



Role of Farmer Producer Organizations in Promoting Sustainable Development for Farmers

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Summary:

The percentage of small and marginal producers in India is higher. Small producers lack the volume necessary to capitalize on economies of scale. Additionally, producers receive only a small portion of the price that consumers pay due to a lengthy chain of intermediaries. Therefore, in order to resolve this issue, it is necessary for farmers to establish producer organizations, which are referred to as Farmers Producer Organizations. A Farmers Producer Organization is a legal entity that was established by farmers to facilitate the distribution of profits and benefits among its members.

Introduction:

Agriculture plays a major role in especially small and marginal farmers, into achieving livelihood security as farm sources Producer Organizations (PO). A Producer for livelihood are generally dominant in rural Organization (PO) can be a producer company, areas. Livelihoods can be made up of a range a cooperative society, or any other legal form of on-farm and off-farm activities which provides for sharing profits among together provide a variety of procurement members. The concept of producer companies strategies for food and cash. A livelihood is was introduced in 2002 by incorporating a new sustainable, when it can cope with or recover part IXA, into the Indian Companies Act, of from stress and shocks, maintain its capability 1956. Producer Organization (PO) is any legal and assets, and provide sustainable livelihood entity formed by primary producers like opportunities for the next generation. To farmers, milk producers, fishermen, weavers, increase the income of farmers at the farm rural artisans, and craftsmen (Ramappa D. *et al.*, 2013).

To level many initiatives are being taken up by FPO is an organization of the farmers, the governments. The most important among for the farmers, and by the farmers, which these include the collectivization of producers,

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helps to bring both the small and marginal farmers to build their business enterprise which will be managed by professionals. FPO offers small farmers to participate in the market more effectively and helps to enhance agricultural production, productivity, and profitability. It has emerged as one of the most effective pathways to address many challenges of agriculture, specifically improved access to investments, technology, inputs, and markets (Venkattakumar R *et al.*, 2017). The main aim of FPO is to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. 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.

Farmers' Producer Organisation (FPO)

The concept of "Farmers' Producer Organisations, (FPO)" consists of collectivization of Producers especially small and marginal farmers so as to form an effective alliance to collectively address many challenges of agriculture such as improved access to investment, technology, inputs and markets. Department of Agriculture and Cooperation under Ministry of Agriculture, Govt. of India has identified "Farmer Producer

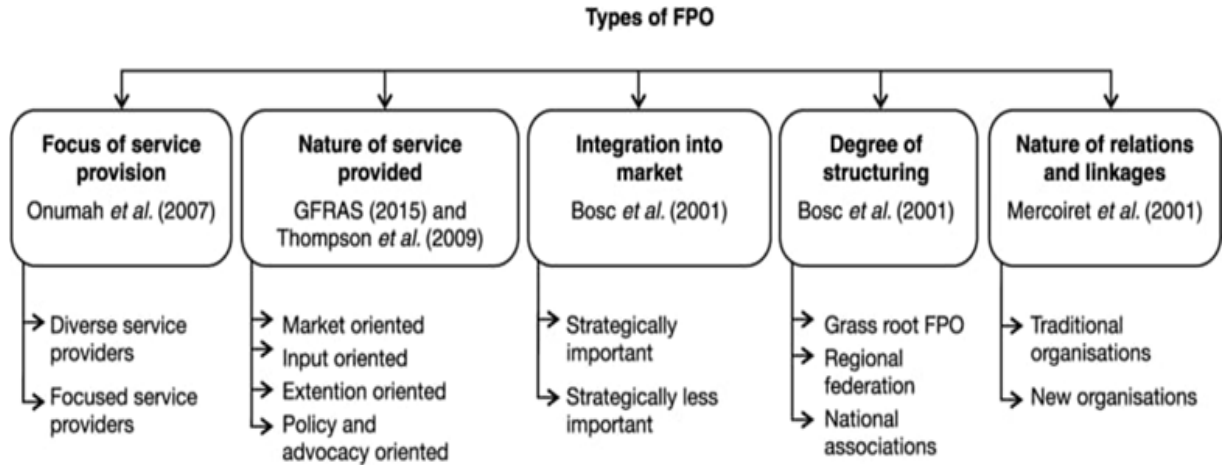
Organisations" registered under the special provisions of the Companies Act, 1956 as the most appropriate Institutional form around which the mobilization of farmers is to be made for building their capacity to collectively leverage their production and marketing strength (Centre for Advanced Research and Development, 2005).

