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Emerging Challenges for Sustainability of Farmer Producers Organizations (FPOs) and the Implicative Strategies

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ABSTRACT

The concept of Farmers Producers Organizations (FPOs) has been embraced to solve the problems faced by majority of small and marginal farmers of the country, through collectivizing themselves as business performing organizations across various stages of agriculture related supply and value chain activities. From 2002 onwards, such organizations were promoted by various development departments, by making them to register under Companies Act. Through a research study, the best practices of such FPOs were documented during 2016-2020. These FPOs started serving the broad-based needs of their producer members such as input supply, output procurement, custom hiring facilitation and overall technological backstopping. But performance of many of these organizations were not so successful on a long run due to many emerging challenges. Through focus group discussions and telephonic survey with the office bearers of the FPOs, some of the emerging challenges of the FPOs were delineated such as failure to strike business partnership with input companies, failure to initiate market tie-up with big companies, managing operational costs during the initial years, non-adoption of innovative marketing strategies, lack of experience in branding and profit making business process, lack of adequate technical manpower, failure to arrange credit and crop insurance facilities for the producer members etc. This paper discusses about such emerging challenges and derive implicative strategies to be recommended for practicing towards effective management of FPOs.

Key words: FPOs; Sustainability; Emerging challenges; Implicative strategies.

The majority small and marginal farmers of the country are deprived of quality input supply, credit facilities, financial assistance, crop insurance support, marketing facility etc., mainly due to their poor socio-economic background. Further, lack of awareness towards improved productions technologies and below-par adoption behaviour of these farmers resulted in low productivity, no surplus for processing and value addition, thus, contributing towards less profit from agriculture. As a result, the small and marginal farmers of the country are in distress situation. Amidst such scenario, the concept of Farmers Producers Organizations (FPOs) emerged (Venkattakumar et al, 2011; Venkattakumar and Sontakki, 2012;

Venkattakumar et al 2018; Venkattakumar et al 2019 and Venkattakumar et al 2020). The FPOs are the organizations established through collectivizing small and marginal farmers to perform agriculture in a business mode at all stages of agriculture related supply and value chain activities. They are the structures made as hybrid between cooperatives and private limited companies, so that vibrancy of private limited companies may be brought in, while safeguarding the welfare of producer members. They are the organizations made by the farmers, for the farmers, registered under Companies ACT. There are more than 5000 FPOs being promoted all over the country through various implementing and facilitating development departments. However, only a

few FPOs are successful in achieving the main motto of performing agriculture in a business mode for a long run. This fact needs to be prosecuted and the emerging challenges that favour poor performance of FPOs need to be deliberated.

METHODOLOGY

A research study was carried out by the Division of Social Sciences and Training, ICAR-Indian Institute of Horticultural Research (IIHR) to document the best practices followed by the FPOs promoted by development departments, research organizations, non-governmental organizations (NGOs) in Karnataka, Tamil Nadu and Telangana in India. Now, to delineate the challenges faced by these FPOs, the opinion of office bearers of FPOs operating in Karnataka such as Rajaghatta Horticulture Farmers Producers Company Limited, Rajaghatta; Sadalamma Horticulture Farmers Producers Company Limited, Sadli; Cheluru Horticulture Farmers Producers Company Limited, Cheluru Horticulture Farmers Producers Company Limited, Cheluru and Anekkal Horticulture Farmers Producers Company Limited, Anekkal, Puthari Horticulture Farmers Producers Company Limited, Kodagu Karnataka were collected through either focus group discussions or through telephonic survey. The general services offered by the FPOs and the emerging challenges faced by them while running the business operations are presented in this paper, based on the previous study and opinion survey through focus group discussion/telephonic survey.

RESULTS AND DISCUSSION

General services offered by the FPOs: As expected, the FPOs are offering effective input services to the producer members. Most of the FPOs procure inputs such as fertilizers and pesticides/ chemicals on wholesale prices from the dealers and distribute to the producer members on a price that is lower than the regular market price, thereby serving the farmers through less sale price. Apart from the distribution of fertilizers and chemicals, the FPOs also serve the producer members through distribution of agricultural tools, mulching materials, drip irrigation components, spraying equipments, biofertilizers, biopesticides, etc. Most importantly, they also arrange for quality seeds and planting material supply to the needy farmers

through state agricultural universities (SAUs), research institutes of Indian Council of Agricultural Research (ICAR) organizations, krishi vigyan kendras (KVKs), private organizations, etc., so that the farmers are served completely from the inputs needed for agriculture.

