The FPO Primer

A Compendium of State of the Sector Reports (2021-2024)

Farmer Producer Organizations in India

Samunnati

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authors UPFRONT

First published in India in 2024 by Authorsupfront Publishing Services Private Limited
info@authorsupfront.com

Contents

Intoroduction

Farmer Producer Organizations

Overview

For centuries, rural people have been practicing some form of collective action to meet their common livelihoods and other goals. Hunting in groups has been common for thousands of years. The tradition of the whole village working together for clearing thick vegetative growth for farming can still be seen in places like Nagaland where jhum cultivation continues. The traditional forms of diversion-based irrigation, such as Dongs in Assam and Ahar-Pyne in Bihar were maintained annually through forms of collective action. The idea that collective action organized in a going concern in the economic arena will prove beneficial to the poor has been in vogue since the time of Rochdale Cooperative in England, formed in 1844. The Fabian Socialists led by Robert Owen are credited with the idea of evolving the concept of the cooperative form of organizations for meeting diverse economic needs – supply of consumption goods as in the case of Rochdale, provision of credit, organization of production, and marketing of produce such as milk as well as poultry and so on. All these were in fact organizations of farmer-producers. From its very start, the idea of cooperative forms of organizations for the benefit of the poor has found much sympathy in socialist ideology.

Defining Farmer Producer Organization: Principles and Benefits

The term, 'Farmer Producer Organization', has been focal for about two decades, but the class of organizations it connotes has been around for quite a long time. Till the Reserve Bank of India brought out these reports, there used to be an Annual Report full of statistics about 'non-credit cooperative societies'. These included cooperative organizations of producers of dairy, sugar, fish, fruit, oilseeds, handlooms, etc. These were or at least meant to be organizations of producers of the respective commodity / produce; aiming to provide services and support in production and marketing to the producers. Possibly most of these followed a multi-tier structure – a village-level cooperative society termed, 'primary society' and its district level federal body with a state level apex. At least the dairy and the sugar cooperative societies continue to function as business entities in a fairly vibrant manner even to date. All these cooperative societies adhered to the then five (now seven) inviolate, 'ICA Cooperative Principles' accepted in common all over the world.

These seven principles are:

1. Open and voluntary membership;
2. Member democratic control;
3. Member economic participation;
4. Autonomy and independence;
5. Education, training and information to all members;
6. Cooperation among cooperatives;
7. Concern for the community.

The Indian State had regarded cooperatives as instruments of reaching out to rural poor, both in terms of their credit needs and in terms of assistance in improving their incomes by helping to enhance production and supplying inputs for cultivation to increase realized market prices. To give concrete shape to such intent, the State often invested in the share capital of the societies, helped them access working capital, provided manpower support, gave preferential treatment to access scarce materials, etc. So close was the association of the State with these cooperative societies that they had become virtually another set of public sector enterprises, registered under the Cooperative Societies Act. Indeed, in some States, annual reports on them were prepared by the States' Committees on Public Enterprises and submitted to the State legislature. As the State contributed so much to the cooperatives, it also sought to secure its interests by ensuring that it had control over them.

Most States had enacted their Cooperative Societies Act on the pattern of the one framed in the Bombay Presidency in 1904. This was very paternalistic legislation that sought to protect the interests of the poor rural folk by ensuring that the government had enough powers to intervene when warranted. A school of cooperative leaders led, inter alia by late Dr. Verghese Kurien strongly argued in the '90s that these commodity cooperatives (as others) had a very strong regulatory framework under the office of the State Registrar of Cooperatives Societies. The Cooperative Societies Act of most governments provided a wide range of powers to the Registrar, including the power to suppress the Board of Directors of a society and to appoint an Administrator to run it. It is a matter of verifiable history that many times Boards of literally thousands of cooperative societies have been suppressed and Administrators appointed with a single executive order. Where the farmer leaders leading these societies were also politically very powerful, they could manage and even direct the office of the Registrar through their political connections in the State government. Dr. Kurien and others associated with him argued that other farmer producer societies which did not enjoy such political clout suffered from 'interference' by the office of the Registrar. Such 'interference' persists even to date. Recently, for instance, an officer from the Registrar's office in Jharkhand had declined to allow a farmers producer organization to undertake procurement and marketing of chemical fertilizers and pesticides stating that such was the mandate of an existing block level cooperative society.

With very intense efforts, the school led by Dr. Kurien, Mr. L.C. Jain and Mr. Rama Reddy managed to persuade the State of undivided Andhra Pradesh to pass a new Act for cooperative societies termed, 'Mutually Aided Cooperative Societies Act'. This Act allowed the registration of cooperative societies which did not want any investment or other forms of support from the State department. Eight other States followed suit and allowed the registration of such cooperatives. However, by the middle of the first decade of the 21st century, these States have repealed these Acts and all societies registered under the repealed Acts are now governed by the old Acts. Thus, all societies are very firmly under the control of the Registrar of Cooperative Societies, who can use the draconian powers vested in the office under the Cooperative Societies Act.

Legal Forms and Compliances

To enable FPOs to function on cooperative principles yet without such overt and overbearing control, efforts were made to amend the Companies Act. These efforts led to fruition when whole new sections pertaining to producer companies were inserted in the Indian Companies Act. The producer companies need to declare their allegiance to the Seven Cooperative Principles. ***Producers Companies formed by farmers are Farmer Producer Companies.*** The provisions for the producer companies have been retained even after the overhaul of the Companies Act in 2013. Salient differences between provisions under the law for producer companies and other companies are summed up in Table 2.1. The provisions and practices in producer companies are compared with the provisions for cooperatives in most States are summed up in Table 2.2.

Table 2.1: Comparison of producer companies with other companies

Feature	Producer Companies	Other Companies
Membership	Restricted to producers of the commodity for which formed	Any person who wishes to invest money
Pre-condition	Adherence to ICA cooperative principles	None
Purpose	To provide services to meet the common needs of the producers	Business growth to maximize shareholder wealth
Capital mobilization	From producers only and of course from retained earnings from business	From public at large

Feature	Producer Companies	Other Companies
Trading in shares	Only among members	Freely tradeable
Voting	One member-one vote, but inactive members can be excluded from voting (cooperative democracy)	Voting rights in proportion to shareholding (corporate democracy)
Board membership	Only from producer members but some professionals can be coopted	Among shareholders as well as with some independent directors as required by the Companies Act
Disclosures and audit	As per the Companies Act	As per the Companies Act
Profit distribution	After certain reserves are created, proportional patronage with limited interest on capital	As decided by the Board with no restrictions
Income tax	Tax exemption on income from up to a turnover of Rs. 100 crore for allowable business, available till 2024-25	25% corporate tax rate

Table 2.2: Provisions and practices in producer companies compared with the provisions for cooperatives in most States

Feature	Cooperative Society	Producer Company
Membership	Open to any individual or cooperative	Producer members and their formal or informal organizations
Area of operation	Restricted, can be at the most a whole State of Indian Union	Throughout India
Shares	Held by members, non-tradeable, can be returned to cooperative society under certain circumstances	Tradeable between members only
Voting on affairs of the organization	One member-one vote, registrar has a veto	One member-one vote, but inactive members (those who do not transact with the company) can be excluded from voting.
Profit sharing	Limited return on capital invested by members	Can be shared based on level of patronage after creating reserves, but only limited dividend on shares
Powers of the government through its offices	Registrar has huge powers	Government has very limited powers

Feature	Cooperative Society	Producer Company
Disclosures and audit	Annual audited report to be filed with the registrar	Annual report and compliance reports on a large number of matters to be filed with the Registrar of Companies; financial penalties for non-compliance
Borrowing avenues	Restricted mainly to cooperative banks	Many avenues can be tapped, largely governed by lenders' norms
Dispute settlement	Within the co-operative framework	Through arbitration
Board membership	From among members, with statutory representation to women and members from scheduled caste / tribe	From among members, but 'classes' of Board members can be created, a member to be elected by those who are eligible for that class
Professionals on the Board	Invitees only	Can be coopted
Income tax	Trading surplus of primary societies exempt under Section 80P	Section 80PA exempts income from eligible businesses up to Rs. 100 crore, till 2024-25
Relationship with other business entities	Only based on commercial contracts	Can form joint ventures and alliances if required

Chapter 1

Typology of FPOs: Mapping the Evolutionary Journey

Gouri Krishna
Ved Prakash Singh

Summary

Farmer Producer Organisations in the country were primarily co-operatives for a long time. The Companies (Amendment) Act, 2002 introduced a new form of collectives, namely, producer companies. Producer companies are considered a hybrid between co-operative societies and private limited companies. This chapter explores the typology of FPOs and maps the evolutionary journey since 2003 when the Amendment Act had come into force, allowing the formation of Farmer Producer Companies.

The types of FPOs are discussed under six categories, viz., FPOs promoted by the government, by sector expert organisations, by NGOs/social enterprises, by corporates, by philanthropic organisations and finally, by farmers themselves. The diversity of promoting agencies involved in the promoting process, the variation in the guidelines in the government programmes, the philosophy of the promoting agencies, the strategies of corporates, and the objective and approaches in promoting, resulted in a variety of producers collectives.

The majority of the FPOs today are promoted under various government schemes. The approach of the government evolved over the years in terms of objective, strategy, and resource allocation for the growth of the collectives. FPOs were promoted initially as a sub-component of larger government projects such as the District Poverty Initiatives Project, the

Agriculture Competitiveness Project by state governments, and the Rural Livelihood Mission. Then came the exclusive FPO promotion programmes of SFAC and NABARAD and finally, the large-scale pan India programme of 10,000 FPOs with One District and One Product scheme. The approach to the promotion of FPOs evolved over years from a scale and milestone-based approach to the value chain and business orientation focus. The government in the year 2020 has adapted a cluster-based value chain approach to identify the gap areas and, therefore, build an appropriate business model. It offers a value proposition to farmers and consumers.

The second category of the FPOs are those formed by promoting agencies endowed with expertise in a particular commodity that they have acquired over many years. These promoting agencies were engaged in organising commodity-specific FPOs either themselves or offering guidance to other organisations in the formation and operationalisation of commodity-specific FPOs. These include the Producer Companies in Milk by NDDB Dairy Services, Poultry FPOs by NSPDT and other NGOs. This category also includes FPOs dealing in spices, coconut and other horticulture crops promoted by the National Horticulture Mission.

The third category refers to the involvement of CSO/NGOs and social enterprises in promoting FPOs outside the purview of government supported projects. These were promoted either as a part of a larger project implemented by these organisations or as a pilot or as converting the collectives promoted by them previously into a company format.

Foundations established by corporates constitute another set of FPO promoting agencies that are engaged in establishing FPOs in their geographical area of operation with an objective of mutual benefit. These FPOs align with the strategy and philosophy of the companies and are fewer in number. This category received a big boost with the government's decision to make them eligible for empanelment with SFAC for the promotion of FPO under the One District One Cluster programme of the Government of India.

A smaller number of FPOs are promoted by the philanthropic trusts and foundations that work for promoting the livelihoods of the rural poor and vulnerable groups with an objective of community empowerment.

FPOs promoted by farmers without the intervention of an external agency is a category that is slowly gaining prominence. A common need and an enterprising leader or group of leaders give impetus to this model.

The gap, however, remains in encouraging women's participation in the FPOs and promoting women's FPOs. It is estimated that only 3% of the approximately 15,000 FPOs in the country are exclusively women FPOs.The guidelines for promoting the FPOs, including the 10,000 FPOs, are silent on encouraging women's participation barring the need for one woman member of the Board.

The approach adopted by the FPO promoting agencies in establishing the farmer collectives also witnessed a vast disparity. It depended on the programme/scheme guidelines, timelines, capacities of the promoting institute, and alignment with the corporate strategy among others. These aspects resulted in diverse types of FPOs, some successful and some struggling to survive.

1.1 Introduction

The amendment to the Companies Act, 1956 to allow formation of Producer Companies took place in 2002. For nearly a decade after the amendment of the Act, there was not much progress on the formation of Farmer Producer Companies except for a few promoted as a part of the District Poverty Initiatives Project in the state of Madhya Pradesh. In 2013 with the active role played by Small Farmers' Agri-Business Consortium, the FPC promotion gained momentum in the country. When NABARD, NRLM and other donor-funded projects took interest in this institutional model, there was a spurt of FPOs throughout the country. By the end of 2021, there were over 15,000 FPOs promoted by different promoting agencies. The Central Sector Scheme "Formation and Promotion of 10,000 new Farmer Producer Organisations (FPOs)" with a budgetary outlay of Rs 68,660 million was announced in February 2020 and operational guidelines were issued in July 2020 to give a further push to the programme of promoting of FPOs.

In all the programmes of promotion of the FPOs, whether it is central schemes, state schemes or donor-funded projects, the local institutions played a prominent role in promoting and nurturing the FPOs. Referred to as the Resource Institutes (RIs) under the SFAC programme or Producer

Organisation Promoting Institute (POPI) under the NABARD programme or the Community-Based Business Organisations (CBBO) under the central scheme of promoting 10,000 FPOs, the promoting agencies played a crucial role in building a large number of FPOs in the country. These institutes included grassroots level entities with close engagement with farmers through decades of work, as well as new entrants who forayed into the field to be a part of the much talked about FPOs programme in the country. The level of understanding of the promoting agencies, their capabilities in terms of both financial and human capacities, and the approaches of these institutes in promoting member-centric collectives of FPOs varied widely. While some were novices, others were seasoned players with strong grass root presence and experience in working with smallholder farmers. In addition to these variations, the guidelines under various schemes that sponsored FPO promotion were not uniform, leading to the formation of FPOs of different sizes and shapes over the years.

Outside the purview of government schemes, FPOs were prompted by NGOs, social enterprises, philanthropic foundations and large corporates under their CSR programmes, etc. These organisations are guided by their strategies and policies. Another category of FPOs was promoted by farmers themselves. Drawn together to address their own needs and led by an enterprising farmer or a group of farmers, they established a collective for their benefit.

1.2 Types of FPOs

Farmer Producer Organisation (FPO) is a legal entity formed when primary producers that are farmers, milk producers, fishermen, weavers, rural artisans, craftsmen, etc. come together. The FPO can be a producer company, a co-operative society or any other legal form, which provides for sharing of profits or benefits among the members. Therefore, deciding the typology of a collective can be approached in various ways. An attempt is made in this chapter to categorise the FPOs using the criteria of who promoted the FPO, how are they promoted, i.e. approach to the promotion and underlying objective of promotion. Therefore, they are broadly categorised as follows:

a) Promoted under programmes/schemes of the government
b) Promoted by organisations with sector focused competencies
c) Promoted by NGOs, social enterprises
d) Promoted by corporates
e) Promoted by philanthropic organisations
f) Promoted by farmers

The cross-cutting element among all the types of FPOs would be the different legal forms. Some schemes mandated the formation of producer companies and others are flexible on this aspect. Similarly, while most of the FPOs are gender agnostic, a few schemes mandated the formation of only women FPOs.

1.2.1 FPOs Promoted under Programmes/Schemes of the Government

a) **The Initial Phase of the Formation of Producer Companies**
In the year 2000, the World Bank-funded poverty alleviation programme of the Government of India, known as the District Poverty Initiatives Project, was launched in the states of Madhya Pradesh, Andhra Pradesh, and Rajasthan to improve the economic wellbeing of the poor. The project was aimed at improving the levels of economic activity, productivity and income in targeted districts. The implementation strategy of the programme focused on sensitisation of people on economic opportunities through group formation. Common Interest Groups (CIGs) were formed at the village level. A CIG is envisaged as a thrift and credit SHG that also shares a common occupational or developmental objective. The CIGs manage small income-generating activities and provide opportunities for employment to its members and share benefits in a participatory manner. To increase the benefit from the group activities to its members, the organisation of formal business institutions was considered by federating the CIGs into apex institutes. Thus, in Madhya Pradesh, the promoting agency took advantage of the amended Companies Act 2003 and

registered the federated bodies as producer companies. By the end of the project period in 2009, 17 producer companies were registered, with 15 agriculture-related and one each in milk and poultry sectors, paving the way for future growth of producer companies.

Since Andhra Pradesh had a very large number of pre-existing self-help groups, the process of forming/strengthening CIGs had at its base the concept of a thrift and credit self-help group (SHG). This was the basic instrument for social mobilisation and demand identification. The concept later evolved into the largest poverty alleviation project in the state and subsequently in the entire country through National Rural Livelihood Mission (NRLM).

In Rajasthan too, District Poverty Initiative Project (DPIP) was the largest poverty alleviation programme implemented with the concept of group formation. The CIGs were vehicles to achieve the objective of the project of creating common economic activity to improve the livelihoods of the poor.

b) Scale-Oriented Approach

In 2013, SFAC took a pioneering step and issued National Policy guidelines for FPO promotion. The preamble of the policy guidelines promulgated that the collectivisation of producers, especially small and marginal farmers, into producer organisations has emerged as one of the most effective pathways to address the many challenges of agriculture but most importantly, improved access to investments, technology and inputs and markets[1]. This was preceded by a two-year pilot which involved the mobilisation of approximately 0.25 million farmers into 260 FPOs. After the launch of the FPO policy, SFAC has supported promotion of another 698 FPOs under its three-year programme.

In 2014–15, the Government of India created the Producers' Organisation Development and Upliftment Corpus (PRODUCE)

1 http://sfacindia.com/PDFs/FPO%20Policy%20&%20%20Process%20Guidelines%20%201%20April%202013.pdf

Fund in NABARD to promote 2,000 FPOs. By 2018, 2,154 FPOs were created under the programme with 70% of them as Producer Companies and the remaining as co-operatives and societies. Subsequently, NABARD introduced a scheme for promoting 3,000 FPOs during the next 2–3 years.

