

# Farmer Producer Organisations- mantra for new green revolution

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The Indian agriculture is characterized by millions of marginal and small farmers, who are under immense pressure to undertake the high risk of farming. The risks are related to weather uncertainties, uneven access to technologies and natural resources, unreliable input supplies, stressed infrastructure in power and irrigation and uncertain marketing arrangements. These factors are responsible for diminished bargaining power in input and output marketing of Indian farmers in present economic scenario. The increase in population, subdivision and fragmentation of land holdings due to breakdown of joint family system encouraging conversion of semi-medium and medium group of farmers into group of small and marginal farmers result in un-economic land holdings. The largely macro level, cereal production-oriented official agricultural growth strategies are unable to target vast sections of the peasantry. The rain fed regions in particular, continue to witness both the volatility and distress associated with the vagaries of nature as well as imperfections in commodity markets. Producers in these regions suffer from a serious technological and productivity gap as compared to better

endowed areas. Their condition is likely to deteriorate further and their isolation from the new emerging markets is certain.

As could be seen in Table-1, nearly 41% of operational holdings are held by small and marginal farmers which constitute 84 % of all Indian farmers (2005-06). An estimated 65% of all farmers are marginal. More than 90% of the small and marginal farmers (SMF) depend on rains for irrigating their crops. There are between 9 and 10 crore

SMF in India whose livelihood is agriculture. Due to the phenomenon of land fragmentation there are nearly 20 lakh new small and marginal farms being added each year.

Due to various limiting factors only a minority of India's farmers are served by the formal agriculture extension system. Only 9% farmers receive extension services from government extension staff, while 19% of farmers depend on private input dealers for advice (NSSO,

Table-1

**Share of Number of Operational holdings and Operated Area by size classes 1980-81 to 2005-06.**

Size groups	Share in number of holdings (%)					
	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06
Marginal(<1.0ha)	56	58	59	62	63	65
Small(1.0-2.0ha)	18	18	19	19	19	19
Semi-Medium(2.0-4.0ha)	14	14	13	12	12	11
Medium(4.0-10.0ha)	9	8	7	6	5	5
Large(>10.0ha)	2	2	2	1	1	1
All size	100	100	100	100	100	100
	Share of operated Area(%)					
Marginal(<1.0ha)	12	13	15	17	19	20
Small(1.0-2.0ha)	14	16	17	19	20	21
Semi-Medium(2.0-4.0ha)	21	22	23	24	24	24
Medium(4.0-10.0ha)	30	29	27	25	24	23
Large(>10.0ha)	23	20	17	15	13	12
All size	100	100	100	100	100	100

Source: Agriculture Census, Ministry of Agriculture, Government of India

2005). The lack of extension systems has led to a situation where farmers do not have any mechanism for solving their problems and for improving their productivity. This dismal state of affairs has led to the widening gap between agriculture research and their adoption at the grassroots level.

It is reported that about 47% SMF seek farm credit from moneylenders while only 15% seek bank credit (Source: NSSO 2003). In the XI plan there has been a significant increase in supply of agriculture credit. However, Reserve Bank of India admits that the SMF share in institutional credit is less than 10%.

Corporate buyers and other bulk buyers of agriculture produce and commodities find the transaction costs of dealing with a large number of small producers very high and hence prefer to deal with bigger farmers and mandi aggregators. The middle men fill the gap and make huge margins, pushing up prices to the consumer.

An efficient service delivery system for agricultural inputs is an essential pre-requisite of agricultural development. The central and state governments have been playing an important role in providing inputs and support services to farmers through the state departments of agriculture and other specialized organisations. However, over time, the effectiveness of these institutions has been seriously eroded for a variety of reasons including inadequate staff, lack of funds and absence of motivation among service providers. Moreover, most of the benefits of

agricultural support system are cornered by large and medium farmers, and small and marginal farmers remain largely neglected. Thus, there are a number of deficiencies in the public delivery system in the field of agriculture. Although the share of cooperatives in fertilizer distribution is 36%, yet there are huge uncertainties in input supplies mainly due to malpractices in distribution system. As a result farmers depend heavily on fertilizers sold in black market.

Globalization, an expanding domestic middle class and diversification of the food basket are driving corporate interest in agriculture. This has led to considerable scope for value addition in the farm sector. There are numerous examples of backward linkages between the corporate sector and farmers in various parts of the country. However, majority of existing examples of linkages between farmers and processors/retailers involve Large and Medium Farmers (LMF), with very few instances of SMF successfully linking up with processors / retailers. The highly fragmented nature of production and low per capita surplus of SMF make it unviable to directly link with the organized markets and leverage better returns for their produce.

