

CO-OPERATIVE PERSPECTIVE

Special Issue

Making FPOs Smart, Competitive and Sustainable

Vol. 53 No. 1 ISSN 0302-7767



Vaikunth Mehta National Institute of Co-operative Management

www.vamnicom.gov.in

Focus

The Co-operative Perspective is a 'must' for co-operative executives, office-bearers, academicians and students. It provides in a capsule form latest thinking on all aspects of co-operative movement. The Journal provides a ready source of knowledge and information relating to rapidly expanding and diversifying co-operative enterprises.

Specific objectives of the Journal are:

- (a) to disseminate information through articles on latest developments in the co-operative movement in India;
- (b) to appraise the readers about the current co-operative literature through articles and book reviews.
- (c) to furnish library documentation of articles on co-operation/management and allied subjects derived from various sources of publication;
- (d) to give glimpse of training activities of the Institute to build up trained manpower for the co-operative movement; and
- (e) to provide opportunity to the readers and specially ex-trainees to exchange experience through feature 'Readers' forum'.

The journal is published quarterly (April, July, October, and January) of each year. Subscribers are enlisted from any issue. The non-receipt of the issue should be reported within 2 month's time to which the issue relates.

CO-OPERATIVE PERSPECTIVE

Special Issue

Making FPOs Smart, Competitive and Sustainable

Vol. 53 No. 1 ISSN 0302-7767

Editorial Board:

Shri Anil Karanjkar
Dr. D.V. Deshpande
Dr. Manisha Paliwal
Dr. Y.S. Patil
Dr. Somorendro Singh
Shri S.Y. Deshpande
Ms. Anshu Singh
Prof. H.K. Misra
Shri Sunil Mohan Sinha
Dr. Dilip Kajale
Shri S.N. Wable

External Expert :

Dr. S.V. Kadvekar
Prof. Anirudh Prasad

Editorial Team :

Chief Editor

Dr. K.K. Tripathy, I.E.S

Managing Editor

Shri Anil Karanjkar

Assistant Editor

Ms. Anshu Singh

DTP Assistance:

Mrs. K.M. Sonawane

VAMNICOM

Phone: 020-25537974

020-25512611

Fax : 020-25537726

Email : crp@vamnicom.gov.in

Web: www.vamnicom.gov.in

Printed by:

Sahakar Mudranalaya,
Pune 411002

All data, views, opinions, etc. being published are the sole responsibility of the authors. Neither publishers nor editors are in any way responsible for them.

Foreword	...	i
Concept Note	...	iii
ARTICLES		
■ Promoting and Managing FPOs in India for efficiency, effectiveness, and sustainability : Challenges, Policies, and Best Practices	Sukhpal Singh	1
■ What passion can do for the Agricultural Community - A case study of a Computer Engineer from "The Hindu"	G. Karikalan	18
■ Role of FPOs in Retaining Next-Generation Youth in Agriculture	Puneet Singh Thind	20
■ Market Search and Livelihood Interventions for FPOs	Sudhir Kumar Goel	23
■ Farmers Producers Companies to benefit from Simple Processing –The Case of “Ghummar Mahila Custard Apple Pulp Producers Company”	Ved Arya & M.V.Ashok	29
■ Success Story of Direct market Linkage of Soybean to Soya Mills by Farmer Producer Company in Maharashtra	Gajendra Wankhade	37
■ Re-empowering Farmers through Collective Action	Aayushi Jain	43
■ Farmers Producer Organisations- A key to Doubling Farmer’s Income by 2022	Kamal Kumar	46
■ Strategies for Sustaining the FPOs : Case Illustrations	Manjusha Kadam	48
■ Financing Farmer Producer Organisations - A Big Business Opportunity for Banks	D V Deshpande	53
■ Pudukkottai Organic Farmers Producer Company Limited	Neeraj K. Dubey	62
■ Farmers Producers Organisation: Present Status, Challenges and Way Forward	Sagar Kisan Wadkar	71
■ Role of Technology Adoption in promoting a Sustainable and Competitive Agribusiness	Sneha Kumari	81