The criteria for the formation of FPOs differed in the above programmes in terms of the number of members mandated for registering a Farmer Producer Organisation. While SFAC mandated 1,000 members per FPO, NABARD FPOs were formed with 300–500 members. In both the programmes, implementation was assigned to the promoting agencies. Each promoting agency was given targets on the number of FPOs to be promoted and incorporated. These targets were to be achieved on a time-bound basis. The target activities included mobilisation of producers into Producer Groups (PGs), registration/incorporation of PO (Producer Organisation), capacity building, training and exposure visits on productivity-boosting practices through the use of modern technology, development of management systems and procedures, business operation and handholding for the development of business activities.

The key objective of these initiatives was to achieve a targeted number of FPOs and various activities as part of the process. Development of production clusters was considered to facilitate a significant volume of marketable surplus available with the FPOs. The goal of the promoting institutions was to achieve the targeted number of FPOs assigned to them over a specified time frame. While SFAC-supported farmer collectives were registered as producer companies, NABARD has supported both co-operatives and producer companies. Thus, about 5,000 FPOs were promoted under both these programmes.

c) **Milestone-Based Approach**

A few of the donor-funded projects to the state governments included FPO promotion as a sub-component of larger projects. Under the World Bank-funded Agriculture Competitiveness project in Maharashtra and Rajasthan, the objective was to increase productivity, profitability, and market access for farmers. For the component of market access, the project envisaged establishing FPOs and linking them to alternate market channels for improving access. Around 400 Farmer Producer Companies were formed in Maharashtra and 30 in Rajasthan under the project.

In the state of Uttar Pradesh, the objective of the World Bank-supported UP Sodic Land Reclamation project was to reclaim the lands affected by the presence of excessive sodium. One of the sub-components of the project was to collectivise farmers whose lands were reclaimed under the project and ensure institutional strengthening and capacity building of these collectives for market access. 120 FPOs are formed in the 29 districts of UP under the project.

The project guidelines under these projects clearly emphasised a market-oriented approach to building the business operation of the FPO and the establishment of business enterprises for farmers. The project was broken down into several activities and targets assigned to the promoting agencies. The activities were milestones specific, with year-on-year achievement for each project activity, such as the number of PGs, the number of members enrolled, the number trained, business turnover, etc.

d. Value Chain-Based Approach

The Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM), the country's largest poverty alleviation programme, has been working with the poor and vulnerable women and bringing them together into Self Help Groups (SHG). A large percentage of SHG members are dependent on agriculture, including livestock and NTFP, for their livelihoods. Self Help Groups (SHGs) are formed at the village level, which are then federated into Village Organisations (VOs) and further into Cluster Level Federations (CLF). Under the sub-component of DAY-NRLM, the Mahila Kisan Sashktikaran Pariyojana (MKSP), small and marginal women farmers are organised into institutions.

At the village level or cluster level, Producer Groups (PGs) were formed with women farmers involved in similar kinds of activities like agriculture, livestock or NTFP.

The approach under the programme envisaged value chain interventions to be developed in geographies where SHGs, social capital and PGs are adequately present. The value chain development strategy promoted market-linked Producer Enterprises (PEs) which have a robust business model for better price realisation of small and marginal farmers. The programme implemented by SRLMs through technical support agencies commences with the identification of clusters with potential commodities. For the commodities identified (approx. 10–20 per state), a detailed commodity value chain development exercise would be taken up to arrive at the appropriate intervention required. Interventions centre on post farm gate value addition and marketing. A planned value chain intervention in the project area precedes the formation of producer groups. The producer groups are then federated to form Producer Enterprises which are registered either as co-operatives or Producers' Companies.

The value chain interventions under the programme contributed significantly to promoting producers' collectives, viz. producers' groups (PGs) and producers' enterprises (PEs) that enable small and marginal women farmers to access markets. As of March 2022, NRLM has supported value chain development proposals covering 81.82 million SHG households. Over 575,000 Mahila Kisan were involved in Producer Enterprise promotion. The interventions are focused on value addition and market linkages through Producer Enterprises in vegetables, black gram, green gram, groundnut, maize, mustard, paddy, pigeon pea, wheat, dairy, fishery, piggery, duck farming, goatery, backyard poultry, honey beekeeping, floriculture, mango and ginger, cashew, hill broom, tamarind, amla (Indian gooseberry), bael (stone apple), salai gum (Indian Olibanum), and other Non-Timber Forest Products (NTFPs). DAY-NRLM has promoted over 1,000 FPOs through a value chain approach.

DAY-NRLM launched a collaborative effort with Tata Trust and established the Foundation for Development of Rural Value Chain (FDRVC) to bring about a systematic approach to value chain intervention. FDRVC helps in income enhancement of farmers by organising them into large Producer Enterprises.

Box 1.1: Collaborative Efforts in the Creation of Producer Enterprise – FDRVC and BWFPC

Bethalaswamy Women Farmers Producer Company (BWFPC) was established in June 2021 with the help of Telangana State – Society for Elimination of Rural Poverty (CBBO – TS-SERP) under the guidance of the Implementing Agency-Foundation for Development of Rural Value Chains (IA – FDRVC) in Alladurg block of Medak district, Telangana. It has a membership of 977 farmers from 75 farmer producer groups (PGs) spread across the block and share capital of Rs 0.48 million. The principal crops in the regions are bengal gram, groundnut, jowar, and onion.

The FPO began its business operations with onion. Farmers in this region largely grow onions of Panchganga (pink onions) and Pardesi (red onions) varieties in the rabi season. During the harvest season, the FPO has been helping its farmers with the sale of onions by collectively purchasing the produce and sale of the same. As is the case with a majority of the farmers across our country, the farmers in this region have also been selling their produce in lots to the local middlemen without grading and sorting the produce, which usually fetches lower returns. The FPO has trained the farmers to grade and sort the produce as per the market standards. This has enabled the farmers to grade their produce into three major grades according to the diameter of the onions – small (45–55 mm), medium (55–75 mm), and big (75–95 mm). The FPO collects the produce from the farmers as per the grading standards set by the modern retail trader chains through the Village Level Procurement Centres (VLPCs). The FPO then sells the aggregated produce to Be'Nishan, which is a producer company promoted by

TS-SERP. Be'Nishan enables sale of produce to modern retail trade chains as well as other food processing companies. Be'Nishan then pays the due amount to the FPO.

The FPO is supported both by SERP and FDRVC in the incorporation as well as operations of the FPO. FDRVC has been providing strategic guidance and capacity building support through workshops on the incorporation of an FPO, shareholder mobilisation, and preparation of AOA and MOA, share allotment procedures and compliances that need to be followed by the FPOs as per the Companies Act 2013 and the operational guidelines of the Central Sector Scheme. Apart from these FDRVC provides timely inputs and advice on availing various benefits of the scheme, application for matching equity grant and formulation of plans to utilise the same and guide in application for Credit Guarantee Fund, Agriculture Infrastructure Fund, and other state and central government schemes that are aimed toward the welfare of farmers as well as support for FPOs. Further, FRDVC also helps the FPOs in developing their business plans, thus ensuring their successful business and thereby growth and stabilisation.

e. **One District One Product (ODOP) approach**

Under the Central Sector Scheme of "Formation and Promotion of 10,000 Farmer Produce Organisations (FPOs)" launched in 2020, the approach was to form "One District One Product" (ODOP) clusters. The scheme envisages reaping the benefit of scale in terms of procurement of inputs, availing common services and marketing of products. The scheme provides a framework for value chain development and alignment of support infrastructure. There may be more than one cluster of ODOP products in one district. There may be a cluster of ODOP products consisting of more than one adjacent district in a state.

The government had assigned the task to nine implementing agencies that will engage promoting institutes referred to as Cluster-Based Business Organisations (CBBOs) to aggregate, register, and provide professional handholding support to each FPO for a period of five years. The handholding support will cover all aspects of management of FPO, inputs, production, processing and value addition, market linkages, credit linkages, and use of technology. The objective of long-time support is to build the capabilities and entrepreneurship skills of the FPOs to become economically viable and self-sustaining post government support. The cluster-based, ODOP approach is expected to lead to the formation of specialised FPOs which would be forwardly linked to markets and agri-value chains.

Over the years, the government supported programmes of FPO promotion have evolved from being a small component of a project to a large-scale pan India programme. The approach changed from being focused on numbers and business orientation to a closely monitored cluster-based approach that would achieve both scale and commodity value chain development. The objective of promotion emphasised not only creating FPOs but also promoting production clusters of specific commodities. The allocation of funds and matching grant support to leverage finances, though, was hindered by process and procedural delays. While the schemes helped in the growth of numbers, it is to be seen if it matches the success rate of these collectives and in income enhancement to the smallholder farmers.

1.2.2 Promoted by Organisations with Sector-Focused Competencies

a) **Commodity Approach**

In sharp contrast to the promoting agencies that were constrained on financial resources and were dependent on project-based funding, certain large organisations with high competencies and endowed with rich resources are promoting high achieving FPOs.

- The NDDB Dairy Services (NDS) Company is one such organisation that has an in-depth understanding of the milk sector with several years of experience in dealing with the commodity. It has access to capital both from internal resources and the capacity to source external funding. NDS supported the incorporation of 16 Milk Producer Companies (MPCs) in 10 states in India between 2012 and 2021. Out of these, six MPCs were promoted under National Dairy Plan I in the states of Rajasthan, Punjab, Uttar Pradesh, Gujarat, Andhra Pradesh, Tamil Nadu, and Bihar. Five greenfield MPCs were set up for Tata Trusts in Maharashtra, Rajasthan, Punjab, Haryana, and Uttar Pradesh, and five more for NRLM/SRLMs in Rajasthan, Uttar Pradesh, Bihar, and Madhya Pradesh. These companies achieved scale in membership, turnover, and market reach. Together, the 16 milk producer companies enrolled about 0.697 million milk producers as members as of January 2022. All the companies put together procure about 2.9 million litres per day of milk and have a share capital of Rs 1,670 million. The turnover of these companies was Rs 47,920 million for the year ending March 2021.

NDS is planning to facilitate FPCs in the non-dairy sector (mainly horticulture) in the near future.

- Another example where sector competency supported FPO promotion is the poultry sector. The National Smallholder Poultry Development Trust (NSPDT) promotes a smallholder community poultry model enabling poor women in rural India to start and run successful poultry enterprises. The model adopts industrial poultry to a small woman farmer in a remote village. It organises women into collectives, creating systems and processes for them to attain industry competitive production and scale efficiencies. Women from poor families are organised into co-operatives with each woman rearing broilers in modern poultry farms built in her backyard. A mature co-operative typically has 300–500 members. Co-operatives across a state or region form a federation. This enables members to attain economies of scale in procuring inputs, improved compliances, and access to professional and technical support, while providing

Table 1.1: Milk Producer Companies (MPCs) Facilitated by NDDB Dairy Services (NDS) Incorporated/ Operationalised till March 2021

Sn.	Category	No. of MPCs	No. of States Covered (Operational Area)	Current Status as on Jan 31, 2022			FY 2020–21	
				No. of Villages Covered	No. of Members	Share Capital (Rs In Million)	Avg. Daily Milk Procurement ('000 LPD)	Total Revenue (Rs in Million)
1	National Dairy Plan	6	7	12,469	509,762	1,450	2,566	42,550
2	Greenfield- Tata Trusts	5	5	2,126	89,435	140	235	3,700
3	Greenfield-NRLM/SRLM	5	4	2,410	97,949	80	97	1,670
	Total	16	10	17,005	697,146	1,670	2,898	47,920

Source: NDDB Dairy Services

a platform for sharing knowledge and process among member co-operatives and building solidarity. The federation ensures that co-operatives remain competitive, adapting and responding to techno-commercial changes in the industry. NSPDT has so far promoted 15,000 women poultry producers in 27 poultry producers' organisations (Co-operative & Producers company) in MP, Jharkhand, Maharashtra, Assam, and Odisha. Total turnover was more than Rs 5,240 million and members' profits more than Rs 400 million.

- Some of the state-supported programmes, such as the Coconut Development Board and Spices Board, among others, are also engaged in commodity-specific FPO promotion as part of their mission. There are 445 spices FPOs[2] promoted by Spices Board in 21 states, including Producer Companies and Societies. The Coconut Development Board has promoted 60 coconut FPC in four states and has nearly 10,000[3] coconut farmers' societies.

For the commodity-specific collectives, large volumes, guidance from an experienced mentor, growing market demand for the commodity, and adequate funding support are appropriate ingredients for success. With a large membership base, these FPOs can build their paid-up capital and their capacity to leverage credit to increase business transactions. The Milk Producer Companies (MPC) have the practice of deducting small amounts daily from payments due to the members, which increases the member's share capital in the company over the years. Therefore, there is a fast increase of paid-up capital.

1.2.3 Promoted by NGOs, Social Enterprises

Civil Society organisations are highly active in the FPO space. Majority of promoting agencies under the government programmes are NGOs. However, a few of them also promoted FPOs as part of their programmes without being part of any scheme or project. With strong handholding

2 http://www.indianspices.com/sites/default/files/FPO_List_2021.pdf

3 https://coconutboard.in/EPC/cps_search.aspx

support offered by the NGO, some of these FPOs have grown into successful collectives in niche areas. In addition to not-for-profit organisations, a few social enterprises are also foraying into the FPO promotion.

- Cofe Farmer Producer Company Limited (CPCL) was promoted by SRIJAN (Self Reliant Initiatives through Joint Action) in November 2015 as a Producer Company. The FPC operates in 200 villages of Mohkhed, Bicchua, Chhindwara, Pandhurna, Sausar, and Chourai blocks of Chhindwara district in Madhya Pradesh. The FPC is a women member FPC with 905 shareholders. Most of the shareholders are active members and are small and marginal farmers. The total land catchment area of the FPC is nearly 1,300 acres. CPCL is engaged in agri-input marketing and agri-produce marketing, especially in soybean, wheat, paddy, maize, and raw fruits and fruit pulp through their collection centre. For backward linkage, the FPC operates an agri-input shop and has linkages with local dealers. CPCL has a custard apple processing unit and they supply pulp to a food processing company. In the financial year, 2020–21 the turnover of FPC was Rs 4.86 million with a profit of Rs 0.25 million.
- Kalisindh Farmer Producer Company Ltd (KFPCL) was promoted by CARD (Centre for Agriculture and Rural Development), a Non-Government Organisation, promoted at Dhabla Hardu in Tarana block, District Ujjain, Madhya Pradesh. The FPC covers 25 villages in two blocks, named Tarana and Mahidpur. The FPC has 970 shareholders (340 women) with an active member base of 640. The major commodities identified for undertaking target business activity by KFPCL are soybean, wheat, gram, potato, onion, and garlic. KFPCL has a strong backup of committed promoters and directors who have expertise in agriculture production and an in-depth understanding of the collective marketing concept. The main revenue-generating business activities are collective purchase of inputs including seeds, pesticides and fertilizers, equipment hiring services, seed production, product aggregation, and marketing of produce and primary processing of agricultural

produce, i.e., cleaning, sorting, and grading of the produce. The FPC has reported a turnover of Rs 5.66 million in the year 2019, which increased to Rs 30.28 million in the year 2021.

– Chirayu Women Crop Producer Company Limited, Bhoura (CWCPCL) in Betul district, Madhya Pradesh, was promoted by PRADAN, a Non-Governmental Organisation. It serves 1,000 women shareholders for the production and marketing of maize, gram, and wheat. CWCPCL adopted a two-pronged strategy to popularise hybrid maize among smallholders and stabilise the yield of the crop by introducing better crop management practices and relentlessly working for expanding market linkages for maize. In 2018–19, CWCPCL initiated hybrid maize seed production at a small scale in collaboration with Syngenta Foundation India. Over the next three years, seed production became a major source of revenue for the enterprise and ensured that the shareholders have access to a good quality hybrid at a cheaper price. In 2021–22, seed production has been taken up in eight acres of land, which is expected to produce 10 tons of quality hybrid seeds. CWCPCL has a turnover of Rs 26.4 million in 2020–21. In 2019–20, CWCPCL has been awarded as the best FPO (in the small category) by Access Development Services and Rabo Bank.

Driven by the promoting organisation with strong philosophies of upliftment of the poor and the marginalised, the FPOs promoted by NGOs are handheld for a longer period. They facilitate sustainable growth and ensure accrual of benefits to the members. The revenue grows slowly but the promoting agency ensures laying strong foundations of principles of co-operation in achieving member centrality, equity, and self-help among the members.

1.2.4 Promoted by Corporates

A small number of FPOs are promoted by corporates with the purpose of being mutually beneficial. It can be considered as a part of giving back to society through foundations established for this purpose. They undertake activities that conform with the philosophy of the organisation. Such programmes have a diverse portfolio of projects and activities spread in the geographic area of operations of these companies. The recent push of promoting farmer collectives had influenced these organisations to take up the FPO promotion.

In general, corporates tend to promote FPOs in their catchment areas where agriculture-related projects are implemented with smallholder farmers. This ensures assured supply for its operations, for example, supply of fruits and vegetables for food retail stores, bio-mass supply from the FPC to the power plants and cement factories, etc. The member farmers of the collectives are benefitted from the assured market and timely payment from such arrangements.

Under the Bharat India Jodo (BIJ) rural transformation project of the Reliance Foundation, 30 FPOs were formed in 550 villages. Keeping the community and their development needs in the centre, the programme aims to mobilise, organise, and strengthen the capacity of communities by adopting participatory processes. These interventions are designed to promote collective ownership, and decision-making and catalyse collective action for sustainable development.