Most of the FPOs arrange training, agro-advisory and technology demonstration in collaboration with KVKs, research institutes of Indian Council of Agricultural Research (ICAR) and State Agricultural Universities (SAUs). The FPOs such as Ayakudi Guava Farmers Producers Company Limited, Dindigul, Tamil Nadu; Sadalamma Horticulture Farmers Producers Company Limited, Sadali, Chikkaballapur, Karnataka and Puthari Horticulture Farmers Producers Company Limited, Kodagu, Karnataka are such examples, who have regular and close contact respectively with Tamil Nadu Agricultural University (TNAU) research centres; Indian Institute of Horticultural Research (IIHR), Bengaluru, Karnataka and KVK, Gonikoppal and thus, extend technological backstopping through on and off-campus training, agro-advisory through field visits, phone calls, WhatsApp advisory etc. Ayakudi Guava Farmers Producers Company Limited, Dindigul, Tamil Nadu appointed an agricultural graduate as farm management advisor towards technological backstopping of its producer members.

The FPOs, with the support of sponsoring organizations, establish custom hiring centres. These custom hiring centres are the units established with farm machineries, implements and equipments that cannot be purchased by the farmers of their capacity. Almost all the FPOs established with the support of the Department of Horticulture (DoH), Government of Karnataka were adequately supported financially by the DoH to establish custom hiring centres at the premises of the FPOs or at a common place in the village, so that the machineries and implements such as tractors, power tillers, cultivators, rotavators etc., can be hired at a nominal price fixed by the FPOs. Such arrangements help the farmers and the producer members to effectively overcome the problems of labour shortage and high cost of labour engagement through need-based and remunerative mechanizations activities in agriculture.

The FPOs also try to support their producer members by extending output marketing support. Ayakudi Guava Farmers Producers Company Limited,

Dindigul, Tamil Nadu established an output sales shop and supported the producer members. Puthari Horticultural Farmers Producers Company Limited, Kodagu, Karnataka established a rural mart with the support of National Bank for Agriculture and Rural Development (NABARD) and thereby supported the producer members to sell their produce. Sadalamma Horticulture Farmers Producers Company Limited, Sadali, Karnataka supported the onion growers by extending procurement and export support through tie up with export companies. Some of the FPOs facilitated by Department of Horticulture (DoH), Government of Karnataka supported their producer members through output procurement by having tie up with companies such as Big Basket, Wal Mart, Reliance Fresh etc.

This paper discusses about such challenges and implicative strategies to be recommended for sustainable management of FPOs as follows.

Lack of business partnership recognition from input companies: The FPOs are supposed to facilitate the producer members from the production front by supplying inputs such as fertilizers, chemicals, and others. Presently, most of the FPOs are rendering this service by procuring the inputs from the local dealers as well as those, who do business in the nearby vicinity. Though the FPOs procure such inputs from wholesale prices, many of the FPOs are not able to obtain dealership recognition directly from input companies. The input companies usually do not recognize these FPOs as their dealership partners due to many business-related reasons. If at all the companies agree to have such partnership, they ask for a huge amount (at least Rs. 5 lakhs) of deposit from the FPOs, which an FPO in its nascent stage cannot afford to pay. As a result, the FPOs lose the opportunity to do business with companies and the producer members are deprived of cheaper input prices. Moreover, as per the earlier norms for establishing FPOs, there should be a minimum of 1000 producer members, so that the FPOs can avail the benefits of Small Farmers Agribusiness Consortium (SFAC), National Bank for Agriculture and Rural Development (NABARD) and others in the form of grants and credit facilities. But supplying inputs to huge size of these members needs procurement of huge quantity of inputs. In such scenario, if the input companies recognize the FPOs as their business partners, then it will be more remunerative for the FPOs

in terms of procurement price at cheaper rate. Some of the FPOs in Karnataka such as Anekkal Horticulture Farmers Producer Company Limited, Anekkal; Rajaghatta Horticulture Farmers Producers Company Limited, Rajaghatta; Sadalamma Horticulture Farmers Producers Company Limited, Sadali; Puthari Horticulture Farmers Producers Company Limited, Kodagu etc., have such issues, as the number of producer members of these companies are more than 1000.

Burden of owning immovable properties for establishing infrastructure: The NABARD has introduced the concept of establishing 'Rural Mart', especially for the benefit of the FPOs. By this concept, interested FPOs will be extended loan facility to establish rural mart to sell the products that are made by the producer members at a pre-selected place. The extent of loan depends upon the scale of the rural mart facility. However, NABARD demands the FPOs to show an immovable property owned by the FPO as collateral security. Many FPOs are recently established and in majority of the FPOs still the membership drive is going on. Hence, these FPOs, obviously, do not have immovable property assets to show as collateral security, as a result, are deprived of an opportunity to establish a rural mart to sell the products of their producer members. Hence, it is right time for NABARD to reconsider the guideline of demanding collateral security for sanctioning the scheme of rural mart, so that most of the FPOs will be benefitted.

