



**PROCEEDINGS OF
ROUNDTABLE CONFERENCE
ON
ISSUES AND CHALLENGES FACING
FARMER PRODUCER ORGANISATIONS (FPOs)**

ORGANISED BY

**SMALL FARMERS' AGRIBUSINESS CONSORTIUM (SFAC)
IN COLLABORATION WITH
INDIAN GRAMEEN SERVICES (IGS)**

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Background

Almost every major business house of the country is venturing into the agri-business sector, especially with regulations allowing the corporate sector to enter into direct contractual arrangements with farmers. One of the triggers for this newfound interest in agribusiness by the corporate sector is the change occurring in the retail markets, where consumers are making dramatic shifts from purchasing at neighbourhood *kirana* stores to shopping at supermarkets, malls and food plazas, enabling development of food supply chains from the farms to consumers.

With a population of over one billion and rising disposable income, the demand for food is only growing. Yet the farmers are in distress, as witnessed by the large number of farmer-suicides. One explanation for this is that the farmer disposes off his produce in unprocessed form and value addition in agricultural commodities happens only after sale by the farmers. The question is what can be done to address this dichotomy of greater actual and potential demand for agricultural produce and a stationary or worsening situation of the farmer? One possible solution may lie in aggregated functioning through Farmers Producers Organization [FPOs].

During the last decade there has been a growing interest from private and non-governmental organizations in promoting small farmers' organizations. These organizations have since been playing the important role of creating strong supply chains and linking farmers to the market. FPOs have opened new vistas in the agribusiness sector which explicitly indicates on the one hand, requirement of large scale inputs, and on the other, well developed markets for agriculture produce.

FPOs face a number of challenges and hurdles as they grow in number and scale. There are also opportunities that arise from aggregated functioning. These opportunities and challenges have to be addressed systematically by bringing together all

stakeholders viz. Government, NGOs, FPOs, private sector, aggregators and service providers. Against this backdrop, Small Farmers Agribusiness Consortium (SFAC) has been organizing day-long Round-Tables in various States. One such Round-Table was organized in Patna, Bihar to understand the issues specific to the State and to frame the appropriate policies for the smooth functioning of FPOs in the State.

Proceedings

The Round Table workshop commenced with a welcome address by Mr. Mihir Sahana, Managing Director, Indian Grameen Services (BASIX). This was followed by Mr. Pravesh Sharma, Managing Director, SFAC welcoming the participants and explaining the mandate of SFAC. He explained that the objective of the Round Table was to discuss the operational and policy level issues with respect to FPOs and to bring all stakeholders together on a common platform in order to create an enabling environment for the organizations of small farmers. He expressed the need to discuss the challenges and opportunities that FPOs encounter or may face in future and the role of the government sectors, banks, private sectors and NGOs.

Objectives and Format of the Roundtable

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

The Roundtable discussions were divided into three sets of issues:

- Key challenges in Establishment of FPOs
- Finance & Marketing issue in FPOs
- Way Forward

A. Key challenges in Establishment of FPOs

- Agriculture is the key to the overall development of the State economy. It is the backbone of Bihar's economy, supporting 81% of the workforce and generating nearly 42% of the State Domestic Product. According to 2004-05 data, nearly 42% of the GDP of the state was contributed by agriculture sector (including forestry and fishing). The state has attained self sufficiency in food grains production. However, barring maize and pulses, productivity of various farm produce in Bihar is far below the national average. Though the area under cultivation is shrinking, there is tremendous scope for income generation, by improving productivity. Adverse climatic condition, like draught and floods, also play a role in low production levels.

- ⊕ Many SHGs federations are registered as self-reliant cooperatives and are functional in the state. There is very little awareness about Farmers Producer Organizations [FPOs] in the state. In fact, officials of commercial banks, government departments and even Chartered Accountants have little information about FPCs.
- ⊕ Social and political issues significantly affect the formation and functioning of FPOs. For example, different Collection Centers had to be established on the basis of caste and community. This was to enable direct procurement of vegetables by the retailer which would benefit the farmer by giving her/him Patna market prices at the farm-gate.
- ⊕ Common benefit groups with common activities remain strong even if some political forces try to disband them. They will stay together as long as there is profit in doing so. Hence it is important to give them short term gains to keep their interest up.
- ⊕ FPO formation requires an external agent to mobilize the farmers first in a common interest group and then federate a number of such groups on to a federation. Continuous hand-holding is required to build capacities. The sustainability of the organization will be at stake without this investment of time and resource. The process of formation and registration is too complex for farmers to handle by themselves. The Promoters, however, will have to be vigilant about providing support and guarding against taking over the decision-making role. In one case, women who were 7th and 8th class pass could take up leadership role and marketing responsibilities when trained to stand on their own feet. The Promoting Organization has to assist the FPO to organize access to input suppliers and facilitate aggregated marketing.
- ⊕ So far NGOs in Bihar have not taken up the work of FPO formation in a significant way. The reason for this has to be analyzed. There is a cost to the salaried staff brought in by external facilitators; other schemes may be more attractive because more funds are available through them to pay for staff and for other expenses. As an exit strategy of the Promoting Agencies, farmers and local youth should be trained to take on the role played by the Promoting Agency - it is likely that he/she would be more willing to take risks and try harder than a paid employee. It has been observed that there is a high level of dependence of the NGO staff for at least three years.
- ⊕ NABARD provides capacity building assistance to build the organization, at the rate of Rs 10,000 per year for three years. Often this information is not available with the qualifying organizations.
- ⊕ Currently farmers have no access to the extension services. KVKS, created to provide farmers access to appropriate technology, is usually too far for the small

and marginal farmer to contact. There is need to raise productivities and generate marketable surplus. The facilitating NGO has to fill this gap.

