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Impact of Farmer Producer Organisations to enhance production, market, and intensify food security: Experiences and challenges

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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.*

This article assesses the role of FPO) in addressing several constraints and risks faced by small and marginal producers, especially access to credit, technical services, and marketing. It surveys current literature on the subject and suggests policy support to member-based farmer producer organizations to help smallholder agriculture mitigate risk and improve market access. In particular, the paper makes a case for integrating farmer producer organizations in the food security architecture of the country to leverage their inclusive growth potential.

Keywords: farmer producer organizations, marketing, food security, inclusive growth

Current Context of Indian Agriculture

Globalization is changing the way agriculture marketing is organized, even within relatively sheltered produce markets such as India. National, regional, and local marketing systems are increasingly adopting global best practices in procurement, storage, transport, packing and processing of food products. Food supermarkets are a reality and even if their present market share is tiny, they are likely to become major players in the coming decades to cater to the growing demand for quality farm produce delivered in modern formats. This in turn will create pressure for higher food quality standards and usher in new procurement systems. Efforts to loosen the tight hold of the Agriculture Produce Marketing Committee (APMC) inspired mandi system over agriculture marketing will intensify soon, leading to the entry of new players bringing cutting edge technology and unfamiliar processes. Indian companies are also increasingly likely to attempt to capture larger market shares of the expanding national trade in primary commodities and processed foods and hence seek quality produce in large volumes from domestic producers. More urgently, the proposed national legislation to create the right to a minimum quantity of food for the majority of the population will bring increased pressure on agriculture markets and demand innovative solutions to feed the public distribution system (PDS).

At the same time we continue to have a highly fragmented production base, dominated by millions of small producers, who are finding it increasingly difficult to manage the high risk of farming, growing weather uncertainties, unreliable input supplies, stressed infrastructure in the power and irrigation sectors and iniquitous marketing arrangements. The trends outlined in the preceding paragraph will further weaken the bargaining power of most of these producers and it is unlikely that they can benefit from opportunities at the national or national level in any meaningful way. If anything, their situation is likely to worsen without the urgent adoption of new institutional solutions.

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Higher market offtake by government agencies driven to supply the rights-based food demand, leading to certain price rise, will most likely adversely affect the majority of small producers, who are dependent on the market for a large proportion of their food needs.

The largely supply-driven official agricultural growth strategies are unable to target vast sections of the peasantry, and rainfed regions in particular continue to witness both the volatility and distress associated with the vagaries of nature, as well as imperfections in factor and commodity markets. Producers in these regions already suffer from a serious technological and productivity gap compared to better endowed areas. Their condition is likely to deteriorate further and their isolation from the new emerging markets is almost a foregone conclusion.

Smallholder Agriculture: Current Constraints

The constraints faced by small producers may be summed up as follows:

1. Shrinking land assets, rising per unit investment costs, and shrinking profit margins
2. Difficulties in accessing critical inputs for agriculture, especially credit, water, power, as well as quality seeds, fertilizers and pesticides and appropriate and timely technical assistance
3. Episodic, expensive, and unreliable access to technology, especially mechanization
4. Fragmented value chain in agriculture marketing, monopoly and/or monopsony conditions; few opportunities for value addition at the bottom of the chain
5. Weak bargaining with market agents and low returns on investment

Even though the above are stark realities, there is a market context in which smallholders survive and seek to leverage their labor and produce. Despite their weak bargaining power, smallholders continue to seek better leverage in the market.

The major features of the present market scenario may be summarized as follows:

