NATIONAL ASSOCIATION FOR FARMER PRODUCER ORGANISATIONS

REPRESENTATION | COLLABORATION | TRANSFORMATION

Strategy paper for promotion of 10,000 Farmer Producer Organizations (FPOs)

Comments by NAFPO

The proposed strategy for upscaling FPOs across the country proposed in the note is a welcome addition to creating an enabling business ecosystem for FPOs in the country and it is appropriate that SFAC is seen as leading this having pioneered the scaling up of the FPO movement. Members of NAFPO have been associated both directly (as members of the SFAC High powered expert committee) and indirectly (as active contributors through national and regional level multi-stakeholder dialogues, capacity building and policy discussions) on FPOs in the last few years.

We believe that there are a few changes that needs to be incorporated in the structure for more effective delivery and these have been highlighted before. The role of several resource institutions in critically building the FPO movement across the country needs specific acknowledgement. Without the ground presence and the thrust provided by these institutions the base of the FPO movement would not have been possible. While there is scope for enhancing the capacities, linked also to the available investment levels, they should be seen as important knowledge partners at the CBBO and the NPMA. It was part of a deliberate design to have them not work across states but given the opportunity to scale up that the new policy provides they clearly have a wider role at both the cluster, state and national level. Many of them have already been contributing significantly to state level policy formulation and implementation. However, it is envisaged from the experience of promotion of FPOs that there is a need of local presence at the grassroots for mobilisation. As FPOs depend a lot on local support in the initial stages of mobilisation, there should be a mechanism for mutual handholding.

Specifically, rather that prescribing that the NPMA would only comprise a global consulting firm, this critical role should be opened to consortiums that could include the knowledge of critical players who have shaped FPOs across the country. The NPMA should have a more inclusive structure and be advised by a well-constituted and knowledgeable set of experts and advisors who do not have direct conflict of interest. This body should work with SFAC and the implementing organisations to have regular feedback and guide the implementation process. The eligibility criteria and the structure for the NPMA does need rethinking as this is a critical element of the implementation strategy.

The implementation of promoting 10000 FPOs and what is required for FPOs to succeed is currently conflated in the document. The requirement of a strong facilitating and enabling FPO support ecosystem has been under-emphasised and the role of germinators, incubators and accelerators needs to be explored. A graded approach could be worked out. Particularly options from other ecosystems such as the Start-up or entrepreneurial ecosystems that have evolved in the last few years should be pro-actively explored. Thus, it would be useful to have Fund of Funds that enable the overall scaling up to reach the potential of 10,000 FPOs there is a need to better integrate these with both existing FPOs promoted.

This note has a few specific suggestions on the implementation guidelines that is described below and has been put together through a consultative process in NAFPO:

Ecosystem for FPOs

1. **Investment in promotion of FPC and clarity on successful businesses linked to milestones-** The amount allocated for facilitation is Rs 25 lakh and Rs 18 lakh to FPO as boot up, assuming Rs.3 lakh to come from 500 members as equity for matching Rs.15 lakh – and debt of 1:3 – this is not in sync with the experience on field; there is a need to build a successful business and link with milestones.
2. **FPO should not become a subsidiary distribution channel-** As mentioned in the strategy note, all farmer centric schemes of the government may be routed through FPOs**.** This will lead to more control by the departments on the FPOs. More so, this will make it a subsidy dependent organization like PACS. Using the platform of FPOs to promote Government programs by the Department is one thing and should be allowed. However, using it to route govt. program may have detrimental consequences.