- ⊕ Lack of basic infrastructure is another bottleneck in formation of FPOs. Roads, access to power, storage, market yards are required for marketing.
- ⊕ One of the bottlenecks in formation of FPOs is the large amount of complicated documentation that is required. The farmers can neither understand them nor manage to deal with them.

B. Finance & Marketing issue in FPOs

- ⊕ Small farmers' membership in cooperatives is 3% in Bihar against 30% at the national level; membership of this group in Self Help Groups [SHG] is 0.8% in Bihar against 4.8 % at the national level; membership in registered organization is 0.3% in Bihar and 2.2 % across the nation. These statistics are indicative of the position of small and marginal farmers in Bihar. There should be three or four schemes exclusively for small and marginal farmers because the issues and concerns of this group are different from that of other farmers.
- ⊕ The State Level Bankers' Committees should track the flow of credit to this group. Commercial banks are not keen to finance small and marginal farmers. Requirements of a professionally produced Business Plan tend to discourage the small farmers who have no access to the resources required to produce such a Plan. Currently only selected groups with the appropriate political connections have access to credit. The government should provide some guarantee to cover this risk.
- ⊕ Small farmers require immediate money - their livelihood depends on the sale of the harvest. They tie up with local traders who lend working capital funds to them and provide inputs, at a premium and purchase the produce at a discount. On the other hand it is difficult for the small famers to compete with traders who control a large part of the value chain with their network of retail shops, access to funds and infrastructure. Governmental *mandis* are captured by local traders and small farmers are unable to penetrate them to sell their output.
- ⊕ There are 20,000 NABARD farmer Clubs in Bihar. There is hardly any financial institution in the State, besides NABARD, that are sensitive to the needs of the farming community with its requirement of working capital and the need to market perishable produce. The few that function in the state are not interested to taking any proactive steps to reach out to the farmers. On the other hand default rates are very high; farmers remain indebted in the hope of a future waiver.
- ⊕ There is a wide price variation between the rural areas and the town/city. However many small and marginal farmers find it easier to sell in the village *haat*.

There are 1500 *haats* in Bihar. These should be developed and at least basic facilities made available.

- ✚ Kisan Credit Cards [KCC] allows farmers to have cash credit facilities, such as credit for working capital, without going through time-consuming bank credit screening processes repeatedly. Repayment can be rescheduled if there is a bad crop season, and extensions are offered for up to 4 years. Although the scheme was formed to assist small farmers, the procedure to acquire these KCC is very complicated and hence difficult to obtain.
- ✚ Should the Promoting NGO get into business itself? The perspective in enterprise development ranges from 3-5 years to life-long. Established ones enjoy enormous power from the linkages and relationships built up over several years and sometimes several generations. A Promoting NGO may expend its energies better in providing back-stopping support and in facilitating forging linkages for the FPO.
- ✚ The significant potential of undertaking web-based marketing has to be explored.
- ✚ The participants from the input supplier companies showed considerable interest in tying-up with FPOs.

C. Policy challenges and Way Forward

In the last session it was proposed that one pathway which could help to meet many of the challenges highlighted in the RTD is the setting up a permanent mechanism to network FPOs at the state level. The proposal is to set up a state level **FPO Committee** under the banner of SFAC to support the various needs of FPOs. The membership will be open to all registered FPOs within the state. The forum will first prepare a database of FPOs in Bihar. It will then prepare an action plan on the basis of priorities expressed by members units. The *Samiti* will provide a platform for the needs and views of FPOs to be articulated. Solutions to address these will be explored in a collective manner; the *Samiti* will try for convergence with the ongoing schemes of different departments, financial institutions and banks and will also try to build access of the farmers to input suppliers, to technical service providers, to legal, finance, audit and to insurance experts. In addition, the *Samiti* will advise FPOs on various registration matters and will lobby with the policy makers to promote, propagate pro-producers' organization policies in the state. The detailed modalities, frequency of meetings, the agenda of the *Samiti* may be worked out in a participatory manner. A local institution will be identified by SFAC to launch this forum as soon as possible.

The idea of creating such a network was unanimously endorsed by the participants. It was felt that leveraging the collective bargaining power of FPO members is only possible with a strong platform that represents their interests. The meeting ended with a resolution that all stakeholders will work towards making the FPO Committee operational within the next three months.

List of Participants

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