

PLP Theme Chapter

“Collectivization of Agricultural Produce for enhancing Farmer’s Income”

1. Background

Agriculture plays a pivotal role in the Indian economy and provides employment to about 56% of the rural work force besides ensuring food security to majority of the population. However, due to highly fragmented, scattered and heterogeneous landholdings, rising cost of cultivation, inadequate market infrastructure, increasing risks due to climate change, limited access of farmers to public resources, modern technologies and affordable credit, agriculture has gradually become less profitable for most of the farmers. The problem is more acute for small and marginal farmers, which constitute around 86% of the total land holdings and cultivate around 47% of the total land under cultivation, mainly due to low size of marketable surplus, lack of access to quality inputs, poor credit and market facilities and frequent crop failures. These constraints have resulted in high dependency of farmers on exploitative intermediaries and local money-lenders, which led to significant reduction of farmers’ share in the consumers’ price. This situation calls for major structural reforms and transformational initiatives towards the revitalisation of Indian agriculture both by way of stepping up of investments for creation of infrastructure for productivity enhancement and post-harvest agri logistics as also by bringing reforms in agricultural marketing system for boosting agricultural growth.

In the above context, a sustainable solution lies in collectivisation of agricultural produce, value addition and collective marketing through organising farmers into Farmer Producers’ Organisation (FPO). The objective of FPO is to promote aggregation, value addition and direct marketing of produce by taking benefits of the economy of scale and leveraging farmers’ collective strength to create local level commodity-specific agri value chains to enable small/ marginal farmers realise optimal value of their produce.

2. Current scenario and scope of Collectivization through FPOs

Recognizing the importance of collectivization through formation of FPO and with amendments in the Indian Companies Act, 1956 paving way for promotion and building of producers’ organizations, over 7000 FPOs have, so far, been promoted by various agencies like SFAC, NABARD, State Government departments and Civil Society Organizations over the last 8-10 years in the country. Out of these, NABARD has promoted around 4400 FPOs under its various promotional initiatives including the PRODUCE fund set up by Govt. of India during 2014-15.

As per the report of the Ministry of Agriculture, Govt. of India, there are around 146 million operational holdings in the country (2015-16), of which 86.21% land holdings relate to small and marginal farmers (SF/MF). Considering average membership of around 2500 per matured FPO including the scope for future expansion in the membership, there exists a scope of promoting around 50,000 FPOs in the country. Thus, there is tremendous potential for formation and nurturing of new FPOs to encourage

collectivization for increasing the income of farmers and boosting the overall growth of agricultural economy.

3. Major benefits to farmers through FPO membership

- Reduction in the cost of production by bulk procurement of quality inputs at wholesale price and increased production through adoption of modern agricultural practices
- Crop diversification and cultivation of high value commercial agriculture crops by building the technical capacities and creating common infrastructure
- Aggregation of produce and bulk transport to reduce marketing cost, thus, enhancing net income of the farmers
- Building the scale through aggregation to enable farmers take advantage of the economies of scale and improve bargaining power for better price negotiation on equal terms
- Access to modern technologies, financial resources, agri-logistics/ infrastructure facilities and other support services required for business transaction
- Reduction in post-harvest losses through processing/ value addition, better quality control and efficient management of value chain/ supply chain
- Improved price discovery, adoption of contract farming system and efficient farm extension/ advisory services.
- Improved social capital and net income to farmers on sustainable basis

4. Important initiatives for promoting collectivization through FPOs

4.1 Initiatives by Govt. of India

- The Govt. of India in the Union Budget (2013-14), announced two major initiatives to support Farmer Producer Companies (FPCs) viz., support to the equity base of FPCs by providing matching equity grants and Credit Guarantee support for facilitating collateral free lending to FPCs. Accordingly, Equity Grant and Credit Guarantee Funds were created in SFAC with corpus of Rs. 50 crores and Rs. 100 crores, respectively.
- The Govt. of India, in the Union Budget 2018-19, announced two important measures to promote FPOs to enable farmers to enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns of the produce. These measures are (i) launching of “Operation Greens” for onion, potato and tomato crops on the lines of Operation Flood with an allocation of Rs. 500 crores to address price fluctuation in vegetables for the benefit of farmers and consumers by promoting FPOs and creating agri-logistics, processing facilities and professional management system and (ii) granting 100% tax exemption for FPOs with annual turnover of up to Rs. 100 crores for a period of 5 years.
- The Govt. of India, in the Union budget 2019-20, announced a Central Sector scheme for promotion and nurturing of 10,000 FPOs across the country to be implemented over a period of next five years. In order to facilitate adequate credit support for smooth implementation of the scheme, two separate credit guarantee funds have been created (a fund of Rs. 1000 crores in NABARD and Rs. 500 crores in NCDC) besides further augmenting the corpus of equity grant fund earlier set up in SFAC.