1. Globalization, an expanding domestic middle class, and diversification of the food basket are driving growing corporate interest in agriculture as a source for raw material for Agri-value chains. The globalization of the economy in general and particularly the agriculture sector is working in two directions ever increasing importance of exports of agricultural products and the growing competition of food imports on the domestic market. There are numerous examples of backward linkages between the corporate sector and farmers, which suggest that direct producer–retailer relationships have developed in almost all parts of the country. The market has finally arrived at the farmgate; the question is: whose farmgate?
2. Most existing examples of tie-ups between farmers and processors/retailers involve medium and large farmers, with very few instances of small and marginal farmers successfully linking up with corporate players
3. The highly fragmented nature of production and low per capita surplus of small and marginal farmers limits their ability to access the market to leverage better returns for their produce
4. Corporate and other bulk buyers of agri commodities find the transaction costs of dealing with many small producers prohibitively high and prefer dealing with bigger farmers and mandi aggregators
5. Contract farming has not benefitted small producers in a meaningful way, as information asymmetry, weak bargaining power and legal ambiguities create insurmountable hurdles to producer–buyer relationships. However, there is growing evidence that contract farming arrangements are expanding across the country and will ultimately seek out small producers
6. Access to timely and affordable credit, effective extension services and availability of adequate inputs remain out of the reach of the majority of small producers, restricting the exploitation of the full potential of their natural resource base, even where these endowments are satisfactory
7. Current examples of institutional aggregation of small producers, whether

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informal collectives or formal cooperatives and producer companies, are scattered and few. They face a variety of constraints, including an unfriendly regulatory and legal environment, lack of opportunity to access capital and credit, and are unable to scale up to a size significant enough to deal with market forces on favorable terms

8. Unrecorded tenancies are mostly held by small and marginal farmers and tribal, with attendant disadvantages, such as lack of access to institutional credit and subsidized inputs, inability to benefit from new market instruments like warehouse receipts and insecure tenurial conditions. All these drawbacks are doubly magnified in the case of women holding informal tenancies. At the same time, it is observed that absentee landlordism is an acute problem in some regions (especially the hill states and rainfed areas), resulting in huge tracts of cultivable fallows lying idle
9. Present arrangements for risk mitigation, especially crop insurance instruments, are highly unsatisfactory and do not adequately cover the risks faced by small producers. The marketing and assessment mechanisms for crop insurance are skewed in favor of the insurance companies, leaving small producers especially vulnerable to the vagaries of weather and market alike. This holds back small and marginal farmers from shifting to higher risk commercial crops, which would otherwise bring better returns
10. Finally, it is noteworthy that there is no special targeting or earmarking of resources for small and marginal farmers in centrally sponsored agriculture development programmes during the Eleventh Plan. This raises unanswered questions about the equity impact of such interventions

Farmer Producer Organizations (FPOs): A New Institutional Paradigm

Farmer Producer Organizations (FPOs) offer an assured new pathway to successfully deal with a range of these challenges, especially in helping members in boosting production and aggregating produce to reach wider markets. Overcoming the constraints imposed by the small size of their individual farms, FPO members are able to leverage collective strength to access credit and technology, reduce transaction costs, tap high value markets and enter into partnerships with private entities on more equitable terms. International and limited national experience in the performance of FPOs gives rise to fresh hope and makes a strong case for supporting member-based farmer bodies to significantly reduce risks and improve access to 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 challenges that small producers are facing today. Initially FPOs were organized under the co-operative structure. They were supported by Government, but the government support has declined over the years, and new producer companies are started with regulatory framework like 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)

FPOs can provide essential goods and services to the rural poor, besides their own members, and contribute significantly to the process of rural poverty alleviation. They are an important risk mitigation device to overcome the constraints faced by farmers, especially small producers seeking to benefit from growing market opportunities in developing nations. One FAO (2007) estimate placed the value of agriculture produce generated by existing FPOs (largely cooperatives) in India and China in 1994 at US$ 9 billion each. They have been found to positively impact research priorities through participation and closer feedback to scientists, besides providing valuable inputs to policy formulation by channeling the opinions of the farming community. The role of FPOs in reducing costs of financial intermediation for formal financial institutions and more effective

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targeting of small producers for financial services has also been favorably commented upon.

FPOs: What helps in promotion and sustainability

National experience in the promotion and management of FPOs has revealed some key enabling factors which impact these institutions. Foremost among these is a conducive environment which provides space for grassroots, member-based organizations to emerge and prosper. A logical conclusion would be that the political, legal, and regulatory regime must not just tolerate but in fact actively encourage member-based bodies to be established. India's democratic experience and the steady deepening of participatory institutions (be it cooperatives, natural resource management associations and more recently the self-help group movement) augurs well for the emergence of this new class of member owned bodies.

