International Journal of Research Publication and Reviews, Vol 5, no 12, pp 6077-6084 December 2024

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Farmer Producer Organizations (FPOs): A Way for Enhancing Income and Employment

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DOI : https://doi.org/10.55248/gengpi.6.0125.0409

ABSTRACT-

This paper shows the role and significance of Producer Organizations (POs), with a specific emphasis on Farmer Producer Organizations (FPOs) in India. POs are legal entities formed by primary producers, such as farmers and artisans, to address common challenges, enhance market access, and improve their economic strength. The paper explores how FPOs serve as a collective platform for farmers, empowering them to improve their market position, reduce reliance on intermediaries, and increase bargaining power in agricultural markets. The paper also delves into the organizational structure of FPOs, which typically includes a governing body and member-based operational teams that provide services like marketing, input supply, and financial support. Despite their potential, FPOs face several challenges, including limited technical skills, inadequate professional management, financial constraints, and difficulties in scaling operations. These challenges hinder the effective functioning of many FPOs. The paper highlights the role of government schemes, particularly the PM Kisan FPO Yojana, which aims to address these challenges by providing financial and technical support to strengthen FPOs. The study concludes that FPOs have the potential to significantly improve the socio-economic conditions of small and marginal farmers by fostering collective action and enabling better access to markets and resources. However, overcoming challenges related to management, technical expertise, and financial sustainability is crucial for realizing their full potential in transforming Indian agriculture.

Key words: FPO, PO, Government scheme, Role of FPO, Organisation, Cooperatives, services.

Introduction

What is Producer Organization?

An organization created by primary producers, such as farmers, milk producers, fishermen, weavers, rural artisans, and craftsmen, is known as a Producer Organization (PO). Producer companies, cooperative societies, or any other type of legal entity that allows members to share profits and benefits can all be considered POs. PO can also be joined by primary producer institutions in certain forms, such as producer companies.

What is Farmer Producer Organization?

One kind of Producer Organization (PO) in which farmers are members is called a Farmer Producer Organization (FPO). The PO is an organization for producers of all produce, including agricultural, artisan, and non-farm goods. The promotion of FPOs is supported by the Small Farmers' Agribusiness Consortium (SFAC).

In order to boost farmers' income and economic power, marginal, small, and landless farmers have joined forces as FPOs to expand market connections. It covers marketing, technical services, processing, marketing, and other facets of cultivation inputs, offering small farmers end-to-end services and support.

The concept behind FPOs is that farmers who produce agricultural goods can organize into groups and register under the 2013 Companies Act.

FPO registration in India

In 2013, the Y. K. Alagh committee recommended amendments to the Indian Companies Act, 1956, which applied to FPOs. The following legal provisions may be used to register a producer organization:

a. Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State

b. Multi-State Cooperative Society Act, 2002

c. Producer Company under Section 581(C) of Indian Companies Act, 1956, as amended in 2013 d. Section 25 Company of Indian Companies Act, 1956, as amended as Section 8 in 2013

e. Societies registered under Society Registration Act, 1860

f. Public Trusts registered under Indian Trusts Act, 1882

Aim of Farmer Producers Organisation

(1) The main aim of FPO is to ensure better income for the producers through an organization of their own.

(2) Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale.

(3) Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value that the ultimate consumer pays. This will be eliminated.

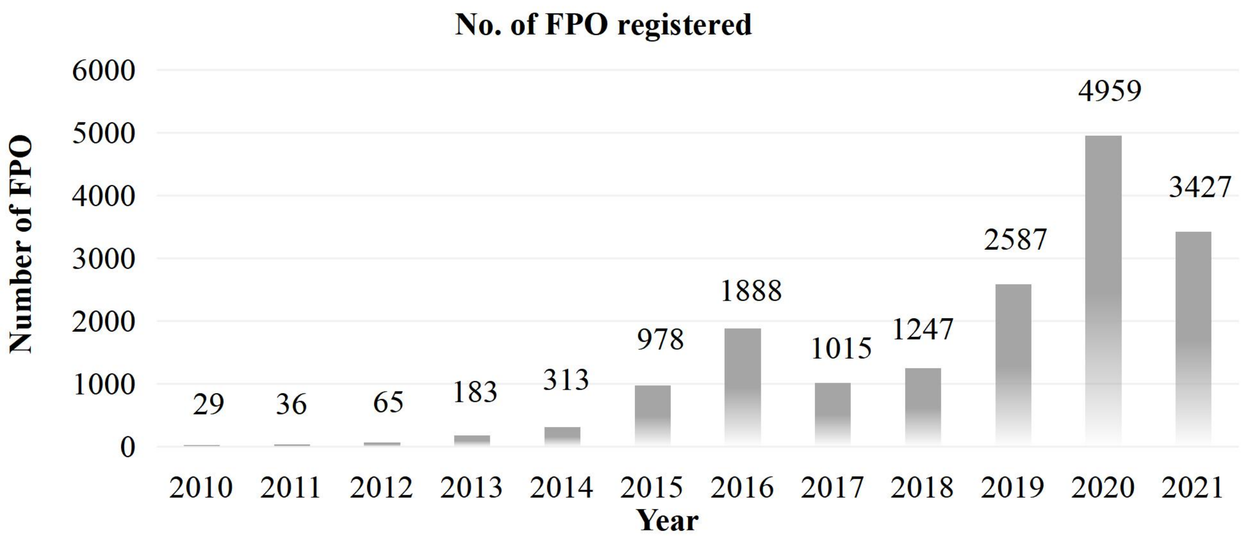
(4) Through aggregation, the primary producers can avail the benefit of economies of scale.