4.2 NABARD's initiatives for FPO promotion

- Producer Organization Development Fund (PODF) was set up in 2011 for providing promotional assistance to producers' organizations for their capacity building, market facilitation and other accompanying measures. The fund is being leveraged for promotion & nurturing of new FPOs over a period of 3-5 years and also for extending credit-linked promotional support to the existing FPOs for capacity building, market linkage facilitation and other ecosystem services
- Around 4000 new FPOs have been promoted with support of POPIs/ RSAs across the country and suitable value chains around them are being created/ strengthened.
- Considering the need for a centralized data base on FPOs for better planning and monitoring, NABARD has created a dedicated web portal and digitized the data in respect of all its FPOs including profile of the shareholder members for seamless communications among the stakeholders.
- The subsidiary of NABARD namely, NABKISAN Finance Ltd. was strengthened with adequate financial resources and manpower support to provide life cycle-based credit facility to FPOs. Further, in order to provide lending comfort to its subsidiaries and mitigate the credit risks, a credit guarantee scheme was designed for accelerating flow of credit to FPO sector
- Depending on the scope of business activities and organizational capabilities, various model projects for financing FPOs were prepared and shared with the concerned stakeholders to facilitate credit support from banks/ financial institutions.
- NABARD, with support of Bankers Institute for Rural Development (BIRD), has been organizing regular capacity building/ training programmes for FPOs, banks and other stakeholders on promotion and building of sustainable FPOs through credit plus interventions and other support measures including convergence of various schemes of State/ Central Government and other organizations. In addition, on-line training modules/ certificate courses have been developed and programmes are conducted for the benefit of FPO members
- Two Incubation Centers, one at Haryana Agricultural University, Hissar and the other at Tamilnadu Agricultural University, Madurai, have been set up for providing business incubation services to emerging FPOs/ agri-entrepreneurs. Also, a Centre of Excellence is being established at BIRD, Lucknow for pursuing action research and knowledge management in FPO space.
- To facilitate on-boarding of FPOs on e-NAM platform of Govt. of India for direct marketing of their produce, a grant support of Rs.500 per FPO is being provided to expedite the process in a mission mode
- In order to facilitate marketing of FPO produce at remunerative prices and purchase of inputs at competitive prices, the existing web portal is being developed as virtual marketplace to bring buyers and sellers at a common platform.

5. Key issues & challenges in building sustainable FPOs

Some of the field studies have clearly established the positive outcome of FPOs in terms of improved access to inputs & services, institutional credit, marketing facilities and increased net income of farmers. A recent study conducted by Price Water Cooper reveals the accrual of the following benefits to farmers:

- Sale of agri produce through FPOs has resulted in increased price realization to members by around 22%
- Incidence of cost of marketing is approximately 31% lower than other marketing channels
- More than 82% of Producer Organizations have license for marketing essential inputs and 28 per cent of members have purchased inputs from FPOs, which led to a net savings of Rs.1384 per acre

However, there are challenges and policy gaps in the ecosystem as indicated below:

- Inadequate technical skills and awareness among the farmers about the potential benefits of collectivization, regulatory/ statutory compliances, market dynamics, etc. and non-availability of competent agency for providing handholding support in the rural areas
- Non-availability of experienced, trained and professionally qualified CEO to manage FPO business professionally and poor decision-making ability of the Board of Directors about governance, resource mobilization and business management
- Since FPOs are mostly represented by small and marginal farmers having poor resource base, their capacity to mobilize internal resources and to access credit facility for business operations is limited. Further, the credit guarantee cover being currently offered by SFAC for providing collateral-free loans is available only to the Producer Companies having minimum 500 shareholder membership. Hence, the FPOs registered under other legal forms and those with lesser number of shareholder membership, are excluded from the SFAC scheme.
- Poor market connect of FPOs with the agri-industry, market players, large retailers, processors, etc., mainly due to inadequate agri-logistics (i.e. transport facilities, storage, value addition/ processing, brand building, etc.), weak supply chain and lack of price discovery mechanism.
- Lack of risk mitigation mechanism particularly to cover price/ market risks for FPOs

