

## **Driving Positive Disruption in Agriculture Economy** ***Strengthening Farmer Producer Organizations for Farmer Prosperity***

***South India FPO Conference – 12<sup>th</sup> July 2019 at APMAS Training Centre, Hyderabad***

The Agriculture sector has achieved significant momentum in the past decade. Mobilizing farmers into their collectives, as Farmer Producer Organisations, has emerged as the most preferred institutional mechanism for farmer prosperity by policy makers and development agencies- lynchpin strategy for Doubling Farmers' Income. Budget 2018 had slew of measures supporting FPOs including 5-year tax breaks. In Budget 2019, Government of India has announced setting up of 10,000 FPOs across the country.

So far, Farmer Producer Organizations in the country have crossed the 5000 mark. Most of these FPOs are still at a nascent stage and sustaining on grants. Even though there is an increasing interest of the Government in promoting FPOs, they have fallen short of the expectations for farmer growth.

In this context, the Southern states of the country have been able to establish the importance of farmer/producer collectivisation and have come with multiple initiatives to support FPOs. Among these, most important is the State Government's interest in developing State FPO Policy and creating space for FPOs to access various Government Schemes / Programs. Andhra Pradesh and Karnataka are the pioneers in developing FPO policy guidelines. Karnataka has also established a Centre Of Excellence (CoE) for FPOs and Andhra Pradesh is giving impetus on promoting FPOs for climate resilient agriculture, including Zero Budget Natural Farming. These initiatives have served as an example for FPO transition to become sustainable and achieve scale in the long-run.

The event was attended by important stakeholders like IAS Rahul Bojja (Commissioner of Agriculture, Govt. of Telanagana), Ms Laxmi (Commissioner & Director of Agriculture Marketing, Govt of Telangana), Mr Praveen Reddy (Chairman, Mulkanoor Co-operative Rural Bank and Marketing Society Ltd.), Prof Shambu (IRMA), including policy makers and important practitioners in the agriculture sector. The event was used as an appropriate forum for launching of the 6 FPO Board of Directors Self-Learning Modules and 15 posters both in English & Telugu.

### **FPO Policy in India**

- 1) The experience of FPO promotion was restricted to few states like Madhya Pradesh & Gujarat to develop the policy guidelines. However, with increase in number of FPOs across the country, there is need for the policy to reflect ground realities. A consortium of best practices can be put together for knowledge sharing and learning from various progressive policies. There also needs to be a synergy in the working of Centre and State.
- 2) At this time, there is an aggressive feed into policy making for development of 10,000 FPOs in the coming 5 years. With the backing of FPO experiences of the last decade, it is understood that if FPC are given blueprints, they are likely to fail but if appropriate design principles are implemented based on experience and learning, it is likely to succeed.
- 3) Considering FPOs need to be owned by farmers, there has been limited effort on ecosystem/institutional development of supporting FPOs financially. It should be considered that anything that scales up within a small period of time is bound of implementation issues. When the design itself is faulty, we cannot blame the result of that.



## Key points discussed

### I. Governance & Management

- a) As farming is the most-high risk business and most externally dependent business, it is commendable that the producers still manage to do the job as efficiently as possible to their capacities.
- b) Agriculture is seen from the subsistence lens which can be changed to support commercial farming. Farm as an enterprise is promoted as part of incubation
- c) The 3 problems faced by FPOs include Finance, Management and Governance. There is a dearth of qualified local resource person to manage the FPO doings.
- d) It was also suggested that convergence with govt schemes can engage members with FPO and assist in trust building. MSP procurement through FPOs has proved beneficial. Pre-designed template for business plan development has also been helpful.
- e) Efforts on creating multiple touch points between the members and FPO helps in engagement and governance. These are done by conducting workshops where the FPOs make presentations on the development of the FPO in front of banks as they still do not consider FPOs on par with companies for access to finance.
- f) As 10,000 FPOs are to be promoted, a large number of field staff is required for the task. However, there is a dearth of talent. There are many peculiar problems that FPOs face like getting consent letter from local trader to sell in the mandi.
- g) There are second generation problems that are arising like legal compliances which bring the issue of sustainability.
- h) The experience from the field guides that no specific member of farmers guarantee success of FPOs. It depends on value chain and policy changes need to be made accordingly. The focus needs to be on active members and engaging them through non-financial services.
- i) Community investment funds, like NRLM funds, can be utilized as working capital to create better opportunity for FPOs to access finance
- j) Technical support to all members should be provided- 60% of members should be provided input service and 30% of members to be provided arbitrary services. The Capacity Building- training requirements should be assessed beforehand.
- k) There is an apparent mismatch between expectation and competency of stakeholder.