However, this begs the question: why promote a new set of institutions focused on farmers when older models that can serve at least some of the same ends already exist? After all, the primary agricultural cooperatives (PACS) can be called prototype farmer organizations, and in fact were initially designed to leverage the collective bargaining power of farmers. The history of the cooperative movement, unfortunately, is disappointing from the viewpoint of empowering most farmers. These bodies have slipped into the control of local elites in virtually all parts of the country and have tended to operate as political rather than economic agents. Small and marginal farmers are highly underrepresented in these institutions and the majority of smallholder farm enterprises are not even receiving credit from the PACS.

National experience also suggests that FPOs are more successful in promoting member interests since they represent a homogenous group and can evade elite capture. FPOs are more likely to explore horizontal, local alignments and alliances, rather than join vertical, extra-regional, patronage-based networks that older bodies like PACS tend to favor. However, these older bodies are not about to look favorably upon the new emerging order, since sooner or later the local power balance will shift, more likely than not, in favor of FPOs and away from legacy bodies like PACS. How can FPOs then hope to survive in a hostile context?

Here the learning from successful models is that they sidestepped outright conflict, posing as complementary and not competitive actors to the older institutions. Many FPOs began as informal, small groupings of farmers, initially collaborating on issues of technology and extension, and over time making the transition to bigger federated bodies without incurring the opposition of existing competitors. Another lesson is not to link FPOs to subsidies (in the form of subsidized inputs or grants) too early in their life cycle, so as not to pit them in direct conflict with existing channels of subsidy flows. Extension activity seems to be the best peg around which FPO activity can begin, scaling up rapidly to embrace income generation, marketing, and so on.

Smaller groups of between 20 to 40 members, with a common socio-economic background have proved to be more successful and stable compared to large, unwieldy bodies. However, it has also been noted that mixed groups (with a more diverse mix of members from small to large farmers) often tend to throw up robust leadership. In almost all cases, groups try to federate into sub-regional organizations over a period of 2 to 5 years, as they slowly test their strength and bargaining power. The ones with simple rules and regulations, easily understood by all members, find easier acceptance, and demonstrate strong compliance profiles. Equally important are accountability and enforcement procedures, as equity and fairness within the group are strong bonding factors and key determinants of the sustainability of the group.

Two notes of caution are also derived from the various studies of FPOs. First, marginal farmers are not best served by these organizations, owing to their lack of surplus. Often even the small membership contribution is a barrier to entry to FPOs for this category of producers. It has also been found that membership of FPOs may increase their risk profile, pressurizing them into adopting market-oriented production, when in fact their first need is to secure the household's food supply. Hence great caution is advised when including marginal holders as members of FPOs. This category may be better served by linking to government rural wage programmes and skill upgradation in off-farm activities.

Second, current experience suggests that women dominated or exclusively female FPOs have not been a success. This can partly be due to social reasons, as women in traditional societies are unlikely to own farm assets and are dependent on the consent of male relatives to apply group decisions on the family farm. It is also possible that since women have generally been kept away from marketing roles by men, they lack the necessary skills to deal with market agents. However, this is not to rule out mobilizing women in FPOs wherever possible, but it does suggest the need for greater efforts at capacity building and targeted training.

A consensus that seems to emerge from available literature on this subject is that successful FPOs take between 3 to 5 years to become sustainable. One key determinant of long-term viability is the efficacy with which the FPO can take up and sustain income generating activities. This is also closely linked to the decision of primary groups to federate into a bigger entity, enabling collective leveraging of productive capacity and marketable surplus. Other spin-off benefits noted are a greater tendency of FPO members to participate in local democratic bodies and increased absorption of government funded schemes aimed at the rural poor. While on the one hand this has sometimes had the effect of improving the delivery of government programmes, in other cases FPOs also acted to pick up the slack in the performance of official schemes, particularly in the area of agriculture extension.