6. Suggested policy measures for building robust FPO ecosystem

6.1 State/ Central Government

- The Govt. of India/ State Govt. may support creation of basic infrastructure facilities at GP/block/ district level like warehouses, agro-processing units, assaying, transport, etc., for facilitating aggregation, value addition and direct marketing of agricultural produce by FPOs.

- Gramin Agricultural Markets (GrAMs) may be strengthened with basic facilities for cleaning, grading, sorting, storage, etc. and the FPOs may be entrusted for their operation & management.
- Since more than 75% of the credit needs of emerging FPOs are mainly in the form of working capital loans ranging from Rs. 20 lakhs to as much as Rs. 100 lakhs, the Govt. of India may consider extending interest subvention facility for working capital loans as well as for term loan to FPOs at least during initial 5 years to make their business viable/ sustainable.
- The State Govts may declare the WDRA-accredited warehouses and FPO collection centers as “extended designated markets”. The existing/ emerging warehouses in the rural areas may be accredited for use by FPOs.
- State Govts may allot small parcel of panchayat land to FPOs for construction of small warehouse/collection centre/primary processing centre for the benefit of farmers.
- In order to speed-up issue of various licenses to FPOs, the State Governments may adopt single window approach for meeting all the regulatory requirements relating to FPO business operations
- The State Govt. may issue advisories to district administration for convergence of resources under various farmer centric schemes for facilitating capacity building and skill development of producer members.
- Considering the diverse nature of agricultural commodities, emerging market demands and focus on boosting exports, a systematic mapping of available potential for building FPOs at GP/block/ district level is imperative for effective planning and policy interventions.

6.2 RBI/ Banks & Financial Institutions

- RBI may consider advising banks and other financial institutions for financing FPOs based on life cycle approach including collateral-free loans upto Rs. 20 lakhs (on the lines of loans to SHGs under SRLM) to meet their initial financial needs for aggregation and marketing of agricultural produce of members.
- Banks may develop/ innovate loan products to meet the credit needs of FPOs (adopt credit plus approach) against the available credit guarantee cover or based on business models/ cash flow of FPOs. For this, the lending agencies may collaborate with NABARD, SFAC and State Federations of FPCs to assess the credit needs and design appropriate loan products for FPOs as a part of their corporate business development strategy.
- SLBC may consider incorporating FPO financing as a separate sub-target under the agriculture sector and monitor the credit flow on a regular basis. Similar advisory may be issued to LDMs for monitoring at the district/ block level.

7. Way Forward

- State Govts may adopt suitable policy to promote and support FPOs and designate a nodal department for its implementation by bringing synergy among various stakeholders.
- Commodity clusters/ production hubs suitable under different agro-climatic conditions may be identified in each district and complete value chain may be

developed around that with FPO as back-end enabler for production, aggregation, value addition and marketing of produce

- Govt. may establish FPO Incubation Centers in each cluster with technical support of the Agricultural Universities/ ICAR Institutions for providing technical handholding to FPOs for their business development to achieve sustainability
- Onboarding of FPOs on e-NAM platform for direct marketing of agri-produce by the FPOs may be facilitated through state nodal department and necessary back-end logistics may be provided for easy movement of the agricultural produce.
- Digital linking of FPOs with buyers, sellers and transport agencies for real time and online marketing of farm produce for better price realization may be encouraged through appropriate policy interventions.
- The Ministry of Corporate Affairs (MCA) may consider incorporating suitable relaxation in the Companies Act to make provision for limited equity participation of value chain service provider in the Company with certain ceiling to ensure that decision making power remains with primary producers.
- FPOs may be exempt from statutory and regulatory compliances as also from payment of penalties on default in certain compliances relating to timeline for filing of returns, maintenance of registers, etc., for a period of at least 5 years from the date of registration to enable them to adjust to the regulatory business environment, stabilize operations under “ease of doing business” and get equipped with various statutory/ non-statutory provisions of the companies Act.

--XX--