

## Farmer Producer Organization-Solution to face challenges through linkages in value chain

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**Abstract:** India has adopted free trade policies since 1991. Small and marginal farmers' livelihoods are endangered due to the liberalization, privatization and globalization policies. Private capital is allowed in the agriculture sector. Farmer Producer Organizations and Producer Companies can facilitate these small and marginal farmers to take part in emerging high-value markets, such as a modern retail sector in India and the export market. With the changes in the organization of marketing channels, new challenges for small and marginal farmers have been created. In this environment of greater instability and competition, collective activity can serve to enhance farmers' competitiveness and increase their advantage in emerging market opportunities. On the basis of a case study of a specific farmer producer organization and their producer company in Maharashtra, which develops and markets vegetables, study has been conducted to discuss the possible benefits of FPOs for farmers in general and small and marginal farmers in particular.

**Keywords:** *FPOs, value chain, globalization, Agro food network, small & marginal farmers*

### Introduction:

FPOs are collectivization of producers, especially small and marginal farmers, into the producer organization has come out as one of the most efficient pathways to address the many challenges of agriculture, but more significantly, improved approach to investments, technology and inputs and markets. Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India has identified farmer producer organization registered under the particular provisions of the Companies Act, 1956 as the most appropriate institutional form around which to mobilize farmers and establish their capacity to jointly leverage their production and selling effectiveness. It is intended to suffice as a reference and guide to Central and State Government agencies which seek to push and support Farmer Producer Organizations, especially producer companies and tie them to benefits under various programs and schemes of the Central and State Governments. After deregulation and liberalization of Indian economy and with the corporatization of retail, and agriculture sector, there is a rise in the opportunities and threats for the farmers. The deregulation and the subsequent fall in state subsidies for production inputs created an economic environment of contention for many small and marginal farmers.

The changed Indian market environment is also affecting small and marginal farmers. The consumer demands and preferences are changing and thereby new corporate companies are

entering into Indian agro food networks, such as corporate retailers, central processing units, exporters of quality agro-produce. These firms prefer to execute vertical coordination in their supply chains, which guarantees them greater control over the production operations and thus to source produce which meets their exact demands and criteria. Inside the form of vertical coordination, links between farmers and purchasers are getting closer to replace conventional open-market dealings.

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. The government has also amended the Companies Act 1956 in 2002 and introduced the concept of producer companies which comprise an effort to demonstrate basic principles within farming communities for their financial empowerment and ultimately rural development..

Farmers producer organizations and their societies can be considered as hybrids between private companies and cooperative companies. The producer company concept is aimed to combine the efficiency of a fellowship with the spirit of traditional cooperatives. Producer companies aim to integrate the farmers into modern supply networks by minimizing transaction and coordination costs, while benefiting from economies of scale. They are run and owned by farmers, financially facilitated by the government and over seen by professionals. The objective of this report, therefore, is to examine the potential of the farmer producer organization and their company model as a bottom-up approach for smallholder farmers' participation in emerging markets and its help in the value chain.

The paper is based on data collected through interviews conducted with members of the farmer producer organization and producer company located at Narayanga on Taluka Junnar District Pune ( Maharashtra), namely the Junnar Taluka Farmers' Producer Organization and Producer Company, the office bearers of its supporting organization, the Vegetable Growers' Association of India( VGAI) and government agencies like Small Farmers Agribusiness Consortium (SFAC) and Maharashtra State Agricultural Marketing Board(MSAMB).

Re empowering farmers through collective action:

The Indian farmers in general and small and marginal farmers in particular face several constraints related to the small size of the operation. These include the inability to create a scale of economies, low bargaining power because of low quantities of marketable surplus, scarcity of capital, lack of market access, lack of knowledge and information, market imperfections, and poor infrastructure and communications. Against this background, a renewed interest in the farmer producer organization and their company has developed in recent years. Much emphasis has been placed on its potential role in poverty alleviation. Most of the collective action literature emphasizes increasing economies of scale as well as the lowering of transaction and coordination costs as the main benefits of organizing farmers. The creation of countervailing power, access to capital markets on favorable terms, risk management, and income improvements are other major reasons for establishing farmers' organizations (Datta, 2004). Most of the farmer organizations act as multipurpose organizations and offer a wide range of services to their members, independent of the specific type of organization .

