

**PROCEEDINGS OF THE ROUND TABLE ON
FARMERS PRODUCERS ORGANIZATION- “OPPORTUNITIES AND
CHALLENGES”
7th May 2012**

**Organized by
Small Farmers’ Agribusiness Consortium
and
Appropriate Technology India**

Background

During the last decade the thrust has been given under various governmental schemes, by private and Non-Governmental Organizations on the promotions of the small farmer’s organizations at the national level with a view to make agriculture viable for them. The organizations of the farmer producer’s have since been playing the important role to create 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.

As the number of FPOs grow in numbers and scale of operation, certain issues, challenges and opportunities for FPOs have come to the forefront that need to be addressed systematically by bringing together all stakeholders viz. Government, NGOs, FPOs, private sector, aggregators and service providers. Within this backdrop Small Farmers Agribusiness Consortium (SFAC) organized a day long Round-Table in Dehradun to understand the operational issues, challenges, explore opportunities in Utrakhand 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 Dr. Jack Croucher, President, Appropriate Technology India (AT India) and followed by the participatory introduction of the participants. Subsequently Mr. Pravesh Sharma, Managing Director, SFAC welcomed the participants and explained the mandate of SFAC across the country wide in regard to promotion of FPOs. He explained that the objective of the round table workshop is to discuss the policy level issues pertinent to FPOs and to bring all stakeholders together on a common platform in order to create the enabling environment for the organizations of small farmers. He expressed the need to discuss the policy matters, functional aspects, challenges and opportunities that the FPOs are facing or may face, in future and the role of the government sectors, banks, private sectors and NGOs to promote and develop the capacity of the FPOs.

Objectives of the round-table

The objectives of the Round Table were to discuss how to:

- ✓ 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

Lack of awareness

- There is very little awareness about Farmers Producer Companies [FPCs] in the State. There are barely 4 or 5 registered FPCs. The rest, about 2000 are registered as cooperatives. Not just farmers, but this applies to bank and government officials as well.
- Operational concepts are unclear with the organizations. Very few know the difference between FPCs and cooperatives, for example.
- Thousands SHGs federations are registered as self-reliant cooperatives and are functional in the State but there is absence of an experience and knowledge sharing mechanism. A state level forum of such FPOs could coordinate and leverage technologies, knowledge and expertise.

Working capital

Accessing working capital from financial institutions – whether from commercial banks or even from NABARD - is a herculean task. FPCs / cooperatives, do not have the assets that is required as collateral. No institutional support system exists at present.

One suggestion that was made was to address the twin question of access to working capital and to fixed capital was to create a provision linking the two and provide for both together. The banks and financial institutions should treat producers companies / organizations loan as priority sector loan with reduced rate of interest in order to capture the subsidy available under different schemes of the ministries meant for the FPOs.

There are some peculiarities relating to seasonal produce and credit. Typically production and sale would take place over a 3-4 month period whereas interest rates continue to apply on unpaid loans through the year. The cost of the loan to the farmer from his/her perspective is different, unless he/she plans year-round production. A Business Plan becomes imperative to manage the finances in a viable manner.

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 farmers to compete with traders who control a large part of the value chain with their network of retail shops, access to funds and infrastructure like trucks, etc.

An example from Pauri best illustrates this. With the help of DRDA the quality and quantity of production of potato improved. This is a remote location, 200-250 km from the nearest Mandi, a distance equivalent to about 800 km in the plains. When the farmers tried to sell on their own and there was a delay on the road to the mandi resulting in two truck-loads of potato being thrown away.

NABARD and other financial institutions

The general consensus is that there are no financial institutions 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.

A major policy change has been introduced with the setting up of the Producers' Organizational Development Fund managed by NABARD.

One suggestion to overcome the constraint of the farmers' organizations like FPCs not having the collateral to provide for working capital loans is for the government to make upto Rs 20 lakh loan collateral-free and to provide a loan guarantee to the FPO. This can be done on an increasing scale as the FPC establishes its history of credit worthiness. The government gives loans to dairy federations but not to FPCs, while the dairy federations often default on repayment. NCDC gives loans to cooperative societies but not to FPCs. There is a plan to amend the NCDC Act to include FPCs for loan eligibility.

