PROCEEDINGS OF THE ROUNDTABLE ON

FARMER PRODUCER ORGANIZATIONS- “OPPORTUNITIES AND CHALLENGES”

Organized by

Small Farmers’ Agribusiness Consortium [SFAC]
and
ACCESS Development Services
JAIPUR, RAJASTHAN
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Background

Although the agricultural sector has grown slowly in the last one decade, it has tremendous potential for improved productivity and possible expansion of employment opportunities and consequently mitigating the levels of rural poverty. These gains can be achieved only if concentrated efforts are made to realize the untapped potential of this sector. Among others, one way of improving the productivity, profitability and sustainability of farmers, especially small and marginal producers, is to bring them together into a formal institutionalized arrangement, aggregate their produce and link these bodies to the agri value chain.

SFAC has been mandated to mobilize 2.50 lakh farmers into 250 producer organizations across the country by Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India to demonstrate the benefits of aggregating producers and increase their access to investments, technology and markets. Under the intervention, farmers are organized into groups, SHGs/ Cooperatives, producer companies etc. There are approximately 1200 lakh farming households in the country but only 5 lakh of them or merely 0.4 % are members of organizations such as Cooperatives, Producer Companies, Associations etc.

ACESS Development Services (ADS), in partnership with SFAC,organized a two day Roundtable discussion on **Challenges and Issues facing Farmer Producer Organization** at Jaipur on 16-17 July 2012. The roundtable aimed at identifying critical challenges limiting the mainstreaming of Farmer Producer Organisations and identify a road map to address the prevailing challenges.

A cross section of stakeholders from FPOs, civil society institutions, banks, resource agencies and the state government participated in the roundtable discussion. A complete list of participants is available at the end of this document.

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

Summary of Proceedings

The Roundtable discussion commenced with a welcome address by Mr. Pravesh Sharma, Managing Director - Small Farmers' Agribusiness Consortium. He explained the mandate of SFAC across the country for the formation of FPOs. He shared that the objective of the Roundtable is to discuss the policy level issues pertinent to FPOs and to bring all stakeholders together on a common platform in order to create an enabling environment for the organization of small farmers. He expressed the need to discuss policy matters, functional aspects, challenges and opportunities that the FPOs are facing or may face, and the role of the government, banks, private sectors and NGOs to promote and develop the capacity of FPOs.

He also highlighted some of the challenges faced by FPOs and SFAC's role in creating an enabling environment. He also informed that similar roundtables have been organized by SFAC in others states to understand the issues faced by the FPOs which moved useful in identifying key issues in building sustainable FPOs. He elaborated on the importance of a state level platform where representatives of the FPOs and promoting institutions can come together on a continued basis and join hands to tackle the issues and challenges faced in promoting and strengthening FPOs.

These opening remarks were followed by an address by Mr. Vipin Sharma, CEO, ACCESS Development Services. Some of the important points made by him were:

- ➢ FPO promotion is not to be seen as a one-time exercise. There is a requirement of continuous engagement with FPOs and there is a need for identifying a set of standards or requisites to establish an efficient FPO which could be followed widely
- ➢ One of the important tasks of the promoting organizations is to organize the producers and organize the groups in to a federal structure; it is the responsibility

of the promoting institutions to form strong groups and work towards making these groups sustainable

- ➢ Depending on grants alone can cause FPO to dissolve at later stages; revenue streams of the FPOs should also be identified and planned strategically since its inception
- ➢ At this point of time, we also need to organize a platform that can periodically meet and discuss the issues and take things forward

The Round-Table discussions were divided into three sets of issues:

- Challenges and Best Practices;
- Mobilizing Backward and Forward Linkages;
- Role of Support Agencies and
- Way Forward.

Key challenges in Establishment of FPOs

+ The small farmer is an efficient producer but does not enter the value chain. The strength of scale is required to undertake effective bargaining. In terms of aggregated action, neither Self Help Groups [SHGs] nor Cooperatives have succeeded. SHGs are too small in scale.

+Benefits of forming the producer organizations are clear. However, there is not much clarity in terms of choosing the most appropriate structure of the FPOs. There are advantages and disadvantages in both forms - cooperatives can avail of concessions like rebates while filling the income tax returns whereas Producer Companies are treated on par with all corporate sector companies for tax matters. The advantages of Producer Company over cooperatives are ease of operations and greater autonomy in operations and lesser interference from government. Mutually Aided Cooperative Societies [MACS] have taken care of some of these provisions and MACS has been adopted in Rajasthan but many states have yet to adopt MACS. It must be noted that cooperatives have received support for decades whereas this is not available for FPOs. One of the tasks of the state level platform could be to guide the farmers on choosing the appropriate legal entity for their producer organization.