Type of services	Particulars of services provided
Organizational services	Organizing farmers, catalyzing collective action, building Capacities, establishing internal monitoring systems
Production services	Input supply, facilitation of (collective) production activities
Marketing services	Transport and storage, output marketing, processing, market information and analysis, branding, certification
Financial services	Savings, loans, and other forms of credit, financial management
Technology services	Education, extension, research
Education services	Business skills, health, production
Welfare services	Health, safety nets
Management of resources	Water, pasture, fisheries, forests, soil conservation

**Table-1. Services provided by farmers' organizations (source: Hellin et al, 2009; Markelova et al,2009; Narrod et al, 2009; Rondot and Collion, 2007).**

Within this context of hybrid organizations between institutions of collective action and market driven private enterprises, researcher's aim to analyze the model of farmer producer organizations and producer companies which is emerging as a new type of formal farmer organization in the agricultural sector of India. Producer companies are an example of changes towards more profit-oriented forms of organization arising among farming communities. In India, these changes can be seen as reactions to a new market and regulatory environment. Unlike top-down models of smallholder market integration, such as contract farming or outgrowing, producer companies create and nurse an entrepreneurial spirit at the community level. By leaving production decisions and major assets in the hands of farmers, they contribute to their re empowerment. At the same time, producer companies try to enable access to new markets by establishing flexible linkages to highly specialized demand through value addition in agricultural products.

Changing scenario of agricultural production in India:

Despite the decreasing contribution of agriculture to the Indian GDP, its role as a source of employment remains significant. 55% of India's economically active population were

employed within the agricultural sector in 2009 (FAO, 2010). This figure had dropped only very slowly over the course of the past three decades, as it was 68% in 1980 (FAO, 2010). In this context the number of people depending on agriculture and allied activities for their livelihoods increased by around 35% in the past three decades, from 434 to 585 million between 1979 and 2009 (FAO, 2010).

One key characteristic of India's agricultural sector is the fragmentation of land- holdings: around 80% of India's farmers cultivate small and marginal holdings of up to 2 ha.(Table 2).

Size of holding	Total holdings			
	1995/96 Number (Million)	2005/06 Area (Million ha)	Number (Million)	Area (Million ha)
Marginal farmers (< 1 ha)				
a) Total Number	71.12	28.10	83.70	32.00
b) Percentage to total holding	61.60	17.20	64.80	20.20
Small farmers (1 to 2 ha )				
c) Total Number	21.70	30.70	23.90	33.10
d) Percentage to total holding	18.70	18.80	18.50	20.90
Semi medium farmers (2 to 4 ha)				
e) Total Number	14.30	39.00	14.10	37.90
f) Percentage to total holding	12.30	23.90	10.90	23.90
Medium farmers (4 to 10 ha)				
g) Total Number	07.10	41.40	06.40	36.60
h) Percentage to total holding	06.10	25.30	04.90	23.10
Large farmers (> 10 ha)				
i) Total Number	01.40	24.20	01.10	18.70
j) Percentage to total holding	01.20	14.80	00.90	11.80

**Table 2. Number and area of holdings by size group in 1995/96 and 2005/06 (source: Government of India, 2010).**

This fragmentation in Indian agriculture creates problems for the supply side as well as the demand side of the market. On the supply side, farmers of small holdings are often unable to apply knowledge and technologies. Low levels of technological input usually result in low levels of output produced, low incomes, and low creation of surplus value to support the family livelihood. On the demand side of the markets, it is often difficult to find a sufficient supply of products meeting certain quality standards at the required time. In addition, large-scale distribution organizations, such as the evolving retail chains in India, are searching for alternatives to the existing supply models, in which a number of independent intermediaries such as small aggregators, traders, and wholesalers are also involved between smallholder production and retail distribution. Therefore, supplying a growing domestic or export demand for, for example, high-value produce, from smallholder agriculture is a challenge in terms of constant volumes as well as quality.

A common mode of production in many developing countries, especially in the case of high-value produce, is the implementation of contract farming or similar forms of vertical integration of production. In an attempt to move into this direction, the Indian government introduced a new form of organization which offers farmers the opportunity to compete with other business organizations. The Companies Act 1956 was amended on 6 February 2002. Since then, producer companies have been recognized as a fourth form of corporate

entity alongside companies limited by shares (public limited and private limited companies), companies limited by guarantees, and unlimited companies. The new legislation ensures that producer companies maintain unique elements of cooperatives while the regulatory framework is similar to that of other company types. The primary goal of producing companies is to link smallholders to markets. Therefore, they predominantly work on the downstream end of the production system (see Table 3). The benefits of the entire concept, however, can be seen both on the supply side as well as on the demand side of the market. Individual smallholders would be unable to deliver directly to and interact with large-scale customers. The producer company organization replaces intermediaries between market participants. Through this, profits which otherwise would be paid to intermediary organizations such as wholesalers are captured by the farmers themselves because they are shareholders in the producer company. In addition, through the collective market appearance, small-holders are able to access market information in terms of required standards and prices and to integrate this information into their production planning and methods. Producer companies are also implementing programs to upgrade farmers' production methods. In particular, production organization, production planning, and knowledge.

