

CASE STUDY

Farmer Producer Organizations: Implications for Agricultural Extension

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ABSTRACT

The Government of India recently announced \$34 million for setting up a “Producers Development and Upliftment Corpus (PRODUCE)” under the National Bank for Agricultural and Rural Development. Marketing of agricultural produce is a complex process in India. Farmers do not have access to market, they are selling their produce to the intermediaries operate in the market due to this, their profit margin is reduced and their farming business becomes a non-viable one. We can mobilize farmers in groups and build their associations called as farmer producer organization (FPO). FPO is a means to bring together the small and marginal farmers and other small producers to build their own business enterprise that will be managed by professionals. FPO offers small farmers to participate in the market more effectively and helps to enhance agricultural production, productivity, and profitability. This paper examines the current mode of the operation of FPO and effectiveness of the FPO with reference to the small farmers in India. This article studies the potential role of FPOs (POs, and more generally, producer organizations) in the context of the large prevalence of smallholder agriculture in India.

Key words: Agricultural marketing, collective bargaining, economies of scale, farmer producer organization, farmers, National Bank for Agricultural and Rural Development, smallholder agriculture, sustainable agriculture

INTRODUCTION

Formation of farmer producer organization (FPO) for getting youth engaged in agriculture is seen as big hope. FPOs are to internalize extension services for its member and provide backward/forward linkage, extension strategies, public, and private extension agencies and non-governmental organization (NGO) involves in FPO to promote for mobilizing farmer because extension functionaries have skill for facilitation (FAO, 2006). Farmers’ organizations (FOs) should be promoted to combine the advantages of decentralized production and centralized services, post-harvest management, value addition, and marketing (National Commission on Farmers, 2004.) FOs are essential institutions

for the empowerment, poverty alleviation, and advancement of farmers and the rural poor.^[5] Farmer organization is a group of farmers with special interests and concerns with developed structure, formal membership, status and functions for its members, and a set of bye-laws and rules. Mobilizing farmers into groups of between 15 and 20 members at the village level (called Farmer Interest Groups or FIGs) and building up their associations to an appropriate federating point, i.e., FPOs, FPO is one of the important initiatives taken by the DAC of the MoA to mainstream the idea of promoting and strengthening member-based institutions of farmers. As per the concept, farmers, who are the producers of agricultural products, can form groups and register themselves under the Indian Companies Act.^[1]

These can be created both at state, cluster, and village levels. It is aimed at engaging the farmer companies to procure agricultural products sell of them. Supply of inputs such as seed, fertilizer

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and machinery, market linkages, training and networking, and financial and technical advice is also among the major activities of FPO. The small farmers agribusiness consortium (SFAC) has been nominated as a central procurement agency to undertake price support operations under minimum support price for pulses and oilseeds through the FPOs.^[2]

CONCEPT OF FPO_s

FPOs are one type of PO where the members are farmers. SFAC is providing support for the promotion of FPOs. PO is a generic name for an organization of the producers of any product, for example, agricultural, non-farm products, artisan products, etc.^[4] FPOs are groups of rural producers coming together based on the principle of membership, to pursue specific common interests of their members and developing technical and economic activities that benefit their members and maintaining relations with partners operating in their economic and institutional environment.

PRESENT STATUS

FPOs have emerged through the Companies (Amendment) Act, 2002, incorporating a new part IXA dealing with Producer Company in the Companies Act, 1956, based on the recommendations of the Y. K. Alagh Committee. The Amendment Act came into force w. e. f. February 6, 2003, vide Notification no. 135(E) dated February 5, 2003. The producer companies are incorporated with the registrar of company. DAC, MoA, and GOI launched a pilot program for promoting member-based FPOs during 2011–2012, in partnership with state governments, which was implemented through the SFAC. The pilot involved the mobilization of approximately 2.50 lakh farmers into 250 FPOs (each with an average membership of 1000 farmers) across the country, under two subschemes of the RKVY, namely National VIUC and Program for Pulses Development for 60,000 Rainfed Villages. FPO is a hope for small and marginal farmers which allows distressed farmer to have an optimistic approach toward life while making them strong enough and independent. It will help them to bargain for their produce in better ways along with simplifying the transaction process. FPO members gain better profit as compared to the cost incurred.^[6]

