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FARMER PRODUCER ORGANIZATION (FPO): A BOON FOR AGRO-INDUSTRY

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ABSTRACT

The agriculture sector has gained prominent position from the government in the past decade. Farmer Producer Organization (FPO) has emerged as prominent institution in the recent past for variety of reasons. FPOs enable to identify their specific opportunities, set achievable business targets and develop skill to achieve these objectives. FPOs are able to enhance the income of farmer community and their living standard. Farmers get opportunity to produce high quality product and enhance their supply chain to make a better position in the current market.FPOs ensure that POs can enable the agricultural sector to improve productivity, build capacity, and enhance rural livelihoods.

Keywords: Agri-business, cooperative, FPO, Farmer Producer company, NABARD, Profit.

INTRODUCTION

The agriculture sector has gained significant focus from the government in the past decade. Farmer Producer Organizations (FPOs) have emerged as the most preferred institutional mechanism for farmer prosperity by policy makers and development agencies. The government's push towards promoting 10,000 FPOs, and a slew of other measures supporting FPOs, including 5-year tax breaks, in the Budget 2018 has made FPOs the lynchpin strategy for doubling farmer's income.

FPO numbers have acquired impressive growth in many States. In the last decade, it is estimated that 5600 FPCs have been registered and another 10,000-15,000 FPOs will be organized in the coming five years. Despite an impressive growth in the number of FPOs across the country, these are facing many challenges ranging from management of business, irregular supply and lack of timely financial assistance. In addition, only few FPOs have been able to truly access the resources required to become robust entities with stateless support and facilitating promoting institutions. The ability to influence this value chain in a significant

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manner remains for many of FPOs. With credit being the most important aspect of any business activity the lack of it cause a major hurdle in progress of FPOs.

FARMER PRODUCER ORGANIZATION (FPOS): A BRIEF BACKGROUND

Farmer Producer Organization (FPOs) as a concept was introduced and recommended by Y.K. Alagh committee in the year 2002, with the unique elements of a cooperative and accommodated in a framework similar to that of companies. Existing cooperative were allowed to convert into producer companies. FPOs can have as members only those whose main source of income is agriculture, horticulture, animal husbandry, floriculture, fisheries, forestry, forest produce, bee keeping, plantation product, handloom, handicrafts and some other related industries.

Farmer Producer Organization is a group of individuals consisting of only practicing farmers who are producers of a specified commodity. These organizations are developed at the cluster, block, district or state level depending on the needs of the producers considering the demand potential to adopt value chain approach to enhance farmer's economic and social benefits. Farmer Producer Company (FPC) is the company registered under the Companies Act, 2013, which has the objective of production, harvesting, procurement, grading, pooling, handling, marketing, selling and export of primary produce of the members or import of goods or services for their benefit. "Producer Company" means a body corporate having objects or activities specified in section 581B and registered as Producer Company under the Company Act 2013.

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 (Mondal, 2010).

GOVERNMENT INITIATIVES TO SUPPORT FPO/FPC

The Government of India established Small Farmers' Agri-business Consortium (SFAC) as a society in the year 1994 to facilitate agri-business ventures by catalyzing private investment through Venture Capital Assistance (VCA) scheme in close association with financial institutions. The mandate of SFAC has further expanded to help in formation and growth of Farmer Producer Organizations (FPO)/Farmer Producer Company (FPCs) and improving availability of working capital and development of business activities of FPOs/FPCs through equity grant and credit guarantee fund scheme. Besides, SFAC is also responsible for implementation of National Agricultural Market (e-NAM) throughout the country.

Under the Equity Grant and Credit Guarantee Fund Scheme for Farmer Producer Companies (FPCs), following are the major components:

(a) Grant of up to Rs. 10.00 lakh to each registered FPC is given to match the member equity raised by the institution. This enhances the equity base of the FPC and enables it to approach financial institutions for raising working capital. SFAC has sanctioned equity grant to 127 FPC amounting to Rs. 7.04 crore to enable them to leverage working capital from financial institutions.

(b) Credit Guarantee Fund (CGF) has been set up in SFAC with a corpus of Rs. 100.00 crore. The CGF offers a cover of 85% to loans extended by banks to Farmer Producer Companies.

The Union Government has constituted DFI (Double Farmers Income) committee to find out the various sectors which can be explored for the benefit of the farmers. In current agriculture scenario, the net sown area is 141 million hectares with major share of field crops i.e. 55 per cent of the area under cereals. However, agriculture has been diversified over the last decade. Horticulture now accounts for 16 per cent of net sown area. Livestock population counts more than 512 million. Economic growth shows the increase in farmers' income, while farmers remain in distress despite higher productivity and production. The demand for income growth from various farmer activities translated into demand for government to procure and provide sustainable return. Self-sustainable model empowered with developed market linkage is the basis for income growth of farmers.