Field of assistance	Smallholder farmer	Producer company
Marketing	Small volumes, limited bargaining power.	Aggregation and marketing
Market information	Limited access, but increasing with the spread of mobile phones.	Direct links between PC and potential buyers.
Transportation	Often time consuming and are costly	Transportation is organized within/facilitated by the PC
Cold storage	No facility	Set up of cold/ripening chambers as shared infrastructure
Irrigation	No irrigation facility, or depending on the well owner/ water supplier	Establishment of community wells; construction of collecting tanks; laying of pipes
Extension services and technology	No access / one-sided information	Farmers' education and regular Training sessions from farmer to farmer, preservation of traditional farming practices.
Input supply	Need to buy in the market, credit problem	Provided by the PC at lower than market price through bulk buying, in-house production of organic manures and pest killers; links to banks.
Production planning	Short time horizon	Constant information flows of market processes to the farmers allow a more systematic planning approach
Excess production, branding	Risk of distress sales or waste none.	Further processing, value addition, brands might be introduced by the PC or the buyer

**Table 3. Fields of assistance from producer companies (PCs) to farmers.**



### **Government initiatives to support FPOs:**

The Government of India through its Department of Agriculture and Cooperation (DAC) has decided to observe calendar year 2014 as “Year of Farmer Producer Organizations (FPOs)”. This marks the beginning of a year long drive to increase awareness about the importance of FPOs among a diverse range of stakeholders. These initiatives are:

- a) A National Policy and Process Guidelines for Farmer Producer Organizations, issued in March, 2013.
- b) Launch of the “Equity Grant and Credit Guarantee Fund Scheme” for Farmer Producer Companies on 1st January, 2014, enabling these institutions to access a grant upto Rs.10.00 lakh to double member equity and also seek collateral- free loans upto Rs.1.00 crore from banks, which in turn can seek 85% cover from the Credit Guarantee Fund.
- c) All major centrally sponsored schemes of Agriculture Department have incorporated special provisions for promotion and development of FPOs during the XII Plan.

The Junnar Taluka Farmer Producer Organization and Producer Company- Case Study: Narayangaon, a small village in Maharashtra is having an inspiring story of farmer mobilization and empowerment. In this village, the farmers hardly make a profit despite all the hard work and efforts put into growing agricultural crops. The exploitative tactics of middlemen ate into their margins and barely left them with any returns. As the nature of their produce was perishable and hence they had no option but to sell it off at whatever price was offered. The middlemen, who would transport their produce to the local markets, would give them wrong information on the market price of products, delay their payments and even take money for accidental losses that would occur during transportation. To put an end to this exploitation, Mr. Shriram Gadhve, the leader of the Farmer Producer Organization (FPO) movement in Narayangaon, took up the onus on himself to save his fellow men from this crisis. Gadhve spread word about the FPO movement, initiated by the Vegetable Growers Association of India (VGAI) and the Small Farmers Agribusiness Consortium (SFAC) and convinced all the tomato growers in Narayangaon to join the movement.

Through sheer grit and determination, Mr. Gadhve was able to collect all farmers to form an FPO and PC, namely the Junnar Taluka farmers’ Organization and Producer Company with the Corporate ID - U01122PN2013PTC147015 in 2013-14. The number of members are 1600 with the share capital of Rs.5 lakh. The company has made turnover to more than Rs.1 crore in the last year. The FPO and PC with the help of research institutions, gained more knowledge about crop loans, financing solutions, new technologies, value additions in agricultural produce and new ways of creating market linkages for their produce. Joining hands had given the farmers of Narayangaon a renewed sense of self belief and strength. They were able to break the chain middlemen and traders who were exploiting them. They developed a wholesale market of tomatoes in Narayangaon.

Today, Narayangaon is the largest open tomato auction market in the country. This market attracts traders from all over the country who carry back the produce to different parts of the country such as Ahmedabad, Surat, Baroda, Kota, Indore, Jabalpur, Jhansi, Lucknow, Agra, Delhi, Bangalore, Hyderabad, Chennai, Pune and Mumbai and so on. Apart from providing the power of bargaining to farmers, the market of Narayangaon has brought about all round prosperity for them. The area under cultivation of tomato has expanded from 500 acres in 50 villages to 2200 acres in 150 villages. In addition, the creation of a market has helped these

farmers receive their returns almost instantly. All merchants come directly to the market and pay in cash for the produce on the spot. If the produce is graded, the remuneration is higher.

