

ROUND TABLE ON FARMER PRODUCERS' ORGANIZATION(FPO)- CHALLENGES AND OPPORTUNITIES

AHMEDABAD – GUJARAT 9 MAY 2012

Organized by SFAC in collaboration with Friends for Women World Bank (FWWB) and Development Support Center (DSC).

OBJECTIVES

The objectives of the Round Table were:

- ✓ Further the SFAC mandate of promoting FPCs, assisting farmers to take advantage of aggregated activities
- ✓ Facilitate backward and forward linkages
- ✓ Sustain this dialogue through State-level Small Farmers' Business Forum

BACKGROUND

About 50 representatives from NGOs, FPOs, private foundations and government agencies involved in promoting producer organisations in Gujarat participated in the round table. Mr Pravesh Sharma, Managing Director, SFAC and Ms Anshu Bhartia, CEO, FWFB welcomed the participants. Three major issues (i) input supply, (ii) market linkages and value addition, and (iii) credit supply were discussed in breakout groups. This was followed by a plenary session.

INAUGURAL ADDRESS BY MR. PRAVESH SHARMA, MD - SFAC

In his opening address, Shri Pravesh Sharma, highlighted some of the issues faced by FPOs and SFAC's role in creating an enabling environment. Some of the issues that he highlighted were:

- The contribution of an average agriculture worker in the Indian economy is only \$600 per capita against \$2400 for non-agriculture workers. This gap is expected to increase in the coming years.
- Of 12 crore farmers only 10 lakh farmers are linked to any institution.
- There are many companies, who are not interested in buying from mandis and want to connect directly with producers, but their concern relates to how it can be done in a viable way. Today the market is global and producers can even tap the global markets.
- Today small producers in every state are trying to connect with market players, but they have very little bargaining power. We need to discuss what can be done to increase their bargaining power.

ROLE OF SFAC

- SFAC has been mandated by the government of India to promote 250 new producers companies and increase their access to qualitative inputs and link them with markets.
- NABARD has set up a special fund to support the FPOs in the 12th Five Year Plan.
- More Round-Tables will be organized by SFAC in various States to understand the State-level issues and to create network of state level fora where producers and buyers can meet at a common platform and which can also take up policy and procedural issues with the government.

These opening remarks were followed by presentations from **Agrocel** and BAIF, two leading NGOs promoting FPOs in Gujarat. Agrocel described the range of institutions, Government, NGOs and Private Companies it had collaborated with for promoting FPOs in cotton, paddy and raisin in Gujarat and other states providing processing facilities and technical training. The company is planning to develop the backward and forward linkages further.

BAIF's presentation referred to the different institutional options available for aggregated action by farmers; however, if procedures can be simplified to make it more farmer-friendly, the Producer Company appears to be a very good option. BAIF had mobilized 21 FPOs by 2012 with Rs 4 cr of capital base and Rs 6 cr of credit absorption. BAIF shared their experience on accessing credit from different sources such as commercial banks and NABARD.

BAIF's foray into FPO was not a premeditated one, it evolved out of their work addressing food security and livelihood issues. They saw that price realization from agricultural produce was low because of distortions in the market, aggravated by lack of price information and terms of trade skewed against farmers. Market intervention was necessary; but it could not be on an individual basis. Hence there is need for FPO. Even if 20% of the produce enters the market, big changes can happen in favour of the farmer.

Markets have their own logic and it should be understood before entering it. For example, consistent presence is required – it cannot be by fits and starts. There are risks involved – quality and supply schedules will have to be maintained. Brands cannot be created with small amounts. Without branding, markets can be developed amongst the poor. Sachets were used by BAIF to open up the market.

Often the organizational form is not important but the process followed is. Exposure to markets must be in place. There needs to be a structure for doing business. Then linkages have to be developed. Different types of hand-holding will be required.

SUB-GROUPS

Thereafter the participants were divided into three groups as per thematic areas i.e.(i) input supply, (ii) market linkages and value addition, and (iii) access to credit. Each group discussed the issues faced by FPOs, the best practices and policy recommendations.

SUB-GROUP DISCUSSIONS

I. Input supply Issues

The group first categorized the inputs, into fertilizers, seeds, equipment, animal feed, machinery and other services needed.

Challenges

1. Spurious seeds in the market leading to loss of production, especially in the tribal areas. There is no regulation of the increasing variety and quantity of bio-fertilizers / organic fertilizers entering the market.
2. Farmers do not have information about the quantity and type of fertilizers and seeds to use.
3. Input labels are not being in local language creates problems.
4. There is short supply of inputs in the villages and artificial shortages are created during the peak season. Even manufacturers are involved in this to increase their profit.
5. Cooperatives do not have sufficient capital to source the raw materials from various agencies.
6. Subsidies do not reach farmers due to unfavourable institutional arrangements.
7. Agriculture Implements are not available in tribal areas.
8. After crop failure, farmers do not get quality seeds for sowing, resulting in reduced productivity.
9. Subsidy kits are not available; neither information nor the material reaches farmers (information asymmetry). The schemes are not appropriately designed to meet the requirements of farmers.
10. Farmers' inability to contribute to the equity of the FPO which needs to source material from various industries.

