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Farmers producer organization for effective linkage of small producers with market

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Abstract

Marketing of agricultural produce is a complex process in India. Farmers do not have access to market, they are selling their produce to the intermediaries operate in the market because of this their profit margin is reduced and their farming business becomes a non-viable one. We can mobilize farmers in groups and build their associations called as Farmer Producer Organization (FPOs). FPO is a means to bring together the small and marginal farmers and other small producers to build their own business enterprise that will be managed by professionals. FPO offer small farmers to participate in the market more effectively and help to enhance agricultural production, productivity and profitability. This paper examines current mode of operation of FPO and effectiveness of the FPO with reference to the small farmers in India.

Keywords: Farmer producer organization, farmers, agricultural marketing

Introduction

Agriculture is the main occupation of the vast majority of the population of India. Agricultural products of various types are produced in India and the marketing of all these products is a complex process. Farmers do not have access to market, they are selling their produce to the intermediaries operate in the market. Because of intermediaries their profit margin is reduced and their farming business becomes a non-viable one.

Two important aspects of the marketing of agricultural products are distribution process and prices. Physical distribution process transfer products from producers to consumers. Various activities are involved in doing this, such as planning, growing, harvesting, grading, packing, transport, storage, processing, distribution, advertising and sale. Agricultural marketing system plays an important role in determining the prices received by the farmers.

Improvement in status of the farmer is possible only through diversification and commercialization of their agricultural activities. This is possible only through implementation of agricultural policy reforms, introducing sustainable agricultural practices, optimizing input efficiency, bringing about institutional change, developing human resources capital and through participation of the non-governmental sector in agriculture. There is a need to strengthen support services for small farmers by developing link between farmers and purchasers of agricultural produce. Currently such types of linkages are either not exist or very weak. It is well recognized that the commercialization of small-scale, resource-poor farmers is closely linked to higher productivity, greater specialization, and higher income (Bernard and Spielman, 2009) ^[1].

There is need to develop suitable marketing system so as to give proper reward or return to the efforts of the Indian farmers. Linking the farm gate with retail outlets is the surest way to reduce losses and marketing costs and thereby increase marketing efficiency. For this purpose organized corporate management is the right model. Direct marketing help farmers to reduce on transportation costs and enables them to improve price realization. It is therefore important for producers to know when, where, and what amount of produce to sell, bearing in mind the market price. For which they must have access to information on different markets and prices in different markets.

Agriculture marketing is a complex process. Because of which there is a big challenge for small farmers today and they are unable to earn good profits from their produce. Farmer Producer organization (FPO) can help farmers for successfully dealing with a range of

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Challenges that small producers are facing today. Initially FPOs were organized under the co-operative structure. They were supported by Govt. but the government support has declined over the years, and new producer companies are started with regulatory framework similar to that of companies. Unique elements of cooperative businesses are retained in this. For bringing industry and agriculture closer together, the Indian Government has initiated new organizational patterns in agricultural production and marketing to integrate large firms and encouraged the groups of small and marginal farmers who are the main manufacturers of agricultural output and linked with the corporate buyers (Sawairam, 2015) [10].

We can mobilize farmers in groups and build their associations called as Farmer Producer Organization (FPOs) to plan and implement product specific cluster/ commercial crop cycles. FPO is a means to bring together the small and marginal farmers and other small producers to build their own business enterprise that will be managed by professionals. FPO can help farmers for production of various agricultural produce as well as during the process of marketing the crops. Farmer organizations offer small farmers to participate in the market more effectively and collectively, they are in a better position to reduce transaction costs of accessing inputs and outputs, obtaining the necessary market information, securing access to new technologies, and to tap into high value markets, allowing them to compete with larger farmers and agribusinesses (Stockbridge *et al.*, 2003) [12].

Objective of FPO

The primary objective of FPO is to help small farmers in the country to enhance agricultural production, productivity and profitability. Other objectives are-

- To support to select appropriate crops which are suitable for their area and which are having market demand.
- To provide access to modern technology through community-based processes for improving productivity and quality of produce.
- To facilitate to access forward linkages for new technologies for improving productivity, for value addition of the produce and market tie-ups.
- To ensure access to use of quality inputs and services for improving agricultural production.
- To help farmers to strengthen their capacity for increasing productivity through use of best agricultural practices.
- To help to link producers to market for getting fair prices for their produce.