FEATURES OF FPO_s

FPO is a registered body and a legal entity formed by a group of primary producers who claim chief shareholders in the organization. It deals with business activities related to the primary produce/product/related inputs and it works for the benefit of the member producers. Portions of profit are shared among the producers and the balance goes to the share capital or reserves. It has minimum shareholding members numbering 50 at the time of registration. However, the shareholding membership will have to be increased over a period of 3 years to a sustainable level.

IMPORTANCE

FPOs influence policies and demand for required services. Farmers can participate in the decision-making process of the developmental activities through FPOs. Service system becomes more effective and accountable when they get better access to latest markets and technology. Moreover, FPOs can involve in farmer and market-led extension activities which support the broad-based extension activities of public extension system.

SERVICES PROVIDED BY FPO_s

- Financial services: The FPO provides loans for crops, purchase of tractors, pump sets, construction of wells, and laying of pipelines.
- Input supply services: The FPO provides low cost and quality inputs to member farmers. It will supply fertilizers, pesticides, seeds, sprayers, pump sets, accessories, and pipelines.
- Technical services: FPO promotes best practices of farming, maintains marketing information system, diversifying and raising levels of knowledge and skills in agricultural production, and post-harvest processing that adds value to products.
- Marketing services: The FPO will do the direct marketing after procurement of agricultural produce. This will enable members to save in terms of time, transaction costs, weighment losses, distress sales, price fluctuations, transportation, quality maintenance, etc.
- Procurement and packaging services: The FPO procures agriculture produce from its member farmers, will do the storage, value addition, and packaging.

- Insurance services: The FPO provides various insurance such as crop insurance, electric motors insurance, and life insurance.
- Training services: FPOs explore various experts and training institutions and provide training and capacity building for its members and other farmers.
- Networking services: Making channels of information (e.g., about product specifications, market prices) and other business services accessible to rural producers; facilitating linkages with financial institutions, building linkages of producers, processors, traders and consumers, and facilitating linkages with government programs.

FPO_s: PATHWAYS TO LINK FARMER TO THE VALUE CHAIN

The conceptual framework of agricultural value chains includes a sequence of value-adding activities, from production to consumption, through processing and marketing. Each segment of a chain has one or more backward and forward linkages. A value chain in agriculture identifies the set of actors and activities that bring a basic agricultural product from production in the field to final consumption, where at each stage value is added to the product.^[12]

FPOs make business sense clearly which promote collective farming. Value addition is the enhancement of the quality of the products that can be exported. Technology is for enhance production which paves the way for branding of credibility and recognition of product. It also boosts up financial inclusion and saves farmers from distress sale.

SUPPORT SCHEMES FROM GOVERNMENT AND OTHER AGENCIES FOR FPO

1. SFAC: Gives credit guarantee fund to mitigate credit risks. It also grants matching equity up to Rs. 10 lakh.
2. National Bank for Agricultural and Rural Development: Has kept aside FPOs development fund-PRODUCE Fund Rs. 200 crores along with contribution toward share capital on matching basis, up to 2 lakh per PO with a cap of Rs. 25,000 per member. It gives

- credit support for business operations and support for capacity building program.
3. NGOs and self-supported FOs also enhance the credibility and transparency of the FPOs.
4. Government of India assures storage and other agricultural marketing infrastructure under the integrated scheme for agricultural marketing, FPOs are eligible to get higher subsidies. Ministry of Rural Development also operates schemes through which support for some activities can be obtained by the FPO. Training institutions supported by the Ministry of Rural Development, Government of India.
5. State government allots separate fund for the development of FPOs and for their outreach.
6. SFAC: It is now focused on creating wider linkages for FPOs to reduce their transaction costs, improve access to technology and services, and ultimately link them to better market opportunities for higher returns. One of the initiatives in this regard is the launch of Krishidoot, an ICT backed platform which will electronically network all the FPOs in the country and leverage their collective bargaining power. Rolled out on June 1, 2013, Krishidoot will offer FPOs a gateway to a wide range of services through the simple medium of the mobile phone.

