoi and Kumari, 2020).

Access to inputs, market information and market: Regular supply of produce and quality control is possible through proper planning and management.

Easy access to finance : Access to financial resources against the stock, without collaterals (Krishna, 2018).

Improved bargaining power : Collectivization through FPOs also gives them more 'bargaining' power as a group and helps in social capital building (Bishnoi and Kumari, 2020).

Challenges and issues in formation of robust FPOs: The FPOs are also facing several constraints like, lack of sustained leadership and farmer's integrity leading to low level of ownership, absence of good governance which leads to lack of professionalism, lack of business acumen due to poor managerial skills, issue of under capitalization, The FPCs struggle with developing business proposal, lack of technical support on developing their product, lack of legal support, lack of funding, attracting investors and in general training and skill development of the members. A low levels of participation, lack of professional expertise, poor infrastructure, poor connectivity, lack of certification etc. are major challenges ahead of FPOs (Valamannavar, 2019).

In Ajim Premji University Report (2020), it is reported that the average number of shareholders per pc is 582 and around 2.6 FPCs are there for every one lakh farmers. Out of the total FPCs, 92 per cent are farm based and remaining 8 per cent are Handloom and Handicraft based FPCs. Further report revealed that about 50 per cent of FPCs are concentrated in four states *viz.*, Madhya Pradesh, Karnataka, Maharashtra and Tamil Nadu. About 25 per cent of the FPCs are in just 20 districts and Pune district alone hosts around 185 FPCs. It is pertinent to note that 79 percent of all the FPCs promoted are aged 3 years or less. Of course, by now these FPCs must be 5 years old.

The trend in skewed distribution of FPOs is also reflected in the case of paid-up capital which does not follow the normal distribution. As indicated in the report, 49 per cent of the producer companies have paid up capital of Rs. one lakh or less, 16 per cent FPCs have more than one lakh but less than Rs. 5 lakh and 21.2 per cent have a paid up capital of Rs. 5 lakh or more but less than Rs. 10 lakhs. It is also reported that top 20 FPCs contribute more than 50 per cent of the combined paid-up capital of all the companies, out of which 10 are dairy farmer producer companies.

The basis for running them as a business entity is crucial. This under cartelization is in no way helping to inculcate business among vast majority of FPCs. Moreover, it is reported that to promote one FPC, approximately it costs Rs. 30 lakhs. However, the effort of promoting FPOs could be successful only when they sustain in long and serve the purpose of formation.

Suggestions for favourable ecosystem for promotion of Sustainable FPOs : The Producer Companies Act 2002 envisions PCs as businesses with a potential to grow and sustain. But, most PCs face multiple challenges such as small number of shareholders, low procurement volumes, sub- scale operations, limited value addition capabilities, poor Market linkages, inability to attract talent and lack of strategic thinking and planning. Policy framework needed to overcome these challenges and considerations in envisioning, promoting and supporting PCs. Following are the suggestions for favorable ecosystem for promotion of FPOs.

Simplified legal and regulatory approach : A simple legal approach to address issues is need of the hour for the overall health of PCs. The producer companies shall be promoted in a two-tier model at a block or district level, collectively handling multiple-commodities and value-addition and marketing. It will also facilitates procurement and value-addition of multiple commodities better than a single-tier model. Compliance requirements for producer companies should be re-examined keeping in mind the context and capabilities of small producers. Regulations can be modified either by amending company regulations to allow exemptions for PCs from certain requirements and/or by creating PC specific rules. Ministry of Corporate Affairs (MCA) should explore the possibilities of differential compliance requirements for FPCs. The registration charges should be lowered for registration of FPOs. Though the registration charges are prescribed by public agencies, some of the private firms are charging heavily. Compliance filings such as director registration and geotagging should be simplified and wherever possible be allowed to be submitted in paper form. PC shareholders should be recognized as a separate category whose rights must be protected through stronger governance and regulatory mechanisms by amending relevant sections of the Companies Act 2013.

Aggregation of aggregators :

The aggregation of existing FPCs is crucial.At institutional level, federations have been largely able to tackle the challenges of compliance and coordination of member FPCs. The challenges of capability and capital are still filled with grey areas and the model of second level institutions still has a long journey to cover in this. The consortium/federation model promises a lot and seems to have the potential to strengthen the farmer collectives in the value chain, provided there is an enabling environment developed for the FPC ecosystem. Under the present circumstances, it is felt that the aggregator for aggregation is the need of the hour. The smaller groups which are homogenous in terms of crop, region and social status may be groped conveniently and a federation can be registered at appropriate level. The federation will take care of regulatory issues, horizontal and vertical integration in business and other activities which are difficult to carry for smaller groups. However, enough caution has to be exerted to promote such federations. So far 9 such State Level Producer Companies (SLPCs) are supported by SFAC in the States of Madhya Pradesh, Rajasthan, Maharashtra, Gujarat, Tamil Nadu, Uttar Pradesh, Telangana and West Bengal. These federations can even give a feedback to extension system and policy issues of the government. Federations put in place the members of smaller FPOs can concentrate on production technology and plan their activities as per the market demand. The role of federation is very crucial in providing access to credits, inputs, information and marketing. The federation can also bring in professionalism in their business through horizontal and vertical integration in with an element of sharing of profit equitable among the stakeholders of FPOs.