Values

FPOs are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. FPO members must believe in the ethical values of honesty, openness, social responsibility and caring for others.

FPO Principles

| S. No. | Principle | Details |
|-------------|--------------------------------------|--|
| Principle 1 | Voluntary and Open Membership | FPOs are voluntary organizations, open to all persons who are able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination. |
| Principle 2 | Democratic Farmer Member Control | FPOs are democratic organizations controlled by their farmer-members who actively participate in setting their policies and making decisions. FPOs farmer-members have equal voting rights (one member, one vote). |
| Principle 3 | Farmer-Member Economic Participation | Farmer-members contribute equitably to, and democratically control, the capital of their FPO. At least part of that capital is usually the common property of the FPO. Farmer-members usually receive limited compensation, if any, on capital subscribed as a condition of membership. |
| Principle 4 | Autonomy and Independence | FPOs are autonomous, self-help organizations controlled by their farmer-members. If they into agreements with other organizations, including Governments, or raise capital from external sources, they do so on terms that ensure democratic control by their farmer- members and maintain their FPO's autonomy. |
| Principle 5 | Education, Training and Information | FPO gives training to member farmers and provide them necessary market information & product information. |
| Principle 6 | Co-operation among FPOs | FPOs serves their members most effectively and strengthens the FPO movement by working together through local, national, regional and international structures. |
| Principle 7 | Concern for the Community | FPOs work for the sustainable development of their communities through policies approved by their members. |

Source: Policy & Process Guidelines for Farmer Producer Organizations, Govt. of India, Ministry of Agriculture, Dept. of Agriculture and Cooperation.

Services Provided by Farmers' Organizations

Varieties of services are offered by the FPO to its members

Right for providing inputs, technical services for production, processing and marketing.

| S.N | Type of service | Details |
|-----|-------------------------|---|
| 1. | Organizational services | Organize farmers into informal groups (FIG), catalyzing collective action, building their capacities and establishing internal monitoring systems. |
| 2. | Production services | Facilitation of (collective) production activities. Developing clusters for producing significant volume of marketable surplus. Suggestion of alternate farming systems to the groups of farmers suitable to their specific situations. |
| 3. | Input Supply Services | The FPO provides low cost and quality inputs (fertilizers, pesticides, seeds, sprayers, pump sets, accessories, and pipelines) to member farmers. |
| 4. | Marketing services | Direct marketing after procurement of agricultural produce. Transport and storage, processing, weightment losses, price fluctuations, market information and analysis, branding, certification. Market value-added products at maximum profits and thus generate funds. |

| | | |
|-----|------------------------------------|---|
| 5. | Financial services | The FPO provides loans for crops, purchase of tractors, pump sets, construction of wells, laying of pipelines etc. |
| 6. | Procurement and Packaging Services | FPO procures produce from its member farmers and then help for standardization, grading, value addition and packaging of the produce. They help farmers for obtaining firm orders from market and government programs. |
| 7. | Technology services | FPO guides farmers for using best practices of farming, for obtaining market information, for gaining knowledge and skills in agricultural production, knowledge of post-harvest processing for adding value to products. Support farmers to ensure appropriate usage of quality inputs. |
| 8. | Insurance Services | Provides various insurance like Life Insurance, Crop Insurance, Electric Motors Insurance etc. |
| 9. | Education services | Identify training and extension needs. Training members on good agricultural practices based farming system approach and low-cost and environmental friendly inputs, Business skills, Production skills. |
| 10. | Value addition services | Adding value to the farm produces locally and thus adds to profitability of the company. |
| 11. | Welfare services | Provides welfare services for improving health and safety of member farmers. |
| 12. | Management of resources | Help to manage resources ex. water, pasture, fisheries, forests, soil conservation. |
| 13. | Linking services | Coordinate supply and demand of agri produce by facilitating linkages between farmers, processors, traders, and retailers. Provides key business development services such as market information, input supplies, and transport services for enhancing profitability of the company and welfare of its members. |
| 14. | Networking Services | Help to get access of channels of information (e.g. about product specifications, market prices) and make other business services accessible to rural producers. |
| 15. | Obtaining grants | Help to obtain various grants from government for rural welfare. |