Organisational Structure of FPO

The concept of producer companies in India is a very recent development. These are just like cooperatives, but they are registered as companies. No non-producer can be a member of the company. They get together; they combine their share capital, register as a company, employ a professional to run the company and do value addition, whatever is possible. In this context, it is felt necessary to probe into the organizational structure, capacity building, internal controls and forward linkages of the farmer producer companies. Farmer Producer Organisation offers variety of services to its members. The set of services include: Input supply, Financial, Technical, Insurance, Procurement, Packaging, Marketing and Networking. It is noted that FPOs provide end to end services to its members covering almost all aspects of cultivations.

Types of FPO

Many bases have been used for classification of FPOs viz. focus of service



Important services/functions provided by FPOs to the members		
Broad categories of services	Services/Functions	References
Production services	Input supply, facilitation of production activities	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Abokyi (2013)
Marketing services	Transport and storage, grading, processing, market information, branding, certification	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Abokyi (2013)
Financial services	Savings, loans and other forms of credit, financial management	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Abokyi (2013)
Technology and educational services	Extension, research, certification of groups, organizational skills, training information sharing	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Bosc et al. (2001)
Welfare services	Health, safety nets, drinking water, community development, awards	Trebbin and Markus (2012), Latynskiy and Thomas (2016), Bosc et al. (2001), Abokyi (2013)
Linkages and coordination	Creating linkages, coordination with various sectors, facilitating linkages with government programs	Bosc et al. (2001)

provision, nature of service provided, integration into market, degree of structuring, nature of linkages and relations etc. Onumah et al. (2007) made classification of producer's organization in two-first diverse service

providers which provide the services to range of crops, and second focused service providers which provide the range of services for specific crop. GFRAS (2015) and Thompson et al. (2009) while studying FPOs in Ethiopia,

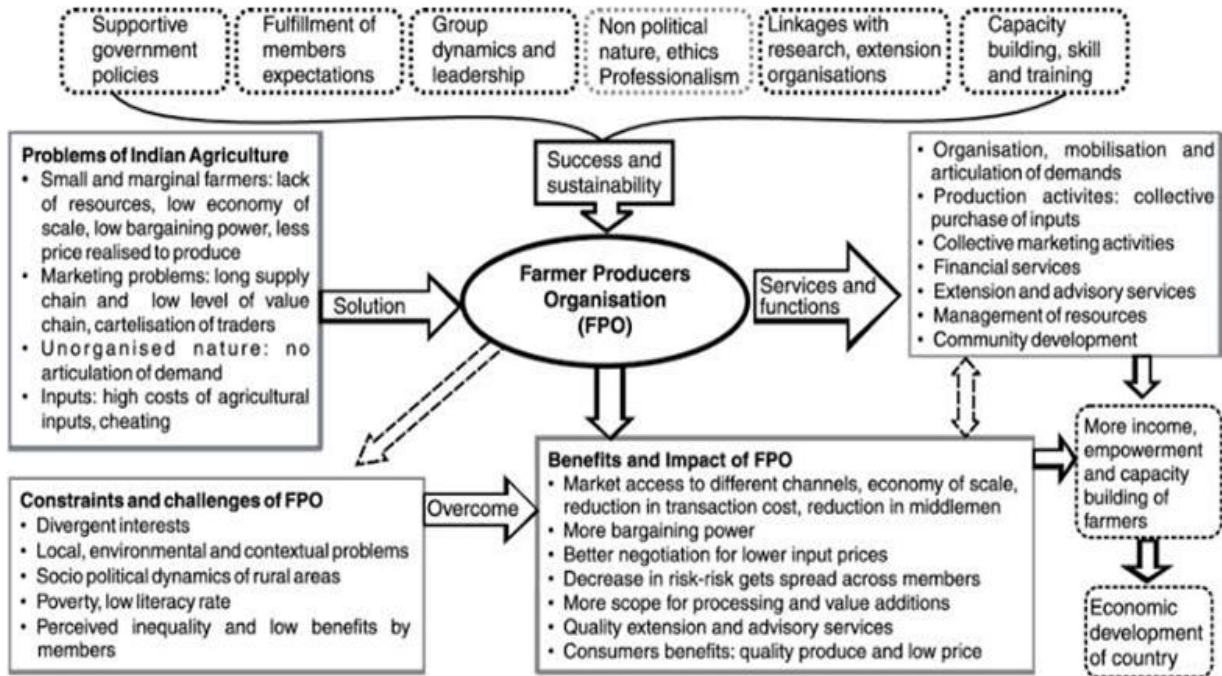
Kenya, and Malawi identified four types of FPOs based on nature of services namely, market oriented, input oriented, extension oriented and policy and advocacy oriented. Based on degree of integration into the market, Bosc et al. (2001) distinguished two types of FPOs—firstly, those which are engaged in the integrated sectors of export products on which the national economy depends or in food crops that are of strategic importance for food security; and secondly, those which work in less strategically important or fragmented sectors like animal husbandry, market gardening, rain-fed crops etc.