The agriculture livelihood promotion activity of Ambuja Cements aims to support with affordable inputs and a stronger capacity for collective bargaining for farmers via the formation of a Farmer Producer Organisation to increase the productivity and profitability of all members. The Ambuja Cements Foundation (ACF) has established 20 FPOs. ACF helps to facilitate market linkages so that each farmer producer organisation can cut out the middlemen and generate better profits for their members. The FPCs also meet the requirement of the cement factory of ACL through the supply of biomass.

This category of organisations got a big impetus with the notice issued by SFAC in 2022[4] inviting entities with a turnover of over Rs 2,500 million and have been sponsoring and implementing Corporate Social Responsibility (CSR) activities directly or through their foundations/trusts for empanelment for promoting specialised FPOs focusing on agri-value chain.

4 http://sfacindia.com/PDFs/Tenders/Notice-Empanelment-of-Corporate-Organizations-CSS-Formation-and-Promotion-of-10000-FPOs.pdf

Box 1.2: Serving Each Other's Interests – A Case of RPCL and ACF

Rupnagar Producer Company Ltd (RPCL) was promoted by Ambuja Cement Foundation (ACF) in Punjab. It was incorporated in 2013 with farmers from the surrounding villages of its cement plant in Ropar.

In the initial years, the FPC was engaged in the aggregation of bio-mass material from local farmers and supplying it to the power plant of Ambuja Cements Ltd (ACL) in Ropar. For the first two years, the FPC continued with one single business activity of bio-mass aggregation. This gave visibility to the FPC among the farmers' community. In the third year of its operations, it started offering services to its farmer members in the form of renting out farm machinery. This enhanced the credibility of the FPC among farmers who were faced with issues of accessibility and affordability of hiring farm machinery in the area. Subsequently, the company expanded its business to input supply, and output marketing by providing remunerative prices to the members.

The input centre of RPCL, which started with fertiliser sales, now deals with seeds, pesticides, and weedicides. Members get inputs at 5–10% lower cost than the market. RPCL is providing Rs 18 per quintal to farmers as a bonus through wheat and paddy procurement on the MSP rate. By providing CRM (crop residue management) machines to its members, RPCL is able to contribute to burning free area of about 200 acres.

Members continue to supply biomass to ACL Company through RPCL, thus meeting the requirement of the plant. RPCL has nearly 500 members and its turnover increased from Rs 1 million in 2013 to Rs 42 million in 2022.

1.2.5 Promoted by Philanthropic Organisations

These organisations work for community development and empowerment. They strive to build institutions that are sustainable, scalable, and create an impact on both economic and social fronts among the people with whom they work. Harsha Trust, Odisha (2 FPOs), Deshpande Foundation, Karnataka (7 FPOs), Mann Deshi Foundation, Maharashtra (1 FPO), Hans Foundation, Haryana (2 FPOs), and MS Swaminathan Research Foundation, Tamil Nadu (12 FPOs) are some of the philanthropic foundations engaged in FPO promotion.

1.2.6 Promoted by Farmers

Ideally, FPOs are formed by coming together of a group of farmers who join hands with a common vision and mission. However, this mostly happens with the external intervention of a promoting agency that plays the role of a catalyst in bringing the farmers together, building awareness, providing capacity building, and handholding support for the growth of the collective. In a few cases, FPOs were formed by farmers themselves without such intervention by an external agency. Driven by a common cause and led by an enterprising individual farmer or a group of individuals they work together to build a collective to solve the problems faced rather than wait for the government or others to help. Referred to as self-promoted FPOs[5], these constitute a small percentage of FPOs in the country.

- Known to be of the farmers, by the farmers and for the farmers and consumers, Sahyadri farmer producer company is one such FPC established by smallholder farmers coming together for greater impact through co-operation. By focusing on crop-specific (grapes) integrated value chain, the FPC achieved scalability and sustainability and also reached the consumer directly. With over 10,000 members from over 120 villages, the FPC is one of the largest producer organisations in the fruits and vegetable sector and India's largest exporter of grapes. It exports to over 40 countries and reaches nearly 33,000 customers.

5 http://sfacindia.com/PDFs/List-of-FPO%20identified-by-NONSFAC/Self_Promoted_FPOs.pdf?var=9958569.25855

Box 1.3: For the Farmer and the Consumer by the Farmers – Sahyadri Farms

To make small landholding farmers independent and self-sufficient, Sahyadri Farms, an FPC registered in 2010, aims to achieve the twin goals of farmer sustainability and consumer benefit. The FPC is 100% owned and managed by farmers. Starting with 100 farmers in 2010, Sahyadri Farms is a success story with 10,000 farmers collectively owning about 25,000 acres in the Nashik region of Maharashtra and producing about 1,000 tonnes of fruits and vegetables daily. Sahyadri Farms is the biggest exporter of grapes in India. Around 60% of Sahyadri Farms' fruits and vegetables are exported and 40% are sold in India.

Sahyadri manufactures and markets different kinds of value-added products of vegetables and fruits, such as pulps, dices, fruit juices, slices, ketchup, frozen vegetables, and fruit jams under the brand name of Sahyadri Farms. It sells these through retail stores in Mumbai, Pune, and Nashik and home deliveries through its e-commerce platform. The FPC provides better prices to its members for their output through value addition and export market, and lowers the cost of production by supplying inputs that cost less than the market rate.

Driven by a vision of an enterprising farmer to create crop-specific integrated value chains empowered by technology and efficient management, Sahyadri FPC grew to become the country's largest FPC with a revenue of over Rs 5,000 million.

- Nachalur Farmers Producer Company Ltd (NFPCL) in Karur district in the state of Tamil Nadu is another farmer promoted collective incorporated in 2012 with 50 farmers that grew to 350 members by 2021. It covers 50 villages in the district and focuses on the supply of quality seeds, fertilisers, and pesticides to its members.
- India Organic Farmers Producer Company Ltd (IOFPCL) is an exclusive organic farming focused FPC promoted by farmers.

IOFPCL is situated at Aluva in Kerala. It claims to be the largest organic producer company in India owned by the farmers. The company serves more than 2,500 primary producer members in Kerala, Karnataka, and Tamil Nadu.

Box 1.4: Price Benefit through Exports – IOFPCL

IOFPCL was founded in the year 2004 and incorporated under the Companies Act of 1956, which is emboldened to take on the challenges to assist the member farmers in the production, procurement, processing, and marketing of organic and Fairtrade certified products in the domestic and international markets. The company pays a premium price to the producers through collective marketing efforts.

IOFPCL has been registered with the Directorate General of Foreign Trade as an Importer–Exporter. The Company is also a 'Registered Exporter Member' of the Spices Board, Coffee Board, and Agricultural and Processed Food Products Export Development Authority (APEDA). The company has been successful in exporting organic and Fairtrade products. IOFPCL is certified organic by INDOCERT as per Indian, EU, and USDA NOP. The company is FLO Fairtrade Certified by FLO-CERT Germany.

IOFPCL is mainly engaged with the procurement of Organic and Fairtrade certified cocoa, coffee, pepper, vanilla, cashew, nutmeg, turmeric, ginger, and coconut from the members for domestic and international markets. IOFPCL exports cocoa to Switzerland and Germany, coconut oil to France, and coffee to Germany. The company had a turnover of Rs 26 million in 2021, of which 60% is from exports.

With a motto of "self-help as the best help", self-promoted FPOs demonstrate a significantly higher potential to grow. With farmers themselves at the helm of affairs, fellow farmers are more amenable to joining the collective, thus making mobilisation and growth of membership of the FPO much easier than other modes. Member loyalty and member centrality-based operations support the growth of such FPOs. Equity mobilisation and capital formation, and further support to the FPO in leveraging investments, and strong leadership with the interest of farmers at the core is central to augmenting the growth of this category of FPOs.

Annexure I provides a summary of various types of FPOs promoted by a variety of promoting agencies.

1.2.7 Women Producer Companies

A special reference to women farmer producer companies warrants discussion. According to an Oxfam research study, the agriculture sector employs 80% of all economically active women in India, which comprises 48% of the self-employed farmers and 33% of the agriculture labour force. Also, 85% of rural women in India are working in agriculture. However, none of the FPO promotion programmes announced by the government till date specify organising exclusive women FPOs or mandate a minimum number of women shareholders in an FPO in their guidelines except for the requirement of at least one woman member on the Board.

There is no gender-disaggregated data readily available but some studies estimated that about 3% of the FPOs in the country are all women FPOs (Neti & Govil, 2022). With 80% of the agriculture workforce being women, this is a matter of concern. Though the number of women FPOs is small, some of them stand out for successfully operating and ensuring the economic empowerment of women.

The participation of women in self-help groups (SHGs) over three decades has impacted the economic, social, and political empowerment of women positively. SHGs and federations have been demonstrated as self-reliant institutions. These entities not only performed well in making credit accessible to rural women but also functioned in the areas of sustainable agriculture, education, health, solid waste management, etc. NRLM has, therefore, increased its focus on FPO promotion of women farmers, which gives scope for more women FPOs in the future.

Box 1.5: Aamon Women Producer Company – A New Hope for Tribal Women Farmers

NRLM promoted SHGs with 5,000 women from the far-flung tribal hinterland of Nayagram block of Jhargram district, West Bengal. These women revived the auspicious indigenous varieties of paddy with the help of PRADAN (a national level NGO) and adopted completely organic practices to grow these varieties. They could double their income by selling through the producer company Aamon. Aamon is the new hope for many Santahal, Mahato, and Sabar women in Nayagram block of West Bengal.

Aamon women farmers followed the decision of the FPC to grow black rice and took up cultivation. Earlier, the paddy would sell for Rs 11–13 per kg, while the black rice now sells for Rs 34 per kg and the other varieties fetch Rs 20–25 per kg. The women witnessed a jump of two to three times in their incomes. Women are now diversifying their portfolio to add new products such as turmeric, medicinal herbs, and Sal leaf plates. Around 1,500 women farmers have sown turmeric over 20 hectares. Another 300 farmers are growing medicinal herbs over 40 hectares.

To process the rice, a rice processing mill was set up in Murakathai village that is managed and operated by the women themselves. The mill has a capacity of one ton per day. Aamon has appointed women as purchasing officers in the villages. They check the quality and procure the rice as per the order. They then send it to the mill, where it is processed and given to transporters who ferry it to the traders. The storage model is unique as well. The FPC does not have a warehouse for storage. After harvesting, the farmers store the produce in their houses till it is sold.

Now that the women are growing other products, more mills have been established like the one at Baksa village for turmeric production with a capacity of three quintals per day. The turmeric will be brought to the mill where it will be water-cleaned, air-dried, and pulverised, to be sold as turmeric powder. A production unit for making Sal leaf plates has been put up in Chandabila village. It can make 10,000 to 15,000 plates in an eight-hour shift. A centre for bio inoculants has also been set up where biofertilisers are produced and provided to the farmers at subsidised rates.

Aamon had a turnover of around Rs 3 million in 2021. It had developed its client base across India and gained significant credibility in the market. Aamon managed to tie up with respectable business partners across India. In 2021, the famous Balaji temple in Tirupati purchased aromatic rice from Aamon as well. In 2022, the farmer producer company got orders for black rice worth Rs 15 million.

The experience of Aamon has been unique to women. Nayagram block of Bengal's Jhargram district was caught in a cycle of Maoist violence and poverty. The cultivation of organic indigenous rice varieties has brought hope and prosperity. It delineated the pathways for SHGs to reach the next spiral of livelihood augmentation.

1.3 FPO Federations

With individual FPOs facing challenges due to smaller business volumes and size to attract capital, markets and other ecosystem services, higher-order collectivisation (that is collectivisation of collectivisation) in the form of federation/consortium was considered advantageous to address the challenge. An exemplary example of this is the success of SHG Federations in addressing the issues and challenges faced by the SHG movement in India and ensuring the sustainability of the SHGs. This institutional innovation in the form of the federation was able to overcome the inherent limitations of small and informal groups – the SHGs – such as limited resources, capabilities, bargaining power, connection with the market, etc. The benefits of this higher-order collectivisation include, a) economies of scale, b) reduced transaction costs, c) value-added services, d) increased member engagement, e) financial stability, and f) improved market linkages and channels. (Reddy et al, 2012).

In this context, SFAC undertook an initiative in 2014–15 to establish state-level federations of FPOs to develop umbrella support for member FPOs in the state. The primary objectives of setting up such institutions were to bring strong co-ordination among FPOs, enable policy dialogue with other actors, access to services and inputs, capacity building needs, avail credit support, value addition activities, and establish viable market linkages. Such federations help FPOs build networks across the country, enter into agreements with large market players, and deliver the value to the member FPOs and farmers associated with them. The business plan of the federations is to be aligned with the business plan of member FPOs (not covering all products and business areas but which are common and/ or where gaps exist).

Eight such state-level federations have been supported and registered under SFAC, namely:

- Madhya Bharat Consortium of Farmer Producers Company Limited (MBCFPCL), Madhya Pradesh
- Maha Farmers Producer Company Limited (MahaFPC), Maharashtra

- Gujpro Agribusiness Consortium Producer Company Limited (GUJPRO), Gujarat
- Telangana Rythu Producer Company Limited (TRPCL), Telangana
- UPPRO Kisan Producer Company Limited (UPPRO), Uttar Pradesh
- All Rajasthan Small Farmer Agri Producer Company Limited, Rajasthan
- Bangia Farmer Producer Company Limited, West Bengal
- Tamil Nadu Consortium of Farmers Producer Company Limited, Tamil Nadu

In addition to the above, a few federations (commodity-wise or regional level) have also been formed and facilitated by different promoting agencies or self-promoted and are actively functioning. For example, Vasundhra Agri Horti Producer Company Limited (VAPCOL) promoted by BAIF which has member FPOs from Gujarat, Maharashtra, and Madhya Pradesh; M-Tomato FPO Federation by APMAS which has member FPOs from Chittoor District, Andhra Pradesh; Northern Farmers Mega FPO (self-promoted) which has member FPOs from Punjab and Haryana; Sahaja Aharam Producer Company Limited promoted by Centre for Sustainable Agriculture which has members from Telangana and Andhra Pradesh, etc.

These FPO federations offer a wide range of services to their FPO members, which include input aggregation of farm inputs, market intelligence and crop advisory, infrastructure creation and efficient supply chain, wholesale and retail operations of farm produce, market access programmes – contract farming, forward-backwards linkages, digitisation of FPOs, farm mechanisation, market connect, storage and warehousing, agri-produce marketing and branding, national and international trading, processing and value addition, among others. Table 3.2 below provides information on some of the federations working with FPOs.

Table 1.2: FPO Federations

Particulars	MBCFPCL	MahaFPC	GUJPRO	UPPRO	M-Tomato FPC	Northern Farmers Mega FPO
Year of Establishment	2014	2014	2014	2015	2019	2020
Number of FPO Members	137	600	30	41	14	43
Farmer's Outreach	175, 000	200, 000	45,000	36,488	10,148	12,000
Share Capital (Rs in million)	5.33	7.00	0.84	0.90	11.60	2.40
State covered	MP & Chhattisgarh	Maharashtra	Gujarat	Uttar Pradesh	Andhra Pradesh	Punjab & Haryana
Districts Covered	43	28	13	20	1 (14 mandals)	18
Turnover (Rs in million)	293	Rs 06 billion	320	21.30	11.30	43.5

1.4 Key Learnings and Conclusion

Though there is no assessment to show which approach to the formation of FPOs proved best, it is an established fact that member involvement is centric for the success of any type of collective. Each type of approach to promoting the FPOs has its own merits and demerits and no one approach is foolproof.

The government approached the process of promoting FPOs with the twin objective of achieving scale and increasing the incomes of the small farmers. The programmes evolved over the years, leading to a commodity-focused approach which concentrated on specific areas and value chain development. The positive aspect of this approach is simultaneous coverage of a vast geographical area, scope for leveraging benefits from other government programmes, resource availability, and the emergence of suitable policy initiatives prioritising the objectives of the government to support small farmers. Further, the success of the commodity focus approach is well established in milk and poultry both in terms of scale and increased incomes to the members. Therefore, the objectives of the government programmes are well-founded. However, the promoting agency's engagement to tackle procedural delays and the need to stick to quantitative targets often take priority.

The NGO approach, on the other hand, gives emphasis on long term handholding and engagement with the FPOs, which is beneficial for the steady growth of the FPO. Though the scope for scale, funding, and pace of growth remains limited, strong member-centric organisations are likely to get established.

The corporate foundations with a clear vision to benefit from the collective ensure benefit to the members through timely payments and enable development in specific geographical areas. The numbers promoted are limited to the corporates who wish to involve in FPO promotion. The foundations provide funding support as per the internal budgetary allocations.

The philanthropic foundations have a motive to help the community promote FPOs for the overall growth and development of farmer members. The pace and scale maybe limited in the model but it supports a member-centric entity to accrue benefits to the members.

The self-promoted collectives are established with an objective of self-help and, therefore, have a large scope for member engagement. The driving force behind this type of FPOs is leadership. Many such FPOs showed exemplary performance. With the active involvement of farmers themselves they invest and reap the benefits. The growth in numbers of such FPOs solely is dependent on the availability of enterprising leaders in large numbers.