Farmers Producers will also have better bargaining power in the form of the bulk buyers of produce and bulk suppliers of inputs.

Nature of legal entity

Farmer-Producer companies make up 84% of FPOs, with cooperatives coming in second at 12% and trusts at 4%. Despite the difficulties in starting and managing Farmer Producer Companies, more FPOs are becoming FPCs as a result of government policies and assistance that promote FPOs as FPCs. NABARD (2023).

Status of FPO in India

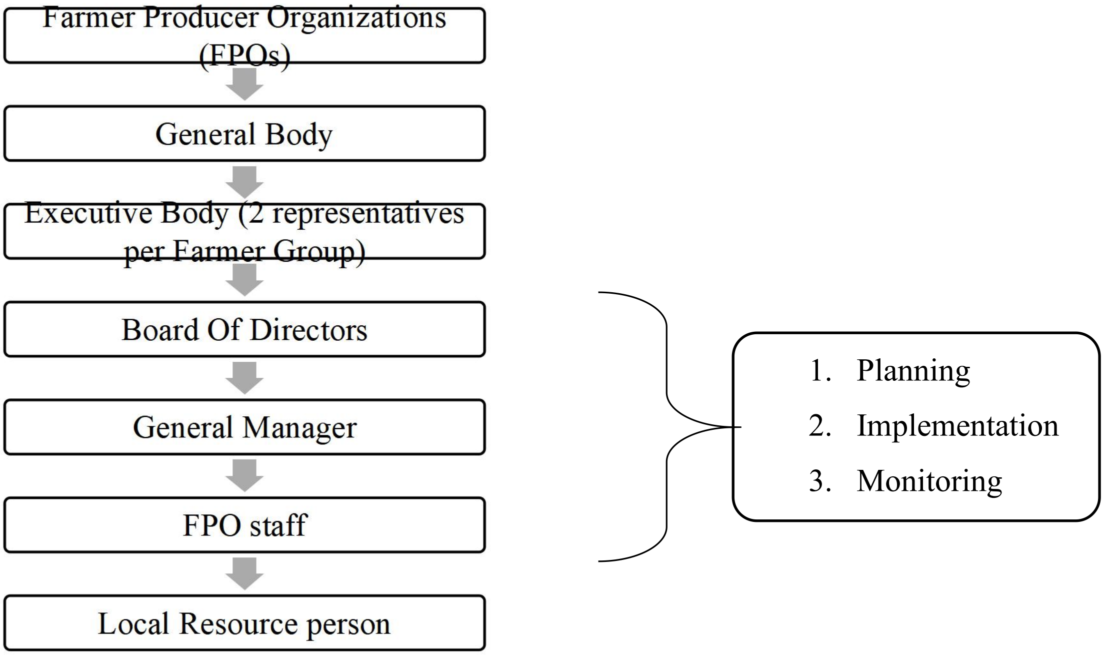


(**Source:** Velmurugan and Debendra, 2023)

Steps for establishment of FPO

- Formation of a Core Group
- Preliminary Meetings and Discussions
- Registration Process
- Drafting of Documents
- Name Approval
- Incorporation
- Certificate of Incorporation
- Capital and Shareholding
- Operational Planning
- Resource Mobilization
- Capacity Building and Training
- Infrastructure Development
- Marketing and Linkages
- Monitoring and Evaluation

Organizational structure of FPO



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Common questions related to FPOs

1. Who can become a member of PO?

The PO is open to all primary producers who live in the relevant geographic area and produce the same or comparable produce for which the PO was established. Participation is entirely voluntary. The process for becoming a member of the PO is governed by its bylaws. Those who were present when the PO was formed are known as the founder-members. Later, further members join the PO. All members do, however, have equal rights. An application and a small membership fee are required for a primary producer to join a PO. Additionally, some POs demand a fee to renew their membership each year. The promotional organization should work to include all producers, particularly small producers, in the PO even while main producers join willingly.