Bosc et al. (2001) also distinguished three types of FPOs based on degree of structuring—grassroots Rural Producers Organisations, regional federations, and the national associations- which bring together several federations. Based on nature of relations and linkages, Mercoiret et al. (2001), gave two types of typology of the organisation: first traditional organizations whose function is to regulate the internal relations of the group; second new organisations whose function is to organise the external relations of the group and which therefore appear at the interface between producers and the public and private actors in their environment (Bose et al. 2001). Hussein (2001) observed that different types of FPOs exist viz. membership based, non-membership based, project inspired or

traditional groups. Based on structure and area of operation, Hussein (2001) identifies four types of FPOs viz. farmers' organisations with several levels of organisation; FPO's that assemble representatives from a number of village groups in an area or district; Farmers' organisations comprising more or less numerous structures operating solely at village level and Forms of organisation similar to base groups at village level, with no clearly defined structure. These are different bases used for classification of the FPOs.

Sustainable development of FPO

Farmer Producer organizations (FPOs) are found to be an effective institutional mechanism for linking small farmers to the external world and it help farmers to reap many tangible and intangible benefits including improved market access, reduced transaction costs, achieving economies of scale, better quality and price realization for the produce and reduced risk. But, only establishing more number of FPOs will not serve the purpose until efforts are made to sustain the same. There are several barriers that have to be overcome. First and foremost is the capital constraint. FPOs are initially not able to raise share capital from their member-farmers. Most of the FPOs in India are all taking the only route available- aggregating raw produce and selling it to the private sector, which then takes away the lion's share of the



profits. The next barrier is working capital. FPOs have to buy in cash as their member-farmers need the money desperately at harvest time to repay crop loans and run their households. They initially cannot demand cash from the buyers who often take a few months to pay. So, FPOs need higher working capital. Given current banking norms, crop based FPOs are simply unable to raise loans, as they lack an equity base and cannot provide collateral. The next barrier is managerial capability. It is unreasonable to expect farmers to run the everyday business operations in an FPO.

So what is the way out? While initial share capital from farmers is very difficult to mobilize, it can be raised over three to five years as profits come in. Benefits accrued to the farmers by associating themselves with

FPOs ranging from bulk input procurement to post-harvest benefits and marketing may be ploughed back to farmers themselves, but meanwhile there are fixed investments, working capital and interest costs, and costs of professionals. Hence, innovative ways of providing working capital to FPOs are urgently needed. The highly successful collateral-free, Self-help group-bank linkage program needs to be adapted for FPOs, based on a case-by-case business analysis and cash flows, rather than on collateral.

This would also help in reducing interest burden on FPOs. RBI has to categorize lending to FPOs as a priority sector, but banks are not willing to come forward without collateral. An alternative is a special fund outside the banking system. The regulatory burden at the grassroots is far too cumbersome

needing more number of permissions which need to be waived by giving Special Economic Zones (SEZ) type privileges to FPOs. The FPOs should provide adequate policy and institutional support to make farmers productive and economically self-sufficient for sustainable livelihood.

Conclusion:

To address these issues, the Government of India has promoted the formation of FPOs as a means to alleviate poverty among farmers. In the case of dry chilli production in Guntur, Andhra Pradesh, smallholder farmers face challenges in both production and marketing. To support these farmers, the government has facilitated the establishment of six FPOs specifically focused on dry chillies in Guntur district. The participation of smallholder farmers in these FPOs has provided them with numerous benefits, including economies of scale, strengthened market linkages, access to quality inputs and extension services, reduced transaction costs, enhanced bargaining power, and access to remunerative prices for their produce. However, previous studies on FPOs have primarily focused on growth, linkages, transaction volumes, and prices, without providing a comprehensive assessment of the overall impact of FPOs. By creating awareness, providing financial support, and facilitating market access, policy-makers can

encourage more farmers to join FPOs and reap the benefits of collective action and market integration.

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