The need of the hour is a break from the past. Access to the market for the small holder has to be ensured if a significant improvement of the lot of SMF is to be realized. This is where Farmer Producer Organization (FPO) can play an effective role. All the issues mentioned above can be successfully addressed by

an FPO. Member based FPOs offer a fairly well established conduit to successfully scale a range of challenges that confront small producers by empowering their members in a variety of ways. Experience in the performance of FPOs at the national level suggests that they are able to leverage their collective strength and bargaining power to access financial and non-financial inputs and services, technologies, cut transaction overheads, tap high value markets and enter into partnerships with private and public entities on more evenhanded terms. It is also to be noted that all the XII<sup>th</sup> Plan working groups set up by the Agriculture Division of Planning focus on building capacity that encourages group formation and collective effort by small, margin and women farmers, rather than simply provide additional subsidy to individuals under these categories.

### **Need of external catalyst**

The primary requirement is to combine smallholders into member-based farmer producer organizations. This is a most urgent mission and has to be undertaken on a war-footing throughout the country. However, SMF will require an external agent to organize them into a group and then to federate a number of such groups on to an FPO. Such agent can also help build their capacity so that the institution will operate in a self sustaining manner. NGOs/Nodal agencies providing support for setting up FPOs will require grant/ support initially. This will be needed only till the FPOs

become self-managed and sustainable. Agricultural universities, government institutions, cooperatives and similar bodies, civil society organizations etc. with proven track record of successful participatory performance can be entrusted with the task of promoting and mentoring FPOs.

Generally, FPOs are a federated body of the village level primary groups which exist under different nomenclature like SHGs, farmer interest groups, livelihood groups, farmers' club etc. Strong primary groups are absolutely necessary for the success of FPOs. We have, fortunately, several national programmes which have in the past and are currently promoting these primary groups successfully. We are at an opportune time to build on these primary groups to promote FPOs and enable them to take up the manifold issues concerning agriculture.

### **Need of Apex organization(s)**

FPOs ought to be promoted on a scale similar to that of the SHG movement. NABARD was relentless in continuously nurturing SHGs. The efforts NABARD eventually paid off as can be seen from the prominence of SHGs. For similar approach in the FPO promotion it is proposed to create an apex organization which will address the need for promotional role including acting as a single-window source for technical support, training needs, research and knowledge management to the State Governments, FPOs and entities engaged in promotion and

development of FPOs. Also, it will create linkages for FPOs to investments, technology and markets. A state level apex body as well as a national level apex body also could be thought of so that one organization is not overloaded. Several autonomous professional bodies already exist in the form of livelihoods promotion platforms (Government Organizations, Non Government Organizations, Livelihood Missions etc.).

### **Need of conducive policy regimes**

As FPOs take stronger roots, they will require capital in large quantities from the banking system. Since most of these are floated by small producers from economically weaker sections, their own capital base is low and hence cannot provide collateral security, a prerequisite by the banks. Also, the rate of interest is quite high at 13-14% which makes it difficult for FPOs to run business profitably. The interest subvention which is available to the individual farmers for crop loans is not available for the FPOs.

While it may not be easy to convince financial institutions to lend money to FPOs without collateral security, a wholehearted effort for unconventional approaches may yield results. Banks and financial institutions will have to be induced to look at the credibility and reputation and the basic principles of the FPOs as the assets on which to fall back upon. Similarly, guarantees and undertaking from the promoter institutions may add to the credibility of the FPO. Purchase orders/agreements can also be

treated as collateral security for institutional finance. As the model is in the stage of evolution, banks may be persuaded to act as incubators, and in some cases even go beyond the conventional banking role and provide professional and commercial support to these FPOs.

Initially, SHGs were not recognized by formal financial institutions as bankable entities. A working group was formed to examine this and eventually NABARD launched the pilot phase of the SHG -Bank linkage programme in 1992. Reserve Bank of India provided guidelines to the commercial banks for lending to SHGs. Guidelines on similar lines need to be issued to banks to support FPOs.

NABARD has set up 'Producers Organization Development Fund (PODF) with effect from April, 2011 with an initial corpus of Rs.50 crores. This fund is expected to comprehensively support producer organizations. With this objective, NABARD is directly lending to producer organization. Both working capital and term loan requirements are met by this intervention by NABARD. However even NABARD is demanding good financials for 3 years and also for collateral security just like a customary commercial bank. Needless to say, this approach will not help the cause of FPOs in any manner.

### **NAC Working Group Recommendations on financing FPO**

National Advisory Council has engaged a Working Group on "Enhancing Farm Income for Small Holders through Market

Integration". This Working Group has made some suggestions to mitigate the difficulties of FPOs in obtaining credit facility from financial institutions. The measures recommended by the Working Group to make an agreeable policy environment for financing to the FPOs are quite significant.