Farmers Producers Organisation: Present Status, Challenges and Way Forward

*Sagar Kisan Wadkar**

Agriculture is dominated by smallholders who have recently experienced the strains of slow productivity growth, rising input prices and greater import competition. The prominent reason could be the changes in the world trade scenario with the implementation of WTO guidelines, greater integration of the domestic market with the global market, changes in consumer taste and preferences, etc. Under these circumstances, it is primarily small and marginal farmers that are exposed to the high risk of farming, arising from uncertainties around production, inadequate infrastructure, poor public services, limited access to credit and insurance, limited market linkages, and vulnerability to drought, pests, and other sources of risk are the problems facing small-scale farmers in developing countries (World Bank, 2007). The past two decades have been marked by higher levels of farmer indebtedness, rising unemployment and forced migration, creating what has been called a period of 'generalised rural distress' (Government of India, 2005; Suri, 2006).

On the other hand, globalization has offered a plethora of new opportunities for companies which are investing in both retail of primary produce and processed food segment. These companies, in turn, have to depend on the supply of high quality produce on time to meet their production targets and commitments. The benefits of the same largely flow to medium or large farmers who have the resources to make new investments and undertake farming along commercial lines.

However, in India promoting livelihood to vast size of population and growing workforce is a greatest challenge as it is dynamic and sensitive to socio-cultural, economic, political, market and other conditions. Among these, enhancing livelihoods of small and marginal producers has unique challenges. It requires blend of capital and knowledge with forward and backward linkages to promote sustainable livelihoods.

In such scenario, many governmental and private organisation as well as donors agencies have been often attempted a group farming approach to integrate small and marginal farmers to transform from their existing subsistence agriculture to a more commercial agriculture by promoting membership based organizations such as

* Assistant Professor, Vaikunth Mehta National Institute of Cooperative Management, Pune

Cooperatives in 1900s, Self-help Groups (SHGs) in 1980s, producer associations, contract farming, and other village-based organisations. These forms of farmers organisation have been succeeded upto certain levels in economising scale of production, promoting collective action and thus increases farmer bargaining power in markets for inputs as well as for outputs (Bernard and Spielman, 2009; Fischer and Qaim, 2012) . Since farmers are more aware about their own needs and know the local situation better, placing them at the centre of development is need of the hour and has also been stated by many scholars.

However such forms of organization have been tried in different sectors in different parts of the country and have their own strength and weaknesses. For example farmers' cooperatives are one form of organization that enables farmers to organize themselves as collectives and move up the value chain by ownership and operation of their own processing units and sometimes extend the chain upto the retail level. The cooperative experience in our country has not been a very pleasant one, as cooperatives have largely been state promoted, with a focus on welfare rather than to do business on commercial lines. They have been infected by political interference, corruption, elite capture, poor efficiency, loss-making ways and declining government support (capital constraint) (Singh, 2008).

India has a large number of cooperative institutions in a vast range of enterprise sectors, but there have been few successes in milk, sugar, and fertilizer sector and that too limited to a few states. These efforts led to the emergence of 'New Generation Cooperatives (NGCs)' with advanced member-friendly profile viz, restricted membership, tradable equity shares, product delivery right to shareholders, contractual delivery of produce by members, distribution of returns based on the patronage, value addition through processing, providing better market linkage, one-member one-vote policy and being economically efficient, financially viable and inculcating loyalty among the members. Ironically, the concept of NGCs too could not overcome certain pulling factors like preferred share premium, limited rights of Members on internal control mechanism, suitability only to large holders, functioning like closely-held companies, risk of becoming investor-oriented company, off-market purchases to meet contract terms, leasing of delivery rights by members and dependence on non-producer member equity and non-member business (Singh, 2008).

Amidst such deficiencies and inadequacies in cooperative system, gave thoughts to the need for new forms of institution and thus 'Farmers Producers Company' (FPC)

came in existence on a response to the Report of the Committee under the Chairmanship of Dr. Yoginder K Alagh. Ministry of Consumer Affairs, Government of India introduced the Bill for amendment (in section 581) of Companies act 1956 by introducing part IX-A and thereby paved the way for incorporation of Producer Companies (Alagh, 2007, Gupta, 2007, Singh, 2008 and NRR, 2009). It has given mandate to frame a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring the unique elements of cooperative business with a regulatory framework similar to that of companies. The amendment has also given primary producers the flexibility of organising themselves on the one person-one vote principle, the essence of a democratic institution. Now a days it is being argued to be the only institutions which can protect small farmers from ill-effects of globalization or make them participate successfully in modern competitive markets (Trebbin and Hassler, 2012). Some of the salient features that provide a producer company its competitive edge are:

- ☞ The format provides higher legitimacy and credibility in the immediate business environment.
- ☞ It allows membership of registered and non-registered groups, offering enhanced possibilities for creating a member-controlled organisation.
- ☞ Outsiders cannot capture control of these companies, as the act permits only “primary producers” and persons or associations connected with the primary producers to participate in the ownership of produce companies.
- ☞ The format provides for patronage based participation in governance. Surplus distribution also may be determined by the level of patronage provided by members.
- ☞ It has stringent regulations making statutory demands for better disclosure and reporting, thereby, protecting members’ interests.

The collectivization of small and marginal farmers into FPO/ FPC have been seen as a useful organizational mechanism for sensitizing and mobilizing farmers’ to take a collective action, aimed at improving their own economic and social situation and that of their communities by leveraging the collective strength to bargain effectively in accessing the financial and non-financial inputs, services and technologies and thereby strengthen the backward and forward linkages. Furthermore, it is observed that the farmer’s share in consumers’ rupee is still substantially low, so the FPOs can undertake appropriate interventions to manage post-harvest losses and focusing more on value-addition and processing of the produce. Thus, the focus of development has now shifted from enhancement of production to market connectivity.

Government Initiative to Finance FPOs:

The Union Finance Minister while presenting Union Budget for 2014-15, has announced setting up of "Producers Organization Development and Upliftment Corpus (PRODUCE) Fund of Rs. 200 crore in NABARD to be utilized for the building and promotion of 2000 FPOs in two years. This initiative will address the initial requirements of the emerging FPOs which, in turn, will provide new business opportunities for financing institutions, to support them with credit. The broad objective of the Fund is to build, promote and nurture FPOs by way of extending the required financial & non-financial support during the nascent/ formative stage. It is critical to support FPOs in terms of awareness creation, capacity building, technical support, professional management, market access, regulatory requirements, etc. and provide handholding support for a minimum period of three years and the same is met as grant under the Fund. The requirement of the FPOs for their business has to be met out of their own funds, equity, credit, profit generated, etc.

Recently the Hon'ble finance minister in his budget 2018-19 speech has duly acknowledged the positive role played by FPOs in India and said that on the lines of tax exemption provision for cooperative societies, the FPOs also will be hundred per cent tax exempted, having annual turnover up to Rs.100 crores in respect of their profit derived from farm activities for a period of five years from financial year 2018-19. The decision has been made in order to encourage professionalism in post-harvest value addition in agriculture and allied sectors. Moreover, government has planned to extend a favorable taxation treatment to FPOs for helping farmers aggregate their needs of inputs, farm services, processing and sale operations (Budget 2018-19).

Operational Mechanism for Promoting FPOs in India :

The formation and nurturing of FPOs is actively encouraged and supported by the Central and State Governments and their agencies like SFAC , NCDC, NAFED, FCI, NABARD, using financial resources from various Centrally-sponsored and State-funded schemes related to agriculture and allied sector. These agencies have empanelled Resource Institutions (RIs), in the case of SFAC (See Figure 1) and district wise Producers Organisations Promoting Institutions (POPIs) in NABARD case (See Figure 2), in order to develop and nurture the FPOs effectively and efficiently. There are some RIs and POPIs whose area of operation is in more than one state and districts respectively. For example, BASIX Krishi Samruddhi Ltd., Indian Grammen Services (IGS), Action for Social Advancement (ASA), Indian Farm Forestry Development

Cooperative Ltd. (IFFDC), Indian Society of Agribusiness Professionals (ISAP), International Traceability Systems Ltd. (ITSL), Evangelical Social Action Forum (ESAF), International Competence Centre for Organic Agriculture (ICCOA), etc.