Stipulations under the Companies Act and other policy issues

- On par with private sectors companies, FPOs are subject to payment of fees for raising authorized capital. Currently in Uttarakhand it is Rs. 24,250 per 10 lakh. This becomes another challenge for the FPOs to increase their authorized capital without which working capital cannot be availed. There is need to relax or provide concessions in the fee to be paid to ROC in regard to raising the authorised capital since FPOs cannot afford to pay such substantial amounts.
- It was suggested that there is a need for a separate wing of experts to assist the FPOs in regard to various compliances that they need to fulfill. FPOs operate in rural setup and find it difficult to identify and locate experts and consult them on various legal and taxation matters.
- The issue of the multistate taxation system imposed on the small farmers produce such as fresh fruits and vegetable while transporting it from Uttarkhand to Azadpur Mandi Delhi or any other state has to be addressed. Such multistate taxes need to be abolished.

Value addition

There is very little processing that place in the mountain districts of the State. One of the ways of overcoming the high perishability of the produce is to undertake semi-processing. This moves the farmer up the value chain and improves his returns. An example of semi-processing is converting apples into pulp rather than selling as fruit, but processing fully into jam. Selling as fruit may sometimes result in the farmer incurring a loss since the production and transport costs may be less than the prices prevailing in far-away markets. Diversification is required to move up the value chain.

Infrastructure

Farmers bring their produce to a Collection Point for collection and sale by the FPC/cooperative. Such *Collection Points have to be constructed* with public funds.

In a hilly State marketing perishable goods, the importance of cold storage takes on critical importance.

There is a felt the need for a agribusiness services centre e in Uttarakhand where the farmers till today do not have adequate access to inputs, technology and information.

SHG linked FPC

[Name of NGO?] in an NGO working in Champavat district mobilized members from 80 villages under SHGs and formed a Federation – Mahasangh - of the SHGs. The Federation took a loan from the members of the SGHs and purchased a vehicle to transport their produce to the market. FPCs/cooperatives formed from a base of SHGs take loans from the SHGs. They pay a smaller interest rate and have a smaller transaction cost in terms of time and effort.

Human resources

(i) Organizational skills:

- FPOs find it difficult to recruit and retain professionally qualified manpower as compared to private sectors; there is a need to draw up the specific curriculum and training programs for developing the human resources to cater the management needs of the emerging FPOs.

In one instance SHGs over 120 villages raised organic produce. It was marketed well with external assistance but on withdrawal of the external agency the farmers could not cope. Farmers need to develop the managerial skill and employ staff with requisite training and experience; however, the FPCs should have decision-making powers in running their enterprise.

(ii) Market Skills:

- There are big players in the wholesale and retail markets who have the requisite skills to negotiate. The FPCs/cooperatives are more production-oriented than market-orientated. There are specialized capacities involved in knowledge of rules and regulations, product promotion, tailoring the product to market demand, branding, packaging etc. There are other skills involved, such as negotiating skills, that farmers and FPCs/cooperatives lack. This is an important factor if the farmers are to participate on a level playing ground for they have to negotiate or compete with traders who have honed this skill over many years.

Appropriate Technology

- Production takes place in decentralized way and maintaining quality is always a challenge therefore it is imperative to rope in technical institutions like KVKs, Horticulture Department / Agriculture Department to work together to develop the quality control mechanism at the producers groups / organization level. There is need to develop the extension capacity of some technical institutions along with the FPOs.
- Pantnagar Agriculture University and a number of KVKs provide useful support. However, KVKs do not have laboratories, they cannot solve in-situ problems or provide any new technology. At best they provide generic solutions. The private sector cannot fill this gap either - getting technical input and technical personnel is very expensive and not always useful. Most provide solutions appropriate for the plains and do not have expertise required in the hills, for example on organic pest attacks or drying technology for ginger and turmeric. Indigenous technical knowledge is not a focus. Processing technology on commercial volumes is not available.
- The appropriate technology in harvesting, storage, packing, processing can result in costs savings. However, associated institutions may have problems with their use. Communication and coordination is required for this. There is also need to liaison with, educate and sensitize such institutions. For example, IIT Roorkee developed an apple harvester that would reduce damage to the fruit and would reduce the cost of harvest by 95%. The Forest Department refused permission to use the harvester. Similarly when a trolley was to be built from 100 meters above, a traditional way of moving goods in hilly states, the Forest Department insisted that written permission should be obtained and refused to give it.