PURPOSE OF ESTABLISHING FPO

The purpose of establishing FPOs is to internalize extension services for its members and to provide backward linkage (input, credit, and technology) and forward linkage (production facilities, market, and value addition). The FPOs provide an effective channel for both dissemination of technology to large number of small and marginal farmers and feedback to research and extension. FPOs will generate interest of rural youth in agriculture where ARYA can be achieved that provides remunerative incomes.

ROLES OF FPO_s IN FOOD SECURITY

Food security can be realized through several pathways. **One of the first pathways is to enhance agricultural production through strengthening agriculture production system and by encouraging the formation of FPOs for getting youth engaged in agriculture FPO's are seen as agriculture sector's**

big hope in allowing farmers to get major share of consumer rupee. Only through FPOs, agriculture can be revived and strengthened to provide adequate supply of food grains to achieve food and nutrition security. Starting and strengthening FPOs can be seen as the first step to realize the goals of food security.

CHALLENGES IN FPO PROMOTION

Support of states is vital which not all is on board. Marketing challenges like hurdles in the way of direct marketing efforts by FPOs and Agricultural Produce Market Committee restrictions make process tedious. Lack of access to capital due to reluctant banks to lend to FPOs. Lack of warehousing capacity and post-harvest infrastructure weak are structural constraints for efficient working of FPOs. Adequate trained managerial cadre is need of the hour to alleviate human resources challenge.

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FUTURE STRATEGY

- Linking FPO to market opportunities through Kisan Mandi with different cities of country.
- Financial support to FPOs through equity grant scheme.
- Credit guarantee covers for loans from bank to FPOs through CGS.
- State level producer company formation to leverage collective bargaining power of FPOs (registered in different state).
- State government will be providing financial assistance for the establishment of Kisan Mandi.
- Promotion of new emerging FPOs.

IMPLICATIONS

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Agricultural extension services and farm advisory services have all along have been advocating package of practices to farmers for increasing their crop production. Increasing agricultural production was the sole goal of extension education and advisory services. Agricultural extension functionaries were providing services only up to farm gate and not beyond. Beyond the farm gate, farmers were left to fend for themselves bracing and braving the market forces, aberrant market prices depending on the arrivals in the markets. Sometimes due to a glut in the markets,

farmers were not even able to get returns matching their costs incurred. Sometimes, the demand is so high that they get more than expected returns. Usually, the middlemen, wholesale traders, and retail sellers get better margins just by hoarding and selling intelligently. Thus, farmers have been facing the uncertainties involved in the market place. On the other side, the customers and urban consumers face inflationary forces and had to shell out more rupees for the fruits, vegetables, and other food items. With increased incomes, urban middle class is rather more willing to spend more on processed foods and other costly foods and beverages (including fruit drinks, squashes, and juices), thereby creating a demand for such processed food, fruit, and dairy products.

Thus, to bridge this wide gap between consumers' spending and farmers' incomes and to enable farmers obtain a major share of consumer rupee, a new window has opened in the form of Farmer Producer Companies. This seminar attempts to address the aspects of what constitutes an FPO, what are its features, why it is relevant today, how it is formed, cases of successful FPOs, reasons for their success, conclusions, and implications.

CONCLUSION

Sustainable organizations are must for overall development. Hence, extension strategies should involve public, private extension agencies, and NGOs to promote and operationalize FPOs. Government departments should play a supporting role in formation and management of FPOs. Extension functionaries should have skills of facilitation for FPOs that would help enhance profitability in agriculture by helping farmers get major share of consumer rupee. Therefore, FPOs need to be encouraged in agriculture sector to make agriculture remunerative and profitable which will attract and retain rural youth in agriculture and thus help ensure food security and help realize food and nutrition security too.

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