Best practices

- Organized farmers groups should purchase inputs in bulk from manufacturers and distributors. In this way they are in a better position to negotiate with suppliers.
- Input supply shops by FPOs should be set-up. Prices of inputs sold from the shop could be such that they are non-profit but able to cover the overheads. This type of initiative will prompt other retailers dealing in agri-inputs to lower/rationalize the price they charge from farmers.

- FPOs producing certified seeds should be eligible for the same level of subsidies as private companies.
- FPOs should set up agri-clinics with skilled manpower that can provide professional services to farmers.
- Providing training to farmers on best practices
- Agri-tools libraries should be established. An agri-tool library can rent tools, especially to small and marginal farmers who do not have the capital to purchase big tools and equipment. Such libraries can be set-up between a group of farmers at cluster level within a block.
- Warehouse construction may be given special consideration if built by FPOs. Or management of warehouses constructed with public funds may be given to FPOs.
- Weather insurance services should be available to members.
- Farmers should have access to SMS based information services in local language. Group based schemes will reduce per person cost to access such services.
- Soil testing services should be provided.
- Government services should be routed through FPOs.

II. Market Linkage and Value Addition

Producer organisations face the following problems in terms of adding value to their produce and accessing markets.

Challenges

1. Farmers do not have holding capacity after harvest due to pressing cash requirements and lack of warehousing or cold storage facilities in the villages.
2. Infrastructure for safe transportation of produce is not available.
3. Producers lack information regarding demand and supply conditions in various markets which discourages them from holding stocks of produce either individually or collectively.
4. Producer organisations face problems in terms of convincing their members to hold produce for receiving better price. This may be due to prior negative experience or individual farmer's inability to take risk or his lack of trust.
5. Lack of awareness or confidence among members regarding producer organisation's ability to address price fluctuations in market.
6. High investment capital requirements for undertaking value addition.
7. Difficulty in obtaining land from government for building infrastructure e.g. warehouses, to support members' activities.
8. Differentiating agricultural commodities for receiving higher price in the market is a constraint as it requires higher investments in value addition, brand building, and establishing sales network.

9. Lack of skills for preparing plans to take up value addition, brand building and other business development activities.

Solutions / Best practices

1. Producer's organisation should work towards building confidence among farmer members by delivering on promises made.
2. Calculate economies of scale, scope and integration that can be possible with a particular business activity before implementation.
3. Timely innovation in value addition and other related activities, usage of by-products by producers, and taking care of costs involved in value chain can help in cushioning the market fluctuations.
4. FPOs have to look for finances available from government or other funding sources for facilitating the investments in value addition activities.
5. Market and other agriculture related information can be passed on to members through SMS or community radio service. Farmers can also be provided with toll-free number which they can use to access information according to their need.
6. Information system to track the produce from each farmer to consolidate figure at village level is required.

III.Credit availability – Access to Credit

Issues

1. Farmers donot know about the availability of Kisan Credit Card [KCC] due to lack of information
2. There is lack of information on credit schemes and instruments
3. Lack of priority lending by banks to agriculture sector.
4. Difficulty in screening FPOs as per their financial capacities.
5. There is no coordination among different departments of the government in the State working towards the livelihoods enhancement.
6. The FPOs are not able to assess their capital requirement.
7. Large mismatch between requirement and loan disbursement becomes an issue with FPOs when they ask for credit.

POLICY RECOMMENDATIONS

(i) Input supply Issues

1. Independent agency to authenticate the inputs at local level.
2. Certification of the bio-inputs by government – Agmark (can be done by the Promoting Organization or the government)
3. Licensing of the FPOs that are input producers so that selling can be facilitated..
4. Pesticide consumption being a big issue and government can support farmers in this through advice and funds support.
5. Working capital support to the FPOs.

6. There should be efforts towards increasing the supply of farm inputs - lack of adequate supply leads to increase in spurious inputs. Production capacities of the FPOs could be increased so that they can meet their own needs of seed supply and bio-inputs; seed banks could be expanded and encouraged and government could partner with FPOs to sell inputs in the villages.

