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Farmer producer organisations (FPOS): An approach for doubling farmer income by 2022

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Abstract
The small farmer found himself at the receiving end – his livelihood threatened in an environment of instability, competition and fragmentation of farm holdings. He faced many issues including lack of access to credit and the market, and technology adoption. Farmers income can be increased by increasing the productivity, by decreasing cost of cultivation, by ensuring competitive price with transparent price discovery mechanisms and by integrating allied activities, agriculture and non- farm sector and wage employment during agriculture off season. Organizing the Farmer Producer Organisations (FPOs) will be a suitable solution for attaining this target. This paper will provide an insight into the concept of Producer Organisations, forms and benefits of joining in Farmer Producer Organisations.

Keywords: Producer company, liberalisation, privatisation, agricultural credit, productivity

Introduction
After 1990s, the state shows withdrawal policy from productive and economic functions soon after the adoption of liberalization and privatization in Indian agriculture. It left a considerable space in farmers' wellbeing, which was suddenly occupied by private agribusiness sector. India's agriculture said to be rich, but the small and medium farmers are still poor. Small and marginal farmers constitute the largest group of cultivators in Indian agriculture. About 85 per cent of operational holdings are smaller than or about two hectares and amongst these holdings, 66 per cent are less than one hectare (Singh, 2012). Average size has declined to 1.16 hectares from 2.28 hectares. The area operated by small farmers and marginal farmers has increased from 19 per cent to 44 per cent in 2010-11. The small holding character of Indian agriculture is much more prominent today than even before. However, the increasing number of agricultural suicides among small and marginal farmers (National Crime Records Bureau, 2011) is an indication that these farmers are struggling to survive. While indebtedness is often cited as the immediate reason for distress, deeper issues are related to vulnerability to risks in agricultural production. (Satish, 2007) [7].
The Prime Minster of India, Shri. Narendra Modi under NITI Aayog stressed doubling the farmer's income by 2022. NITI Aayog has mentioned in its paper released in the year 2015 that five issues needs to be addressed to improve the livelihoods of farmers. Those are, increasing the productivity, remunerative prices for farmers; focus on land leasing and land titles, risk adaptation and mitigation, and a geographical focus on the eastern region. (Chandrasekhar S., Mehrotra N., 2016) [4].

Defining a Producer Organisation
A Producer organization is defined as formal rural organizations whose members organized themselves with the objective of improving farm income through improved production, marketing, and local processing activities (Rondot and Collion, 2011). Producer Organizations deal with policies on issues such as pricing and export and import of agricultural products; improvement of agricultural production practices; access to inputs and services, including agricultural credit; marketing of agricultural production; and local processing of agricultural production and its marketing**.**
Producer organization is an association, a society, a cooperative, a union, a federation, or even a firm that has been established to promote the interests of farmers (Bijman and Wollni 2008) [2]. The main goal of the producer organisation was to provide services that support producers in their farming activities, including the marketing of the farm products.
Shylendra (2009) [16] explained producer company as a new answer to rectifying the imperfect experiences of cooperatives and to answering the social requirements of aggregating small and marginal farmers, strengthening their leverage through collective means, and integrating their livelihoods into remunerative markets.

Forms of Producer Organisations

A Producer Organisation can be organised in different forms. The possible forms may be i) a co-operative society, ii) a producer company, iii) a non-profit society, iv) a trust, or v) a section 8 company.

1. Producer Organisation as a cooperative society

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, as well as cultural needs and aspirations through a jointly owned and democratically controlled enterprise (Committee for the Promotion and advancement of Cooperatives, COPAC 1999) [5]. Cooperative societies are viewed as important vehicles for community development because they mobilize local resources into a critical mass and their structures allow them to be more community-oriented (Fairbairn *et al.*, 1991; Wilkinson and Quarter 1996) [8, 19].

The co-operative form of organisation has been perceived and seen as a means to achieving reduction in poverty and increase in well-being of local people (Birchall, 2003) [3] in the presence of other structural constraints like small holdings, lack of bargaining power of small sellers of produce or services and competition from other forms of organizations. But, co-operatives across the developing world have been more of a failure than success and are alleged to have led to exclusion of really poor, elite capture of such bodies, promoting differentiation instead of equity in rural communities like in the case of sugar co-operatives in Gujarat (Ebrahim, 2000) [7].