+ Regarding the issue of the ground level organization, it could be an informal one that federates into a formal one. At each level they may take any of the organizational form available. Farmers' aim is increased income. That must be kept in mind whatever form the organization takes.

+ Influential and bigger farmers tend to join cooperatives. An organization with small and marginal farmers in majority membership is required.

+ It takes 4 to 5 years to form a FPO that can stand on its feet. SFAC should recognize this and extend support from the present 2 years to 4-5 years.

+ There are not many examples of FPOs and cooperatives being viable. The business mode of operation is absent. At present farmers do not believe that companies can give them profits. They are also a little afraid of companies, an unfamiliar form for them.

+ Viability of FPOs needs to consider the following:

- Optimum size of FPO – 1500 farmers
- There should be a business rationale for aggregation, irrespective of whether the organization is formal or informal and in-built profitability and sustainability is necessary.
- Feasible Business Plans should be developed. Since most FPOs lack the skill to do so, assistance in this has to be provided to them.
- Source of revenues –the FPO should take a considered decision on whether to deal in a single commodity or in multiple commodities
- FPOs often face stiff challenges in obtaining financial support from commercial banks at needed point
- Lack of infrastructure facilities at grass root level results in high wastage, transportation etc.
- The incentive to stay together in an FPO will be there only if short-term benefits are available to the members..

+ The FPOs have governance issues that should be resolved. How capable are the farmers of running a registered Company? They are likely to remain passive and all the control will be exercised by the CEO. That can be risky. One solution is to have two Boards – a Management Board of professionals to run the company and a Governance Board.

+ The process of registering the FPO is complicated. Assistance has to be provided to FPOs in this. Even CAs do not seem to be aware of FPOs.

+ Government officials concerned with FPOs remain indifferent and ignorant about FPOs. There are instances of FPOs struggling for recognition even after three years.

Capacity Building

Strengthening and capacity building of any form of farmer organization is important whether it be FIG, Cooperative, association, company etc. For this the key role is played by the promoting organization as to how they orient and build the capacities of the farmer.

- Rapid scaling up is not advisable for a FPO. It should be given appropriate time before scaling up.
- Building the capacity at FIG level is critical. Grass-root democracy could be built through attendance of at least 80-85% members, transparency in accounts, accountable behavior, regular internal auditing etc.
- Both the members and the farmers elected for Board of Director should be trained adequately in good governance.
- Appropriate technology is becoming available rapidly. The question is how to take it to the farmers. Skill development has to be undertaken in a professional manner.
- The role of promoting should not be considered secondary, FPOs require hand-holding support for at least five years. However, the promoting agency should only provide external support for 5 or 6 years otherwise the FPO will continue to remain dependant. They need to begin with an exit strategy.

Marketing Issues in FPOs

+ There is a great price variation between the retail prices and what the farmers receive. FPOs should bridge this gap as much as possible

+ Marketing is a specialized work and it can take up to 5 or 6 years for an FPO to be self-sufficient in management. Capacity building has to be emphasized. End to end technical back-stopping is required. Agriculture is seen to be an unprofitable venture. Cooperatives and FPOs will improve only if the farm is made profitable. At the same time alternative sources of livelihood have to be developed.

+ When a marketing aggregator starts succeeding conflicts start. For example, often the panchayats start feeling threatened and political interference starts. Much time input is required to manage these developments and the external agency tends to give up.

+ It is important for the Farmers' Companies to cultivate business sense. The farmer – members have to realize this and not just the NGO

+ Price realization and increase in incomes has to come about in the short-run. But price realization can only be one of the hierarchies of objectives. Transportation, pack houses, reduction in wastage are equally important. Pack-houses could cost as much as Rs 3 lakhs per month to run. There has to be sufficient turnover to meet this cost.

+ There are shelf-life sensitive transportation issues. Railway containers are the preferred mode. There is need to increase the quantum of containers available. Small technologies are available and needs to be adopted to reduce wastage and increase shelf-life e.g. chilling plants at the village level.

+ Tie-ups with exporters should be encouraged.

+ It must be kept in mind that marketing is monopolized by traders and it will be difficult to make a break-through.

+ Value addition in agriculture is not under priority sector lending. This needs to change.

+ Brand building is a long and challenging process but it also leads to better commissions from the retailers. Retail sale is a big challenge and credit management in the retail market can be a thorny matter. It is easier to collect credit in bulk marketing. However, for branding and to sell at improved prices even to wholesalers, the producer has to go to the retail market and establish brand recognition. Sometimes it helps to start with the shareholders themselves being allowed to buy and resell.