An impressive growth in agriculture sector has been registered after independence and farmers have showed their grit to face challenges during the time. They serve and secure the demand of nation for food with their determination even under the vagaries of uncertainties of production environment and fluctuating incomes.

In this regard, the DFI Committee has built a strategy platform which concern the following:

- Sustainability of production;
- Monetization of farmers' produce;
- Re -strengthening of extension service;
- Reorganizing agriculture as an enterprise and enabling to operate as such, by addressing various structural weaknesses.

REGISTRATION OF PRODUCER COMPANY

Producer Company means a body corporate having objects or activities as specified under the Act. It consists of a group of people involved in the production of primary produce or having one or more objectives relating to primary produce. In a producer company, one can make farmers as members and accept deposits as equity and distribute loans to them and charge interest from them.

Advantages of Registration of FPO as Producer Company

Separate Legal Entity:

A producer company is a legal entity and a juristic person established under the Act. Therefore; a producer company has wide legal capacity and can own property and also incur debts. The members (Directors) of a producer company have no liability to the creditors of a producer company.

Uninterrupted Existence:

A producer company has perpetual succession that is continued or has uninterrupted existence until it is legally dissolved. A producer company being a separate legal entity, is unaffected by the death or other departure of any member.

Better credibility:

A producer company enjoys better credibility when compared to unregistered producer organizations, like FPOs, SHG, etc. Producer organization are on the other hand governed and monitored by the State Government.

Owning Property:

A producer company being a juristic entity, can acquire, own, enjoy and alienate property in its own name. No member can make any claim upon the property of the producer company as long as it is a going concern.

Easy Management:

The board of management of a producer company can be easily changed by filing simple forms with the Registrar of Companies (RoC). The board of management of a producer company controls the activities of the producer company.

Limited Liability:

Limited liability means the status of being legally responsible of the producer company. In a producer company, the members are not held personally responsible for the liabilities of the Producer Company.

Types of Business Entity:

Proprietorship: It can be registered and operated by one person.

Partnership: Under the Indian Partnership Act, 1932, the partners are personally liable for an unlimited amount of partnership liabilities. There can be 2 to 20 partners.

Limited Liability Partnership: Under LLP Act, 2008,the liability of a partner is limited to the amount of his capital contribution to LLP.Unlimited partners.

Private limited: Privately held small business entity. Shareholders limited to 50.

Public Limited: Here securities are traded on a stock exchange and can be bought and sold by anyone.

Government Undertaking: The Government must own 50% plus shares. A Government enterprise is purely owned by the Government.

Section 25 Company: Under the Companies Act 1956. Non-profit organization. No dividend is paid to its members. Minimum of three trustees, no upper limit.

Registered Society: Under the Society Registration Act, 1860, involved in education, health, employment etc. for charitable purpose.

Trust: An arrangement whereby a person (a trustee) holds property as its nominal owner for the good of one or more beneficiaries.

Important activities of a FPO

The primary producers have skill and expertise in producing. However, they generally need support for marketing of what they produce. The FPO will take over the responsibility of any one or more activities in the value chain of the produce right from procurement of raw material to delivery of the final product at the ultimate consumers' doorstep. In brief, the FPO could undertake the following activities:

a. Procurement of inputs;
b. Disseminating market information;
c. Dissemination of technology and innovations;
d. Facilitating finance for inputs;
e. Aggregation and storage of produce;
f. Primary processing like drying, cleaning and grading;
g. Brand building, Packaging, Labeling and Standardization;
h. Quality control;
i. Marketing to institutional buyers;
j. Participation in commodity exchanges;
k. Export.

ACTIVITIES TO BE TAKEN BY FPOS

The FPOs may provide and undertake following activities for their development as may be necessary:

i. Supply quality production inputs like seed, fertilizer, pesticides and such other inputs at reasonable rates.
ii. Make available need based production and post-production machinery and equipment like cultivator, tiller, sprinkler set, combine harvester and other machinery and equipment on custom hiring basis for members to reduce production cost.
iii. Make available value addition like cleaning, assaying, sorting, grading, packing and also farm level processing facilities at user charge basis on reasonably cheaper rate. Storage and transportation facilities may also be made available.
iv. Undertake higher income generating activities like seed production, bee keeping, mushroom cultivation etc.
v. Undertake aggregation of smaller lots of farmer-members' produce; add value to make them more marketable.
vi. Facilitate market information about the produce for judicious decision in production and marketing.
vii. Facilitate logistics services such as storage, transportation, loading/un-loading etc. on shared cost basis.
viii. Market the aggregated produce with better negotiation position to the buyers and in the marketing channels offering best prices.