Benefits to Farmers

A Farmer Producer organization gives a robust framework for the small producers for organizing themselves for effective linkage with markets. It gives bargaining power to the small farmers, enable cost-effective delivery of extension services, and empower the members to influence the policies that affect their livelihoods. FPO help to overcome the constraints imposed by the small size of individual farms, FPO members are able to leverage collective strength and bargaining power to access financial and non-financial inputs, services and appropriate technologies, reduce transaction costs, tap high value markets and enter into partnerships with private entities on more equitable terms. Major activities of FPO are supply of inputs such as seed, fertilizer and machinery, market linkages, training & networking and financial & technical advice.

How FPO is formed

Information about FPO is informed to all families of the village and they are educated on the FPO concept. All interested farmers are made members of the FPO. Each member will have one vote in the company, irrespective of their share. Government or its nominated bodies help to fund and guide for its formation. Professional HRD organizations help for selecting professionals who will run the company. Government also assists FPO for training farmers, administration, storing farm produce and adding value to it. Need-based seed capital can be given to it to enable to borrow the required capital and working capital from financial institutions for the implementation of the project proposal after it has been appraised and accepted as viable.

Running FPO

The FPO is a farmers' organization, made and run by farmers with the support from organization ex. Promoting NGO. Hand holding support is given in the initial few years

and then it is expected that the farmers must take it forward on their own. Professionals from Producer Company guide its members for planning and budgeting macro planning for 3 years and micro planning for one year only. Professionals guide farmers for selecting the crops to be grown, area under particular crop and the price they will get on harvest. PC Professionals will be accountable to the board of directors of the PC, which will include some farmers. General body of the farmers / members will have the ownership of the PC, through an annual business plan and budget. Each farmer is paid for price of his/her produce that was determined at the time of sowing.

Funds required for setting up Farmer Producer Organization

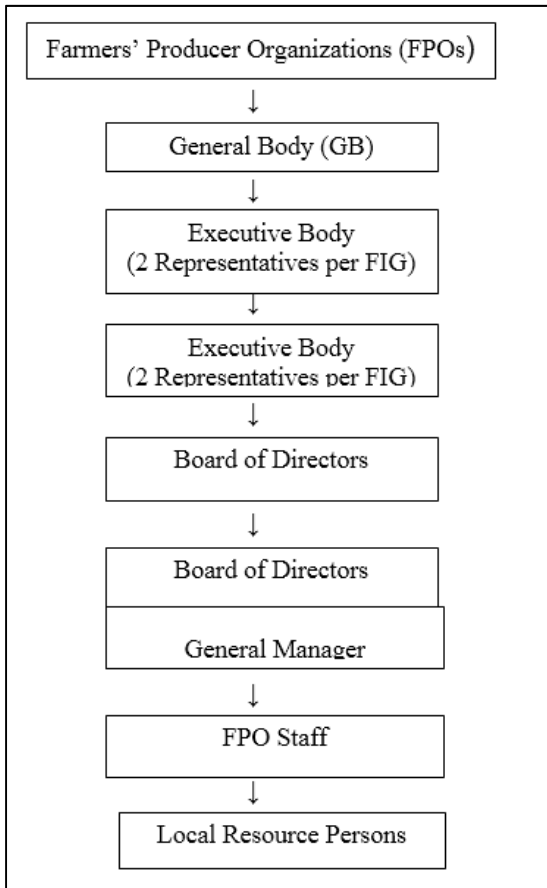
Funds required for setting up one FPO is different in different cases. It depends on the potential of the local area, funding available from Govt, guidelines covering various Govt programmes and schemes. E.g. Govt is funding Rs 10,000 per acre for those farmers agreeing to become stakeholders of the local promoted as an intervention to deliver Govt programmes, schemes, training, creating common facilities for storage, adding value, etc, essential for the sustainability of small farm holdings.

Membership of FPO

An FPO is a farmer's enterprise. According to the law any farmer producers who have 1-4 acres of land or more than that can become a member of an FPO. Membership is given to farmers keeping their needs in mind and not necessarily based on the crop that they produce to ensure that there is round the year business for the FPO. It must have minimum 50 shareholding members at the time of registration and can be increased over a period of 3 years to a sustainable level.