The promotion of farmer's collectives has come a long way both as co-operatives and producer companies. Producer companies, in recent times, gained importance and picked up momentum with large scale support from the government. Promoting agencies play a crucial role in laying the foundation for the growth of the FPOs to become self-sustaining successful business enterprises. However, the FPOs need nurturing, training, capacity building and support to get connected to the larger ecosystem. Promoting agencies play the role of catalysts for this. Various approaches adopted by the promoting agencies, their experience and expertise in designing interventions for nurturing successful FPOs have a definite bearing in this process. Increasing focus on holistic value chain development and a cluster-based approach is a welcome change to the promotion of farmers' collectives.

Annexure 1: Categorisation of FPOs

Category	Govt Programmes					Sector-Focused Organisations	NGOs	Corporate Foundations	Philanthropic Organisations	Individual/ Group of Farmers
Approach	Initial Phase	Scale-oriented approach	Milestone-based approach	Value Chain approach	One District One Product (10K FPOs)	Commodity approach (Milk/Poultry)	As a constituent of a project	Mutual benefit	To help farmers	To meet felt needs
Implementing Agency	DPIP	SFAC/ NABARD	State projects / MACP/ RACP/ UPBSN	NRLM	SFAC/ NABARD/ NCDC	NDS/ NSDT	SRIJAN, CARD PRADAN etc.	RF, ACF, etc.	Harsha Trust, Manndeshi Foundation, etc.	Farmers
Objective	Economic well being	Increase the universe of market-oriented FPOs	Make FPOs business-oriented entities	Build value chain focused FPOs	Promote product-oriented clusters	Achieve scale in specific commodities	As part of project/ pilot	Establish FPOs that confirm to organisational philosophy	Community Development	Self-help
Promoting Agency	NGOs	RI/POPI	Resource Institutes	Resource Institutes	CBBO	Commodity specific entity	NGOs	Corporate or Hired agency	Trusts/ Foundations	Group of farmers
Legal form	FPC/ MACS	FPC/Coop	FPC	FPC/ Coop	FPC/Coop	FPC/Coop	FPO/Coop	FPC/Coop	FPC/Coop	FPC/Coop
Gender	Gender agnostic	Gender agnostic	Gender agnostic	Women	Gender agnostic	Gender agnostic	Gender agnostic	Gender agnostic	Gender agnostic	Gender agnostic
No. of members		300–1000	1000	300–500	300–500	>1000	300–500	300–500	300–500	>100

Category	Govt Programmes					Sector-Focused Organisations	NGOs	Corporate Foundations	Philanthropic Organisations	Individual/ Group of Farmers
Funding to FPO	Rs 2.50 million WC Fund	Rs 3.00 million for 3 years	Rs 2.50 million CIF	Varies from state to state	Rs 1.80 million for 3 years	Project funds	Project Funds/ Grants	CSR Funds	Grants	Initial investment/ Equity/ leveraging of Govt Schemes
Funding to PA per FPO	Rs 0.25 million / year-staff salary	Rs 1.08 million for 3 years	Activity wise fund allocation		Rs 2.50 million					
Equity Grant		Rs 1.00 million	-	Can leverage from Govt schemes	Rs 1.50 million					
Credit Guarantee		Up to 85% on collateral free loan	-		Up to 85% on collateral free loan					

CHAPTER 2

FPO Promise of Plenty: Models that Work

Anish Kumar
Vijayaragavan Ramanujam

Summary

Agriculture is the largest source of employment in India. Over 80% of our farms come under either the small or marginal category. Of this, 55% of agricultural land has no source of irrigation – these are tracts that feed 40% of our food requirements. Unless farmers have safety nets in the form of input and output linkages, monitoring, advisory services, and access to information and technology, these farmer segments remain vulnerable. Several studies show us that farm income has been stagnant over the last decade. The primary reason for this is that agriculture in India is mostly rain-fed, uses low-technology, poor-quality inputs, and highly restricted access to free and fair markets. Simple analyses of prices of farm produce reveal that even during good monsoon years when production and crop quality have been good, produce prices have remained stable or have decreased. There is an immediate need to develop models that address the challenges of the small and marginal farmers of this country. Farmer Producer Organisations (FPOs) have emerged as the preferred institutional mechanism in tackling the challenges of small farmers by the government and its policymakers. FPOs promise a more accountable institutional model for addressing their challenges.

As per the latest statistics with NAFPO, there are 24,183 FPOs in the country and most of them have been incorporated in the last five

years. Several business models have been adopted by the FPOs to achieve viability and the intended socioeconomic outcomes as well. Some models have been discarded, while most have been adapted and improved upon over the years. These business models can be categorised roughly into six models into which the 24,000 FPOs fit. This chapter discusses the six models, viz. simple aggregation and sale of produce, trading and processing, trading, processing, marketing, and services, commodity-specific forward and backward linkages, fledgling FPOs with market orientation, and value chain orientation models, which aligns with the typology of the FPOs promoted by various agencies.

2.1 Introduction

Government estimates indicate the Indian agriculture sector is set to grow by 3.5% in FY 2022–23; the agriculture industry is exhibiting a growth rate (CAGR) of 12.3%; agricultural and processed food products exports are up by 13%, touching a historic high of $ 50 billion in FY 2022–23; various studies like Ag Census, Situation Assessment Survey of Agricultural Households (SAS-77); NABARD All India Financial Inclusion Survey (NAFIS), and the recent paper by Prof. Ramesh Chand (*policy paper no.1/2017*) all show income of cultivators has increased by less than 1%.

FPOs confront this *penury in plenty*. The institutional response of FPOs seeks promise in *Scale of Problem as Scale of Opportunity*. Success is determined by the robustness of linkages with the high-growth segments of the value chain, which is showing 10% growth. The ability of FPOs to connect to this opportunity is greatly shaped by the promoters' vision and competencies.

2.2 Evolving Small and Marginal Farmer Landscape: Emergence of FPOs

The income crisis of Indian farmers is multivariant, defying all efforts. All aggregate numbers indicate the rapid consumer growth in the Indian market with high disposable income, as also India emerging as a global sourcing hub (both of fresh and processed foods) presents an opportunity for farmers. This needs new mechanisms to link with dynamic market opportunities and build value chains linking producers to consumers; the traditional value chain dominated by local merchant capital with a short-term view is ill-equipped for this challenge. Meaningful assured arrangements of private enterprises in supply chain with farmers can open new spaces for long-term market integration for small-marginal farmers. Re-configuration of the traditional eco-system of coupled input-output trader, usurious informal capital market and subsistence-focused agriculture into surplus-production commercial opportunity will be required, building on much better communication, road infrastructure, and presence of new-age market solutions and collectivisation of farmers.

Disadvantaged farmers, including women, face constraints at various points in the agricultural value chain; most own tiny plots of land, often in fragments and unirrigated, and many are entirely landless, although agriculture is their main source of livelihood. As a result, they are unable to take advantage of economies of scale, or invest in lumpy inputs such as irrigation, technology or machinery. Most importantly, on an individual basis, they lack the bargaining power to deal effectively with government institutions and markets (be they markets for land, inputs, or farm produce). Given these constraints, they are also unable to take advantage of emerging opportunities for increasing their crop output or moving to higher-value products, or making profitable market linkages. Given the gridlock of fragmented factor productivity in low equilibrium, the shift from an individual-oriented approach to a group-oriented approach is accepted. Various efforts have been attempted with a group approach at different points in the value chain, from accessing land to joint cultivation to crop planning, input purchase and marketing, depending on the context, and we have had success stories; however, large-scale sustainable models across government, civil society, and even the private sector is largely elusive.

Farmer Producer Organisations (FPOs) promise a more accountable institutional aggregation model for linking farmers to the input-output markets. FPOs have gained credibility in recent times because of their ability to link producers and markets and promote economies of scale (Trebbin, 2014; 2016), and evidenced to support higher revenues and success in establishing linkages between farmers / producers and market. With the fragmentation of holdings being a continuing phenomenon, FPOs offer a form of aggregation to individual producers and use the strength of collective planning for production, procurement, and marketing to add value to members' produce. Multiple tailwinds on the policy front: inclusion of FPO credit in the Priority Sector, five-year tax breaks, development of 10,000 FPOs, preferential access to public schemes and intent of the private sector to integrate FPOs in their supply chains underscores this opportunity.

2.3 Mutuality Lock of Shared Prosperity

Beyond demonstrative FPOs, fundamental reconfiguration of factor conditions is required to catalyse capital, technology, and market access to drive value growth. It is pertinent to go beyond addressing issues of crop planning, technology infusion, input supply, and primary marketing to leverage the enabling policy support and ecosystem support to further up the value chain, entering into post-harvest management, direct retailing, value addition, storage and processing, and engage in the contract production of primary and processed agriculture produce. It is critical to build support for FPOs as business entities addressing both systemic and instrumental fragilities, which requires a support ecosystem, extending risk mitigation and assurances services and abilities of FPOs to draw the full range of commercial-intent professional services to succeed. This ensures high-quality managerial and technology support to FPOs, and leverage the collective purchasing and production power of scale economies help lift the business performance and attract large processors, exporters, financial institutions, technology providers, input companies, and trading houses, etc.

The policy intent of 10,000 FPOs programmes is to aggregate farmers in produce clusters, wherein agricultural and horticultural produces are grown / cultivated for leveraging economies of scale and improving market access for members. "One District One Product" cluster to promote specialisation and better processing, marketing, branding, and export.

FPOs are ex-situ supply of institutions to the farm sector, and the role of Supplier or Promoter becomes a key variable in the subsequent success of FPOs, with their competence and linkages they make as the prime business variable.

2.4 FPO Business Models

At present, we can broadly classify the FPO business models into six categories:

1. Simple Aggregation and sale of produce (self-promoted FPOs and FPOs Promoted under various Rural Development programmes with support of Bi-lateral / multi-lateral agencies)
2. Trading and processing (CSO and Donor-promoted FPOs)
3. Trading, processing, marketing, and services (SFAC, NABARD-promoted FPOs)
4. Commodity-specific forward and backward linkages (Commodity Boards)
5. Fledgling FPOs with market orientation (FPOs under 10,000 FPO scheme)
6. Value Chain orientation

2.4.1 Simple Aggregation and Sale of Produce

A. Self-Promoted / Need-Based FPOs

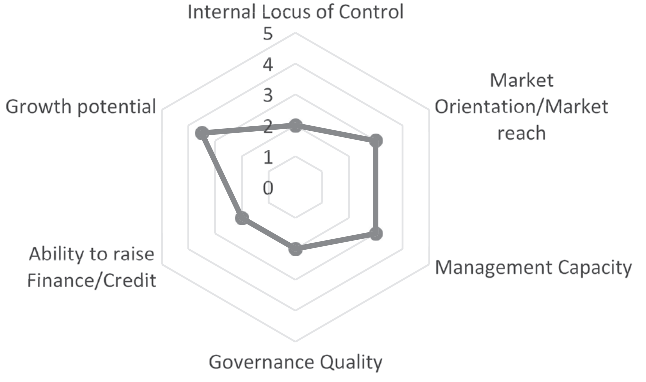
Self-Promoted / Need-Based FPOs are a category of Producer Organisations formed by a community of small and marginal farmers to realise the benefit of the collectivisation of individual resources. Small and marginal farmers do not have the volume individually (both for inputs and produce) to get the benefit of economies of scale. The Self-Promoted FPO's main objective is to take advantage of economies of scale FPOs offer to its farmer members and the resulting benefit of lower cost of processing, value addition, access to larger markets and eliminating the 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. Self-

Promoted / Need-Based FPOs are primarily formed to take advantage of the benefits collectivisation offers, with their main functions revolving around aggregation of produce and marketing of inputs. At most times, these FPOs limit their role and function to aggregation and sale of produce. They are self-governed and self-supported by their farmer members without the intervention of an external agency / institution and cater to local markets / mandis or enter into sale contracts with State Level Federation of FPC / nearby mills for their aggregated produce. A common need and an individual leader or group of leaders give impetus to this model and drive the business of the FPO. There are a few hundred Self-Promoted FPOs across the country and 63 Self-Promoted FPOs at present are registered with SFAC.

Sahakar Agri Producer Company Limited in Amreli, Gujrat, Sholavaram Farmer Producer Company Limited in Tiruvallur, Tamil Nadu, and Bibhutipur Farmer Producer Company Limited in Samattipur, Bihar are examples of Self-Promoted FPOs that are active and offer limited support to their members.

Saurashtra Svanirbhar Khedut Producer Company Limited in Rajkot, Gujarat is an example of Self-Promoted / Need-Based FPO formed. It was incorporated with the primary objective of procurement of groundnut at MSP under GUJPRO & GUJCOT and input sales (setting up a distribution centre for the sale of seeds / pesticides / organic manure) to farmer members. The FPO has been quite successful in achieving its objectives and has played an important role as a bridge between larger state-level FPO federations like GUJPRO and local groundnut farmers. GUJPRO has carried out multiple export orders for groundnut and has been able to connect farmers with more rewarding export markets in addition to domestic market opportunities. Need-Based FPO models have limited market reach, locus of control, poor management, and governance. Their growth potential is constrained by the collective aspirations and capacity of their individual members and the sum of resources of their individual members. They rarely raise finance via credit and hence are poorly leveraged. However, despite their shortcomings, FPOs of this category have the potential to grow into larger institutions if rightly catalysed.

Figure 2.1: Self-Promoted/Need-Based FPO Capability Chart



The majority of the Self-Promoted FPOs were formed by agricultural producers but they are not limited to agricultural produce. Many milk producers, fisheries, forestry, and non-farm producers' organisations also exist and operate under this category, providing members with the benefits a producer collective offers.

(Self-Promoted FPOs.xlsx (sfacindia.com).)

B. FPOs promoted under various Rural Development programmes supported by Multi-Lateral Development Agencies / Bilateral Agencies

An important impetus to the formation and promotion of FPOs surprisingly came quite early as a subset of many large rural livelihood development programmes funded by multi-lateral development agencies (MDAs) with an interest in alleviating poverty. 70% of India's poor are found in rural areas and MDAs such as the World Bank have made large commitments to rural livelihood programmes throughout the last two decades, led by NRLM at the national level and SRLMs at the state level. These were the first-of-its-kind large poverty alleviation / rural livelihood promotion programmes championed at that time. Rural livelihood programmes (such as DAY-NRLM, JEEVIKA) empowered rural communities to become self-reliant via the promotion and formation of SHGs (Self-Help Group) and was found to be particularly effective and well-suited for scaling up. Self-Help Groups increase community savings and promote local initiatives to increase incomes and employment.

By federating these groups to become larger entities, these institutions of the poor gained the strength to negotiate better prices and market access for their products. The amended Companies Act 2003 paved the way for these federated groups to be set up as (Farmer) Producer Organisations. Thus, several FPOs were promoted across the states of Andhra Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan, and Tamil Nadu. There are at present over 4,000 FPOs instituted as a direct outcome of these federated groups, gaining legal status as Producer Organisations.

Later, several FPOs were also promoted under World Bank-funded Agriculture Competitiveness Projects in Rajasthan and Maharashtra; Chhattisgarh Inclusive Rural and Accelerated Agriculture Growth Project (CHIRAAG); Projects targeting sustainable agricultural practices in Karnataka, Himachal Pradesh, Uttarakhand, and soil reclamation efforts in Uttar Pradesh.

Recently, Asian Development Bank, another MDA, assisted Maharashtra Agribusiness Network (MAGNET) project, which is an example of a Rural Development programme where FPOs are at the fulcrum. The MAGNET project aims to bring in a paradigm shift and enable FPOs as well as VCOs to improve the networks of post-harvest facilities and marketing management for the selected value chains.

This programme is being implemented for the development of Integrated Value Chains in focused horticulture crops in Maharashtra state, India. Access to finance or leverage loans at competitive rates through the financial intermediation loan, improved agriculture value chain infrastructure, and improving institutional, technical, and marketing capacities of agribusiness institutions / FPO strengthening are the key objectives of this programme and speak volumes of the potential FPO's hold.

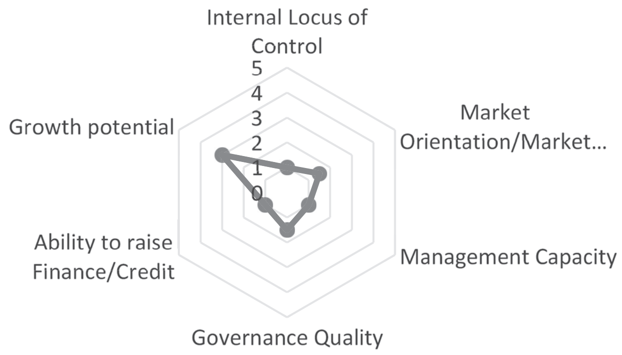
FPOs are at the focal point of several Bilateral Agencies-led development efforts, such as the programme led by the National Bank for Agriculture and Rural Development (NABARD), Bankers Institute of Rural Development (BIRD), and Deutsche Gesellschaft für Internationale

Zusammenarbeit (GIZ). GIZ supported NABARD in funding producer collectives under the Umbrella Programme for Natural Resource Management.

MDA (World Bank, FWWB, ADB) and BAs (GIZ, UK AID) supported programmes have led the creation of an ideal environment for mushrooming of FPOs across the country and have proved FPOs as the preferred and effective policy solution towards strengthening farmer communities, improving farm incomes, rural livelihood improvement, and poverty alleviation.