Marketing

- FPOs require market promotion support such as packaging, brand promotion, placement and publicity of the rural produce.
- There are a number of issues involved in marketing and the crucial ones, if not all, have to come together to achieve success. Being perishable goods, firm marketing arrangements become critical. *Linkage and arrangement with a buyer* and negotiations that take care of the particular problems of a hilly terrain with its attendant transportation problems is important. For example, if

quality-based grading and differential pricing is involved, the FPC/cooperative and the farmers must have the *capacity to undertake the grading*. There is often a 20-30% rejection of the produce. The selling farmers must be ready to share this loss. *Conflicts over issues such as these must be resolved and collective action continued*. *Advance price information* is important. For example, when a buyer was ready to keep the price unchanged for 3 days, the farmers could transport his/her produce with the assurance of the price that will prevail,

- Coordination between sellers is required to ensure the optimal prices for the producers. Different Producer Organizations sometimes produce the similar products and become each other's competitors due to reasons such as price variations and packaging etc. between similar produce. Therefore a common branding is required for the produce of all those FPOs who are operating in similar environment and undertaking the production of similar commodities. The role of the promoting agencies and government should be to support creation of marketing system with promotions of common brand. This could avoid the inter-competition among the FPOs. Where there are associations of farmers such as FPCs/cooperatives/ etc. some advance planning based on market conditions and coordinated price setting will be useful. A district level or State-level Forum can undertake this task.
- APMC in the state of Uttarakhand asks for 2.5% of the value of the produce. It is two years since the APMC Act was amended yet licenses are required for producers to sell their produce and they have to go through the Mandis. The farmers do not have direct market options. In one instance 27 cooperatives joined together and found markets as far as Tamil Nadu to sell to. However, the mandis intercept the goods and demand payment to the commission agents. FPCs need external assistance in cases such as this. There is the further problem that receipts are not always given for payments made. There is need to form a pressure group and act together on this issue.

Processing

Closely related to marketing is the issue of processing. There was a strongly felt need to support processing units. It would open up export markets.

Relationship of FPCs with private sector

- The experience with Reliance Company was a positive one worth emulating. The Company would announce the price at which it would buy and keep it constant for three days. In the hills where long distances have to be covered, this provided price-certainty at least for a few days when the farmer reached the Collection Centre where sales take place.
- It is essential for the farmers to be able to negotiate the selling price with the buyer and that depends on having information about prices prevailing in a number of markets. In one instance, for example, Bingo chips offered the farmers a price [Rs.10/kg] at the Collection Centre that he would have got at the farm-gate.

- Contract farming was not permitted in the State till a few months back. It is beginning to take root in some districts one of them is Terai Seed Development Corporation (TDC) which is producing the seed on contract basis through the farmers.

Way Forward

On the basis of the above discussions the following recommendations were made:

1. A data-base will be created of all the FPOs operating in Uttarakhand which will cover salient characteristics like the membership, what they produce etc. DevBhumi Natural Products Producers Co. Ltd (DNPPCL) will coordinate and document these details of the operational FPOs.
2. A state level forum under the banner of SFAC will be formed to promote and support FPOs, facilitate the convergence with the ongoing schemes of different departments, financial institutions and Banks and also to build the access of the farmers to input suppliers, technical service providers, legal, finance, audit and insurance experts. In addition the forum will advise FPOs on various registration matters and will lobby with the policy makers to promote, propagate pro-producers' organization policies in the state.

DNPPCL has been requested to assume the role of the coordinators to form the FPO Forum in Uttarakhand.

Discussions regarding the activities that a State-level forum can take up led to the following suggestions:

- Marketing assistance and related linkages
- Dialogue with the government
- Issues relating to Kisan Credit Card being issued only to those with land holding
- Planning, coordination and Business Development services
- Access to technology
- Access to market information
- Policy issues such as a regulatory mechanism to oversee collection of medicinal plants and its cultivation; use of inorganic inputs in the neighbourhood of areas with organic farming; a single window for registration procedures.

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