(ii) Market Linkage and Value Addition

1. Infrastructure support should be provided either through fund allocation or through direct involvement.
2. Speeding up the process of sanctioning and making grants available to producer organisations. Currently the system is plagued with delays.
3. Construction of warehouses / godown can be undertaken in collaboration with producer organisations wherever possible.
4. Create an enabling environment for formation of farmers' markets with suitable infrastructure facilities.
5. Help promote education on business development proposal preparation, provide information on the schemes available for producer organisations, and educate farmers and NGOs involved with them to deal with markets.
6. Help NGOs and producer organisations to develop their marketing personnel through training and development programmes.

(iii) Credit availability – Access to Credit

1. Working capital to equity ratio should be higher for FPOs.
2. Need to provide start-up capital for the FPOs.
3. Interest subsidy for FPOs, though it was recommended, was not implemented.
4. Identification of a nodal agency for the coordination among different government organisations and other FPOs involved.
5. Credit rating agency for FPOs
6. Knowledge building to understand the business viability of FPOs is needed.
7. Tracking loan disbursements to FPOs and repayment percentages by them should be taken up by a nodal agency at the State level. This is to create a database which will help establish the credibility of the FPOs.
8. Rather than relying only on external lending to FPOs, an endogenous mechanism (Cluster level) to support farmer organisations with credit could also be thought of.
9. Need for providing a package of financial services for FPOs, which would include financial literacy, support in developing a business plan, capacity building and providing loan support for starting and scaling up activities.
10. Document experiences of efficient examples of self financed FPOs.

Plenary Session

The viewpoints and suggestions expressed in the plenary session:

- 1) Some of the Human Resources related issues identified by the participants were:
 - NGOs find it difficult to find and retain staff dealing with marketing issues.
 - Professional experts in this field charge high fees.
 - Lack of capacity building institutions for training functionaries from NGOs as well as FPOs on developing business plans, value addition etc.
- 2) Access to technology is an issue. NGOs could run agri-cells to disseminate technology.
- 3) Chances of success are low without a Business Plan. However, it should be a working document and not an unnecessarily complicated one.
- 4) The mindset of a private businessman has to be replicated. Analysis of inventory, sales, demand etc must be undertaken continuously. Every opportunity must be grabbed. Understanding the markets is complex; it takes time.
- 5) Price realization is important. If much of the price is taken by middlemen, entrepreneurship dies. FPO and private sector partnership should work well.
- 6) FPOs need a strategy for debt management. Getting money back from customers is usually very difficult. There is need to find ways of strengthening the law with respect to this.
- 7) FPOs must learn to manage volatility. There is a 10% variation in raw material prices. When prices rise, buyers will fix prices and when prices are expected to rise the reverse will happen and buyers will fix prices. If holding capacity is available, volatility can be managed to the advantage of the farmers. Second strategy to manage volatility in prices is by building buffer for price volatility while costing and quoting prices to customers. Care should also to be taken to build in overhead and fixed costs appropriately in the costing and pricing structure.
- 8) FPOs face intense human resource crunch. Marketing professionals have high expectations and have different value systems. They do not stay for any length of time with rural FPOs.
- 9) Existing institutions for developing human resources is high cost and English-language based which is not the requirement for the rural markets. Basic modules have to be developed especially targeting agri-business enterprise development.

- 10) Training local youth may be the effective alternative. For marketing, business minded persons have to be employed.
- 11) Agriculture lending is becoming increasingly difficult as there is large scale land fragmentation amongst farmers. A bankable model has to be developed. FPOs could be supported through a blend of grants, loans and capacity building. FPOs need to develop a business plan with a clear understanding on how much value is going to primary producer.
- 12) Though there was a need to promote FPOs, the task was extremely challenging. In spite of the best efforts and intentions by NGOs, many business enterprises promoted by them did not succeed as they simply could not compete in the market. Running a financially viable and profitable venture required a different mind set not very often found in functionaries of NGOs who were more comfortable with development initiatives. There is need to develop business acumen amongst functionaries of NGOs and also in the FPOs that they promote.
- 13) Mr. Neil Patel, CEO, Awaaz De, shared his experiences on the mobile based technology developed by Awaaz De. Awaaj Otalo, an agriculture advisory service developed by DSC, had helped farmers in decision making and in estimating the actual marketable surplus available with farmers. This helped the FPOs in taking a decision on the market to be tapped and the transport to be arranged.

WAY FORWARD

- A state level forum of FPOs to bring all stakeholders on one platform is the need of the hour. This forum could help the FPOs in reducing some of the problems identified above and to access high quality technology as well as investments. This forum would be sponsored by SFAC and anchored by a local civil society institution. Its main role would be to create a database of registered FPOs and facilitate a sustained dialogue on issues of common interest. Based on the deliberations of members of the forum, backward and forward linkages, training, value added services and alliances with public and private entities could be added to the functions of the forum. The roundtable ended with a consensus that such a forum should be launched as early as possible to take the agenda of building and sustaining member based FPOs forward.