PROCEEDINGS OF
SECOND ROUNDTABLE CONFERENCE
ON
ISSUES AND CHALLENGES FACING
FARMER PRODUCER ORGANISATIONS (FPOS)

ORGANISED BY

SMALL FARMERS' AGRIBUSINESS CONSORTIUM (SFAC)
IN COLLABORATION WITH
ACCESS LIVELIHOOD CONSULTING (ALC)

HYDERABAD, APRIL 26, 2012

OBJECTIVES

The objectives of the Roundtable Conference were:

- ✓ How to integrate the small farmer in the value chain on a sustainable and equitable basis through member driven organisations
- ✓ How to sustain an on-going dialogue and partnership between FPOs and other stakeholders at the State level through SFAC facilitation

BACKGROUND

There are approximately 12 crore farming households in the country and only 5 lakhs of them, a mere 0.4 %, are members of organizations such as cooperatives, producer companies, associations etc.. Today the economic scenario is changing rapidly with shifts in national consumption patterns as incomes increase and global markets becoming potentially accessible. If the small and marginal famer is not to be left behind in the subsistence level low productivity and low market reach traditional value chain, (s)he has to join forces with others and enter the market in an aggregated manner. The concept of Producer Companies, introduced in 2002 by incorporating a new Part IX A into the Companies Act, 1956, had this objective in view. It retains the virtues of the Cooperative while taking care of its ills. It enables small farmer producers to pool their resources and manage a Company for mutual benefit. There are protective clauses that will prevent their being hijacked by non-farmers or any single farmer. However, even after a decade after the Amendment being passed, the growth and spread of Producer Companies has been slower than hoped for. The Government of India has mandated Small Farmers' Agri-Business Consortium [SFAC] to support the growth and spread of Farmers' Producer Companies [FPCs]. With this purpose, working through NGO partners, SFAC has organized Round Tables in a number of States to initiate a dialogue amongst the stakeholders and to facilitate decentralized fora that will address policy, procedural and other matters.

Issues that have to be addressed with respect to Farmers Producer Organization [FPOs] as articulated by the participants of the Round-Table:

Lack of awareness

Awareness about FPCs [Farmers Producer Company] amongst the farmers is low. In fact, officials of commercial banks, government departments and even Chartered Accountants have little information about FPCs. Training modules need to be prepared and training imparted to them.

Mobilizing backward linkages and Working Capital

Farmers face difficulties in accessing credit, seeds, fertilizer and pesticides in a timely manner and of usable quality.

Commercial banks and NABARD stipulate that to be eligible for a loan the organization has to show that it has engaged in economic activities continuously for three years and that these have been profitable activities. Banks favour cooperatives registered under old Act of 1964. After taking into account the processing fee and other transaction costs, the interest amounts to 16.5%. In spite of policy decisions regarding lending by banks, they do not get operational at the branch level. Often, credit is available almost at this rate in villages itself from different sources including other saving& thrift groups. The case of Dharmarajupally Seed Cooperative is not an exception – the Society has been trying unsuccessfully for the last ten years to obtain a bank loan. NABFINS, set up to provide credit and other financial services to agriculture sector, charges about 18% per annum interest rate, including a 1.5% processing fee. Such conditions are difficult for small farmers to meet.

Sufficient share capital would give the farmers leverage to access credit. However, the small farmers are not able to contribute large amounts as one-time payment, although over time they can contribute in small amounts.

Performance Rating of the FPCs by independent external agencies will go a long way in building institutional creditors' confidence in financing these organizations.

Alternative routes of FPC formation

(i) SHG route: To overcome the issue of difficult access to institutional credit and the fact that it takes at least three years of operation before a FPC becomes eligible for it, some FPCs grow out SHG [Self Help Group] activities. It takes three years for SHGs to build up a sufficient amount of savings. This route does not take longer to be eligible for institutional credit and in addition the process lets them learn to act together and put collective systems in place. Organizations like PRADAN and SERP build from a base of women's SHG that federate into women based FPCs.