Access to Finance

3. **Access to finance and Bank Linkage-** FPOs' access to mainstream finance has been low and special efforts are required to get mainstream banks to both utilize existing schemes such as the Equity Guarantee Scheme and create newer portfolios learning from the more successful NBFCs that have been able to contribute (such as NABKISAN, Samunnati and Ananya/FWWB). Matching grants at initial stages (like in NRLM's Community Investment Fund or revolving grant) can significantly improve access to finance. Along with this, **NBFC credit to FPCs could be treated as agriculture credit** and refinanced by banks to count against their target. SFAC could also **increase credit guarantee portfolio from Rs 1 crore to Rs 5 crore for FPO consortiums of over 10 FPCs**. **NBFC funding to FPCs can be made eligible for SFAC credit guarantee scheme**.
4. **Data on the demand of credit by FPOs at district level-** There is a lack of data on the credit provided to FPCs at district level and this should be part of RBI monitoring and reviewed at SLBC/SLCC meetings.

Capacity Building

5. **Increased investment on Capacity building in the budget proposed (currently it is less than 0.5% of the budget)-** Though the note mentions capacity building as key there is no capacity building allocation in Year 1. An intensive exercise with leading RIs and FPOs is critical in the first year to iron out capacity building issues. A possible benchmark is the well-worked out institution building programme like NRLM, where the budget allocation is around 6000 Cr annually for a target group of 6 Cr + persons, with over 30% of the budget on capacity building. FPOs are more complex organisations than SHGs with significant external interface and under-investing in capacity building can lead to creating many unsustainable FPOs in the long-run.

CBBO & Role of RIs

6. **CBBO should have significant functions to support FPOs**- The structure of CBBO comes from the analysis that RIs have failed. Therefore, the CBBO structure should bring significant functions to support FPOs with accountability. They should not subsume RIs to ask for performance and link with payment trigger.
7. **Clarity on role and responsibilities of CBBOs & RIs-** It is significant to identify grassroots/support agencies for mobilization of farmers. Considering that the role of the RIs and CBBOs is integrated into one entity and driven by quality professionals, in such case one CBBO must not be given the task of more than 50 FPOs, and that too in a phased manner of first three years based on the performance. This is because it may not feasible for any entity to provide **in-situ handholding support** for mobilization, governance, business incubation and value chain development work for more than 50 FPOs or 50,0000 smallholders.
8. All experience suggests that FPOs have worked well where the RIs had their strong presence from earlier interventions including strong base of SHGs/FIGs. In case the role of RI is not diluted with the CBBO and they remain intact, then one CBBO can be chosen per State and shall be responsible for business support including business incubation, credit linkage, market development, product development, procurement, quality control, logistics and all other paraphernalia that are required to develop and stabilize a value chain for all FPOs (through RIs) of the State. The size of a Statewide progam in this case would typically be about 15-20 RIs and 200-300 FPOs growing over a period of three years, which is manageable.

NPMA

9. **Role and structure of NPMA**- It is proposed that the “NPMA may typically comprise a global consulting firm with expertise in promoting…”. However, the experience does not resonate with the statement. Undoubtedly NPMA is needed. This is a unique

opportunity for SFAC, NABARD, NCDC, SIDBI and other government sector organizations (mainly banks) to promote a Board in the line of NDDB for the FPOs in the agriculture sector. There is a need for **exclusive and permanent** structure like NDDB to promote FPOs. NPMA is a project management structure with limited life span. There could be a longer-term vision and strategy. And in this role a consulting firm may not fulfill the requirement.

Overall

10. **Addressal of needs of existing FPOs-** It is mentioned in the note that, at best, 30% FPOs are doing business viably, 20% struggling and 50% in initial stages, however the proposal does not address the needs of the 70% FPOs which are in need of support now, 3 years after the project support is over.
11. **Member size of FPOs-** It is not correct to suggest that the optimal size of an FPO is 300-500 members. While there could be a case for rethinking the equity grant scheme based on membership it is more important that these are linked to the business model of FPOs. While some FPOs have greater advantages in working with larger scale of between 1000 – 4000+ there are also cases of FPOs working with smaller numbers. Other metrics to assess if the FPO is at the growth and consolidation stage could be explored.
12. **Farmer's equity share to be decided at FPO level-** It is proposed that the equity shared be increased from Rs.1000-2000. This may be a factor to be decided by the FPO. The guidelines for equity grant support may be discussed instead.