Difference between Producer Companies and Cooperatives

Parameters	Cooperatives	Producer Company
Registration	Cooperative Societies Act	Indian Companies Act
Area of operation	Restricted Regionally	Entire Union of India
Nature of business	Primarily service and delivery agencies.	Primarily, agencies to provide marketing solutions to pooled produce
Membership	Based on ownership of land	Based on concept of shareholding
Share	Non-tradable	Build-Operate-Transfer(BOT) tradable but transferable, limited to members on par value
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote, members not having transactions with company cannot vote.
Governance	Federated into the District Central Cooperative Banks (DCCB). Business conducted is based on the policies of DCCB. Receive financial, technical and administrative support from the government	Stand-alone, self-reliant bodies with self-governing capabilities.
Reserves	Created if there are profits	Mandatory
Borrowing power	Restricted to loans granted and disbursed by the cooperative bank to which the PAC is linked.	More freedom and more alternatives available. FPOs are allowed to raise capital from external sources.
Relationship with other Business and non-profit entities	Transaction based	Producers and corporate/ non-profit entities can together float a producer company.

SUGGESTIONS

Success of any business enterprise relates to the capability of the enterprise to test markets, products and innovations. The ability to take risk depends on the capacity to suffer financial loss. There is need to reform the market system that can service connectivity amd cost effectively and efficiently. It is imperative to promote Primary Retail Agri-Markets (PRAMs) which has adopted GraminAgri Markets (GrAMs) to function as aggregation and logistics connectivity hubs. These will serve as the first link in the marketing chain integrity thereafter with reformed & competitive domestic wholesale market (APMCs/APLMCs) and further into export markets.

(i) Effective agricultural marketing system plays a pivotal role in fostering and sustaining the tempo of rural development and it also triggers the process of agricultural development. An efficient and competitive agricultural marketing system is crucial not only to ensure an effective transfer of agricultural commodities from farmer to the consumers but also in achieving its broader objectives of providing market incentive and production signals to farmers, balancing the demand and supply of agricultural commodities and in ensuring efficient utilization of agricultural resources.

(ii) Market Intelligence or the dissemination of information on market demand and availability is an important area which plays a significant role in farmers' decision making in respect of both production and marketing of agricultural commodities. As more marketed surpluses are generated, farmers need to know which market to transfer their produce, what price to expect, availability of marketing infrastructure and status of competing supply.

The **e-NAM (electronic National Agricultural Market)** is the latest initiative rolled out by government to provide a platform to unify the country's agricultural markets. Such enhanced integration should benefit the farmers by bringing better price realization through information connectivity and transparency.

The country produces multiple crops across many States and production is being increasingly developed in clusters so as to promote economy of scale at the farm-gate. This transformation is expected to grow as more Farmer Producer Organization (FPO) are created and through impetus from Cooperatives or other collaborative farming practices. There is a likelihood that entire villages will collaborate as farmer groups and operate farms collectively in the shape of Village Producer Organization (VPOs).

The consolidation and organization of the market linkages would result in the farmers being less reliant on traders or intermediaries to connect with the markets. The system is expected to bring efficiencies and improvement in market access, allowing for more productive use of the yield.

Manage price risk is developing a marketing network with the logistics ability to link the harvest with multiple markets. The opportunity from price variation that arises from demand-supply gaps can then be taken advantage of, provided the capability to deliver the harvest to markets is made possible, starting at village level. The advantage of agri-logistics is that it allows for more immediate value realization prospects and in turn also helps smoothen market fluctuations by directing produce to where demand remains unfulfilled.

The NABARD's 2019 study says that around 70-80 % of the FPO members are small and marginal farmers and that membership range from 100 to 1000. It is unrealistic to expect poor farmers to contribute large sums as share capital that would make FPO financially robust.

The Azim Premji University study points out that the average paid-up capital of FPOs ranges from a few thousand to several lakhs across states. Only 90 out of 6926 active FPOs have paid-up capital of Rs. 50 lakh or more, while 86% have less than Rs. 10 lakhs.

CONCLUSION

FPO can play major role for the development of agriculture economy as well as employment especially in rural area. This will also give the opportunity to the farmers to have maximum benefits of their production and have a chance to explore their business in Indian market as well as in exporting to the different countries. Through FPO, government is planning to double the farmers' income. This is also an initiative for the development of Indian economy. There are number of schemes which are also supporting the FPO to enhance their business.

We can conclude that FPOs are boon for agriculture industry. This has given the chance to farmers for enhancement of their income and living standard. FPOs can support the members in getting more income by undertaking many activities. FPOs can aggregate the produce of all members and market in bulk, thus fetching maximum price of their produce. These processes are involved for enhancing the income of farmers.

It is vital to enhance farmers' income and to make agriculture more viable and sustainable; there is a need to develop holistic post-production management to enable efficient market connectivity for perishable and semi-perishable produce. Such connectivity would entail cross-geographical flow of fresh foods and preferably involve multi-modal transport connectivity.

It is government initiative to strengthen the farmers at lower level through FPOs and doubling the farmer's income. To achieve this uphill task, government has given the responsibility to NABARD to encourage, enhance, cooperate, nurture and financial support to existing FPOs to achieve the target of government.

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