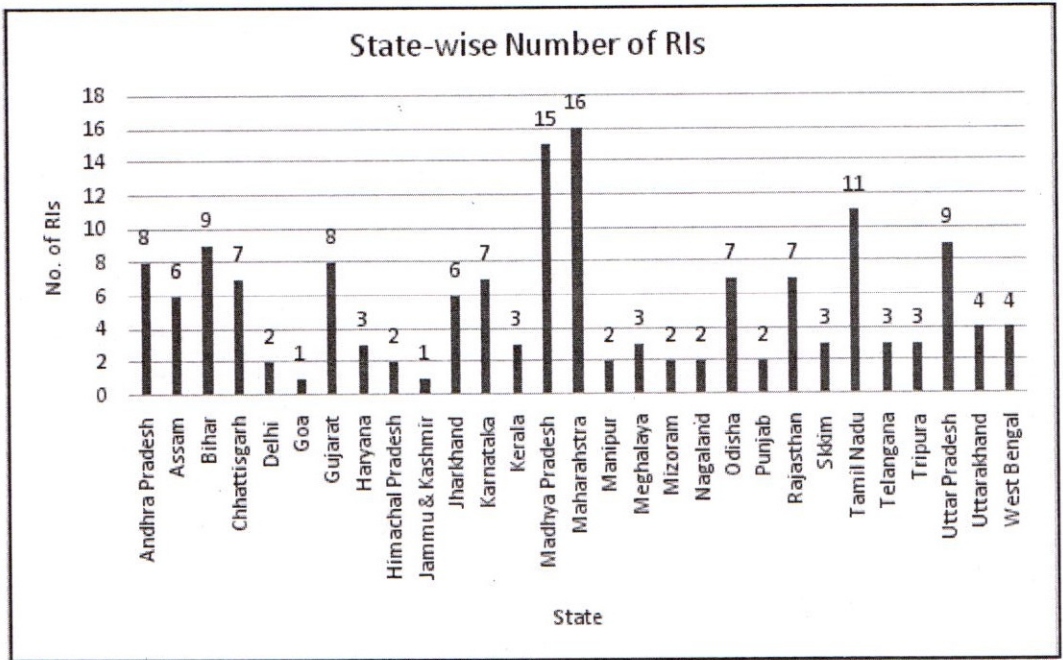


Figure 1: State-wise Number of RIs empanelled by SFAC (Source: SFAC 2018)

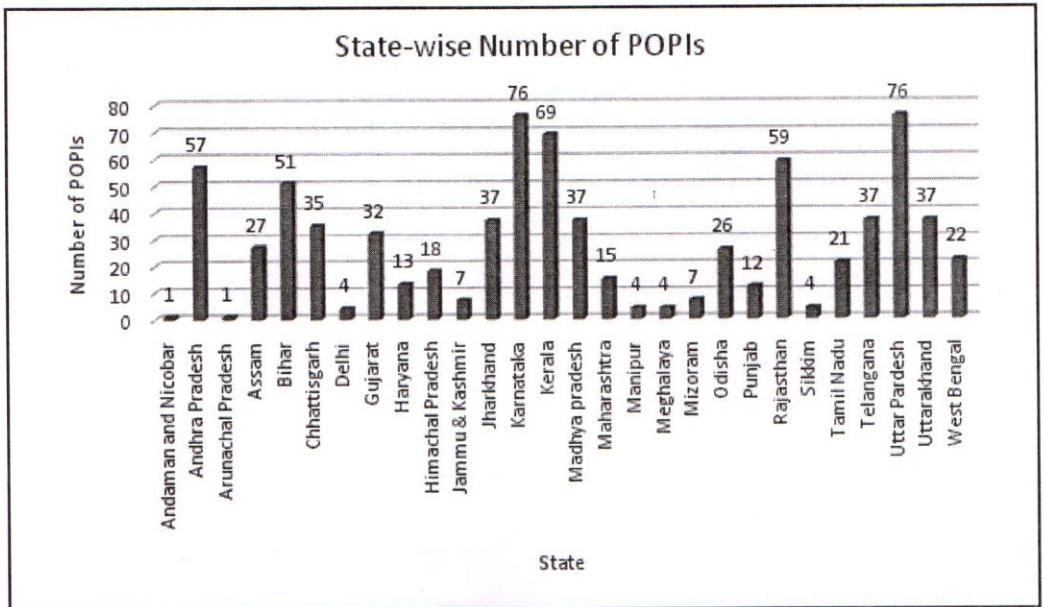


Figure 2: State-wise Number of POPIs empanelled by NABARD (Source: NABARD 2018)

It is evident from the Figure 1 and 2 that the State of Maharashtra, Madhya Pradesh, and Tamil Nadu have maximum numbers of RIs. Out of a total number of district in India, NABARD has identified POPIs in 472 districts, highest among the State of Uttar Pradesh, Karnataka, Kerala, Rajasthan, Andhra Pradesh, and Bihar, having more than 50 POPIs involved in the sensitizing and mobilizing farmers to form a producers company and to extend the handholding support in their respective area of operation.