A Woman's Dairy cooperative has accumulated savings worth Rs 60 lakhs, over the years. They have had no access to any working capital from any financial institutions. 5% of all bills generated is set aside for use as working capital. The cost of capital that comes from own savings is much lower than any institutional credit and the interest differential is also much greater.

There is need to also form men or mixed group based SHGs that would then federate into FPCs.

(ii) **Corporate route**: Lack of working capital has always been a bane for the small farmer. This has led the farmer to sells to the money lender / local trader at distress sale rates based on oral agreement.

A number of big corporate houses are promoting FPCs. One such case is the intermediary Access Development Services promoting FPOs on behalf of Pioneer Seeds Company. Farmers contribute to the share capital and the promoting corporate company is not on the Management Board – thus they abide by the requirement of the law on membership of FPCs. The private sector agri-input company may provide grant finance for promotion and running of the FPO. This is in addition to seeds and technical support. This makes this proposition attractive in the short-run for the farmers.

On the other hand, concern has been raised about the terms of the transaction entered into by the farmers on the one hand and the corporate house with much larger resources, on the other. The input supplier company's interest would be promotion and sale of their own products to the exclusion of other manufacturers' products. By reducing their independence to make a choice, the farmers may be getting into a less-than-optimum position. Is it a level playing ground? Who regulates these contracts? A related concern stems from the use and propagation of hybrid seeds itself. Local seeds embody diversity and are better adapted to local conditions.

One concern regarding the corporate–promoted FPCs is that they would absorb public funds available for nurturing FPCs, to serve the commercial interests of private sector companies.

(iii) **NGO/Government promoted route**: This consists of the promoting organization mobilizing farmers into Farmers Interest Groups [FIGs] first and then federating them into FPCs. The FIGs and FPCs deal with a variety of produce raised by the farmers and is not produce–specific.

It is widely agreed that an external agency is required to guide and assist the FPOs. CDF, for example, has been providing hand-holding services to Dharmarajupally

Seed Cooperative for the last six years. They will do so for two more years and the office-bearers of this Dairy are confident of being able to run the organization on their own by then. Experience indicates that four to eight years of external assistance is required. The crucial issue is of meeting the administrative costs of the NGO, and the FPO, during this interim period till the earnings of the FPO are sufficient to support this cost.

The successful model of Mulukanoor, where FPOs are promoted in local contiguous area and are functioning very effectively, can be used to demonstrate to the farmers the potentials in aggregated functioning. .

The discussion about the different approaches to mobilizing farmers into FPCs indicates that the FPCs clearly need to have **choice** regarding where they buy inputs from and who they sell to. Tied to this is (a) availability of working capital to the FPCs; (b) information about prices, markets and players in the field; and (c) negotiating skills.

Marketing linkages

FPCs need external assistance to build linkages with markets. Demand is there; it is a question of matching production to demand. This requires availability of market information and access to technology.

Human Resources

Lack of appropriately skilled human resource is a major limitation. Finding and retaining technical personnel is more challenging than doing so with generalists. Experience with respect to the latter is that with the corporate sector entering the rural sector, even those who have only completed school level are paid beyond levels that FPCs can afford.

The SERP model is to create a cadre of grass-root managers. Experience shows that initially the FPCs can rely on the intermediary organization, the NGO, but the skills do not get transferred to the community. For scaling up, the FPCs have to choose people from the community and train them. That is the only sustainable way forward given the shortage of human resources with practical, usable skills. One of skills required for example, is the ability to bargain and to do trading.

Currently, for technical skills and assistance, technically qualified persons are employed and ATMA and KVKs are resorted to.

SFAC needs to invest in this area. Different options are available:

- a system of Young Professionals, on the model of CAPART, can be developed and attached to FPCs
- for every 50-100 farmers a young person can be groomed to work for the FPCs on a commission-based, business format
- capable persons working in the SHGs can graduate to FPCs

As the programmes vary based on the promoting agency, geography, commodity etc, it is important to identify different local training institutions and offer specifically designed short term courses rather than long term courses. The existing infrastructure and technical institutions of the government should be made use of for requirements of FPOs. For specific topics like taxation, simple modules have to be developed and trainings have to be imparted. To address technical issues, apart from external technology/ solutions, internal ones (farmer/ farm level) also have to be promoted.

