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FARMER PRODUCER ORGANIZATIONS IN INDIA – CHALLENGES, POLICIES, AND SUGGESTIONS

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1. INTRODUCTION

A Farmer Producer Organization (FPO) is a voluntary organization of farmers, owned, managed, and operated by them. It works on the principles of mutual benefit, cooperative participation, and democratic governance. The primary objective of FPO is to enhance the collective bargaining power of small farmers, enabling them to empower themselves not only as producers but also as business-oriented entrepreneurs, thereby maximizing profits from their produce.

In India, the fragmentation of land holdings has increased from 80.4% in 2002–03 to 85.8% in 2018–19, highlighting the growing need for more Farmer Producer Organizations (FPOs) to empower these farmers in agricultural markets. However, the distribution of FPOs across the country is uneven. Many districts lack FPOs despite having a large number of marginal and small farmers. Moreover, several FPOs in India are inactive, sluggish, or non-functional, which is a critical issue that should be prioritized by the government.

These organisations face several operational and policy related challenges which are summarised below:-

1. 1 Operational Challenges Faced By FPOs:

1. Limited Membership Base – Most FPOs have only 200–250 shareholders leading to low equity and insufficient working capital(Govil. Neti, Rao, 2020).

2. Adverse Selection Problem – Member farmers may opt to transact independently to meet their needs, such as marketing, due to numerous competitive alternatives operating in agricultural markets, such as private traders and commission agents, offering attractive terms.
3. Weak Sense of Ownership – Limited participation by the board and other members in managing and engaging with FPO activities (Nayak, 2022).
4. Concentration of Ownership – Poor governance practices, such as ownership concentrated in the hands of a few investors (mainly founders) who also retain positions on the Board of Directors (BoDs).
5. Limited Exposure Visits and Training – About 72% of farmers had no exposure visits, and only 12% received training (Bankers' Institute of Rural Development, 2021).
6. Centralized Crop Selection – The choice between food and cash crops poses challenges. Cash crops are highly sensitive to price volatility, and a market-demand-based approach may reduce economies of scale and net farmer income in the long run due to the promotion of monocropping agricultural practices (Nayak, 2016)
7. Limited Transactions by FPOs – FPOs' activities are restricted mostly to procurement, selling inputs, and minimal value addition (Reddy, date unknown).
8. Declining Producer Ownership and Member Interest – Over time, private enterprises may exploit producer companies for their benefit if members' interest wanes (Y.K. Alagh, cited in Nayak, 2016).
9. Need for Diversified Activities – FPOs engaged in multiple and diversified activities have achieved higher turnover and net profits.
10. Lack of Branding – Only about 15% of FPOs have effective branding (BIRD, 2021).
11. Absence of Clear Operational Guidelines and Enabling Environment – BIRD (2021) revealed that 70% of

sampled FPOs failed at least once and incurred penalties for non-compliance with legal requirements.

12. Low Success Rate – Less than 40% of FPOs are active and functional (Institute of Livelihood, Research and Training, 2016). Only 15% met all success criteria, while another 30% showed potential for improvement with minimal guidance (BIRD, 2021). Verma (2020) also reported a low success rate for FPOs in Punjab and Madhya Pradesh. Data from the Ministry of Corporate Affairs (2023) showed that 57% of FPOs filed their financial documents as required by law and were active and compliant.

1. 2 At the Policy Level, the Issues faced broadly Include:

1. Diversity in Statutory Frameworks: Out of approximately 31,000 FPOs in India, around 18,723 are registered as producer companies, while about 12,500 under provisions other than the Companies Act, rendering them ineligible for benefits under SFAC (Small Farmers Agribusiness Consortium) schemes. This diversity in statutory frameworks poses challenges in implementing policies for FPOs.
2. Limited Perception of FPOs: The standard perception of FPOs is often as mere government projects or local institutions meant for small producers (BIRD, 2021). This limited perspective leads to their abandonment once the financial support period ends, causing many FPOs to become dormant or remain stuck in their nascent stage.
3. Lack of Post-Financial Support Mechanisms: After the financial support period ends, there is a lack of regular evaluation, corrective mechanisms, and continued support for FPOs.
4. Early-Stage Challenges: A significant number of FPOs are still in their nascent stageand require better management, financial resources, and access to markets. With state support, they can be revived effectively.

5. Weak or Non-Existent Credit History: Many FPOs have weak or no credit history, making financial institutions hesitant to provide loans due to perceived repayment risks (Bali, 2023).
6. Training and Awareness Deficits: Due to inadequate training and awareness, most FPOs have failed at least once in complying with legal requirements, resulting in penalties (BIRD, 2021). In Punjab, many producer companies (FPCs) became inactive due to failure in filing reporting and compliance documents (Griffiths, Johal, and Gill, 2022).
7. Domestic Challenges: India's economy faces several domestic challenges, including inadequate infrastructure, quality control, quality assurance issues, and non-tariff barriers, which hinder the growth and competitiveness of the agricultural sector.
8. Sensitivity of Agricultural Exports: India's agricultural export sector is vulnerable to fluctuations in global prices and demand. Additionally, export restrictions are often imposed on these products within India.