2. Can a person become member of more than one PO?

In rural settings, the unit of production is the family. Members will get benefits from the PO based on the quantity and value of produce they provide to the PO. As a result, a single member of a family can give the PO all of the family's produce and receive the same benefits as several individuals who contribute the same quantity or value. However, if the family produces both milk and vegetables, one person can join both of the local POs if there are two distinct POs for separate types of produce, like milk and veggies.

3. How much expenses will be incurred for registration of a PO?

The PO's legal structure will determine how much is spent on registration fees, stamp duty, document preparation, and facilitation fees, among other things. Generally speaking, starting a producer company costs more than using other legal structures. The following represents the approximate cost of incorporating a producing company:

Estimate-d cost for incorporation of a Producer Company

Particulars	**Item of expenditure**	**Amount (Rs.)**
Application for Name of PC	Fees	500
Digital signature	Fees	2600
Stamp duty	Memorandum of Association and Articles of Association	1500
Registration/Filing fees	MoA, AoA, Form-1, Form-18, Form-32	17200
Fees of Chartered Accountant or Company Secretary	Consultancy charges	10000
Stamps cancellation		300
Affidavit expenses	Fees of Notary	500

Share transfer fees and processing		5000
Miscellaneous expenses		2000
Total		**39600**

(Source: https://www.nabard.org/)

Membership in FPOs

The FPO's legal structure determines the minimum number of members. The maximum number of memberships is not limited. In order to stay in business, the FPO will typically need to operate at a specific minimum scale. The term "**break-even level**" refers to this operating scale or volume. According to research, in order for an FPO to function sustainably, 700–1000 active producers must be members.

Services provided by FPOs

Financial Services: The FPO will offer loans for crop cultivation, tractor acquisitions, pump set purchases, well building, and pipeline deployment.

Input Supply Services: The FPO will supply member farmers with affordable, high-quality inputs, including fertilizers, insecticides, seeds, sprayers, pump sets, accessories, and pipelines.

Procurement and Packaging Services: The FPO will buy agricultural products from its member farmers, then store, add value to, and package them.

Marketing Services: Following the procurement of these products, the FPO will handle direct marketing. This will help members save time, reduce transaction costs, minimize losses from underweight products, prevent distress sales, mitigate price fluctuations, and address issues related to transportation and quality maintenance, among other benefits.

Insurance Services: Crop insurance, electric motor insurance, and life insurance will all be available through the FPO.

Technical Services: The FPO will encourage the adoption of best farming practices, establish a marketing information system, and enhance knowledge and skills in both agricultural production and post-harvest processing that add value to the products. Additionally, it will work to diversify and improve expertise in these areas to further boost the value of the products.

Networking Services: Offering rural producers access to information, including product specifications and market prices, along with other commercial services. Additionally, facilitating connections between financial institutions, producers, processors, traders, consumers, and relevant government programs.

FPOs business activities

The FPO employs professionals and managers to improve coordination and management of production among its members. It assists members with key decisions, such as what to produce, how much to produce, and where to sell. The FPO Manager, a skilled professional, oversees the organization's operations. By purchasing inputs like seeds, fertilizers, and pesticides in bulk at wholesale prices, the FPO is able to offer these products to its members at rates much lower than the market price. This bulk buying approach ensures significant savings. Another key function of the FPO is the dissemination of marketing information, including commodity demand, current prices, and available markets, to its members.

The FPO also provides need-based production and post-production machinery on a custom hire basis, helping members reduce per-unit production costs. Additionally, the FPO plays a vital role in securing financing for its members to purchase essential inputs such as seeds, fertilizers, agro-chemicals, and machinery, either through its own funds or by securing loans from commercial banks and rural banks. The FPO also offers storage and transportation services, with a village-level granary being an integral part of its supply chain management system. Logistics services like storage, transportation, and loading/unloading are provided on a shared cost basis to further support its members. Furthermore, the FPO engages in value addition activities such as cleaning, grading, packing, and farm-level processing, all available at affordable rates. Some FPOs go a step further by creating their own brand and selling products under it. These FPOs manage the entire supply chain, from harvesting and processing to packaging, labeling, and market sales. A few even operate their own retail outlets to sell their products directly. Through collective farming, producers benefit from economies of scale, significantly reducing production costs.

