



## Mains Practice Question

**Q.** What are Farmer Producer Organizations? How do they ensure forward and backward linkages in Food processing industry? (150 words)

08 Jan, 2019 GS Paper 3 Economy

### Approach:

- Explain the structure and function of FPOs.
- Explain their significance in ensuring forward and backward linkages.
- Concluding by stating some of the challenges faced by FPOs and suggest measures to promote them.

### Introduction

- Farmer Producer Organisation (FPO) is an entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen.
- An FPO can be a Producer Company, a Cooperative Society or any other legal form which provides for sharing of profits/benefits among the members.
- The concept of Farmer Producer Organisation (FPO) is to bring together producers, particularly small and marginal farmers, in order to form an effective tool for improved access to investment, technology, inputs, and markets. Farmer Producer Organisations can register themselves under the special provisions of the Companies Act, 1956.
- The main aim of an FPO is to ensure better income for the producers through an organization of their own. Small producers do not have the large marketable surplus individually (both inputs and produce) to get the benefit of economies of scale. Also, 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.
- The FPO can help create value across different post-harvest phases, including harvesting, primary processing, storage, secondary processing, and market linkages.
- It ensures that all benefits from value addition are retained by small farmers. FPO has emerged as the most appropriate institutional form around which to mobilize farmers and build their capacity to collectively leverage their production and marketing strength.
- Through FPOs, the farmers have made a shift from production-oriented agriculture to market-oriented agriculture where direct sales to consumers will take place without intermediaries.

### Body

#### Ensuring backward linkages in Food Processing Industry

- Farmers cannot get adequate price for their produce without value addition and FPOs bridges the gap between producers' expertise and marketing of the product.
- Cost of production can be reduced by procuring all necessary inputs in bulk at wholesale rates.
- Aggregation of produce and bulk transport reduces marketing cost, thus, enhancing the net income of the producer.
- Building the scale through produce aggregation enables to take advantage of economies of scale and attracts traders to collect produce at the farm gate.

- Access to modern technologies, facilitation of capacity building, extension and training on production technologies and ensuring traceability of agriculture produce.
- Post-harvest losses can be minimized through value addition and efficient management of the value chain.
- They help in primary processing like drying, cleaning, and grading.

### **Ensuring forward linkages in Food Processing Industry**

- FPO members are able to leverage collective strength and bargaining power to access financial and non-financial inputs and services and appropriate technologies, reduce transaction costs, tap high-value markets and enter into partnerships with private entities on more equitable terms.
- Collective strength empowers the farmers to integrate their individual marketable surplus to get the benefit of economies of scale. Farmers can connect directly with the customers benefiting the customers and give farmers a better price thus creating a sustainable space for agriculture.
- Regular supply of produce and quality control is possible through proper planning and management Price fluctuation can be managed; if there are practices like contract farming, agreements, etc.
- FPOs make the communication easier for the dissemination of information about price, volume and other farming related advisories.
- FPOs can help in getting access to financial resources against the stock, without collaterals. They also help in easy access to funds and other support services by the government /donors/service providers, and
- FPOs help in stemming distress migration.

### **Conclusion**

- From value addition, processing, end-to-end management, input and output management to marketing, FPOs can help in fulfilling the target of doubling the farmers' income by 2022.
- However, FPOs face challenges with respect to community mobilization, effective decision-making and governance, the efficiency of promoting agency, and access to capital.
- The collectivization ecosystem in the country needs to be professionalized. They need tailored capacity-building support and seamless access to finance.
- Potential alternative financing structures such as guarantee fund, results-based finance, and insurance structures to facilitate capital infusion into FPOs need to be explored.
- An FPO diagnostics and credit-rating mechanism can encourage financiers to unlock credit flow. It will also help FPOs strategize to improve their operations.
- A self-regulatory body (like Microfinance Institutions Network) designed to protect the interest of FPOs and farmer members is needed.
  - This apex body can be responsible for policy advocacy on issues affecting FPOs, establishing standards for strengthening governance and accreditation for rating tools and service providers.
  - It can disseminate best practices among FPOs and research on the sector.