State of India’s Livelihood (SOIL) Report 2021: FPOs

For Prelims: Farmer Producer Organisations (FPOs), Benefits Emanating from FPOs, Small Farmers’ Agribusiness Consortium (SFAC), National Bank for Agriculture and Rural Development (NABARD), 'Formation & Promotion of 10,000 FPOs’.

For Mains: The utility of FPOs in doubling the farmers income, challenges faced by FPOs and initiatives taken by the government.

Why in News

The **State of India’s Livelihood (SOIL) Report 2021** has stated that **just 1-5 % of** Farmer Producer Organisations (FPOs) **have received funding under central government schemes** introduced to promote them in the last seven years.

Key Points

- **About the Report:**
    - Access Development Services, a national livelihoods support organisation has prepared the SOIL report.
    - It has analysed only Farmer Producer Companies (FPC — FPOs registered under The Companies Act, 2013) since they make up a large majority of the organisations started in recent years.
        - The number of FPOs registered as cooperatives or societies is very small.
- **Farmer Producer Organisations (FPOs):**
    - **Concept**: The concept of 'Farmer 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.
        - FPO is one type of **Producer Organisation (PO)** where the members are farmers.
        - A PO is a **legal entity formed by primary producers,** viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen.
    - **Voluntary Organisations:** FPOs are voluntary organizations controlled by their farmer-members who actively participate in setting their policies and making decisions.
        - They are open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
    - **Provide Education and Training:** FPOs operatives provide education and training for their farmer-members, elected representatives, managers, and employees so that they can contribute effectively to the development of their FPOs.
- **Importance of FPOs:**
    - **Declining Average Land Holding Size:** The average farm size declined from 2.3 hectares (ha) in 1970-71 to 1.08 ha in 2015-16. The share of small and marginal farmers increased from 70% in 1980-81 to 86% in 2015-16.
        - FPOs can engage farmers in collective farming and address productivity issues

emanating from small farm sizes.
        - Further, this may also result in additional employment generation due to the increased intensity of farming.
    - **Negotiating With Corporates:** FPOs can help farmers compete with large corporate enterprises in bargaining, as it allows members to negotiate as a group and can help small farmers in both input and output markets.
    - **Economics of Aggregation:** The FPO can provide low-cost and quality inputs to member farmers. For example, loans for crops, purchase of machinery, input agri-inputs (fertilizers, pesticides, etc.) and direct marketing after procurement of agricultural produce.
        - This will enable members to save in terms of time, transaction costs, distress sales, price fluctuations, transportation, quality maintenance, etc.
    - **Social Impact:** Social capital will develop in the form of FPOs, as it may lead to improved gender relations and decision-making of women farmers in FPOs.
        - This may reduce social conflicts and improve food and nutritional values in the community.
- **Support for FPOs:**
    - **Promoting Institutions/Resource Agencies (RAs):** FPOs are generally mobilized by promoting institutions/ Resource Agencies (RAs).
        - **Small Farmers' Agribusiness Consortium (SFAC)** is providing support for the promotion of FPOs.
        - The resource agencies leverage the support available from governments and agencies like **National Bank for Agriculture and Rural Development (NABARD)** to promote and nurture FPOs.
    - **Formation & Promotion of 10,000 FPOs:** The Ministry of Agriculture and Farmers Welfare has launched the Central Sector Scheme titled **'Formation & Promotion of 10,000 Farmer Producer Organisations (FPOs)'.**
    - **Equity Grant Scheme:** SFAC has been offering equity grants up to a maximum of Rs 15 lakh in two tranches within a period of three years since 2014.
        - Over the past seven years, only 735 organisations have been given grants as of September 2021— just 5 % of the total Producer Companies (PCs) currently registered in the country.
    - **Credit Guarantee Scheme:** It provides risk cover to banks that advance collateral-free loans to FPCs up to Rs 1 crore.
        - Only about 1% of registered producer companies have been able to avail the benefits.
- **Challenges Faced by FPOs:**
    - **Lack of Business Skills:** While Resource Agencies (RAs) normally have social mobilization skills, **they lack business development and marketing skills,** which are critical for the success of FPOs as a business entity.
    - **Missing Supply Chain Operations Capabilities:** Focus on management capabilities in the supply chain operations, nuances of market dynamics and linkages, business planning according to market intelligence and market development is **clearly missing in the majority of the training programmes associated with FPOs.**
    - **Various Distortions:** The present system suffers from **distortions** like multiple intermediaries and levies, lack of vertical integration (is the combination in one firm of two or more stages of production normally operated by separate firms), poor infrastructure, restrictions on the movement of agricultural commodities, and so on.
    - **Limited Market Choices and Lack of Transparency:** The limited market choices and lack of transparency have been the major barriers in better price realisation for the farmers.
        - Finding the right markets bypassing the present maze of intermediaries is critical.
        - Many FPOs lack the capacity to manage the supply-chain operations and store the unsold produce, besides faltering in procurement, logistics and price negotiations.

Way Forward

- **Capacity Building:** FPOs need to secure funding, identify and establish relations with customers, establish internal governance processes, among other things. For this, they need capacity building to be able to move from start-up phase to growth and eventually to maturity.

- **Reducing the Threshold for Eligibility:** It is important to make it easier for FPOs to avail government programmes and schemes for providing equity grants and loans. This can be achieved either by reducing the threshold for eligibility or by supporting FPOs to reach the eligibility criteria, or both.
- **Addressing Structural Issues:** Many FPOs lack technical skills, have inadequate professional management, weak financials, inadequate access to credit and inadequate access to market and infrastructure.

Source: DTE