Types of FPOs based on the service provided

1. Market Oriented

In Kerala, the Vanilla India Producer Company Limited (VANILCO) worked in tandem with vanilla growers to produce high-quality beans, extracts and marketed them professionally to ensure dividends and bonuses for its members as also intervening in the market through pool procurement (Murray, 2009).

2. Input Oriented

Mangaladhri Agri Producer Company Limited registered in 2015, provides input supply *i.e.*, seeds, compost, fertilizers, pesticides. Farmers benefits by reducing their seeds and fertilizers costs up to 15 per cent and benefits extent to the 10 per cent through collective marketing to Duggirala market (Raju *et al*., 2017).

3. Extension Oriented

In India, the Krishikabandhu Farmer Producer Company Limited trained its members on a new technology for producing red gram with the support from KVK. This new technology has immensely benefited to farmers by reducing cost and increasing yield. After this result, they are setting up a nursery to grow saplings and sharing knowledge on how to plant them out (SFAC, 2013).

4. Policy and advocacy Oriented

The services provided by Zambia National Farmers Union to its members include negotiations with government on issues related to farmer's interests, taxes, legislation, and property rights, as well lobbying activities (GFRAS, 2011).

FPOs promoted by various sources

Government support

The Government of India provides budgetary assistance to SFAC for its Equity Grant and Credit Guarantee Fund Scheme for Farmer Producer Companies. Under the Integrated Scheme for Agricultural Marketing (Ministry of Agriculture, Government of India), FPOs are eligible for higher subsidies to develop storage and other agricultural marketing infrastructure. Additionally, CAPART, under the Ministry of Rural Development, runs schemes that offer support for various activities to Producer Organizations. Training institutions funded by the Ministry of Rural Development (www.rural.nic.in) also provide skill development and capacity-building training, which FPOs can utilize for the benefit of their members.

SFAC (Small Farmer Agribusiness Consortium)

Mainly two types of support is available to the POs from the Small Farmers Agribusiness Consortium (SFAC).

a. SFAC operates a Credit Guarantee Fund to mitigate credit risks of financial institutions which lend to the Farmers Producer Companies without collateral. This helps the FPCs (one form of PO) to access credit from mainstream financial institutions for establishing and operating businesses.

b. SFAC provides matching equity grant up to Rs. 10 lakh to the FPCs to enhance borrowing power, and thus enables the entities to access bank finance.

Government Policy on FPOs

Strategy for New India by NITI Aayog

- The benefits accorded to start-ups under the Start-up India Mission need to be extended to FPOs as well.
- NABARD's model of joint liability groups can be promoted to channelize small growers into the value chain.
- Ensure 50 per cent membership of women farmers in FPOs.
- Creation of a separate budget to bear the registration/processing fee for the registration of women FPOs.

Opportunities of FPOs

- Collecting and selling agricultural products cultivated by small and marginal farmers.
- Production and distribution of certified and foundation level seeds grown under contract farming of seed production with public and private organizations.
- Provision of financial and logistical services with agricultural inputs and instruments (like storage, transport, fertilizers, improved implements etc.).
- Price discovery via mechanisms of spot exchange.
- Better price realization for produce, with efficient extension services resulting in higher farm output and decreased cultivation expenses.
- Provision of cash dividends and other services, including finance, warehousing, access to agricultural tools, a crop grading facility, etc.

Advantages of FPOs

Priorities include access to modern technologies, facilitating capacity building, and providing extension services and training on agricultural technologies, along with ensuring traceability of farm outputs. Value addition and effective value chain management are key to minimizing post-harvest losses. Proper planning and management can help ensure a steady supply of produce while maintaining quality control. Price fluctuations can be mitigated through methods such as contract farming and agreements. Clear and straightforward communication channels are essential for sharing information on prices, volumes, and other farming-related advice. Additionally, access to financial resources can be secured through stock-based financing without requiring collateral. This also enables easier access to funds and support services from government, donors, and service providers, while enhancing bargaining power and fostering the development of social capital.