Market tie-up with retail operators-not a successful venture: Extending procurement and marketing support for the producer members is not a successful venture for many of the FPOs. For successful and sustained market support, the FPOs need market tie-up with big retail companies such as Wall Mart, Big Basket, Reliance Fresh, Namdhari etc., so that they continuously do have patronage with such companies and thereby, extend market support and remunerative output price to the producer members. However, many of the FPOs could not make such dent so far in this front, due to many reasons. Interior location of the FPOs, low volume of operation, higher transportation charges, lack of support for operational cost towards procurement etc. are some of such reasons. To solve this issue, the development departments, who facilitate FPOs may think of creating unique brand and franchise

through which products of FPOs in a particular region can be gathered and marketed.

Operational cost in the initial years: Effective functioning of FPOs towards extending various services such as input supply and output marketing etc., needs considerable operational funds. The FPOs need to tap innovative sources of funding for operational cost. For example, Nava Chaitanya Jyothi Farmers Producers Company Limited, Zaheerabad mandal, Telangana tapped the Corporate Social Responsibility (CSR) funds of Azim Premji Philanthropic Institute (APPI) towards meeting their operational costs and other costs for establishment of infrastructure. The development departments may think of supporting the FPOs with operational cost during the initial years (at least three years).

Lack of innovative marketing strategies: The FPOs ought to adopt innovative marketing strategies such as having a tie-up with hostels, hospitals, restaurants, canteens of the private and government offices, residential layouts and apartments etc., so that they can have sustainable marketing practice that will provide their producer members, an effective procurement support and remunerative price. In order to have sustainable marketing activity of the products of the farmer members, the FPOs may think of having roadside stalls at the vicinity of FPOs. Some of the FPOs such as Palamner Farmers Producers Company Limited, Palamner, Andhra Pradesh tried such initiative during phase I lock down period of the COVID 19 pandemic. The development departments and the state governments may come out with such specific support programmes in this regard, so that FPOs can get adequate financial and license support towards innovative marketing strategies such as establishing roadside stalls.

Need for tax holiday during the initial years: As the FPOs register themselves under the Companies Act, they are supposed to behave as private limited companies. As a result, they are supposed to show every year a reserve fund as a profit. Once they show a considerable money as a profit, by the laws of a private limited company, the profit is taxable. However, in the initial period of growth of FPOs, paying tax for the profit earned by the FPOs will be a burden for the FPOs.

No uniform criteria across commodities towards

matching grants: The Small Farmers Agribusiness Consortium (SFAC), as per its guidelines, extends equity matching grant to the FPOs based on the equity capital collected as per certain criteria. Based on such criteria, the FPOs should have a minimum of one-third members as small and marginal farmers. But the land area fixed towards small and marginal holdings does not apply equally to all the agro-ecological regions. The land holdings recommended for plain areas may not match that of hilly regions, where mostly plantation crops are cultivated. In such regions, the small and marginal farmers own more land holdings than that of plain regions. Hence, for the FPOs in hilly region such FPOs become ineligible to avail the benefit of equity matching grant. Hence, it is recommended that there should be differential criteria for fixing the land holdings for small and marginal farmers as members of FPOs.

Lack of social engineering to eliminate ideology and socio-economic clashes: The FPOs are established by collectivizing the small and marginal farmers, so that they unite themselves to do business on agricultural operations. However, in general, the farmers in rural area are divided by many factors such as caste, class, political ideology and other socio-economic factors. With these differences, when the farmers are engineered to unite themselves, there may be every chance for emergence of ideology and socio-economic clashes between office bearers and between office bearers and producer members. Such clashes, sometimes spoil the business process and decision-making behaviour of the FPOs, resulting in loss-making ways. Hence, it is strongly recommended that the development departments that promote FPOs may engage NGOs to educate the office bearers and producer members of FPOs towards unity for better profit and the resultant socio-economic benefits.

*Lack of provision for honorarium to office bearers-*As per the guidelines from SFAC, the FPOs are governed by elected or selected office bearers such as a President and 10 to 15 Board of Directors (BoD). These office bearers formulate and implement the by-laws, guide the decision making, administrative and business processes. However, these office bearers serve the FPOs on honorary basis. Such process sometimes provides opportunity for the producer members to question the

intention of selected office bearers. Further, the lack of benefit in serving the FPO, throw no motivation for the office bearers towards complete involvement in FPO-related activities, which results in loss making ways. Providing honorarium through grants from the facilitating organizations in the initial years and from the profit of FPOs in the later years may give motivation for the office bearers towards their active involvement and will also motivate other members to compete for such positions and thereby will bring-in effectiveness in FPO management. Hence, the idea of providing honorarium to the office bearers is strongly recommended.

