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Assessment of Farmer Producer Organizations- An Indian Perspective

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***Abstract*: Indian economy was already in the grip of a prolonged slowdown before the coronavirus hits the country The total lockdown due to this Covid19 outbreak damages economic structure (rural and urban) of country. Indian agriculture severely faced problem due to this lockdown by hampering on supply chain, production, harvesting etc. Agriculture and its allied sectors is the largest livelihood provider in India, more so in the vast rural areas. Farmers from small and marginal land holding face various challenges in having access to inputs and marketing facilities. In the last several years Government of India has encouraged farmer producer organizations (FPOs) to help small and medium farmers. There are number of study have been conducted on impact of FPOs on farmers income and their standard of living. This paper tried to capture insights of FPOs and its challenges. Paper also suggested some measures to improve the condition of FPOs.**

***Keywords*: FPO, Farmer, Agriculture**

1. Introduction

Indian economy was already in the grip of a prolonged slowdown before the coronavirus hits the country now faces escalating challenges of managing the economic impact of this Outbreak of COVID-19 commonly known as Coronavirus pandemic. The total lockdown due to this Covid19 outbreak damages economic structure (rural and urban) of country. Indian agriculture severely faced problem due to this lockdown by hampering on supply chain, production, harvesting etc. India is primarily an agriculture dominated country and agriculture is the largest and the very important industry in India in terms of livelihood and employment. Nearly 67 percent of the people in India depend on agriculture for their living and it is the backbone of Indian economy. Estimates suggest that Gross Value Added by agriculture, forestry and fishing is accounted at Rs 18.55 lakh crore (US$ 265.51 billion). Agriculture and its allied sectors is the largest livelihood provider in India, more so in the vast rural areas. Agriculture also contributes a significantly figure of country the Gross Domestic Product (GDP). The holding of average farm size in India has been rapidly declined from 2.3 hectares (ha) in 1970-71 to 1.08 ha in 2015-16. However the share of small and marginal farmers increased from 70 per cent in 1980-81 to 86 per cent in 2015-16. At the same time in different states holding of average size of farm land in 2015-2016 is ranging between 0.18 ha in Kerala, 0.39 ha in Bihar, Uttar Pradesh having 0.73 ha, Tamilnadu having 0.75 ha to the level of 2.22 ha in Haryana, 2.73 ha in Rajasthan and 3.62 ha in Punjab.

2. Farmer Producer Organization (FPO)

In India Farmers face various institutional and technological issues such as unable to understand the true worth of their produce. The defragmentation of land, lack of awareness, distrust in scientific practices, less inclination towards technology adoption leads to under production against the optimal potential. The absence of adequate marketing infrastructure, presence of middle man, lack of collectivization effort leads to grabbing less marketing opportunities and earnings. To overcome from these problems faced by Indian farmers new type of Consolidation of agro producers, especially small and marginal farmers, into producer organizations has emerged as one of the most effective mechanism to address the many issues face by agriculture sector, most importantly, improved access to technology, inputs and markets. The Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India has identified farmer producer organizations to be registered under the special provisions of the Companies Act, 2013 as the most appropriate institutional form to mobilize farmers and build their capacity to collectively leverage their production and marketing strength.

Companies Act, 1956 introduced a new form of company, i.e. a Producer Company with section 581 in Companies Act, (Amendment) 2002 on the basis of the recommendations from YK Alagh Committee set up in 1999 (Alagh Committee, 2000). Farmer Producer Company is considered a best tool which is helpful to organize and formalize the farmers of India. Here farmers set up a company and utilize their combined resources to work in cooperation with related farmers. The farmers become the shareholders of the company. The setup is run by the farmers with adequate and appropriate management skills or they hire management experts to help them with their produce. The primary objective of such a company is to help farmers bring their produce from farm to market and also help

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them economically and socially.