+ A big opportunity for marketing exists in seed production.

+ Costing calculation is a difficult procedure for primary producers. Overhead costs and unpaid [family] labour costs are often not taken into account.

+ An umbrella marketing organization would be a viable one. There are a number of food laws, branding, packaging requirements that can be more efficiently done by such an organization. The risks would be higher if undertaken by single FPOs.

+ The government is procuring pulses from the mandis. It could do so from FPOs.

Finance Issues in FPOs

+ Initially, SHGs were not recognized by the formal financial institutions as bankable entities. A Working Group was formed to examine this and eventually NABARD launched the pilot phase of the SHG Bank Linkage programme in 1992. RBI then provided guidelines to the commercial banks on lending to SHGs. On similar lines we need to have the guidelines for banks to support FPOs. With this we also need to identify the organization or the body to bear the initial expenses or invest in the producer organizations.

+ "Producers Organization Development Fund" (PODF) has been set up by NABARD with effect from April 1, 2011, with an initial corpus of Rs. 50 crore to comprehensively support Producer Organizations. NABARD, under its financial Intervention, directly lend to Producer Organizations for term loans or composite loans comprising both working capital and term loan requirements. However, similar to commercial banks, NABARD also asks for a good balance sheet for 3 years and for collateral. This needs to change if we are to promote FPOs.

+ Farmers are being given interest-free loans of up to Rs 1 lakh from Cooperative Banks and farmers are coming back to the cooperative fold. A similar facility should be offered to FPO members.

+ The Registrar of Companies puts Reliance and FPOs on the same level – special consideration is required for FPOs, especially in procedural issues.

+ The tax on Famers Producer Companies under the Companies Act, is the same as for corporate. This reduces the returns to farmers whose margins are relatively low to begin with.

+ Seed companies and other input companies are ready to give credit to farmers and farmers' group with a good reputation but no credit is available for marketing.

+ The case of aloe vera juice production and marketing is an interesting case. Marginal women farmers cultivating degraded common land on lease raise aloe vera and market it with the help of an NGO- GDS. Effective marketing requires diversification. However, they are unable to access credit to set up the processing units required to diversify because of the lack of collateral. Clearly an institutional approach of judging the business plan needs to be put in place. The capacity to meet bulk orders has to be built.

+ Possibility of performance rating by an independent agency to assist in accessing credit should also be looked into.

+ Indian Grameen Services (IGS) has initiated an innovative loan product where they provide loan to a FPO on the credibility of the promoting organization and FPO itself, without any collateral. They admit that only 90% loan amount is recoverable.

+ LAMP Funding Criterion includes: 2 years' balance sheet, seasonal/quarterly trend report, membership base or share capital in the Company and Promoting Organization's capacity

+ Ford Foundation is supporting a Livelihood Promotion Fund that gives loans at 4%. The risk-taking ability of this facility is high, being external grant money.

+ Star Agriwarehousing & Collateral Management Limited assesses the capacity of the Promoting Organization also and provides loans against stocks.

+ Friends of Women World Banking [FWWB] has a corpus of Rs 1.5 crores and provides loans to FPOs on the basis of their Business Plan and does not ask for collateral or balance sheets. It is ironic that while there is such a huge unfulfilled demand for loans, FWWB could manage to lend only Rs 40 lakhs to 6 FPOs, in one year. FPOs look for grants and they mostly do not have a viable Business Plan or have a very basic one.

+ Rs 7000 cr. of subsidy amount is transferred to fertilizer manufacturers annually. The government is considering direct transfer of the subsidy to the farmers. Can this be routed through FPOs?

+ Can climate change preparedness be implemented through FPOs rather than reaching out to millions of farmers?

Way Forward

A State level coordination forum of FPOs can act as a platform where information about FPO productive potential and produce can be aggregated and leveraged with various market players. Issues of sourcing inputs, credit, technology and market linkages can be addressed by the forum. The forum can also look at solutions to HR, financing, capacity building, regulatory compliance and related challenges. Some of the other issues such a State level organization can address are:

- Cater to transport and other infrastructural requirements
- Registration and Formation of the FPOs
- Access to Kisan Credit Cards
- Group certification for seed production
- Brand establishment
- Research / Extension Fund of Mandi Board for supporting the FPOs
- Data base of human resources such as CAs, tax consultants, lawyers etc. who understand income tax related issues Value addition facilities – processing units
- Ensure subsidies reach the appropriate targets
- Bulk purchases of inputs; input supply shops run by FPOs as a means of regulating prices of input
- Assistance for Business planning

The idea of a state forum was unanimously supported and it was agreed that SFAC would initially support this initiative till it becomes self-sustaining.

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