As can be seen from the previous examples presented, FPOs formed under this category have the support of large government machineries and developmental agencies, are usually formed in large numbers at scale, and target the most marginalised groups of society. They are formed with the intent to create institutions that can deliver livelihood benefits to the intended group or help achieve programme objectives. Most farmer members of FPOs under this category are introduced to the concept of collectives for the very first time and or are being formally institutionalised for the very first time as well. These FPOs require the greater capacity-building of their members and high-touch support / handholding to become operational and sustainable. FPOs of this category / model carry out traditional activities of FPOs with most of them involved only in the aggregation and sale of produce (mostly with the support of the promoting institution / agency). They rarely venture into other activities of FPOs such as the supply of Agri-inputs, renting Agri-infrastructure or carrying out activities higher up the produce value chain such as processing. Most FPOs in this category stop being operational or functional after the end of the programme / project's duration and end up becoming dormant FPOs. During their operational life, these FPOs have poor locus of control, market reach, management, and governance and do not raise any capital beyond what is raised during the promotion phase and the support they receive from the promoting agency under a particular programme. While all the above is true, these FPOs have great growth potential if they can be re operationalised and supported.

Figure 2.2: FPOs promoted under Rural Development programs supported by MDAs/BAs Capability Chart



2.4.2 Input trading, primary and secondary processing

CSO-Promoted FPOs under Donor-Sponsored Projects

Over the last decade, stagnant farm incomes and rising inequality between farm and other incomes made a case for the participation of Civil Society Organisations (CSOs) in the development and growth of FPOs across the country. FPOs were identified as the ideal model capable of improving livelihoods and farm incomes – a key agenda of the Government of India and global sustainability goals. Realising the opportunities Producer Organisations present towards achieving these dual objectives of livelihood development and improved income for farmers, several CSOs started to tap into their complementary resources, partnerships, and expertise in supporting the FPO movement.

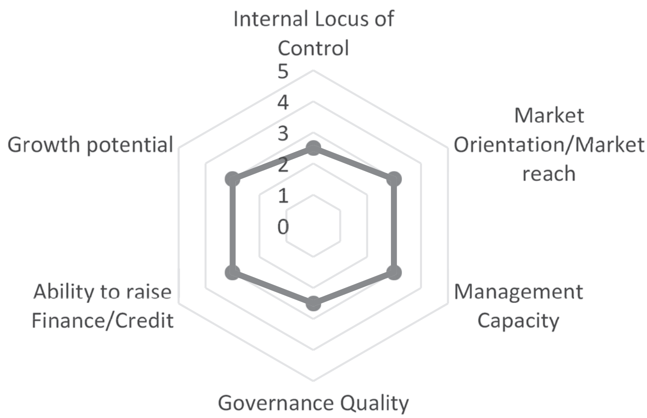
CSOs promoted several FPOs outside the purview of government-led programmes / schemes. These FPOs were developed as part of large livelihood projects implemented by these organisations with support from donors or were part of pilot projects to convince donors of the capabilities of FPOs in bringing about the desired change or social impact. The Corporate Social Responsibility under Section 135 of the Companies Act 2013, where it has been mandated that a minimum of 2%

of the average net profits made during the three immediately preceding financial years is spent by the company as per CSR policy, was a booster shot to various social sector programmes run by CSOs / NGOs. With additional donors or sponsorship, several livelihood programmes led by CSOs / NGOs strengthened their focus on setting up FPOs and in using FPOs as a model for institutionalising farmers and the farm sector. The resulting benefits were the capacity-building of farmers, improved governance, and management of these FPO, in addition to the benefits of collectivisation these institutions already brought with them. SRIJAN (Self Reliant Initiatives through Joint Action), CARD (Centre for Agriculture and Rural Development), and PRADAN are examples of CSOs / NGOs that have set up several such FPOs and have supported them in achieving the objectives of their collectives.

Several foundations established by various corporates later set up FPOs to align with their business needs and strategy with the intent of mutual benefit and welfare of both institutions. Such FPOs also fall under this category and include examples of FPOs set up by Ambuja Cement Foundation or Reliance Foundation, HDFC Foundation, TATA Trust, Syngenta Foundation, etc. Rupnagar Producer Company Ltd (RPCL) promoted by Ambuja Cement Foundation (ACF) is an example of one such FPO. These FPOs have the support and guidance of the larger corporates and the foundations that set them up in driving their growth and functioning. A few FPOs promoted by philanthropic trusts working in areas of social justice and livelihood improvement with the intention of doing social good fall in this category but are limited in number.

FPOs promoted under this category carry out, in addition to aggregation and sale of farm produce, trade in Agri / farm inputs (seeds, pesticides, fertilisers), primary (sorting, grading, and bagging), and secondary processing of produce before sale. The FPOs intend to improve the livelihood and farm incomes of its members by taking advantage of both economies of scale that traditional FPOs offer and the improved margins in participating in slightly higher value chain activities combined with the improved governance and management from the support and expertise of the CSOs that promote them. The capacities of the promoting CSOs play a significant role in improving the capacities and functions of FPOs under this category. These FPOs have greater market reach, improved management and governance controls, and higher ability to raise capital / credit; however, their potential for further growth is limited by the higher entry barrier – the next higher value chain activity of packaging and distribution process. Very few FPOs in this category have been able to enter into packaging and distribution to retail markets.

Figure 2.3: CSO/NGOs promoted FPOs under Donor supported programs Capability chart



2.4.3 Trading, processing, marketing, and farm services (SFAC & NABARD-promoted FPOs)

Farmer Producer Organisations (FPOs) have emerged as the preferred institutional mechanism in tackling the challenges of small farmer agriculture by the government and its policy makers. "In the face of rising input costs and lowering margins, these FPOs are delivering value by leveraging economies of scale, improved inputs and technologies at lower costs, and bringing the small farmer to larger markets hitherto out of their reach. Most importantly, the FPOs, by their ever-increasing scale, are changing the rules of engagement in agriculture markets through producer-centric approaches and fair business practices."*

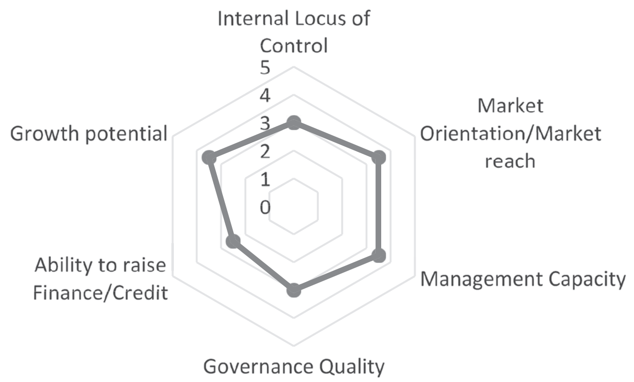
In all large-scale programmes of promotion and formation of FPOs, especially government-led initiatives, several grassroot-level institutions were actively involved for their deep experience in engaging with local farmers and community members. These large programmes were carried out at scale and thus needed the high-touch assistance offered by grassroot organisations to effectively engage farmer members / farmers. The Producer Organisation Promoting Institutions (POPI) scheme under NABARD, or Resource Institutions (RIs) as they were called under the SFAC programme, was launched to set up a Farmer Producer Organisation and provide supportive services to the farmers via these units. The POPIs or RIs came with a wide range of experience in working with local communities; some have decades of experience working on large livelihood programmes, while others had experience limited to certain aspects of FPO functioning. POPIs / RIs were required to guide / assist FPOs and farmer members in their FPO formation drive, capacity-building, production, and post-harvesting activities, while connecting small and marginal farmers to the larger market and financing ecosystems. For their services POPIs / RIs were offered certain milestone-based pay outs / allowances.

FPOs promoted under this model / category have engaged in the trading of farm inputs (seeds, pesticides, fertilisers etc.), aggregation of produce, primary and secondary processing of produce, warehouse and cold storage services, farm equipment on rent, and marketing. Many success stories of FPOs belong to this category and this can be attributed to the close handholding support POPIs / RIs offered – having developed years of experience in working with local communities and engaging with them to have earned their trust have paid off. FPOs

* (Delivering Value for Small Farmers: Farmer Producer Organizations in JEEViKA, Vinay Kumar Vutukuru, Paramveer Singh, and Manoj Kumar, https://documents1.worldbank.org/curated/en/298391515516507115/122290272_20180012014525/additional/122548-WP-P090764-PUBLIC-India-BRLP-Booklet-p.pdf)

under this model tend to have improved market access, improved management and governance controls, better access, and ability to raise credit / finance when needed and significant growth potential; however, all of this depends on the capability of the POPI / RI involved in their promotion.

Figure 2.4: SFAC & NABARD FPOs supported by POPIs/RIs Capability Chart



2.4.4 Commodity-specific forward and backward linkages

There are five statutory Commodity Boards under the Department of Commerce and one each under the Ministry of Agriculture and FW (Coconut Development Board) and Ministry of MSME (Coir Board). These boards are responsible for production, development, and export of tea, coffee, rubber, spices, tobacco, coconut, and coir. In the last decade, Commodity Boards have played a pivotal role in the growth and development of their respective commodity. The various commodity boards are tasked with adopting measures for the development of their respective commodities, imparting technical advice, providing financial support, encouraging adoption of modern technologies, adopting measures for better price realisation, measures for improving marketing, regulating quality and exports, collecting statistics, etc. In order to fulfil their responsibilities, commodity boards have looked to Producer

Organisations as the preferred solution to addressing the challenges of their commodity producers and as a method towards institutionalising producers / commodity farmers. Producer Organisations have offered the boards the reach and access to all category of producers and have thus enabled them to achieve their objectives. Many small and marginal producers have been able to benefit from the institutional support offered via FPOs / FPCs (commodity-specific) to them. The latest statistics says over 100+ FPOs have been registered under the Coconut Development Board across the five states of Kerala, Tamil Nadu, Andhra Pradesh, Assam, and Karnataka. Tejaswini Coconut Producer Company Limited, Palakkad Coconut Producer Company Limited, and Malappuram Coconut Producer Company Limited are examples of numerous FPC of coconut producers in the state of Kerala. The Spice Board has over 445 FPCs in 21 states. Milk Producer Companies setup by NDDB in Gujarat, Rajasthan, Andhra Pradesh, Bihar, and Tamil Nadu also belong to this category of FPCs.

Commodity-specific FPCs have enabled targeted government policies and schemes to reach their intended beneficiaries and improved the effectiveness of delivering these schemes particular to a produce. Commodity-specific FPOs carry out all functions of an FPO, such as trading in inputs, operating nurseries, aggregation of produce, quality checks – sorting and grading, warehousing, processing, and marketing / exports but limited to a specific commodity. A key feature of Commodity-Specific FPOs is that they also create a mature institutionalised platform for delivering technical expertise in production and processing activities as well as present export opportunities specific to a commodity. Such FPOs have the full support of their Commodity Boards. FPOs under this category have relatively higher market reach and growth potential, while management control, governance, and ability to raise capital remains limited by the capability of its members and supporting institution.

Figure 2.5: Commodity Specific FPOs promoted by various Commodity Boards

2.4.5 Fledgling FPOs with Market Orientation

The contribution of Agriculture and allied sector to India's GDP has steadily declined over the years and now stands at 20.19%. However, 70% of India's poor are found in rural areas and a majority are occupied in agriculture and the farm sector for their livelihoods. With growing industrialisation, India's food security takes an important position. There is no need to further state how FPOs have become the policymaker's preferred mechanism for addressing the challenges of small, marginal, and landless farmers who account for 86% of all farmers in India.

The Government of India has launched a new Central Sector Scheme titled "Formation and Promotion of 10,000 Farmer Produce Organisations (FPOs)" with a clear strategy and committed resources to form and promote 10,000 new FPOs in the country, with a budgetary provision of Rs 6,865 crore in 2019. Under this Central Sector Scheme with funding from the Government of India, the formation and promotion of FPOs will be done through the Implementing Agencies (IAs). Presently, nine Implementing Agencies have been finalised for the formation and promotion of FPOs. Implementing Agencies engage Cluster-Based Business Organisations (CBBOs) to aggregate, register and provide professional handholding support to each FPO for a period of five years. CBBOs have been empanelled and engaged by IAs and will be the platform for end-to-end knowledge for all issues related to FPO promotion under the provisions of this scheme.

Under this scheme, FPOs will be provided financial assistance up to Rs 18 lakh per FPO for a period of three years. In addition to this, provision has been made for matching equity grant up to Rs 2,000 per farmer member of FPO with a limit of Rs 15 lakh per FPO and a credit guarantee facility up to Rs 2 crore of project loan per FPO from the eligible lending institution to ensure institutional credit accessibility to FPOs.

"Over the years, the government supported programmes of FPO promotion have evolved from being a small component of a project to a large-scale pan-India programme. The approach changed from being focused on numbers and business orientation to a closely monitored cluster-based approach that would achieve both scale and commodity value chain development. The objective of promotion emphasised not only creating FPOs but also promoting production clusters of specific commodities." (Gouri Krishna, Ved Prakash Singh, SoFPO 2022)

The 10,000 Farmer Produce Organisations (FPOs) programme is at present the largest collectivisation drive of its kind and the participation of IAs through their empanelled CBBOs intends to intervene in every aspect of management of FPO – inputs, production, processing, value addition, market linkages, credit linkages, and use of technology. The programme aims to build the capacities and enterprise skills of the FPOs promoted to ensure their survivability and sustainability. The FPOs are tasked to carry out all functions of the Producer Organisation, including entering into buyer / seller agreements and exploring foreign markets. As on date, a total 3,548 have been promoted and have the support of CBBOs and Value Chain Organisations.[1]

FPOs promoted under this category are relatively new or young and the focus of these FPOs revolves around business development and market linkages rather than membership mobilisation as the core function. CBBOs

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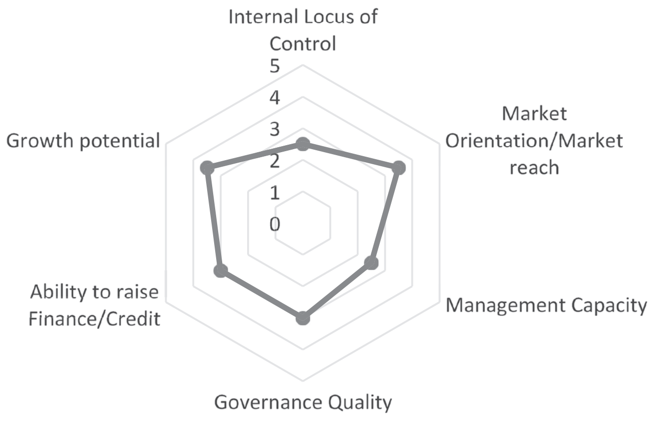
1 http://sfacindia.com/UploadFile/Statistics/State%20wise%20details%20of%20FPOs%20under%20Central%20Sector%20Scheme%20For%20Formation%20and%20Promotion%20of%2010,000%20FPOs%20by%20SFAC%20as%-20on%2027-04-2023.pdf

play a critical role in building capacities of these FPOs and during the 3-year handholding phase, FPOs are expected to develop robust business models around input marketing, production, processing, and output marketing (sale of produce). These FPOs have improved market reach and growth potential and relatively higher governance control from the regular SFAC audit, while their management capability is limited to the capacities of their BoDs / members and trainings offered by CBBOs. They have the financial support of the scheme under which they have been formed and other applicable government schemes.

Figure 2.6: FPOs promoted under 10K FPO scheme



2.4.6 FPOs with Value Chain Orientation

The small and marginal farmer has limited participation in commodity value chains at present. The limited role of the farmer in commodity value chains limits their participation to a subset of the total margins available. Numerous development agencies and governments have adopted value chain approaches (VCA), and some of these efforts have been in response to understanding that agribusiness promotion has not delivered relevant benefits in terms of poverty reduction, inclusion, or ecosystem stewardship; smallholders are often not targeted participants in the agribusiness promotion effort. Conventional interventions have high subsidy and inflation costs, while delivering insufficient income increase to farmers; the value chains approach seeks to enhance producer participation in downstream marketing / value-add, driving significant livelihood impacts at far lower cost. Farmer Producer Organisations (FPOs) provide a set of complementary support to address some of these concerns. The FPOs could support improved productivity, quality, and business relationships with downstream chain actors and the upstream segments of the value chain.

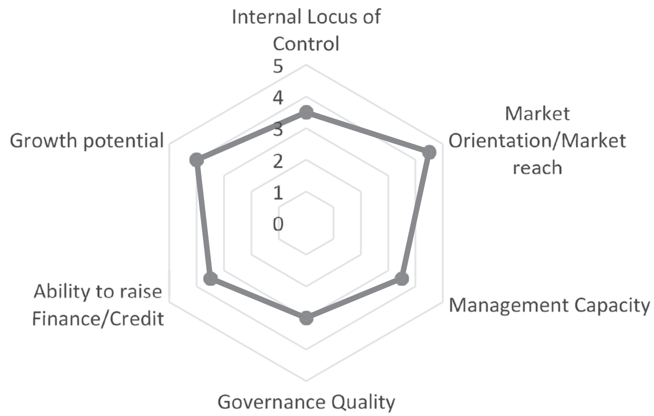
In the case of FPO, VCA-related interventions can mean changes in institutional arrangements (benefit-cost sharing), product lines, production systems, and/or market outlets, which are expected to result in benefits for all involved (perhaps not all to the same degree). Such win-win relationships are achieved through closer co-ordination and collaboration. The value chain approach (VCA) refers to interventions aimed at establishing and strengthening the linkages between producers and higher-value markets. VCA-related interventions aim to strengthen relations between smallholders and other chain actors, including input providers, buyers, and processors, for the development of new product lines or for increasing the value added to existing product lines.

By improving the access of the poor to higher value and growing markets, facilitating the more effective operation of markets, and by promoting the flow of knowledge and resources along value chains to small enterprises and poor producers, VCA is expected to enable the poor to benefit more from market development and take advantage of some of the opportunities offered by domestic and global market development.