Roles and Responsibilities of RIs and POPIs:

The primary responsibility is to ensure the sustainability of FPOs having suitable business plan and technical and managerial capability of members to run the business successfully once the promoting institution withdraws its support. Therefore the principal role is to build the capabilities of the staff and management of the FPO through training and continuous hand-holding.

The broad responsibilities are indicated below:

1. Cluster identification
2. Diagnostic and feasibility studies
3. Mobilisation of Producers and Registration/Incorporation of PO
4. Resource mobilisation
5. Development of management systems and procedures
6. Business planning and operations
7. Assessment and audit

Present Status of FPOs in India:

During 12th Five Year Plan (2012-17) the promotion and strengthening of FPOs has been one of the key strategies to achieve inclusive agricultural growth and has witnessed a big spurt in the formation of FPOs. In this context, 2014 was declared as “Year of Farmer Producer Organizations” by the Ministry of Agriculture, Government of India.

As on 30.08.2018 SFAC have promoted 1108 registered FPOs (769 FPOs by SFAC and 338 by non-SFAC RIs) and 2082 registered FPOs by NABARD's POPIs, which are working in different parts of the country. The Madhya Pradesh state has highest registered FPOs (141) followed by Karnataka (119) and Maharashtra (91) as shown in the Figure 3 (SFAC, 2018).