3. Literature Review

Research shows that the performance of FPOs in last several years are mixed on farmer's income and their standard of livings. Estimates show that 30 per cent of FPOs are operating successfully but 20 per cent are still struggling to survive and remaining 50 per cent are still in the initial phase of mobilization of capital and farmers and business planning. NABARD has conducted a research study on the benefits of FPOs in Punjab and Madhya Pradesh and research indicates that the new FPOs, the proportion of farmer members contributing to FPOs activities is 20-30 per cent while for the emerging and mature FPOs it is higher at about 40-50 per cent. Similarly a research has been conducted by International Food Policy Research Institute (IFPRI) on comparative study of FPOs in Maharashtra and Bihar. The study found that in Maharashtra, some of the FPOs have organically evolved (OFPOs) when farmers have taken the lead to adopt market-oriented practices, develop cost-effective solutions in production and marketing. However In the case of Bihar, almost all FPOs have been promoted (PFPOs). Garg, studied the performance of a Farmer Producer Company, in Madhya Pradesh using 21 different financial ratios. He used Descriptive Statistics, Compound Growth Rate (CGR) analysis; Garrett's ranking technique and Ratio analysis. Garg used ratio analysis to measure liquidity, solvency, efficiency and profitability of Rewa Crop Producer Company Private Ltd. Ratio analysis was done for two years, 2007-08 and 2008-09. The data was collected from the audited annual reports of the company. In the study, he found that the company was only performing satisfactorily in case of liquidity. In the case of liquidity, solvency and efficiency, the company performed in a poor manner highlighting the inefficiency in financial management. Chauhan, studied 18 FPOs in Madhya Pradesh. She assessed the performance of the companies using variables such as total number of member-shareholders, total net profit and annual turnover for a period of three years. The financial performance of the companies was found below the desired standards. In addition, the study also found that the decisions in the companies are taken by other professionals as the role of BOD member is very low, due to the fact that they are illiterate and unaware of various business regularities. The companies do not have a proper storage system; hence the agriculture produce cannot be stored for long period causing a loss in the bargaining power of the company. The major reason for poor performance is the unavailability of funds. The companies found it hard to get loans from the bank. Insufficient funds to hire professionals to address 'working capital requirements' problem has been another challenge to the companies. Singh & Singh (2013) studied the performance of 25 Farmer Producer Companies from the states of Madhya Pradesh, Maharashtra, Gujarat and Rajasthan. The parameters of the study were turnover, profit and source of working capital. Apart from the financial performance, the study found that there were very few genuine FPCs operating; other FPCs are owned and controlled by professionals and businessmen who are not producers. Also, the Farmer Producer Companies were facing several other problems such as weak market linkage, Farmer Producer Companies are ignored by the Central and State Governments and NGOs and banks hesitate to provide them loans.

4. Insight

There are number of small and marginal farmers are increasing in the country. To support such farmers, FPOs could be benificial. This idea of FPOs could be explored as tool after this Covid 19 pandemic as approximately 5000 FPOs spread across the country whose memberships range from 100-1000 farmer members per FPO this will be good outreach in the rural parts of the country. Farmers from small and marginal land holding face various challenges in having access to inputs and marketing facilities. In the last several years Government of India has encouraged farmer producer organizations (FPOs) to help small and medium farmers. However after 2011, Government has rapidly promoted FPOs through the Small Farmers Agri-Business Consortium (SFAC), NABARD, state government's agencies and NGOs. The participation of an FPO is based on membership and it ranges from 100 to over 1,000 farmers depending upon size of FPOs. The support for FPOs is mainly due to two reasons number one aid of matching equity (cash injunction of up to Rupees 10 lakh) to registered FPOs. And secondly credit guarantee cover to lending institutions (maximum guarantee cover 85 per cent of loans not exceeding Rs 100 lakh).

FPO, formed by a group of farm producers, is a registered body with producers as shareholders in the organization. It deals with agri business activities related to the agri products and it works for the benefit of the member of FPOs. Finance Minister in the budget speeches emphasied on promotion of FPOs. The budget for 2019-20 announced various encouraging measures for FPOs including a five-year tax exemption. Similarly the budget for 2020-21 hoped that 10,000 new Farmer Producer Organisations (FPOs) would be formed in the next five years. Studies show that we need more than one lakh FPOs for a large country like India while we currently have less than 10,000. There has been a drastic increase in the number of FPCs registered 2012 onwards and NABARD is set to promote these FPOs. There are numerous of FPOs in the country but only a few are successful and are making money. In an FPO, business competence will develop when FPO have corporate skills and leadership. But most of the FPOs depend on Government schemes and have no business know how. In the earlier budgets the farmers were given subsidies, today those subsidies have reached a limit. Now the government start giving funds to the FPOs but it is yet to enhance agriculture incomes. Only establishing the FPOs will not work, as it requires a conducive agri business environment to operate.

5. Challenges for FPOs

NABARD studies show that there are some challenges for operating sustainable FPOs. Some of these are lack of technical skills, inadequate professional management, weak financial structure, inadequate access to credit, lack of risk mitigation mechanism and inadequate access to market and infrastructure. Farmer Producer organizations faces various other challenges such as funding, capacity building and value chain investments. Domestic policies and laws also needed to be addressed for growing the FPOs. Success of FPO also depends on other factors such as Banks, Retailers and Corporate sector. Raising credit is a huge issue for FPOs as three year balance sheet is needed to get Credit from formal Financial Organizations like Banks.

1) Steps for improvement of FPOs

Bringing in private investment would help in building better organizational capabilities. FPOs relationships with the private sector will take better management and operational practices in the institution. FPOs have to be linked with input markets, technical service providers, processing companies, retailers etc. FPOs need a lot of data on markets and prices and other information and competency in information technology industry also. The FPOs can also be used to augment the size of the land by focusing on grouping contiguous tracts of land as far as possible — they should not be a mere grouping of individuals. Women farmers also can be encouraged to group cultivate for getting better returns. FPOs can also encourage consolidation of holdings. Issues such as working capital, marketing, infrastructure have to be addressed while scaling up FPOs. Banks must have structured products for lending to FPOs. FPOs lack professional management and, therefore, need capacity building.

6. Conclusion

The policy makers should encourage FPOs and other stakeholders apart from speeding up throughout the country to benefit particularly the farmers of small and medium farm holders. Through community organizations, encouraging services and infrastructure, supporting local agriculture, is an added advantage in making the FPO success and sustainable in the long run.

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