PM Kisan FPO Yojana

Scheme	PM Kisan FPO Yojana 2021
Initiated by	Central government of India
Grouped named	Farmer Producer Organization
Aim	Development of farming/ Agricultural industry
Benefit	To provide financial funds
Beneficiaries	Farmers of India
Registration process	Online mode through www.enam.gov.in
Requirements	Field area - at least 300 farmers association is required Mountain area - at least 100 farmers association is required
No. of farmers benefited	Near about 30 Lakh farmers

(Source: www.mpnrc.org)

Features of PM Kisan FPO Yojana

- The Union Minister of State Agriculture stated that the Central Government has made 10,000 new FPO's.
- Central Government of India has providing 15 Lakh Rupees financial help on the basis of firm work.
- The whole amount has given in 3 years.
- By the year 2024, The scheme has cost 6865 crore Rupees.
- This scheme has equivalent benefits given to FPO as other companies.

(Source: www.mpnrc.org)

Challenges and issues in building robust FPOs

- Lack of technical skills
- Lack of professional management
- Weak financials
- Inadequate access to credit
- Lack of risk mitigation mechanism
- Inadequate access to market
- Inadequate access to infrastructure

Successful examples of producer companies are:

1. Jagannath Crop Producers Company Ltd., Odisha, Chetna Organic Agriculture Produce Company (COAPCL), and Chetna Organic Farmers Association (COFA), Telangana,

2. Pashusamvardhan Producers Company Ltd., Maharashtra,

3. Dhari Krushak Vikash Producer Company Limited, Gujarat,

4. Vegetable Growers Association (VGAI), Narayangaon Pune

5. Sahyadri Farmer Producer Company, Nasik

6. PAAYAS Milk Producer Company, Jaipur

7. Savithribai Phule Goat Farming Producer Company

8. Maahi Milk Producer Company, Gujarat

9. Nachalur Farmer Producer Company, Tamil Nadu

Sahyadri Farmers Producers Company Limited

Location: Behind police head quarter, At post Adgaon, Nashik, Maharashtra, India 422003

Sahyadri Farmer Producer Company Ltd. (SFPCL) came into being in the year 2011, as a revenue model, while ensuring reasonable returns to the farmers and quality and safe food to the consumers. SFPCL is a prominent farmer producer company that collaborates with 8,000 farmer members and has a capital base of ₹52 crore. The company operates under the tagline "of the farmers, by the farmers, for the farmers." Sahyadri, the initiative founded by Shri Vilas Shinde, Chairman of the company, was established with the goal of promoting farmers' welfare and ensuring they receive their rightful share, while also conducting business profitably.

The concept behind the enterprise was to purchase all the fruits and vegetables from farmers while ensuring strict adherence to food safety standards. The main challenges faced by the company included providing top-quality infrastructure and sufficient production and processing facilities to farmers who had limited knowledge of Good Agricultural Practices (GAP).

Areas of Business and Performance

The company engages in both backward and forward linkages. As part of its backward linkage, it offers services like scientific crop cultivation, supported by the company's extension officers. Of the total produce procured, 'A' and 'B' grade items are sold after undergoing primary processing, including cleaning, grading, and washing. The 'C' grade produce is processed into various products such as jam, jelly, and ketchup. Vegetables like peas, okra, carrots, and corn, as well as fruits like pomegranate arils, mango slices, guava, and custard apple pulp, are processed using the Individually Quick Frozen (IQF) method. **(Source:** www.sahyadrifarms.com**)**

Crop wise Farmers Producer Company

- Technical support to farmers
- Aggregation of farm produce Grading, sorting & packaging
- Input supply
- Finance & insurance

Financial Performance of Company

In the financial year 2011-12, the company's total worth was ₹0.02 crores, which grew to ₹76.04 crores by 2017. The company's share capital has also risen to ₹52.47 crores. These figures not only reflect the company's strong financial health but also demonstrate the trust that farmers place in the company and its performance.

Conclusion

A major challenge faced by most FPOs is the lack of technical skills and professional management. To enhance the financial stability of FPOs, comprehensive early-stage funding and flexible financial products tailored to their needs are essential from financing institutions. Member farmers of FPOs enjoy numerous benefits, including higher income, employment, savings, access to knowledge, technologies, processing, transportation, marketing, storage, and insurance facilities. In contrast, non-member farmers face issues such as high input costs, limited access to quality inputs and services, insufficient funds, and difficulties in marketing their products. FPOs play a key role in improving the socio-economic conditions of farmers, providing them with better opportunities for collective farming, marketing, commercialization, and diversification of agricultural activities.

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