Therefore, undertaking sustainable value chain interventions through producer organisations has been recognised as a preferred approach for linking small and marginal farmers with activities higher up the value chain, thereby driving significant livelihood impacts.

The Central Sector Scheme titled "Formation and Promotion of 10,000 Farmer Producer Organisations (FPOs)" has thus provided for corporate bodies (agri-value chain / industry) to form and promote FPOs through cluster-based approaches. Concerned industries / value chain processing and export industries forming and promoting FPOs through cluster approaches are eligible for assistance under the scheme for their FPO fulfilling certain criteria of value chain participation from these FPOs. Samunnati is a value chain actor, with a presence in more than 100 agri-value chains spread over 22 states in India and has powered over USD 1 billion of gross transaction value in its journey so far. Samunnati enables the affiliated 1,500+ Farmer Collectives with a membership base of 6 million farmers and the larger ecosystem to be more efficient and productive through multiple technology-enabled interventions and collaborative partnerships. Samunnati has pioneered an approach that anticipates and creates forward-looking solutions for farmer collectives. Samunnati's AMLA approach (Aggregation, Market Linkage, and Advisory) entails a competitive and holistic engagement beyond finance with the collectives.

Figure 2.7: FPOs promoted by Value Chain CBBOs /VCOs



Samunnati Foundation – NAFPO – NRLM has partnered in setting up 125 all-women FPOs across 5 states under the cluster-based value chain approach, with FPO participation in activities higher up the value chain being a key focus. These FPOs are an example of this category and they carry out activities beyond the traditional tasks of FPOs, such as produce aggregation, Agri-input trading / marketing, processing, and marketing to include pre- and post-production support such as warehouses / cold storage facilities, assured market linkages / entering into buyer-seller agreements, and easily accessible credit lines, etc. The FPOs under this category have the best access to domestic and foreign markets and thus have greater potential for growth, while management control is influenced by the value chain actor, governance and locus of control is limited to the capacities of their boards / members.

2.5 Conclusion

It has been nearly two decades since the first FPO came into existence in the country with the aim to use the power of collectivisation to improve the bargaining power of the small and marginal farmers (86% of all Indian farmers) and to improve their incomes. While several business models have been experimented with, the objectives of the FPO has remained the same – to improve farmer incomes. In the initial years of FPO formation, it was presumed that the simple power of collectivisation or economies of scale alone (of collective planning for production, aggregation, and sale) was sufficient to achieve this objective. However, over the years, policy makers, promoters of FPOs, and farmers have realised the increasing need for establishing linkages between farmers / producers and markets to support higher revenues and to achieve the intended benefits of setting up FPOs. FPO business models since then have developed greater focus towards developing robust linkages (market and finance). A few FPOs which have succeeded in developing sound linkages have ventured into integrating higher value chain activities and risk management into their models, as well as setting the stage for the next round of improvement and adaption of existing business models. While we have taken the liberty to explore the 6 models that have evolved since day 1 in this chapter, we are sure that it will not remain limited to this number for long and we will see many new models develop. We have stated numerous times that FPOs have, over the decade, become the preferred institutional mechanism for improving farm incomes by policy makers, and there is no doubt that FPOs are in the best position as institutions that can adapt to the changing business models and deliver the intended socio-economic benefit to the small and marginal farmer.

Chapter 3

Innovations and Practices for Managing Challenges in Capital Formation

The Problem of Capital Formation

Farmer producer organizations are owned by farmers. For both the producer companies' format, law restricts equity holding only to producer members. Cooperatives can get capital from members and from State agencies. The implicit intent that producer companies could attract risk capital from the market has not been borne out in reality. The member-farmers tend be poor and cash strapped. They can but contribute small amounts of capital to form the FPO. An FPO keep a 'minimum' capital contribution for a farmer to become a member and usually most farmers contribute that amount and no more. As a result, paid up capital of the FPO remains small. Since institutional borrowings are linked to the paid up capital, the bank loans which they can avail also remain small. Thus, the total available capital with an FPO tends to remain small. To give an example, an FPO with 1,000 members each of whom contributes Rs. 2,000 will have Rs. 20 lakh as its equity capital and will be able to borrow up to Rs. 20 lakh from the banks, thus making its total deployable capital at Rs. 60 lakh.

This amount is usually grossly inadequate for running the business of an FPO. Assuming each member has a 1 hectare plot and grows a commodity (say wheat) worth Rs. 50,000 on it, the total value of members produce in rabi season alone would be Rs. 5 crore. For engaging in effective marketing of this volume of the produce while yet meeting the need for quick payment of the members, the FPO would need possibly Rs. 1.5 crore as working capital. But it has only Rs. 60 lakh of total funds!

Whether intentionally or otherwise, FPOs are considered instruments of pro-poor social change. This intention continues to overshadow all thinking about the relation of an FPO with members. Of particular relevance is the reluctance in most FPOs to reward early members through any form of capital appreciation. Since members do not see the advantage of capital appreciation, they are not enthused about contributing more equity even if they could afford.

Both fixed assets such as warehouse, office equipment, etc., and working capital need money. In the guidelines announced in July 2020, the government had introduced a welcome scheme of contributing matching equity limited to Rs. 2,000 per member and Rs. 15 lakh overall. The extent to which the total capital thus mobilized will suffice to run an adequate business of members is moot. The scheme also provides for a guarantee fund with NABARD and SFAC which they can use to provide bank guarantees to select FPOs. This will be discussed a little later. It may be noted that cooperative organizations had a possibility of State governments contributing equity to them for augmenting their capital base. They also had very liberal debt-equity norms from cooperative banks. Neither of these is accessible to FPOs in producer company format. Thus, FPCs really need to think hard and devise ways of overcoming these challenges to capital formation.

Difficulty in Mobilizing Farmer Equity

A majority of FPOs engage in trading of the inputs for farmers on one hand and produce of the farm enterprises on the other. These activities occur in a fairly competitive market. Private trade is always ready to exploit the tight liquidity experienced by farmers in their daily lives. They offer credit against inputs to farmers they consider deserving and also tend to offer cash or fast payments for farmers output. Neither of these is costless. Farmers often have to meekly accept the input a trader gives him on credit and have to accept substantial price discounts when he promises to buy it for cash. The want of liquid resources force them to accept these suboptimal deals. The very purpose of the FPO is to facilitate farmers to earn extra incomes and hence its mandate is to provide the best input as desired by the farmers at her doorstep and also obtain the best return for her produce. And yet the FPO must do it in the absence of financial strength.

Recognizing that access to adequate working capital is a must for undertaking significant volumes of business on input as well as output side and reconciling with the reality that the initial capital contributed by farmers will be limited, several FPOs have devised ways of coping with the situation by adopting innovative methods of capital access and capital formation and managing to grow their business volumes.

The problem of insufficient capital constraining the extent to which an FPO can help farmers is a long standing problem. It is inherent in the nature of the organizations. Good managers will devise ways of minimizing the effect of this problem. The lack of capital becomes a particularly oppressive constraint when the FPO is new, is working hard to build rapport with its members and is struggling to find its place in the sun as far as the market players are concerned. During initial period, ingenuity, hard work and persuasion help FPOs overcome the problem to some extent. The FPOs working with cereal commodity in Bihar found it useful to negotiate with the dealer of seeds and other inputs promising him business from all their membership. This business was substantial and the dealer agreed to give a margin to the FPO as well as extend a limited credit period to it. The manager very smartly used the initial supplies to provide the materials to better off farmers who could pay cash. Using this to repay the dealer a little ahead of time and repeating these operations, they built a credibility with him. Eventually, they got substantial credit from the dealer and with a bare working capital of Rs. 10 lakh could do input business worth Rs. 60 lakh in a couple of months. Some other managers found that one of the families in the village had money to invest but no easy instrument in which to interest. With the consent of the Board and the members, they negotiated a deal with the family, obtained the money and used it well for doing business, managing to pay the interest on the said amount from the larger margin they could earn because of frequent rotation of the same amount. Still some other FPOs have worked with the Federations of the SHGs in their area of operations and persuaded the Federations to extend them a line of credit from the amount of members' savings since the women members of these SHGs were also members of the FPO. Thus, this arrangement worked very well.

Such fine micro-management needs ingenuity and very hard work. These methods work when the capital need is small and the business is largely restricted to trading. When the FPO enters the business of processing of members' produce and acquires some degree of processing; the problem becomes acute and pressing. Absence of working capital can really hamper and harm the business success of the FPO. Two mechanisms for expanding the capital base that have been practiced for long and with lasting success are encouraging members to keep their savings in the form of fixed deposits with the FPO and to keep contributing additional equity capital to the FPO as their business with the FPO expands. For accepting fixed deposits from members they may need the FPO to obtain certain clearances. Encouraging members to contribute equity capital beyond the minimum required for becoming members is on the other hand, a completely internal matter for the FPO. These two methods are possibly the safest and the most durable ways of capital formation.

Case Study of Managing Continuous Increment to Capital

FPCs in dairy businesses have very successfully mobilized significant capital from members. This they do by adopting a set of interesting practices. As is known, the total price for milk contributed by a member is paid to her in two parts. Bulk of the price, usually large enough to keep competition at bay; is paid upfront at agreed frequency when milk is delivered. However, members also retain a share in the surpluses made by the FPO. These surpluses are paid in the form of, 'end of the year price adjustment'. This is a perfectly legal method. Such payments are made as patronage dividends and linked to the volume of business; that is the quantity of milk supplied by a member to the FPO. From this patronage dividend, the FPO retains a proportion as additional equity contribution from the members to the FPO. They may keep, for instance, 5 paise per litre of milk contributed by a member as equity. A member contributes up wards of 1,000 litre of milk each year. As such each member increases her equity capital by Rs. 50 per year and over years this results in huge capital formation. Usually, the amount is so small in relation to the price for milk (say 5 paise in Rs. 35 per litre) that members seldom object to this retention.

For a prospering FPO which thus enhances member capital through retaining a portion of their price, an issue arises about admitting new members. Should they buy shares for joining the FPO at the face value itself, ignoring the fact that the prosperity of the FPO owes itself to the loyalty and patronage of the existing members? A well-known poultry FPO (Box 4.1) addresses this by accepting the new members if they pay the price of the share equal to face value plus the calculated based on the accumulated reserves of the FPO and the existing membership.

Box 3.1: Case Example

Kesla FPO has introduced mechanism for significant check-offs made from the profits due to the members in the form of share capital contribution, which indirectly increased the savings of the members, and acted as a buffer for price smoothening across seasons. These savings in the form of appreciable share capital were invested in significant assets at the society level in building a feed plant, storage and an office complex. This enabled backward integration of the poultry activity, thereby giving the members a greater say in the overall value chain. This was not only happening at the cooperative level, but also at the federation. So while the increased check-offs at the primary level were invested in assets like the feed plant, it was further invested in the share capital of the federation, which in turn owned and operated the hatchery. This provided a better hold on the value chain; reduced vulnerability and increased the competitive strength of the members in a market that was dominated by a few very large players having significant control over the supply of the base material – day old chicks. The profits earned from the poultry operations was ploughed back

> to the cooperative and through that to the federation, in the form of share capital check-offs, a greater sense of judicious use of resources at the household level could be inculcated. The federations followed a 'check-off' strategy. This strategy was effective in places where the cooperative was in a near monopoly situation. The federated entities needed more financial resources, the best way to achieve this was to continue with the check-off strategy. If they continued to pay members on the basis of a flat price throughout the year, smoothening fluctuations at the level of the collective, the system had to be tightly embedded and carefully controlled. It was important to ensure that there was no strategic behaviour on the part of the members, if this were ensured, then the check-off strategy for internal capital generation would work. This capital could be leveraged for loans from banks. The continuous capital infusion depended on the continuity of the federation making profits and having a check-off strategy from those profits (or patronage benefits).

The other method is to encourage members to keep their savings with the FPO in the form of fixed deposits. The FPO pays a decent rate of interest to them, perhaps a shade better than the best interest rate on safe instruments. But this rate is still smaller than the commercial rate of interest at which the FPO has to borrow from the market for its business. An FPO can innovate and create recurring deposit products of at least a minimum tenure but which mature when the member' cash need are expected to rise (such as on the occasion of their wards admission to a college or their daughter's marriage). The advantage is that members fixed deposits are treated as owners funds by some banks while calculating the debt equity ratio and hence the FPOs ability to borrow bank finance also improves.

FPOs in a company format are permitted to have joint ventures (JV) with non-FPC partners. A hitherto unexplored mechanism for generating working capital for FPO' business can be to persuade third party to create a JV for making downstream products from the members produce. The non-FPC partner can look after marketing of the final products assured as he will be of steady inflow of raw material produced by his known supplier using some of his contribution to working capital. Distrust of private entrepreneurs has tended to make FPOs shun exploration of such possibilities but these could seen as excellent ways of expanding total business of the FPO.

Figure 3.1: FPOs successfully mobilize significant capital for its members

CHAPTER 4

Building the Capacity-Building and Training Ecosystem for FPOs

Aneesha Bali

Summary

Capacity-building has been rightly identified as critical for the success of FPOs and efforts are being made continuously to design appropriate programmes and deliver them strategically. The requirements for capacity-building are diverse and depend on the age and maturity of the FPO. The prerequisite in designing the curriculum, therefore, is to recognise this need. The programmes that cater to the needs during the entire life cycle of the FPOs, will bring desired results. Various models of delivery of training and capacity-building programmes have emerged lately, which are facilitating the reach to larger numbers in a shorter time. The governance and management aspects of FPOs are given their due importance in the majority of the programmes. However, assessment of the performance subsequent to the training is wanting. While these aspects are important in the functioning of the FPOs, business skills play a major role in establishing sustainable business enterprises. These skills cannot be imparted through one training programme and, therefore, need regular doses of capacity enhancement coupled with handholding support.

The most crucial component of capacity-building is the measurement of its impact. An assessment mechanism is also to be included at the time of the design of the programme. Capacity-building initiatives by various institutes should first assess the training needs before developing the curriculum. They should train FPOs regularly through refresher training,

and assess their performance post-training. These evaluations should be fed into their support provisions and training need assessment.

4.1 Introduction

The need for capacity-building of the FPOs is unequivocally accepted by all the stakeholders engaged in the process of promotion of these farmer collectives. This is especially important since it is expected that FPOs are to develop as business enterprises and farmers to play the role of business entrepreneurs. The nuances of running a business are far more complicated than agriculture operations. Since the seeding of the idea of FPOs took shape with amendments to the Companies Act, 2013 and to the launch of the Central Sector Scheme in 2020 with a countrywide target of promoting 10,000 FPOs, much has been accomplished in developing resource material for training, design of the course curriculum, and dissemination of the knowledge through training programmes. A variety of institutes were engaged in these efforts[1]. Thousands of farmer members of FPOs are trained every year through the capacity-building initiatives of these institutes.

In addition to the need for building the capacities of FPOs, there is also a need to look into the capacity enhancement of the Cluster-Based Business Organisations (CBBO) which are the empanelled organisations to promote FPOs under the scheme. CBBOs are considered the platform for end-to-end knowledge on all the issues in the FPO promotion and to help farmers to get the benefit of aggregation. With this felt need, a few of the national level training organisations like BIRD and MANAGE have developed curricula suitable for knowledge and capacity enhancement of CBBO staff, who are the feet-on-ground personnel that aid in building the FPOs in addition to FPO personnel. This chapter discusses the need for the ecosystem of training and capacity-building to assess the needs of the FPOs, provide handholding support, and most importantly, assess the impact the programmes contributed to establishing sustainable business entities.

1 Section 4.3 of Chapter 4 of State of Sector Report of FPOs, 2022

4.2 Need Assessment – a Prerequisite for Capacity-Building Programmes

FPO training needs covering business planning, finance and accounting, governance and legal compliances are well understood. Usually the training is imparted over 3–5 days to the Chairman and Board of Directors of the FPOs, followed by handholding support by CBBO staff periodically. These programmes are focused on early stage FPOs and while they are pertinent and important for the functioning of the organisation, the crucial aspect of building business and the skills required to do so are to be given greater emphasis. Identifying critical success factors that contribute to the successful performance of the organisation and building capacities in these areas is the need of the hour. Ideally, in the case of FPO, the performance is measured in terms of: a) increase in membership; b) increase in procurement quantity for collective marketing; and c) member participation which meets the objectives of collectivisation. The capacity-building programmes, therefore, need to address to provide specific support and strengthen across the lifecycle of the FPO.

The CBBOs in the present scheme of FPO promotion are expected to identify clusters, mobilise farmers, register FPOs, develop business plans, conduct training programmes, support in convergence with government programmes, and monitor the FPOs. They handhold the FPOs to address challenges of inadequate market access and credit linkages, inadequate financial support, and lack of managerial skills. The majority of CBBOs identified to engage in the FPO promotion process are organisations engaged in working at the grassroots level and are functioning as non-profits focusing on community development and advocacy work. They have strong experience in working with communities with an inadequate business orientation. They are constrained on the knowledge of business and commodity value chain approach needed for the success of the FPOs in the long run. This, coupled with milestone-based targets, diverts the attention of the CBBOs from focusing on identifying markets and linking the FPOs to develop sustainable business models.

Designing and delivering relevant content both for FPOs and CBBOs will help in meeting the capacity-building gaps that exist at present.

Further, there needs to be a feedback mechanism in terms of the impact of training which will help in customisation and reduce the mismatch between needs and solutions.