Riding on the success of the Narayangaon wholesale market, the farmers of the FPO have decided to take a step forward. They are planning to launch a portal that will allow them to auction their produce over the internet. Today, most of the farmers are well off, live in pacca houses, own cars and can afford higher education for their children in good schools.

In addition to the auction market for tomato, the company is performing the following activities for the benefit of their members in Junnar Taluka.

1) Common Purchasing: The company is purchasing seeds of potato and okra directly from the seed companies for its members and getting benefit 25 to 30 percent. Last year, they purchased such seeds for Rs. 4 lakh.

2) Mulching Paper Technology: The members of the company are using mulching paper technology for vegetable crops over 160 ha. With this technology, the yields of the vegetable crops are increased by 3 to 4 times. The technology has reduced the insect and pest attack by 60 per cent.

3) Mulching paper Laying Machine: The company has purchased mulching paper laying machine costing Rs. 60,000 and thereby saved the expenditure to be incurred by individual member for a similar amount.

4) Low cost technology for drip and fertigation unit: The members of the company are using the low cost technology for their drip and fertigation unit. The cost per acre is Rs. 8,000 to 12,000 per acre as against the normal cost is more than Rs. 25,000 per acre. Therefore, it is affordable for small farmers and easy for installation too. The area covered under such technology is 600 ha.

5) Use of local feromone trap & yellow sticky trap to save spraying cost: The members of the FPO and PC are using local feromone trap and yellow sticky trap for spraying of insecticides and pesticides and saving its cost by 20 per cent.

6) Onion Storage: The members of the FPO prefer to store their onion produce in low cost onion structures when the prices fall down and await for remunerative prices. It is informed that they get Rs. 25 to 30,000 per acre more by using this technique.

6) Contract Farming for potato crop: The company has entered into contracts with the companies like ITC, Siddhivinayak and Thorat Traders for cultivation of potato crop which ensures buy back of the produce at predetermined rates.

7) Smart Packing: The different vegetables like okra, cauliflower, onion, gar, capsicum etc are packed in 3kg packing acceptable to the consumers and thereby the farmer members get 20 to 30 per cent more precise than normal rates.

8) Direct Marketing: The company is having its own vegetable selling center for the members and is selling 5-6 MT fresh vegetables directly to the consumers thereby has broken the chain of middlemen in the supply chain.

Objectives:

- 1) To examine the suitability of FPOs & PCs as a bottom-up approach for smallholder farmers' participation in emerging markets.
- 2) To study the problems of small and marginal farmers in marketing of their agricultural produce after globalization.
- 3) To study the services provided by FPOs & PCs to their member farmers.
- 4) To study the role of FPOs and PCs in value chain of agricultural produce.

### **Hypothesis:**

When a hypothesized relationship is to be tested by scientific method, it is termed as research hypothesis. The research hypothesis relates an independent variable to a dependant variable.

Research Methodology:

Location of Case Study :The Junnar Taluka Farmers' Producer Organization and Producer Company located at Narayangaon Tal. Junnar District-Pune.

Sample Design : Samples were selected randomly. The sample size consists :

Members of FPO/PC- Farmers- 30

Office bearers of supporting organizations – VGAI & SFAC

Data Collection: The data was collected from two sources:

Primary Data: Primary data were collected with the help of specially designed questionnaire & schedules for farmers and office bearers and observations in field visit to FPO and PC.

Secondary Data: Secondary data was collected from internet, periodicals, journals etc.

### **Conclusions:**

To face the challenges of the liberalization, privatization and globalization, the government has introduced the concept of Farmer Producer Organization and Producer company which established the principles of profit oriented business organizations within farming communities. They are market oriented and business oriented forms of institutions. It represents a tool for small and marginal farmers to get organized and to reap only from joint action, but also for links to evolving high-value markets in India's urban centers. It is found economically beneficial for the participating farmers to market their excess production through the company. At the same time, the company is providing appropriate knowledge to generate excess production from within the community in order to maintain linkages to the target markets. After adoption of LPG policy, the small and marginal farmers face several constraints which include the inability to create a scale of economies, low bargaining power because of low quantities of marketable surplus, scarcity of capital, lack of market access, lack of knowledge and information, market imperfections, and poor infrastructure and communications. The farmer organization provides a wide range of services to their members related to marketing, finance, technology, production, welfare etc. The farmers' producer organizations and producer companies are very much beneficial to improve the value chain of agricultural produce and thereby proved to be in getting good prices for their produce. Finally, the researcher concludes that producer companies are a promising new model for farmers, but one which needs continued support and further critical analysis.

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