2. DRAFT NATIONAL POLICY ON FARMER PRODUCER ORGANIZATIONS (FPOs) (June 18, 2024)

Farmer Producer Organizations (FPOs) in India are promoted by various government agencies, philanthropic entities, individuals, and companies under diverse legal provisions, designs, and levels of support. However, these organizations exhibit (i) lack of interconnectedness, (ii) an absence of uniformity, and (iii) a dearth of comprehensive data on the entire FPO promotion process. Some states have notified their state-specific FPO policies. The draft policy emphasizes adopting a uniform FPO framework aligned with the national policy while considering state-specific variations and requirements. Consequently, there is a recognized need for a nationwide uniform policy to streamline the integration and establishment of new FPOs.

The primary objective of the draft national policy is to transform FPOs into "functional and vibrant enterprises" to promote sustainable income-based agriculture for the overall welfare of farmers. Key issues related to FPOs that require resolution include capacity, capital, management, and marketing. This policy (Government of India, 2024) incorporates three critical provisions:

1. Robust Monitoring and Evaluation Mechanism: This mechanism will cover potential FPOs for all types of benefits to ensure their sustainable stabilization.
2. Collaborative Approach: This approach aims to foster camaraderie among FPO members, encourage cooperation, trust, and unity, and facilitate doing business in agriculture.
3. Organizational Structure of FPOs: A Step Towards a Sustainable Ecosystem
   The draft policy encourages FPOs to adopt an organizational structure inspired by the three-tier AMUL model:
   (a) Primary FPOs at the village level;
   (b) District Federations at the district level; and
   (c) State-Level Federations.

The AMUL model emphasizes collective business objectives, capacity building, and professional management. The draft policy envisions a pyramid structure where each of the country's 7,256 blocks will have at least 7–8 active primary-level FPOs, aiming to establish or concentrate around 50,000 FPOs over the next five years.

This initiative is expected to directly benefit approximately 25 million farmers, representing about 17% of the total population. The structure aims to provide grassroots producer organizations with specialized services, enhancing system resilience and sustainability.

4. RISKS OF ADOPTING THE AMUL FEDERATION MODEL IN AGRICULTURE.

Agricultural markets are significantly more complex than dairy markets (Reddy, unpublished). Dairy cooperatives face fewer challenges related to pricing, collection, transportation, processing, and storage compared to crop production, which involves higher costs and encounters complex systemic and unstructured risks. Additionally, private intermediaries dominate agricultural markets. Dairy is a low-cost supplementary activity for farmers, whereas crop production is a primary activity with higher costs. Dairy FPOs outperform agricultural FPOs (Verma, 2020 and Reddy, unpublished). Both are "incompatible" (Griffiths, Johal, and Gill, 2022). Only a small proportion of crops and FPO-marketed produce is sold in the market—just 0.1% of paddy and 0.3% of pigeon pea (tur) in the Kharif 2018 season, and 0.1% of chickpea and cotton in the Rabi 2019 season (Government of India, 2021).

4.1 In defence of the model: India has significant experience with an FPO federation model (a two-tier model), where primary FPOs are part of a larger federation, as in Madhya Pradesh. Here, "supplier FPOs focus on aggregation, sorting, and grading of produce, while a market-facing FPO adds value, brings the product to market, and sells it" (Indian Development Review, 2023). These federations also provide small and marginal farmers with technical, market, and financial support. Primary FPOs often lack business acumen and expertise, necessitating such organizational support and guidance from higher-level federation FPOs for their growth and sustainability.

The rich and long-term experience of AMUL could help address issues related to the viability and sustainability of agricultural and agri-cooperatives.

4.2 Key Features of the Draft National Policy on Farmer Producer Organizations (FPOS) June 2024

1. Study and Evaluation of Existing and New FPOs- Both existing (under any scheme or agency) and newly formed FPOs will be studied and evaluated. Identified potential FPOs will be covered for all types of benefits under this policy to ensure their financial stability.
2. Special Category in Priority Sector Lending Norms for Banks: A special category for FPOs will be created.

3. Tax Benefits for Supporting Companies: Companies supporting FPOs will receive tax benefits.
4. Priority for FPOs in Selling to Government Institutions: FPOs will be given priority in selling their products to government institutions.
5. Encouraging the Appointment of Qualified CEOs and Managers: Incentives will be provided for appointing qualified CEOs and managers in FPOs, with plans to establish dedicated marketing intelligence units within FPOs.
6. Emphasis on Capacity Building and Training Programs: Focus will be placed on capacity building and training programs in collaboration with agricultural universities, research institutes, and other entities.
7. Implementation of a Robust Monitoring and Evaluation Mechanism: A strong monitoring and evaluation mechanism will be implemented to ensure timely interventions and support.
8. Clear Guidelines for Legal Status and Rights of FPOs: Guidelines will be provided to ensure smooth functioning and ease of doing agribusiness for FPOs.
9. SFAC as the Central Nodal Agency: SFAC will act as the central nodal agency, allocating funds for FPO development and coordinating various central schemes to ensure the viability and sustainability of FPOs, thereby fostering trust among farmer members.
10. Mandatory Registration of All FPOs on the Central Government’s FPO Registry Portal: Mandatory registration will simplify the monitoring and support of FPOs.

5. SUGGESTIONS

1. Priority in establishing FPOs should be given to districts with a large number of marginal and small farmers.
2. Appropriate provisions should be made to ensure that the management and administration of FPOs include

marginalized communities, such as women, Scheduled Castes (SC), and Scheduled Tribes (ST).

3. The policy should include special provisions to encourage and promote women-led FPOs.
4. Measures should be implemented to ensure that member farmers actively participate in FPO activities and engage regularly, including the sale of their produce through the FPO.

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