### II. Markets & Finance

- a) It was widely accepted that FPOs are not considered as asset class and a lot of effort is due for them to mature as businesses. The credibility will come once the governance, business profile, finances are in place. Along with these, the financial profile is most important aspect for FPOs as banks have a standard for looking at businesses and do not want to fund loss-making businesses.
- b) The net- worth of FPO is important as is equity of the FPO. It is essential that it goes through a lot of business cycles so that it grows the equity organically. One of the Rabobank's initiative includes: Subordinate debt which is long term debt where RBI allows equity to be considered as part of collateral by banks. It is work in progress.
- c) For FPOs to develop credibility there is a requirement of a 2 years' profitable business sheet. The value addition is not happening with FPOs as they are at the nascent stage. A limited number of proposals reach the banks. The domain of FPOs is to survive up to 3 years and not scale up. Therefore, it is classical chicken and egg issue as no turnover leads to difficulty to fund FPOs.

- d) Market does not see FPO as a different entity. It is a trader and is expected to have features of trader. The major challenge is to extract a good price of the commodity without- i) aggregation at an identifiable place ii) marketable lot. Failing in the two criteria, FPOs are unable to get the price prevalent in the local market without any increase.
- e) As Market is stand-alone activity, aspects like packaging are important to bring some identity to FPO. Example-Jeevika, Bihar- Litchi- NeML helped in packaging and how fast the transportation should happen to get good prices
- f) Usually the pricing decision taken by FPO representatives which is not necessarily the most favorable to farmer members. The reason being that markets experience extreme price fluctuations. The price includes transportation and packaging and with high volatility of prices the farmer sometimes does not part with the commodity in anticipation of better price and loses money. A farmer is externally dependent entrepreneur, subject to market risk- hoping for a jackpot, it may happen sometimes and might not as well.
- g) FPO that have been able to succeed in multiple business cycles, even if they are small, they should be financed according to that instead of equity and net worth.
- h) Predictability of the market on the basis of consumer products can help FPO in getting aggregated amount. Pricing should be developed by segregate the lot according to quality for better price. FPOs should develop product differentiation value-addition of locally aggregated lot. The network of small processing units is important with FPCs. The collective strength lies in processing- for marketing agents as well consumers.
- i) Rabobank has developed 3 Products for financing FPOs in collaboration:
- a) **Credit Guarantee Fund**- Provided to bank & NBFC- like Samfin & Ananya who can further lend to FPOs- Available to any NBFC which is willing to take risk of the FPOs
  - b) **Warehouse Receipt Finance**- Available for traders, processor but not FPOs- Rabobank takes the risk off the balance sheet of the commodity for the FPO. It has 2 stakes of guarantee, it takes away i) price risk- in case price falls by certain margin and FPOs are unable to repay, the margin can be excused, ii) Credit Loss Guarantee- if the price still falls and the margin is not repaid, if the bank also faces loss-Rabobank shares 50% of that loss.
  - c) **Sustainable Landscape**- USAID- \$ 2 million guarantee fund- in partnership with Ananya & Samfin- FPOs working on Agroforestry

## Experience Sharing

1. **Kuldeep Solanki, CEO, GUJPRO Agribusiness Consortium Producer Company Ltd.**
  - 27000 HH- 5 cooperatives also part of GUJPRO. The main issue is marketing. GUJPRO has done Govt procurement and valued at Rs 33 crores (2017-18) and Rs 62 crores (2018-19). It also provided warehousing services.
  - Majorly works on Groundnut value chain. The mission is to get MRP. The primary processing is always done by FPOs. There is a collaborative partnership with GUJPRO and FPO. Recently, it has hired the largest peanut processing plant in India-

Tie-up done for buy back. 30-50 % to be sourced from FPOs because there is requirement of specified quality. GUJPRO intervenes to scale up and improve the quantity.

