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Unveiling The Major Hurdles Faced By Farmer Producer Organizations In India

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FPO is a broad term, which includes farmer producer organizations incorporated/ registered either under Part IXA of companies act or under co-operative societies act of the concerned states. The basic purpose envisioned for the FPOs is to collectivize small farmers for backward linkage for inputs like seeds, fertilizers, credit, insurance, knowledge and extension services; and forward linkages such as collective marketing, processing, and market-led agriculture production. The policy emphasis has been given on augmenting the number of FPOs and using the numeric metric as a proxy for agricultural development. Since 2012, there has been a significant surge in the registration of Farmer Producer Companies (FPCs). Currently, there are 24,183 FPCs in the country (NAFPO, 2023). However, the majority of these Farmer Producer Organizations (FPOs) are still in their early stages of development and rely on grants for sustainability. The Government of India has approved and launched the Central Sector Scheme of "Formation and Promotion of 10,000 Farmer Producer Organizations (FPOs)" to form and promote 10,000 new FPOs till 2027-28 with a total budgetary outlay of Rs. 6865 Cr. The imperative is shifting towards making the existing FPOs self-sustainable by building better business model rather than concentrating purely on scaling up. If we consider the current programmes and schemes targeted at FPOs, they fall short of covering the spectrum of risks faced. The present guidelines do not treat FPOs and farmers at par with each other. Some of the key issues faced by FPOs are discussed below under different sub-heads.

Mobilization of farmers: Each FPO has its corresponding Resource Institution and a promoting agency. However, both the entities are facing issues related to manpower attrition, thereby facing problem in the formation of FPOs. This results in a lower number of farmers being mobilized into FPOs. The reduced mobilization of farmers contributes to FPOs having a share capital lower than anticipated, leading to various financial issues.

Skill set of Board of Directors & Chief Executive Officer: As Farmer Producer Organization are formed and operated by farmers exclusively, the democratic process is employed to decide their Board of Directors (BODs), while the Chief Executive Officer (CEO) is appointed by the BODs. However, both the BODs and CEO are having very less managerial skills and limited exposure to entrepreneurship and business development. Therefore, it is essential to periodically organize various training programmes to enhance these skills.

Problems related to financing: Farmer Producer Organizations face challenges in accessing substantial capital from banking system, as they lack assets beyond the equity contributed by farmer members. This prompts the banking institutions to analyse how these FPOs are able to raise the margin money required to mobilize the loans. Exploring alternative approaches for financing Farmer Producer Organizations is imperative, considering their limited physical assets and reliance on tangible assets.

Equity Grant: Current SFAC scheme of equity grants provides equal equity share to FPOs, maintaining a ratio of 1:1, with a minimum share limit of Rs. 1000 per shareholder. And the maximum amount that can be availed is Rs. 15 Lakhs. However, at farmer level contributing an amount of Rs. 1000 poses challenges due to their small land holdings. Additionally, if an individual expresses interest in becoming a shareholder, it becomes challenging for the Board of Directors to gain their trust and persuade them to be as a shareholder.
Challenges related to policy: FPOs are unable to take benefits of several schemes launched by SFAC and other

related organizations because they lack particular direction of flow of information. This can be overcomed by reforming the state APMC act, facilitating direct market license to FPOs, relaxation in Mandi cess, relaxation in filing statutory compliances including those related to the Registrar of Companies as well as tax authorities. Penalty of delayed compliance is a burden, particularly on FPOs in their infancy.

Lack of technical Skills/Awareness: Inadequate awareness among the farmers regarding the potential benefits of collectivization and non availability of competent agency for providing handholding support are the major constraints in the rural areas in promoting strong FPOs. Further, there is lack of legal and technical knowledge about various Acts and Regulations related to formation of FPOs and statutory compliances there under.

Lack of Inadequate Professional Management: A Farmer Producer Organization is required to be efficiently managed by experienced, trained and professionally qualified CEO and other personnel working under the supervision and control of democratically-elected Board of Directors. However, such trained manpower is presently not available in the rural space to manage FPO business professionally.

Weak Financials: FPOs are mostly represented by small and marginal farmers having poor resource base making them initially financially weak. As a result, they may face challenges in delivering vibrant products and services to their members and build their confidence.

Inadequate Access to credit: Lack of access to affordable credit is due to absence of collateral and insufficient credit history. Further, the credit guarantee support offered by SFAC for collateral-free lending is exclusively available to Producer Companies with a minimum membership of 500 shareholders, excluding other forms of FPOs. . Due to this, large number of FPOs, particularly those registered under other legal statutes and those with fewer than 500 members are unable to access the benefits of credit guarantee scheme.

Lack of Risk Mitigation Mechanism: Presently, though the risks related to production at farmers' level are partly covered under the existing crop / livestock / other insurance schemes, there is no provision to address the business risks faced by FPOs.

Inadequate Access to Market: Marketing of produce at remunerative prices is the most critical requirement for the success of FPOs. The input prices are largely fixed by corporate producers. The farmers face losses due to the complex gamut of market processes affecting the input and output prices. FPOs can unlock various market opportunities by recognizing the local market demands of consumers and establishing partnerships for the sale of their agricultural produce. A linkage with industry/ other market players, large retailers, etc. is necessary for long term sustainability of FPOs.

Inadequate Access to Infrastructure: The FPOs have inadequate access to basic infrastructure required for aggregation such as storage, value addition (cleaning, sorting, grading, etc.), processing, brand building and marketing. Further, in most of the commercial farming models, the primary producers are generally excluded from the value chain.

FPOs formed on the basis of community criteria appeared to be a significant drawback, constraining the participation of the rural poor and backward farmers who constitute the significant part of the agrarian economy. It was also identified that marketing problems prevailed, despite of the collective and combined procurement of the bulk produce and strong collusion among the traders. Documentation which is another necessity for the progress and betterment of the organization was lacking. Lack of support from agricultural department and KVKs in forming networks was also reported to be another hindrance for the progress of FPOs. The current situation calls for a comprehensive approach that focuses on building self-sustainable FPOs through improved business models. Reforms in policies, better access to credit, and targeted interventions to address specific challenges such as risk mitigation, infrastructure access, and market linkages are crucial for fostering the resilience and success of Farmer Producer Organizations in India.

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