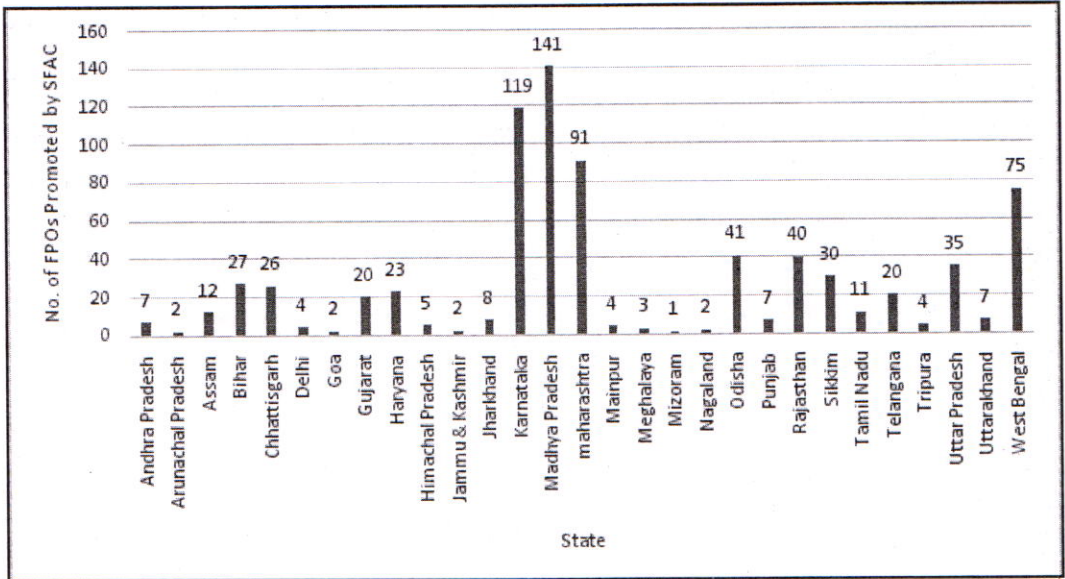


Figure 3: State-wise number of FPOs promoted by SFAC

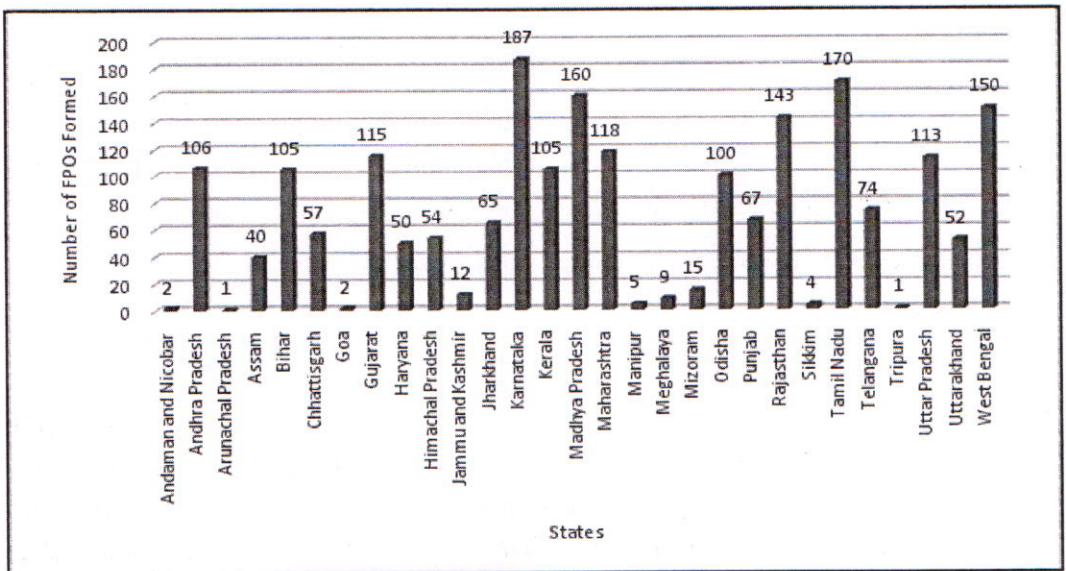


Figure 4: State wise Number of FPOs formed by NABARD POPIs

It is clear from the Figure 4 that the State of Karnataka, Tamil Nadu, Madhya Pradesh, West Bengal, and Gujarat have maximum number of registered FPOs promoted and nurtured by the NABARD's empaneled POPIs.

Further to strengthen the FPOs functioning and business performance by linking them to suitable technology as well as to the markets in association with private, corporate or cooperative sector in order to expand and enhance their backward and forward linkages, SFAC has been taken an initiative to establish the State Level Federations of FPOs to create a State level umbrella support for the members FPOs. At present 8 such State Level Producer Companies (SLPCs) in the States of Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal are working and are observed as an effective solution to the following functional challenges of FPOs:

1. Achieving the better coordination among FPOs formed in the State
2. Enabling them to enter into policy dialogue with the State and Central agencies
3. Availability and accessibility of services and inputs
4. Increasing the capacity in cost effective manner
5. Facilitating the credit support from financial institutions
6. leveraging the opportunities for strengthening backward and forward linkages

Challenges and Way Forward

The major issues concerning the functioning and performance of FPOs as follows:

1. Fund Mobilisation and credit support for undertaking post-production activities
2. Technology application to increase efficiency in the production and post-production
3. Marketing of produce in order increase the share in consumer rupee
4. Technical and professional human resource to run the business
5. Sense of belongingness and ownership towards FPOs activities
6. Identification of Board of Directors (BoD) and Chief Executive Officer (CEO)

To address these issues, a systematic application of "Collective Action Approach (CAA)" is imperative. The foundational work on this notion has been done by Mancur Olson and explicitly mentioned in his book "*The Logic of Collective Action: Public Goods and the Theory of Groups*" (Olson 1965). Kumaran (2002) states that individual approach to poverty alleviation is increasingly replaced by

group approach. The farmers organisations are formal forms of CA. Marshall (1998) defines collective action as ‘the action taken by a group (either directly or on its behalf through an organization) in pursuit of members’ perceived shared interests’. On the other hand, Bandiera et al (2005) defined collective action as the “ability to refrain from individually profitable actions for the sake of the common good”.

The process of CA starts from the identification of felt and unfelt needs of the farmers. Generally it has been observed that in the process of FPO formation, more emphasis is given on the registration of the FPO with required members as a Board of Directors (BoD) and then the formal membership drive begins. As a result a social vacuum arises and members lack in developing the sense of belongingness and ownership (which are the key indicators of sustainability) towards the efforts undertaken, despite its benefits. The FPO promoting institutions or agencies should give more emphasis on sensitization and mobilization of farmers, their felt and unfelt needs, and give them an orientation to transform from farmer to agripreneur with the professional business approach. Further, there is need to develop a technical and professional competencies of board of directors and chief executive officers to manage the FPOs functioning and would be in a position to develop a business plan with a strong forward and backward linkages to earn a larger share in the retail sector.