- Turnover is Rs 150 crores with a 2% premium. The bonus is also given to the FPOs as patronage. The package of practices are also implemented. It has been decided that from next year those farmers will be given extra benefit if they follow the mandated package of practices. 5 year plan- largest value added company of groundnut.
- Formarketing of Mango, branded mango without makeup- not carcinogenic- UK based company approached- hot water treatment- long process- high risk value chain- every year learnt something- mango was then marketed as an individual commodity- collaborated with FPOs
- A platform was provided through which farmers were able to sell 60000 boxes of mango within 40 days and reaped almost 12-13% additional profits. Just by a platform- 3.5 crore revenue. For mango- did not enter into Value addition because of high competition
- Cumin & Pomegranate- also entering- export quality. Commodity wise development of value chain. Marketing and secondary processing- GUJPRO. Largest Residue free cumin- 5 year plan

## **2. Yogesh Dwivedi, CEO, Madhya Bharat Consortium of Farmer Producer Company Ltd.**

- Grading, Seed production- 82 private dealers appointed- policy advocacy- Commodity linkage not involved in the business of FPO. Major Issues- i) HR- Professional who will work in the field who understand the culture- those FPOs that have experienced consistent HR are likely to perform better- ii) Product differentiation- same products will only create competition- soya bean-certified- FPOs also get revenue- with appropriate govt support FPO can perform better

## **3. Venkat Rasa, Outreach manager, Vellangiri Farmer Uzhavan Producer Company Ltd., Isha Foundation**

### **Key takeaway**

- 1) Agriculture requires systemic changes where FPOs can become the game changer here. The power of aggregation is glaring and can solve agriculture related issues like quality inputs, MSP. The role of government is in development of FPOs as the most efficient service provider. However, the need of the hour is scaling up and quality of institutions which needs to go beyond the government to provide ecosystem support to positively influence agriculture.
- 2) The emphasis on need for simplification for provisions for the benefit of farmers either mobilized as FPC, Cooperative, MACS is felt at large and needs to be addressed. There is a need to follow the bottom up approach on developing policies for the ease of FPOs.
- 3) The entire Agriculture value chain needs to be developed- from aggregation, grading & sorting, processing, branding- and more sophistication is required for FPC in the implementation. It is understood that a long-term engagement needs to happen if FPC has to become strong.
- 4) Govt of India in a hurry to promote FPC which puts pressure on RIs on how to develop quality FPOs. Therefore, a Champion of the FPO movement is required and

local champions need to be identified so that FPOs can provide useful services to its members.

**Glimpses of the Workshop:**



**Mr. CS Reddy addressing the participants of the workshop in the inaugural session**

*Members of the panel (from L to R):* Prof. Shambu Prasad, IRMA; Mr. CS Reddy, CEO & MD, APMAS; Shri. Rahul Bojja, IAS, Commissioner of Agriculture, Govt. of Telangana; Shri. Venkatram Reddy, Commissioner of Horticulture, Govt. of Telangana; Mr. A. Praveen Reddy, Chairman, Mulkanoor Co-operative Rural Bank and Marketing Society Ltd.



**FPO BOD Learning Modules being launched at the workshop**



**Participants at the workshop**



**Panel Discussion on Governance & Management of FPOs**

***Members of the panel (from L to R):*** Prof. Shambu Prasad, IRMA; Dr. K V Gouri- CEO & MD- BASIX; Dr Radha Rani- NIRD & PR; Mr. Arvind Risbud, ED, Myrada; Mr Girdhar- Vrutti



### Panel Discussion on Finance and Markets

**Members of the panel (from L to R):** Mr N V Raman, Director, Samunnati Finance; Mr. Satya Dev, CEO, ABY Farmers LLP; Mr VD Sharma, MD- Clean Foods Group of Companies; Mr. Sudhir Gupta, Vice President, NeML/ NCDEX; Mr. Bharani Kumar, Asst. General Manager, SBI- Agriculture unit; Mr. Dheeraj Mutreja, Rabobank Foundation



### Panel Discussion on Experience sharing of FPOs: Success stories and Recommendations

**Members of the panel (from L to R)** Mr Madhu Murthy, APMAS; Mr Venkat Rasa, Vellangiri FPO, Isha Foundation; Mr Kuldeep Solanki, CEO- GUIPRO; Mr Yogesh Dwivedi, CEO- MBCFPCL; Mr Shreesh Tripathi, PwC