Structure of FPO

Planning, Implementation and Monitoring of FPO is done by Board of directors, General Manager and FPO staff.



Source: What India can do differently in agriculture, Sarthak Krishi Yojana

State Farmers' Producer Organizations (FPOs)

| S.N | State | Number of FPO | Number of farmers |
|-----|-------------------|---------------|-------------------|
| 1 | Andhra Pradesh | 36 | 1,43,928 |
| 2 | Arunachal Pradesh | 2 | 1,750 |
| 3 | Bihar | 5 | 6,210 |
| 4 | Chhattisgarh | 5 | 6,010 |
| 5 | Delhi | 4 | 3,500 |
| 6 | Goa | 1 | 1,750 |
| 7 | Gujrat | 31 | 1,68,005 |
| 8 | Haryana | 4 | 2,500 |
| 9 | Jammu Kashmir | 1 | 3,403 |
| 10 | Jharkhand | 6 | 10,000 |
| 11 | Karnataka | 14 | 16,883 |
| 12 | Madhya Pradesh | 55 | 63,302 |
| 13 | Maharashtra | 44 | 46,421 |
| 14 | Manipur | 1 | 1,750 |
| 15 | Meghalaya | 2 | 1,750 |
| 16 | Mizoram | 1 | 700 |
| 17 | Nagaland | 2 | 1,750 |
| 18 | Odisha | 5 | 5,500 |
| 19 | Punjab | 5 | 3005 |
| 20 | Rajasthan | 19 | 26,263 |
| 21 | Sikkim | 2 | 1,750 |
| 22 | Tamilnadu | 12 | 13,746 |
| 23 | Tripura | 3 | 1,750 |
| 24 | Uttar Pradesh | 5 | 9,500 |
| 25 | Uttarakhand | 3 | 2,997 |
| 26 | West Bengal | 7 | 8498 |

Source: SFAC Report, 2013

Challenges In front of FPO

FPOs face common challenges in terms of organizing producers, increasing the capacity of staff and board members, providing effective agriculture extension services to farmers, hiring and retaining staff, raising capital including working capital, developing processes and systems for collecting, processing, value addition, marketing and understanding value chains for effective interventions.

Government Support for Promotion of FPO

The formation and development of FPOs is actively encouraged and supported by the Central and State Governments and their agencies, using financial resources from various Centrally-sponsored and State-funded schemes in the agriculture sector agencies. Government has taken several initiatives to support FPO to facilitate their emergence as successful business enterprises through apex financial institutions such as NABARD, private donor organizations, financial institutions and many other institutions. Government has given authority to SFAC to support formation of FPOs. Promotion and strengthening of FPOs has been one of the key strategies under the 12th five Year Plan of the Govt. of India to achieve inclusive agricultural growth.

Finance for FPO

FPO requires finance according to life cycle stages. The life-cycle stages are broadly categorized into three phases. In each stage need is found to be different.

A. Incubation and Early Stage

At this stage, the financial need of the FPOs revolves around the cost of mobilizing farmers, registration cost, cost of operations and management, training, exposure visits etc.

B. Emerging and Growing Stage

Once FPOs are incubated with grant support from promoting institutions, there are 3 ways to raise fund to meet their working capital and investment need. They include - Equity Financing, Credit Capital and Debt Financing.

C. Matured Stage (Business Expansion)

As the FPOs move towards expanding their businesses, they need finance for quality improvement in products/services. Here, finance is required for quality improvement along the value chain of the produce.

Source: Policy Paper: Financing for Farmer Producer Organizations (FPOs), ACCESS Development Services. For

Conclusions

Improvement in status of the farmer is possible only through diversification and commercialization of their agricultural activities. There is a need to strengthen support services for small farmers by developing link between farmers and purchasers of agricultural produce. Farmer Producer Organization (FPO) is a means to bring together the small and marginal farmers and other small producers in the local communities to build their own business enterprise that will be managed by professionals. FPO offers a proven pathway to successfully deal with a range of challenges that confront farmers today, especially small producers. FPO can help farmers for production of agricultural produce as well as during the process of marketing the crops. Through FPO

farmers can access quality inputs at low cost, can obtain the market information on different markets and prices in different markets, secure access to new technologies, and tap into high value markets. FPO is the best way of linking producers to market for getting fair prices for their produce.

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