Usable research by University and agricultural research organizations are dismally poor. One NGO had to raise Rs 50 lakh to fund research by the University. This is a reversal of roles - it is the universities that should be seeking to resolve technical problems the farmers face.

Issues in nurturing sustainable FPCs

Rapid scaling up is not advisable. Self-reliance has to be promoted and that evolves with time. One effective way to mobilise farmers is by already existing groups and leaders who can do effective mobilisation. Support from existing occupational groups, other CBOs and village level governing bodies can also be taken to reduce load on concerned staff. Similarly, institutions developed under area development programmes can also be facilitated to become FPOs. Awareness campaigns, intensive capacity building including farmer to farmer training and identification and development of leadership are very important in promotion of FPOs.

Registration of the FPCs is a problem. There is little awareness about this organizational form.

Cost reduction: ways have to be found to reduce costs to the farmers until they have scaled up and are able to be self-sufficient. These include APMC costs for marketing, electricity payment holiday, being eligible for priority sector lending, interest-free loans for the first few years. FPCs are taxed on par with corporate sector companies while agriculture enjoys tax-free status – resolving the taxation problem can make a significant difference to the viability and attractiveness of the FPC.

Access to inputs: Provision of required services like soil testing, fertilisers, productivity enhancement etc will lead to more ownership of members of their FPOs. Timely and appropriate suggestions to farmers with technical data which are season and crop specific etc will be useful. Local level small value addition units will be helpful. FPOs can also take up resource (land, water) development of their members.

Leadership: It is important to identify and train quality leadership and put in place good governance mechanisms and good management practices. An example of the latter is micro-planning.

Address the primary concerns: Agriculture is fundamentally considered not attractive and people are moving out of it. The FPCs should address the pressing problems faced by the farmers: e.g. poor quality of the seeds that are available, non-availability of labour which is compounded by NREGS, crop insurance, building capacities of the government functionaries etc. if they are to attract membership. Besides access to inputs in short supply, such as seeds, fertilizers and pesticides, small value-addition activities should be undertaken to improve returns for the farmers. However, inadequate infrastructural facilities, such as irregular and highly limited [often to not more than four hours in a day] access to power, is a constraint in setting up processing units.

Grass-root democracy should be developed without exception; 80-85% attendance of members is necessary to ensure broad based information and democratic decision making. Transparency in accounts should also be made habitual. Rigorous auditing should be undertaken regularly.

Fiscal issues: unlike the exemptions available for agricultural income in order to encourage agricultural operations, producer companies of farmers, get no exemption from taxes of IT, service, CST, TDS, Registration Fee, APMC license etc. and enjoy no comparative advantage .

Role of NABARD

NABARD is mandated to provide credit and other facilities for various operations in the agriculture sector. One FPC, Anusha Agro India Producer Company Limited has accessed Rs 1.53 Cr loan and Rs 16.30 lakhs as grant from NABARD under Producer Organization Development Fund (PODF) to set up a bulk milk cooler and purchase of animals.

Role of government

The government has to reform its institutions so that they are able to reach farmers. There is currently a mismatch between government programmes and the institutions to implement them. Institution building at the grass-root level needs to be emphasized and funds must be set aside for this.

The Way Forward

A State-level forum of FPOs

The vision clearly demonstrates that government and non-government organisations have to make big effort to make a success of aggregated action by farmers. All the participants were enthusiastic about the idea of a standing forum of FPOs and gave their consent to join such a body if launched by SFAC with suitable local facilitation. The Forum will provide a platform for the needs and views of FPOs to be articulated, and solutions to address these can be explored in a collective manner. This Forum will also give a collective voice to issues in the policy domain which impact FPOs and create a body to dialogue with government agencies, banks, private sector players etc. The detailed modalities, frequency of meets, the agenda of the Forum may be worked out in a participatory manner. A local institution will be selected by SFAC to launch this forum as soon as possible.

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Hyderabad, 26 April 2012

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