4.3 Models Followed in Capacity-Building

4.3.1 Conventional Model

Physical training is a traditional method of capacity-building and is the most common method followed in imparting training that involves face-to-face training sessions. These sessions can be conducted in a classroom setting or in the field, depending on the topic being covered. This is the most acceptable, convenient, and comfortable model both for the trainers and trainees. Physical training is useful for providing hands-on experience and for allowing participants to ask questions and get immediate feedback. Organisations undertake this in collaboration with expert organisations or on their own.

a. APMAS has established an "FPO Incubation Centre" with the primary objectives of strengthening the institutional and business development of the FPOs directly and indirectly promoted by APMAS. The organisation plays a pivotal role in sector development by facilitating continuous training and capacity-building programmes in collaboration with different stakeholders.

Table 4.1: Types of programmes

Role	Support agencies	Thematic areas	Programmes
Resource support agency	NABARD	a) FPO Staff: FPO Concept and Design; Preparation of Business Plan; Legal compliances; Management and Accounting of FPOs; Marketing b) FPO BoD: FPO Concept and Design; Governance; Legal compliances; Audit and Financial; Business and Sustainability of FPOs c) CBBOs: Orientation of Central Sector Scheme	Training for FPOs and POPIs / CBBO

Table 4.1: Types of programmes (*Continued*)

Role	Support agencies	Thematic areas	Programmes
Collaboration	DGRV, Germany	a) Governance and Management b) Marketing and Value Addition c) FPO Business Accounting d) Self-Regulation in FPOs e) Business Development	National-level and State-level Training of Trainers Programme / workshops / conclaves / study tours

b. SkillGreen is an independent and autonomous social enterprise working towards bridging the critical gaps in Agriculture skill development and value chains in rural areas by supporting rural entrepreneurs and farmer producer organisations. It is working to develop a pool of decentralised trainers across the country, accessible to FPOs for standardised capacity-building at affordable costs. SkillGreen has developed a set of manuals available open source and also uses them to conduct physical training through ToTs and the FPOs.
   - ToTs are conducted on participatory methodologies and handholding support provided to trainers for training FPOs in the field. It also engages these trainers when it receives requests for capacity-building of FPOs from various parts of the country.
   - SkillGreen directly works with farmer producer organisations and rural entrepreneurs in basic capacity-building programmes to build an understanding of FPO functionaries on governance, statutory compliances, understanding markets, FPO management, and FPO's business. It also supports FPOs in developing annual plans and business plans through participatory methods for plans that are owned and implemented by the FPOs.

c. The National Institute of Agricultural Extension Management (MANAGE) established "FPO Academy" to facilitate the Government of India to effectively implement a scheme of promotion of 10,000 FPOs. The institutes offer capacity-building programmes to Cluster-Based Business Organisations (CBBOs) Chief Executive Officer (CEO), and other office bearers of FPOs, Chairman and Board of Directors of FPOs Training Programmes for Master Trainer involved in the promotion of FPOs periodically round the year in physical mode.

4.3.2 Digital Model

Online training is becoming increasingly popular as a way to provide capacity-building to FPOs, especially in areas where access to physical training is limited. This has become the best means of imparting training during the Covid period. Online training can take many forms, including webinars, online courses, and video tutorials. Online training is useful for providing flexibility and allowing participants to learn at their own pace.

APMAS in partnership with MANAGE conducts national-level Online Training Programmes covering the following thematic areas:

- Value Addition and Post-Harvest Management
- Governance and Management in FPOs
- Women Entrepreneurship Development in FPOs

4.3.3 Resource Material

Providing reading materials such as manuals, brochures, and books is a useful resource for FPOs, especially for those who prefer to learn at their own pace. Reading materials can also be a useful reference tool for participants to refer to after the training has ended.

a. SkillGreen developed manuals that are open source materials for use in the training and capacity-building of FPOs. Ten such manuals are developed with support from GIZ, in consultation with BIRD and in collaboration with partners working with FPOs across the country. These include

Basic courses for:

  a. Cluster-Based Business Organisations
  b. FPO CEOs

c. Finance professionals of FPOs
d. State Agencies working with FPOs

Thematic courses

e. Entrepreneurial Approach
f. Understanding Markets
g. Supporting Farmers for Production
h. Finance Planning and Management
i. Understanding People
j. Business Planning

b. Bankers Institute of Rural Development (BIRD) has a basic FPO module on their website as open source material and also uploaded the MOOC (Massive Open Online Course). Five domain experts need to get registered on BIRD's website and complete the training as well as the evaluation process for getting the completion certificate in 45 days. This is a mandatory process for CBBOs to get their respective domain experts trained for the given modules related to the Formation and Promotion of FPOs.

4.3.4 Blended Model

Under this model, training is provided in a classroom setting with live interaction with all the participants. The resource person conducts the training physically in one place and all the other participants join from different clusters virtually for live discussion along with adult learning exercises developed by the resource person.

NAFPO has partnered with Samunnati VCO on the promotion of 100 All Women FPOs across five states of the country, namely Madhya Pradesh, Uttar Pradesh, Jharkhand, Chhattisgarh, and Assam. The idea is to provide end-to-end support to these FPOs, starting from incorporation and compliance to market linkage and credit linkage. In this process, capacity-building and handholding play a major role. NAFPO's initiative to provide capacity-building training in a blended model has been successful and shows an impact equivalent to 80% of what in-person training could give. This may become an answer for an entire sector trying to capacitate multiple stakeholders and over-utilising resources.

NAFPO has organised a first-of-its-kind, online-offline hybrid model initiative in partnership with Transform Rural India Foundation (TRIF) and Samunnati Foundation (a CBBO under SFAC for the Central Sector Scheme of Formation and Promotion of 10K FPO).

The set of 12-day training programmes has been curated for the Board of Directors, Managers and Members of the Farmer Producer Company.

Table 4.2: Training programmes through a blended model

S.No	Capacity-Building Requirement	Training Topic	Days
1	Board of Directors	1. FPO Concept seeding, Business Plan Development, VIMOSA	3
		2. Membership Building and Patronage	
		3. HR Management – Planning and Monitoring	2
2	Manager / CEO	1. Business Plan Development and Management	2
		2. Report to SFAC, Fund Management	2
3	Accountant	FPO Accounting and Compliances	1
4	Member	Member ToT– Membership building	1
5	Independent Director	Setting up Governance standards at FPO level	2

Under this, FPOs were divided into 10–12 regional clusters; participants of the training assembled at different cluster locations across these 5 states, and in-person training to participants was conducted by the resource persons. At each of the training locations, participants were provided with training materials, stationery, projectors, laptops / computers, and Wi-Fi access among others to ensure the smooth progress of the training programme.

4.3.5 Audio-visual aids

SkillGreen collaborated with Digital Green and a pioneering co-operative development organisation, CCD, to develop content for videos meant for training shareholders and other stakeholders working with FPOs. The videos are available on YouTube.

4.4 Approach to capacity-building – how it can change

Typically, FPO training covers business planning, financial and accounting, and governance and legal compliances, over 3–5 days, followed by personal guidance by way of handholding by the CBBO staff if time permits. However, the retention and application by the farmers with little formal academic qualifications in areas alien to them, such as business planning, finance, accounts, and corporate governance, tend to be limited unless repeated doses of training are provided as refresher training in periodical intervals. However, this may prove expensive and out of budget limitations of the CBBOs.

Further, while it is irrefutable that the FPOs need to be run effectively and governance and compliance have primacy to achieve this, considering the purpose of their existence, the priority needs to be on building business. Capacity-building needs to focus on creating a sound business model with the potential to scale and devote time and effort to identifying the domain and the value creation. The other areas of capacity enhancement can be complementary. Training and support for developing business models with a sound understanding of the underlying assumptions and key growth drivers behind the projections can help the FPOs in achieving their primary goals

4.4.1 FPO Business and what it entails

The three key functions of the FPO include: (i) bulk purchase of inputs for supply to members; (ii) aggregation of produce for collective marketing; and (iii) the processing of produce for value-added outputs. To undertake these functions, the Board of Directors and the CEO of the FPO need knowledge of commodity value chains of those commodities that the members produce, markets where the product can be sold, and networking with input suppliers for leveraging the price advantage of bulk purchase of inputs. Investments are required for the production of value-added products and accessibility of credit for such investments and to meet the working capital needs for these purposes. Therefore, imparting knowledge on these aspects is crucial at the beginning of the FPO functioning, which can set the path in the right direction to build sustainable entities of the farmer collectives.

4.4.2 Design and Delivery of Training Modules

The purpose of collectivisation through FPOs is primarily to ensure that farmers get a higher share in the price paid by the consumers by being a player in all the value chain activities. Moving the farmer up the value chain from the current stage is required to achieve this. For an FPO to understand this, knowledge of the value chain and the value chain activities is essential. Emphasis on this aspect in the designing of the training programmes should be the first step in the process of capacity-building of the FPOs. The modules, therefore, should be aligned as per FPO maturity and delivered in line with FPO business cycles or crop cycles. Delivery models can be customised to ensure effective knowledge dissemination and follow-up.

A good training programme depends on the selection of training methods. Comprehensive training modules on business plan development for FPOs and understanding value chains are available and can be used for training of FPOs and the staff of CBBOs. A post-training on assessment of whether the farmers have gained knowledge through the programme, if they have developed skills to reach the markets that offer price benefits, and if they could identify value chain interventions that the FPO can target are the important aspects that can measure the effectiveness of training.

4.5 Way Forward

Capacity-building is one of the critical support factors for the success of FPOs as it empowers the Board and members and staff for better realisation of the potential of the FPO. It is understood that the promotion and implementation of 10,000 Farmer Producer Organisations would require the capacity-building of nearly 46 lakh stakeholders covering Board of Directors, CEOs, Bankers, CBBOs, Officers from Agriculture and Line Departments, Resources from NGOs, Universities, Co-operatives, Apex level institutes dealing with Agriculture, and other selected institutes, including stakeholders in the private sector (MANAGE). While there is no dearth of training institutes or training courses for capacity-building of FPOs, the needs of the FPOs vary with their age and maturity. A systematic approach will help in building the capacities of these stakeholders.

Measuring the impact of the training based on the implementation of the knowledge acquired is often lacking. More often, the measurement is limited to the number of training programmes organised and the number of participants trained. Once the training is imparted, there is no follow-up support and the farmers lack adequate capacity to put to use the newfound knowledge. Also, a one-time training cannot lead to desired results, especially in a farming community with little exposure to managing a business entity. With the capacity-building infrastructure of training modules, professional trainers, training institutes, training methodologies, etc. in place, a changed approach based on need assessment, refresher courses, and support through regular handholding will bring the desired results.

Chapter 5

Ease of Doing Business for FPOs in India

Vijayaragavan Ramanujam

Introduction and background

Farmer Producer Organisations (FPOs) have emerged as the chosen institutional mechanism to organise smallholder farmers with the aim to improve their access to markets, managerial capacities, technology, inputs finance, and credit. In addition to aggregating farmers to enhance their economic strength, FPOs have been used as the primary mechanism to deliver key benefits to small and marginal farmers by policy makers and multiple agencies – government and non-government alike. In the last decade, many farmers were successfully organised into Farmer Producer Organisations (FPOs). As per latest estimates, approximately 42,000 FPOs have been registered in the country, and another 10,000 FPOs are expected to be incorporated in the next year or two. There have been policy interventions both at the Centre and at the state levels to drive this growth. For instance, the Union Budget of 2018 had, among other provisions, a five-year tax break for FPOs, which provided a fillip to the sector. The Union Budget 2020 introduced the Central sector scheme of Formation and Promotion of 10,000 FPOs across the country with a budget outlay of Rs 6,865 crore. In addition, various state governments had their own policies and enabling features for FPOs. There is no doubt that these are impressive numbers.

During the same period, say between 2015 and 2024, the approach towards forming and running FPOs has moved from visualising FPOs as "pure social institutions" to "business or commerce-centric organisations". The change in the lens of looking at FPOs puts a greater onus on their functioning and outcomes. It is believed that the states have a greater and crucial role to play here because FPOs are aimed at improving agricultural productivity and incomes, and because agriculture is a state subject. In fact, FPOs in Madhya Pradesh, Gujarat, Rajasthan, Maharashtra, Tamil Nadu, and Uttar Pradesh have yielded encouraging results and have proven that FPOs are indeed the effective institutional mechanism to deliver intended benefits and growth to farmers.

Thus, we find that there are national level and state level parameters which influence the formation and operation of FPOs. In the initial days, the number of FPOs formed was an indicator of the impact of FPO policy. However, the number was at best a partial indicator of the effectiveness of the FPO. In some cases, the membership of FPOs was assumed to be an indicator of the health of FPOs, which again had its shortcomings because large FPOs did not necessarily translate into the benefits reaching all their members. Further, the functioning of FPOs itself was subject to a host of issues, right from the active participation of the Board of Directors (BOD) and members in regular meetings, to external factors such as obtaining licences and availability of grants or funds. Whereas the internal functioning of FPOs is subject to numerous local conditions and micro parameters, an enabling and facilitative environment is what can be provided through policy interventions. Creation of such an environment is in the domain of the states.

Against this backdrop, it was envisaged that a set of benchmarks be identified that provide an objective and easy capture of a wide array of information that would help policymakers, researchers and other stakeholders in drawing comparable inferences. For FPOs to form, grow, and thrive, they need to meet both social and commercial objectives. The central and state governments have a pivotal role to play in providing a conducive environment through policy interventions to this effect. While formation of FPOs is one part of the story, their growth as commercial organisations lends economic benefit to the members and financial stability and sustainability to the FPO. As such, it was felt that the policy interventions must help them flourish in business activities. In other words, FPOs ought to have specific conditions that facilitate their business. We labelled this as "Ease of Doing Business (EoDB) for FPOs Index".

EoDB for FPOs Index

The Ease of Doing Business for FPOs (EODBF) Index is an attempt at constructing an index that ranks states in India on how conducive a state and its policies are for FPOs to carry out business and how supportive the state is in enabling the Farmer Producer Companies (FPCs) to operate and function within its domain. We envision this index as a living index that will be updated each year and its scope expanded each year to cover more states in India. At present, this index covers six large states that contribute to nearly 68% of all FPOs in the country (as on 2023).

The index ranks and presents data based on aggregated information on the following six areas:

i. Presence of state-level FPO policy/guidelines.
ii. Ease of obtaining licences for business.
iii. Extension of benefits.
iv. Access to finance/credit.
v. Preferential procurement of produce from FPOs.
vi. Presence of a state federation for FPOs.

The information on the above listed areas was taken from the websites of concerned ministries of Government of India and through a detailed survey of not less than 30 respondents belonging to FPOs, Cluster-Based Business Organisation (CBBOs), Resource Institutions (RIs), Producer Organisation Promoting Institutions (POPIs), FPO ecosystem players, and industry partners of each state.

Variables included in the Index

The index is termed as EoDBF Index. Different variables/parameters, sub-components, and weights for the EoDBF Index are represented in Table-1.

1. State-level FPO policy / guidelines

As discussed in the earlier part of this chapter, the state governments have a significant influence in the formation and functioning of FPOs, by providing a suitable policy platform, or laying down guidelines which enable farmers to collectivise and form an FPO. State Level FPO policy guidelines and / or Standard Operating Procedures (SOPs) help in creating awareness about the involvement of different government officials and agencies, documentation agencies, and individuals such as Village Administrative Officers (VAOs), Block Development Officers (BDOs), and Charter Accountants (CAs) who are essential right from incorporation of the FPOs till they stand on their own. Hence, it is important to assess if the state has adopted and notified a State Level FPO Policy and/or guideline which officials can refer to when working with FPOs or their representatives. This parameter was assessed using the following questions:

i. Has the state adopted a policy and guideline for formation and promotion of FPOs?
ii. Has the state instituted any Centre of Excellence (CoE) for FPOs or constituted any form of institution within or outside the State Agriculture Universities (SAUs) / departments to support and guide the development of FPOs in the state?

Answers to these questions were collected from websites of the concerned ministries / departments of the respective state governments. The National Policy for the Promotion of Farmer Producer Organisations, Ministry of Agriculture and Farmers' Welfare (MoA&FW), Govt. of India forms the bedrock of FPO promotion and formation. If the National Policy was adopted by a state, it was awarded 10 points. In addition, if the state constituted a CoE / any institution / support agency within or outside the state agriculture department to support FPOs and their growth, it was assigned an additional score of 10 points. For states with no FPO policy or guideline, we assigned a score of 5 points since FPOs could still be promoted in the state under the Central policy.

2. Ease of obtaining licences for business

Since we found that most FPOs start their commercial activities by procuring agricultural inputs for member farmers, and at a later stage, enter into aggregating farm produce for marketing, we decided to include the parameter of ease of obtaining licences for trading in agricultural inputs and selling farm output as the important business enabler for FPOs. The inputs business in particular is a relatively easier one with low entry barriers and reasonable margins. Therefore, the time taken, cost, regulatory processes, and transparency in obtaining the following licences was covered under this parameter:

i. Permit for storing and selling fertilisers
ii. Licence to sell, stock, or exhibit for sale or distribute insecticides
iii. Seed sale licences
iv. Agricultural Produce Marketing Committee (APMC) licence
v. Registration of shop and establishment

States were given points between zero and five based on the assessment of the ease of obtaining these licences from the concerned departments. Ease was measured in terms of perception of the respondents from FPOs, CBBOs, Promoting Institutions (PIs), RIs, or FPO federations. Respondents were asked to consider the time taken, cost involved, transparency, and efficiency of the process while providing the rating.