References :

- Alagh, K. Y. (2007). On Producer Companies. PRADHAN’S Workshop on Producer Companies.
- Bandiera O, I Barankay and I Rasul (2005) : “Cooperation in collective action,” *The Economics of Transition*, 13 (3): 473–498.
- Bernard, T. and Spielman, D. J. (2009). Reaching the rural poor through rural producer organizations? A study of agricultural marketing cooperatives in Ethiopia. *Food Policy*, 34 (1): 60–69.
- Budget (2018-19). Budget Speech 2018-19, Ministry of Finance, Government of India.
- Fischer, E. and Qaim, M. (2012). Linking smallholders to markets: Determinants and impacts of farmer collective action in Kenya. *World Development*, 40 (6): 1255–1268.
- Government of India. (2005). Final Report of the Commission on Farmers’ Welfare. Hyderabad: Government of Andhra Pradesh.
- Gupta, A. (2007). A Critical Appraisal of the Provisions of Producer Company. PRADHAN’S Workshop on Producer Companies.

<http://sfacindia.com/PDFs/List-of-FPO%20identified-by->

[NONSFAC/Statewise%20list%20of%20FPOs.pdf?data=6546554.545](http://sfacindia.com/PDFs/List-of-FPO%20identified-by-SFAC/Statewise%20list%20of%20FPOs.pdf?data=6546554.545)

<http://sfacindia.com/PDFs/List-of->

[FPO%20identified-by-SFAC/Statewise%20list%20of%20](http://sfacindia.com/PDFs/List-of-FPO%20identified-by-SFAC/Statewise%20list%20of%20)

[FPOs%20registered % 20 under % 203 % 20 year % 20 programme.pdf? data = 23692.1521](http://sfacindia.com/PDFs/List-of-FPO%20identified-by-SFAC/Statewise%20list%20of%20FPOs%20registered%20under%20203%20year%20programme.pdf?data=23692.1521)

<http://sfacindia.com/PDFs/List-of-FPO%20identified-by->

[SFAC/Statewise%20list%20of%20 FPOs% 20 registered % 20 under % 202 % 20 year % 20 programme.pdf?data=12345.34](http://sfacindia.com/PDFs/List-of-FPO%20identified-by-SFAC/Statewise%20list%20of%20FPOs%20registered%20under%20202%20year%20programme.pdf?data=12345.34)

Kumaran, KP (2002): "Role of Self Help Groups in Promoting Micro Enterprise through Micro Credit: An empirical study," *Journal of Rural Development*, 21 (2): 231-250.

Marshall, G (1998): *A dictionary of sociology*, New York: Oxford University Press.

Ministry of Agriculture, Government of India. (2013) *State of Indian Agriculture 2012–2013*. New Delhi: Press Bureau of India.

National Sample Survey Organisation. 2003. *National survey sample, 59th round*. New Delhi: Ministry of Statistics and Programme Implementation.

NRAA (2009). *Perspectives and Problems of Primary Producer Companies—Case Study of Indian Organic Farmers Producer Company Ltd, Kochi, Kerala*"; National Rainfed Area Authority (NRAA), New Delhi, India. Pp 18.

Olson, M (1965): *The logic of collective action*, Harvard University Press, Cambridge: Massachusetts.

Rouse, J. (2006). *Promoting sustainable producer group enterprises: A review of FAO experience (1981–2006) Lessons learned and ideas for the future*. Rome: FAO. Retrieved February, 20, 2008.

Singh, S. (2008). *Producer Companies as New Generation Cooperatives*. *Economic and Political Weekly*, (22-24).

Spielman, D. J. and Pandya-Lorch, R. (Eds.). (2009). *Millions fed: Proven successes in agricultural development*. Washington, DC: International Food Policy Research Institute.

Suri, K. (2006). *Political economy of agrarian distress*. *Economic and Political Weekly*, 41 (16): 1523–1529.

Trebbin, A. and Hassler, M. (2012). *Farmers producer companies in India: A new concept for collective action?*. *Environment and Planning A*, 44: 411 - 427.

World Bank. (2007). *World development report 2008: Agriculture for development*. Washington, DC: World Bank. □□□□