Measures such as matching grant to FPOs, shift in priority sector lending norms by RBI doing away with collateral requirements up to 25 lakhs rupees in the case of FPOs, shifting to cash flow based lending through mechanisms like the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE), Venture Capital support without collateral and other improvements both through SFAC and other institutional mechanisms, rate of interest at par with crop loan interest rates, eligibility of loans for all FPOs from specialized institutions which cater only to co-operative institutions, allowing external commercial borrowings etc. are expected to open up reasonable avenues of finance to FPOs.

It is felt that the matching grant of Rs.10 lakhs and collateral free loan up to Rs.25 lakhs suggested by the Working Group needs to be enhanced to Rs.50 lakhs and Rs.1 crores respectively.

### **General recommendations of NAC Working Group**

A few of the general recommendations made by the Working Group are worth mentioning.

It has been recommended that

infrastructure such as warehouse, processing unit, agriculture implements bank, bulk coolers, quality testing lab, weather stations, marketing platform, spot exchange facility, etc. should be provided to the FPOs through various government schemes like RKVY, IWRM, MGNREGA, NRLM, NHM, NFSM, etc. Specific mention of such provisions should be made in the guidelines of those schemes and a certain percentage of the fund meant for infrastructure should be allocated for the FPOs. If there is sufficient demand, a percentage of the NABARD's warehouse construction subsidy scheme could be earmarked for the FPOs. Similarly, FPOs may be allowed access to funds from out of the Grameen Bhandaran Yojana of Agriculture Ministry.

FPOs registered under Producer Companies Act should be treated at par in terms of benefits and privileges extended to the Cooperatives by the Central and State govt. The Agriculture Ministry has already issued an advice to the State Governments but so far no State Government has issued notification in this regard.

A national level insurance agency for Group insurance schemes pertaining to members of FPO need to be established. Crop insurance, Insurance for crops linked to loan availed by the member and to his own life/ life of a member of his family etc. can be designed to protect members of the FPOs.

FPOs has to be considered as producers of certified seed, saplings and other planting material and production and marketing subsidies have to be

extended to them on par with cooperatives.

The National Seeds Corporation, State Seed Farms Corporation of India and similar bodies at the national and state level should reserve a certain percentage of their procurement of seeds through FPOs.

Consider FPOs as implementing agencies for various agricultural developments programmes, such as RKVY, NFSM, ATMA etc.

### **Defining the scope of FPOs**

According to the Working group the following criteria should be considered while defining the scope of FPOs –

- a) a registered body of primary producers or producer institutions under the State and Central laws of Cooperatives and Producer Companies formed under agriculture and allied sectors.
- b) Producers' organizations registered for charitable purposes such as Societies, Trusts and companies falling under Section 25 of the Companies Act cannot be considered as FPOs because such organizations cannot undertake commercial activities and distribute profits among the members.
- c) FPOs should not include Primary Agriculture Cooperative Credit Societies (PACS) for the following reasons.
  1. Tenant farmers and landless farmers are not given membership of PACS under any circumstances. FPO

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membership, on the other hand, is not based on ownership of land, but on the concept of shareholding. This makes them open to membership to any producer, including tenant and landless farmers, women, dalits and tribals, without the need to prove title to land.

2. PACS are not stand alone bodies, rather they are federated at the district level into the District Central Cooperative Banks (DCCB). PACS are not democratic and participatory bodies in the classic sense, compared to the new generation FPOs like producer companies or producer cooperatives which are mobilized primarily to add value to the produce of their members. FPOs, on the other hand can be stand-alone bodies with full autonomy and self governing capabilities. They may of course be part of a network or federation, but in the capacity as an autonomous organisation, not as a legal compulsion as in the case of PACS. Hence, FPOs are reflective of the members'

needs and concerns, unlike PACS which are dictated to from above.

3. PACS are essentially service agencies and they do not, as a rule, focus on pooling resources to leverage marketing opportunities for the produce of their members. They are seen as delivery agents of DCCB even if in some States they undertake procurement and PDS activities. FPOs, on the other hand, are primarily mobilized to provide marketing solutions to the pooled produce of members. In many cases, FPOs are seen to enter the value chain through post harvest interventions and even primary processing. Thus, PACS are not FPOs in the strictest sense, even though their membership is made up of farmers.
4. FPOs are more varied in their activities and interventions, and take up all such operations which benefit their members. This may include planning for joint production, collective sourcing of inputs,

technology and marketing solutions.

It is pertinent that the formation and development of FPOs will be actively encouraged and supported by the Central and State Governments and their agencies, using financial resources from various centrally sponsored and State-funded schemes in the agriculture sector agencies. This goal will be achieved by creating a coalition of partners by the concerned promoter body, involving civil society institutions, research organizations, consultants, private sector players and any other entity which can contribute to the development of strong and viable producer owned FPOs.

With the concerted efforts of all the stakeholders the dream to build a prosperous and sustainable agriculture sector by promoting member-owned producer organizations that will enable farmers to enhance productivity and realize higher returns for their produce through collective action, will come true.