Integrated value chain approach :

The government must focus on development of efficient value chains, commodity-specific FPOs equipped to assay, grade and package their produce and incentivizing the private sector to invest in logistics, storage, cold chain, processing, etc. Till the time these value chains are scaled up, government can help farmers through an income support policy on a per hectare basis, tilted towards small and marginal holders, via direct transfers to avoid distorting markets or cropping patterns. Supporting FPOs to scale their operations will certainly yield higher dividend.

FPC incubator agencies : Agencies to support FPCs on similar line of 'incubators' should be established. These incubators could bring business acumen to the FPCs and could act as a promoter of FPCs. Start-ups, which are emerging in India, do have similar pattern, though they differ as they are driven by an individual as compared to FPCs which are driven by communities. The idea is based on understanding of the heterogeneity among the FPCs and their needs are similar to that of start-ups.

Leveraging ICT through agri-tech startups : Agritech start-ups play a vital role in filling the gap of information asymmetry both at backward as well as forward linkages. The availability of networks in remote rural areas, penetration of smartphones, cloud-based internet services, and remote sensing possibilities has made their job much easier. Agritech companies have an opportunity to address concerns in the agriculture sector, specifically faced by smallholders with the advent of technology like ICT, Blockchain, Remote sensing, IoT *etc*.

Customized capacity building : Capacity building assumes greater importance to enhance the efficiency among members of the group effective functioning. The role of promoters is crucial in orienting and capacity building of these organizations. Merely introducing the aggregation of members or formation of groups will not serve the purpose. Customized and continuous capacity building of all stakeholders including grass root functionaries like extension workers, bankers, CEO, BoDs and farmers is crucial (Prasad *et al.,* 2020). A dedicated and block level institute can be formed to conduct awareness campaigns, sensitization programmes and to impart the need based trainings.

Promotion of social capital : In order to address the issue of under capitalization, Producer Companies Act 2002 shall promote PCs to raise external capital through a different class of shares with no voting rights and with restrictions on the maximum amount of equity per external investor by restricting the maximum amount of equity per external investor relative to total farmers' equity.

Developing FPO specific loan products for easy access: A capital is very crucial for carrying out business however the skewed distribution of capital indicates that the ability of a farmer to contribute towards capital is dismal. Moreover due to lack of awareness about the requirement of FPOs there is apprehension among farmers to contribute for the capital. In difficult area and dryland area the average per capita income of the farmers is abysmally low. The field experiences reveal that if farmer is asked to contribute towards share capital of even 500 to 1000, the situation is so precarious that the promoters has to wait till the farmer realizes his income after his harvest. So developing FPO specificloan product would play a vital role during the formative years of FPOs.

Convergence of Govt. schemes and initiatives : FPOs are being promoted in the country under various schemes and programmes of the Central government, State government, and other agencies. There is a dire need of convergence of these Govt. schemes and initiatives and bring them under one umbrella. This convergence will bring in synergies between different government programmes/schemes in terms of planning, process and implementation. Convergence of funds from other sources can help in creation of durable assets which will also facilitate sustainable development of FPOs.

Promotion of women FPO : Women farmers play an important role in agriculture and allied activities, but often remain invisible (Srivastava, 2019). They lack access to information, resources, land, extension services, credit, technology and local institutions compared to men, further restricting their agency and impacting the overall economy with productivity losses and reduced workforce participation. Due to these factors, their participation in decision making and market related activities are low. With rising incomes, agriculture and allied sectors are witnessing a rise in commercialization causing new enterprises to emerge - this further invisibles the role of women and also reduces economic navigational opportunities. There is a need to promote women only FPOs to ensure better participation of women, enhance access to resources and services and sustain better income. This interalia will ensure the promoting entities and Implementing Agencies provided in the Ministry's Operational Guidelines and other supporting mechanisms like Cluster Business Organizations locate value chains with higher women participation, adapt for women to join and focus on leadership development.

The recently issued Operational Guidelines on promotion of 10,000 new FPOs by Union Government for up-scaling FPOs across the country to create an enabling business ecosystem for FPOs is a way forward to develop inclusive and sustainable FPOs. The co-operative experience in the country suggests that even though there are only 7.5% of women who participate in cooperatives as compared to 92.5% of men, the 8,171 women cooperatives with a total membership of 693,000 women5 which include cooperative banks, stores, food vendors, have done quite well in comparison to men co-operatives. On the pattern of Panchayats, where many states have reserved 50% seats for women and in cooperatives 33% representation has been made mandatory, it is also critical to reserve at least 1/3rd of total 10000 FPOs to be exclusive women FPOs.

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