The additional demand for government services appears to be complemented by an ability to attract additional private funds for investment, as the productive capacity created by FPOs is slowly manifested. Some studies have also observed the role of FPOs in reducing social unrest and tensions between competing economic groups.

Enabling Policy Environment

What contributes to the emergence and sustainability of FPOs? How does the policy context impact these bodies? Evidence suggests that FPOs thrive best in democratic, open societies with a history of successful mass mobilization. The space created for civil society in a democratic framework allows for engagement between groups and associations and formal power structures. This phenomenon is often seen as part of democratic deepening, with representative institutions like legislatures at various levels being balanced by voluntary, participatory associations of citizens around themes that intersect and overlap with political action.

However, merely hoping that a democratic polity will engender FPOs is futile. Several legal barriers at the local level often inhibit the promotion and working of these organizations. These must be identified and removed, so that FPO promotion is recognized as a stated public policy goal. If necessary, enabling legislation may have to be enacted to recognize, protect, and nurture these bodies. One lesson which emerges from national experience is the need to shield FPOs from capture by political and corporate agents. Equity infusion was a preferred route to gain control of farmer organizations by big companies and great care needs to be exercised in addressing this issue. The experience of PACS and other cooperative bodies in India is too unhappy to be visited again on FPOs.

Countries which actively invested in building up managerial and technical capacity saw the gradual emergence of strong FPOs. At the same time, formal mechanisms that actively incorporate feedback from FPOs in policy formation also helped to build the latter's credibility and impact. It is entirely conceivable that the larger rural development strategy of a country is progressively informed by the experience of FPOs, thereby increasing the efficacy and targeting of government expenditures in this sector.

Should the government directly get involved in mobilizing FPOs? Opinion on this question is deeply divided, with some favoring only a facilitating role for the State in creating an enabling policy framework but staying clear of direct involvement in institution building. Other views look upon the challenge of building FPOs as too big to be handled by civil society or the private sector alone and suggest an all-out effort by public, private and civil society players to mobilize member based FPOs. An IFPRI paper (Cunningham, 2009) calls for identifying 'chain champions' (which can be official, private or NGO bodies) that act as facilitators to help farmers mobilize, but slowly hand over all decision making functions to FPO representatives themselves after investing in managerial and technical capacity.

FPOs and Food Security

In the current context of food security challenges in India, FPOs can play a crucial role in meeting the government's production and procurement targets. The proposed food security legislation could in fact turn out to be a major watershed for smallholder agriculture in the country, with FPOs engaged in long term contract production for the state, accepting targets for production of specific grains and ensuring decentralized procurement on behalf of agencies like Food Corporation of India (FCI) or state level parastatals. Of course, this is easier said than done, but by identifying the necessary conditions to realize this vision, it is achievable. Livelihood security on the other hand is multidimensional encompassing, food, financial, social, cultural, emotional securities, among other things. (Hiremath, Raju and Patel, 2004). Livelihood security must be understood from the peoples' perspective as their food and livelihood security perceptions determine their decision-making behavior.

There are a few key questions that need to be answered if this concept is to become a reality: first and foremost, of course is the initial cost of mobilizing FPOs and helping them achieve a level of self-governing capacity. This is closely followed by the challenge of linking FPOs to reliable and adequate credit for their operations. The third set of questions concerns infrastructure, such as godowns, which is key to leveraging FPO capacity as a decentralized network of producers, storage agents and suppliers to the state's staggered demand for food grains for the PDS. However, overcoming all these critical challenges is not beyond the capacity of the system, the key being a clearly articulated vision which places farmer organizations at the heart of a revamped food security architecture and sharply demarcated roles and responsibilities. Admittedly, FPOs are not able to replace current arrangements in procurement and distribution immediately, but they can be targeted for an incrementally growing share of production and storage. While on the one hand this will help to target agriculture production subsidies pointedly at the largest section of producers and incentivize private investment in land improvement, purchase of machinery and technology, it will also help to substantially lower procurement and storage costs for the State. The need for expensive, centralized storage capacity and anticipated transport bottlenecks, if substantially higher volumes of food grains are to be procured and moved, can also be minimized.

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