Lack of experience in branding and profit-making business process: The FPOs are established and run by farmers, who at many situations are just neo-literates. They lack business experience. Though the grants and credit schemes of facilitating development departments, support the FPOs in establishing marketing infrastructure and do business, due to lack of business experience, these ventures fail. However, the cost incurred in procuring, packing, branding, rent for outlet shop and salary for sales staff etc., made the FPO to fix a sale price for the products higher than that of similar products already available in the market. Hence, this venture did not yield successful results. Some of the FPOs involved in simply procuring the produce from the members, cleaning and packing and selling to business agents, without doing branding, direct marketing and exporting. Hence, the producers are deprived of a huge margin. Hence, it is recommended that the development departments that facilitate FPOs may appoint business consultants for FPO clusters, so that FPOs can avail the business ideas from these consultants on payment basis.

Lack of adequate technical manpower for facilitating business process at grassroot level: The main motto of FPO is to facilitate the farmers to do agriculture in a business mode at all stages of supply and value chain. The FPOs are federation of village level self-help groups (SHGs) or farmers interest groups (FIGs). Hence, the farmers should be trained to do agriculture in a business mode. It needs adequate manpower, who are trained in guiding the farmers in a business process mode. Hence, it is suggested that the development departments, who facilitate FPOs may have tie-up with

NGOs to guide and train the farmers at different levels through volunteers of these NGOs.

Lack of patronage loyalty towards FPOs : One of the objectives of the FPOs is to support the farmer members by extending output marketing facilities. However, producer members of some of the FPOs do not honour the agreement with the FPOs and sell their produce to the buyers (mostly big companies), when they give better price than that of the assured price fixed by FPOs. This type of lack of patronage loyalty towards FPOs results in loss making ways. Such scenario, necessitates strong rules/ guidelines to be formulated, so that the producer members may be bound to follow them strictly.

Failure in arranging credit facilities and crop insurance: Many of the FPOs are still not able to arrange regular credit facilities (term loans) by having tie-up with financial organizations. Similarly, they are not able to arrange crop insurance facilities through tie-up with insurance service providers. However, these two services are very important from the farmers point of view. To have complete business service to agriculturists, the FPOs are supposed to extend these services too. Hence, the development departments, who facilitate FPOs, should arrange tie-up between FPOs and financial organizations.

IMPLICATIVE STRATEGIES

The emerging challenges faced by the FPOs as discussed above, suggest the following implicative strategies towards sustainable management of FPOs

- i. Input companies ought to recognize FPOs as their business partners through their corporate social responsibilities. The development departments which facilitate FPOs, ought to ensure that the FPOs are recognized as the business partners of input companies on priority basis through certain policy guidelines that bind the input companies.
- ii. There is a need to relax the requirement of immovable property to be owned by FPOs to have assistance towards infrastructure such as rural marts.
- iii. There is a need to create unique brand for marketing products of FPOs located in a same region. The development departments, who facilitate FPOs may think of creating a unique brand and franchise

through which, products of FPOs in a particular region can be marketed.

- iv. Assistance for meeting out operational cost requirements of FPOs may be arranged in the initial years. All the FPOs promoted by various development departments should get such support against no criteria.
- v. The development departments and the state governments may come out with specific support programmes, so that FPOs can get adequate financial and license support towards innovative marketing strategies such as establishing road side stalls.
- vi. The FPOs may be given tax holiday in the initial years (first five years), by considering the need for meeting the operational costs and establishment cost of various infrastructure.
- vii. Differential criteria must be fixed towards the limits for small and marginal holdings of plain and hill regions, for uniform provision of equity matching grants to all FPOs.
- viii. Adequate social engineering towards eliminating ideology and socio-economic clashes among the produce members through collaboration with

NGOs may be facilitated.

- ix. Provision of honorarium towards the President and Board of Directors positions is strongly recommended, in order to bring-in motivation towards active participation of office bearers.
- x. Business consultants may be appointed for a cluster of FPOs to guide them towards innovative business strategies.
- xi. Providing technical manpower support through NGOs towards agro-advisory and business process promotion at different levels (village, mandal/ taluk. District and FPO levels) may be encouraged.
- xii. Stringent guidelines should be formulated towards breaking patronage loyalty by producer members, so that the members will be bound to support the FPOs for the benefit of all members of FPOs.
- xiii. Identification of financial organizations and arranging their collaboration with FPOs should be made on priority basis for extending credit and insurance facilities on cluster basis.

CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest.

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