3. Extension of scheme and non-scheme benefits to FPOs

Several Centrally-sponsored schemes provide all-round support to FPOs right from their incorporation – registration expenses, three-year management support, equity grant, easy credit facilities, low-cost capital, credit-linked subsidies, incentives for technology adoption, access to buyers and national e-markets for FPOs among others. States can take advantage of Centrally-sponsored schemes, besides aligning their own schemes to accelerate the growth and sustainability of FPOs in the state. In this area, we have considered the adoption and implementation of the following schemes and incentives:

i. Equity grant
ii. Credit guarantee

iii. Agricultural Infrastructure Fund (AIF), (Nos of FPOs supported under AIF)
iv. National Agriculture Market (eNAM)
v. Number of FPO registered on eNAM

Both equity grant and credit guarantee address the critical challenge of FPOs' access to equity and low cost. Newly-formed FPOs by small and marginal farmers have poor ability to raise large equity, and need equity support for them to further their business activities and support management costs. Businesses related to farm produce, such as procurement, aggregation, and processing, require multiple cycles of trading to ensure round-the-year business and maximise profits. The Formation and Promotion of 10,000 FPOs scheme provides an FPO with financial assistance up to Rs 18 lakh for three years. The additional provision for a matching equity grant of up to Rs 2,000 per farmer member, up to a maximum of Rs 15 lakh and a credit guarantee of up to Rs 2 crore per FPO are again helpful for FPOs to start and grow their business.

AIF equips the FPOs to create facilities for post-harvest infrastructure at the aggregation points and farm gate. In 2020, the Government of India allocated Rs 1 lakh crore for establishing marketing and logistics infrastructure including warehouses and cold storage systems, which could be utilised by FPOs to develop farm level community assets for post-harvest management of produce.

On the other hand, the eNAM enables farmers to sell their produce across the country using the unified electronic portal. Since farmers suffer from small marketable surplus, FPOs help them overcome this challenge through aggregation. This produce can then be sold at the local APMC or to any buyer across the country through eNAM, avoiding the traps of local traders.

Respondents from FPOs, CBBOs, PIs, RIs, etc. were asked to give a score between zero and five for the ease of availability and access to funds through the above schemes.

4. Access to Credit

Various credit schemes of the government are available for farmers and

FPOs through the public sector banks (PSBs). However, for a variety of reasons, banks are found to be wary of lending to FPOs. There are Non-Banking Financial Companies (NBFCs) who have stepped in this space left by the PSBs. The major difference between these two kinds of financial institutions is that banks can extend credit at a low cost, while NBFCs seem to have an easier approach in lending, but charge higher rate of interest.

Respondents were asked to rate the ease of availing credit from banks and NBFCs separately and assign a score between zero and five.

5. Preferential procurement

The national FPO policy suggests that Department of Agriculture and Farmers' Welfare will work with Food Corporation of India (FCI) and state governments to encourage them to include FPOs as procurement agencies under the Minimum Support Price (MSP) procurement operations for various crops. The policy also recommends that the state governments aid the growth of FPOs in their state by appointing FPOs as procurement agents for MSP operations. It is also advised that direct sale of farm produce by FPOs be encouraged at farm gate through FPO-owned procurement-and-marketing centres. Further, states have also been recommended that FPOs facilitate contract farming between their member farmers and bulk. Several states adopted these recommendations and this has proved beneficial for the growth of FPOs.

Respondents were asked to provide a score between zero and five based on the availability of a state government policy for preferential procurement, or the extent to which the state had enabled FPOs to take up MSP procurement and/or act as marketing centres, or initiate contract farming activities with bulk buyers.

6. State federation of FPOs

Although FPOs are seen as a useful mechanism for collectivising farmers, it is evident that most of them struggle as they have challenges on every front, with extremely limited technological, human, and financial resources. There are inherent difficulties in establishing backward and forward linkages in the value chain for an FPO. Therefore, SFAC had initiated the establishment of state-level federations of FPOs, which would serve as an umbrella organisation for the FPOs of the state. The federation is expected to achieve coordination among the FPOs; enable them to access services and products from government and private agencies; seek credit from financial institutions; leverage opportunities in agribusiness; and facilitate in advocacy and policy dialogue with government agencies.

We assume that the presence of an umbrella FPO federation at the state level could improve efficiency and effectiveness of the FPOs at a much larger scale. Respondents were asked to provide a score between zero and five for the presence and functioning of an FPO federation.

Based on these six parameters, we arrived at the EoDBF Index. In the EoDBF Index, a high score is an indicator of a better and conducive policy environment for enabling FPOs to do business. The following table provides the parameters, the weight for the parameters, and the sub-components of the parameters.

Table 5.1: Parameters, Sub-components, and Weights for the EoDBF Index

S. No.	Parameter	Weight	Maximum Sub-component Score
1	**State-level FPO policy / guidelines**	20	
1.1	Has the state adopted a policy and guideline for formation and promotion of FPOs?		10
1.2	Has the state instituted any CoE for FPOs or constituted any form of institution within or outside state agriculture department / universities to support and guide the development of FPOs in the state?		10
2	**Ease of obtaining licences for business**	25	

Table 5.1 (*Contd.*)

S. No.	Parameter	Weight	Maximum Sub-component Score
2.1	Permit for storing and selling fertilisers		5
2.2	Licence to sell, stock, or exhibit for sale or distribute insecticides		5
2.3	Seed sale licences		5
2.4	APMC licence		5
2.5	Registration of shop and establishment		5
3	**Extension of scheme and non-scheme benefits to FPOs**	25	
3.1	Equity Grant Scheme		5
3.2	Credit Guarantee Scheme		5
3.3	AIF (FPOs supported under AIF)		5
3.4	eNAM		5
3.5	Number of FPO registered on eNAM platform		5
4	**Access to credit**	10	
4.1	Bank loans		5
4.2	NBFC loans		5
5	**Preferential procurement**	10	
6	**State federation of FPOs**	10	

Ranking of states for EoDBF

The performance of various states in terms of EoDBF can be seen from Table 4.2 and Fig. 4.1. Summary score of each parameter in various states/ UTs is presented in Table 3. All 6 states considered for the purpose of this index/ranking have a strong focus on FPOs, have adopted and notified an FPO policy, and have defined a guideline for formation and promotion of FPOs. It is important to note that all 6 states considered for ranking in this index are among the states with the highest number of FPOs in the country; as stated earlier in the chapter, these states combined hold 68% of all FPOs in India; over the last decade, the states here have implemented several pro-FPO policies and reforms that support and nurture FPOs.

The state of Madhya Pradesh achieved first rank in EoDBF Index. The state is most supportive of the FPOs and it offers best environment for FPOs to do business among all the states. Maharashtra ranks second with a score of 85.8 out of 100, closely followed by Uttar Pradesh and Tamil Nadu at 3rd and 4th place with a score of 85 and 82.9 respectively. All six states have obtained similar scores with respect to ease of obtaining licences for FPO business and in extending of scheme and non-scheme benefits to FPOs. FPOs in all 6 states currently enjoy similar level of access to credit and finance from both public and private institutions.

The state of Rajasthan, which is considered progressive in implementing pro-FPO policies, did not figure among the top states for two reasons: one, while the state is supportive of FPCs and setting up FPCs, the state of Rajasthan does not permit FPOs to participate as procurement agencies in procurement of Agri produce at MSP and two, it does not have a very active State Level Producer Company (SLPC) or a state level federation of FPOs. All Rajasthan Small Farmer Agri Producer Company Ltd, an SLPC, was set up in 2015 with the support of SFAC. However, it is now limited to providing complimentary support services to FPOs such as statutory and legal compliance support, has little ability to influence state policies, and needs revival. On the other hand, similar SLPCs in Madhya Pradesh, Maharashtra, Tamil Nadu, and Uttar Pradesh are very active and have found a model to stay relevant, and support FPOs and the growth of FPOs in their respective states.

SLPCs in Madhya Pradesh and Maharashtra participate as procurement agents in MSP procurement, for processors and private-sector players, and have developed working relationships with more than 100+ FPCs across the state, thus ensuring business for these FPCs. Tamil Nadu also does not permit FPOs to participate in MSP procurement by government and its agencies, and this has been a long-standing demand of the FPOs in the state. However, Tamil Nadu State Level Producer Companies (TNSLPC) is very active and unlike the SLPCs in other states operating as just another FPC (as aggregators and sellers), TNSLPC offers a unique model of support to FPCs in the state of Tamil Nadu – it offers paid service to FPOs offering market linkages, access to buyer-seller meets, licence procurement, Agri-extension services, compliance and audit support, networking opportunities, and policy support. UPPRO, an SLPC in Uttar Pradesh, also offers complimentary support services to FPOs. While the state of Andhra Pradesh comes in at the 6th place in this index with a score of 76.3, it has done many things right and has several policies supportive of FPOs in the state. It is important to note that Andhra Pradesh's score is not too far away from the top state, Madhya Pradesh's score of 86.7. Andhra Pradesh allows FPOs to participate in MSP procurement but the FPOs must apply for licence to marketing federations and the process is cumbersome. Also, the state of Andhra Pradesh does not have an SLPC and instead has only a district-level FPO federation promoted by CSOs. There is a need for an SLPC in Andhra Pradesh and the presence of one will move the environment more in favour of FPOs by providing the necessary support and engaging with FPCs in the state. While there is always scope for further improvement in all the above areas, these 6 states have done a commendable job in nurturing FPOs.

Improvements in access to timely credit, extension of scheme and non-scheme benefits, and engaging with SLCPs to offer policy support to FPCs will give a fillip to FPCs in all the six states. Allowing FPOs as procurement agents in MSP procurement in both Tamil Nadu and Rajasthan alone will provide a big boost to FPOs ability to do business in these two states.

Table 5.2: Ranking of States – EoDBF

STATE	EoDBF Index (Score out of 100)	Rank
Madhya Pradesh	86.7	1
Maharashtra	85.8	2
Uttar Pradesh	85	3
Tamil Nadu	82.9	4
Rajasthan	77.2	5
Andhra Pradesh	76.3	6

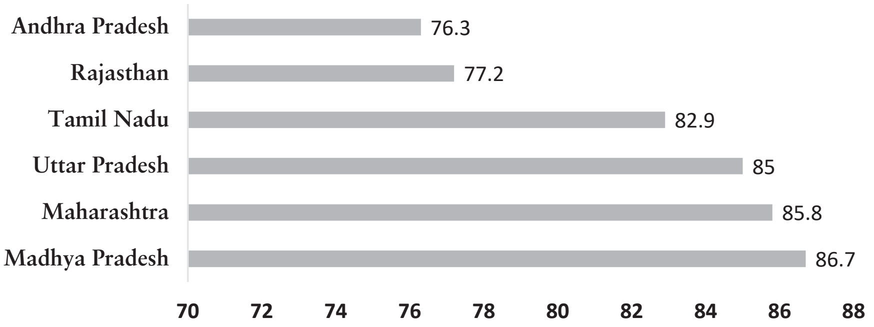


Figure 4.1: States' Score – EoDBF Index *(Score out of 100)*

Methodology for Scoring and Ranking of States

The index involves quantification of score at two levels. The maximum score of 100 has been distributed over 6 dimensions representing (1) State-level FPO policy / guidelines; (2) Ease of obtaining licences for business; (3) Extension of scheme and non-scheme benefits to FPOs; (4) Access to credit; (5) Preferential procurement; and (6) State federation of FPOs. In the first stage, weight was assigned to each of the six dimensions included in the EoDBF. State-level FPO policy / guidelines which recognises the states' focus on FPOs was assigned a weightage of 20 out of 100.

Ease of obtaining licences for business of FPO has been given a weightage of 25%. This variable measures the time taken, cost involved,

Table 5.3: Detailed Score on Each Parameter of EoDBF Index

S. No.	Parameter	Weight	Maximum Sub-component Score	Methodology	Uttar Pradesh	Maharashtra	Andhra Pradesh	Tamil Nadu	Madhya Pradesh	Rajasthan
1	**State-level FPO policy / guidelines**	20								
1.1	Has the state adopted a policy and guideline for formation and promotion of FPOs?		10	Policy Adopted -5, Policy Notified -5	10	10	10	10	10	10
1.2	Has the state instituted any CoE for FPOs or constituted any form of institution within or outside state agriculture department / Universities to support and guide the development of FPOs in the state?		`10		10	10	10	10	10	10
2	**Ease of obtaining licences for business**	25								
2.1	Permit for storing and selling fertilisers		5		4.5	3.4	4	4.5	4.8	4.3

Table 5.3: Detailed Score on Each Parameter of EoDBF Index (*Contd.*)

S. No.	Parameter	Weight	Maximum Sub-component Score	Methodology	Uttar Pradesh	Maharashtra	Andhra Pradesh	Tamil Nadu	Madhya Pradesh	Rajasthan
2.2	Licence to sell, stock, or exhibit for sale or distribute insecticides		5		4.6	3.8	4	4.6	4.8	4.3
2.3	Seed sale licences		5		4.6	3.4	4.5	4.8	4.9	4.4
2.4	APMC licence		5		4.9	3.5	4.1	4.9	4.8	4.5
2.5	Registration of shop and establishment		5		5	3.6	4.3	4.5	4	4.8
3	**Extension of scheme and non-scheme benefits to FPOs**	25								
3.1	Equity Grant Scheme Support (up to 2023)		5		4	5	2.5	4.5	3.5	3
3.2	Credit Guarantee (up to 2022)		5		3	4.5	2	5	4	3.5
3.3	Nos. of FPOs supported under AIF (up to 07/2022)		5		3	5	4	3.5	4	4.5
3.4	eNAM (up to 2022-2023)		5	Nos. of Markets Enrolled	3.5	3	2.5	5	4	4.5

Table 5.3: Detailed Score on Each Parameter of EoDBF Index (*Contd.*)

S. No.	Parameter	Weight	Maximum Sub-component Score	Methodology	Uttar Pradesh	Maharashtra	Andhra Pradesh	Tamil Nadu	Madhya Pradesh	Rajasthan
3.5	Nos. of FPO registered on eNAM (up to 31st March 2024)		5		5	4.5	3.5	3	2.5	4
4	**Access to credit**	10								
4.1	Bank loans		5		4.1	3.4	4.5	4.3	4.2	4
4.2	NBFC loans		5		4.3	3.7	4.4	4.3	4.2	4.4
5	**Preferential procurement**	10			7	9	7	NA*	7	NA*
6	**State Federation of FPOs**	10			7.5	10	5	10	10	7
	Total	**100**			**85**	**85.8**	**76.3**	**82.9**	**86.7**	**77.2**

number of documents required and the capability of FPOs in the state to independently apply for each of the licences required for the FPO to commence input and output business operation – Seed, Pesticide, Fertiliser, and Mandi, Shop Establishment/Trade Licence in the state. Each licence is given a sub-score/weight of 5 out of 100. Extension of scheme and non-scheme benefits to FPOs by each state is given 25% weightage. Access to credit has two parts – Bank leading and NBFC lending – and is given an overall weight of 10%. Preferential procurement / procurement policies of the state, and the presence and functioning of SLPCs is given 10% weight each.

For the purpose of this research and scoring, National Association for Farmer Producer Organisations (NAFPO) tasked Development Intelligence Unit (DIU) to conduct a survey on their behalf. The survey achieved a sample size of ~185 respondents across six states: Andhra Pradesh, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Rajasthan, and Maharashtra. The survey was conducted and data was captured following well-established practices.

For variables/parameters (2) Ease of obtaining licences for business and (4) Access to credit, the average of the responses from the survey were placed under five different buckets derived by dividing the range between the minimum and maximum response by number of buckets, i.e. 5 in this case. Each bucket was assigned a score between 3 and 5 points with a difference of 0.5 point. There is no score below 3 considering that FPOs in each state always get the licences and credit but there is only a case of delay or cumbersome process. Also, the lowest bucket was given a score of 3 to permit for more buckets in the future when more states are considered in next iteration of this index. For each variable, if there is more than one aspect under consideration, an average of averages of the scores was calculated and assigned to the variable/parameter.

For variables / parameter (1) State-level FPO policy / guidelines, Extension of scheme and non-scheme benefits to FPOs, (5) Preferential procurement, and (6) State federation of FPOs, relative scoring was assigned in ascending order depending on their weights with a difference of .5 points or 1 point based on thorough secondary research and data made available on the websites of concerned Ministries of Government of India, State Government, and interaction with State Federations/SLPCs. The EoDBF Index, in the absence of any other, is an effective attempt to create an index that measures the level of support / conduciveness the state offers for the business of FPOs.

EoDBF Survey

The survey aimed to examine the EoDB and the barriers faced by Farmer Producer Organisations (FPOs). It was conducted by DIU, a collaborative initiative between Transform Rural India (TRI) and Sambodhi Research and Communications Pvt. Ltd.

To ensure a robust and representative sample, the survey employed a **multi-stage sampling design**. This approach acknowledges the potential for non-response and incomplete data collection. In the first stage, a **sampling frame** was established by utilising the pool of phone numbers for FPOs and CBBOs provided by NAFPO for the NAFPO FPO database. This frame aimed to capture the diversity of FPOs across the target states. Following established practices in telephone surveys, a **contact ratio** of at least five attempts per phone number was employed. This strategy aimed to maximise the response rate and mitigate potential biases introduced by non-response. In this study, with a target sample size of 30 respondents per state, a **sub-sampling frame** of 150 phone numbers was initially selected within each state. This resulted in a cumulative total of 900 phone numbers across all six states.

Finally, respondents were **randomly selected** from this sub-sampling frame using a computer-aided random sampling technique. This ensured an unbiased selection process and increased the generalisability of the findings to the broader FPO population within the target states.

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No. 24, Ground Floor, Community Shopping Centre,
Neeti Bagh, New Delhi – 110049
Reach us at Support@nafpo.in