Producer Organisations can be formed as a cooperative society under certain Acts like Cooperative Societies' Act of Individual State or Autonomous Cooperative Societies' Act existing in many States or Multi State Cooperative Societies' Act subjected to the fulfilment of certain criteria such as formation of such society with at least 10 members of age above 18. The provision of minimum 10 members or residing in same town / village, etc. is not applicable. If a registered society is a member of another society if object of the society is creation of funds to be lent to its members, all the members must be residing in the same town, village or group of villages or all members should be of same tribe, class, caste or occupation, unless Registrar otherwise directs. The last word in the name of society should be 'Limited', if the society is registered with limited liability. Registrar is empowered to decide whether a person is agriculturist or non-agriculturist or whether she/ he is resident of the same town/ village, etc. and his decision would be final.

A PO organised in the form of a cooperative society will be managed by a Committee or the Governing Body and officers of a society include a chairman, secretary, treasurer, members of committee or other persons empowered under rules or bye-laws to give directions in regard to business of society.

2. Producer Organisation as a Producer Company

The concept of producer companies was introduced in 2002 by incorporating a new Part IXA into the Companies Act based on the recommendations of an expert committee led by noted economist, Y. K. Alagh, that was given the mandate to frame a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring the unique elements of cooperative business with a regulatory framework similar to that of companies.

In a 'Producer Company', only persons engaged in an activity connected with, or related to, primary produce can participate in the ownership. The members have necessarily to be 'primary producers.' Such type of membership can be acquired by purchase of shares in a Producer Company. General meetings are the body in which members can act on behalf of the company. Only producers or producer companies as its members or a combination of ten or more individuals and producer institutions can get incorporated as a producer company subjected to the minimum capital requirement restrictions of Rs.5 lakh authorized capital and Rs. 1 Lakh paid up capital.

Every producer company is to have at least five and not more than 15 directors. A full time chief executive is to be appointed by the board. He shall be an ex-officio director and will not be liable to retire by rotation and shall be entrusted with substantial powers of management as the board may determine. The company is run/ governed by members/ shareholders, Board of Directors and Office bearers.

The objects of producer companies shall include one or more of the eleven items specified in the Act, the more important of these being: (a) Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of members or import of goods or services for their benefit; (b) Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members; and (c) Manufacture, sale or supply of machinery, equipment or consumables mainly to its members. The other objects include rendering technical or consultancy services, insurance, generation, transmission and distribution of power and revitalisation of land and water resources; promoting techniques of mutuality and mutual assistance; welfare measures and providing education on mutual assistance principles.

3. Producer Organisation as a non-profit organisation

A non-profit organisation is one that is precluded, by external regulation or its own governance structure, from distributing its financial surplus to those who control the use of the organisational assets (Hansmann, 1980) [10]. Non-profit boards have some ownership rights, such as the right to direct the use of resources, but not others, such as the right to profit from that use of resources and to sell these rights to others for a profit (Ben-Ner and Jones, 1995) [1].

A non-profit society may be defined as a company or association of persons (generally unincorporated) united together by mutual consent to deliberate, determine and act jointly for some common purpose. Such common purposes can be termed as eligible purposes. The society can be registered for any of the following eligible purposes: a) grant of charitable assistance, b) creation of military orphan fund, c) promotion of literature, science and fine arts, etc., d) some states like Delhi and Gujarat also allow welfare and other purposes as eligible purpose. Any person attained 21 year of age, who subscribes to the aims and objects of the Society, and has deposited the membership fee as prescribed in the Bye-laws of the Society; and is not an insolvent or of unsound mind can be member of such Producer Organisation formed as a non-profit organisation.

The Governing body of the society is the body by whatever name it is called, to which the management of its affairs are entrusted by the rules and regulations of the society. The societies can mobilise funds through following means of donations, gifts, grants and/or loans.

4. Producer Organisation formed as Trust

Trust is a transfer of property by the owner to another for the benefit of a third person along with or without himself or a declaration by the owner, to hold the property not for himself but for another or another and himself. There are two types of Trusts namely public trust and private trust. Private Trusts are generally formed for charitable or religious purpose, and are not intended to do commercial activities. A public charitable Trust is one, which benefits the public at large, or some considerable portion of it. While, the income from private Trusts is available to specified beneficiaries and not to the public at large.

A Producer Organisation can be register as Trust for one or more of the purposes such as relief of poverty or distress, education, medical relief, provision of facilities for recreation or other leisure-time occupation, if the facilities are provided in the interest of social welfare and public benefit and/or the advancement of any other object of general public utility, excluding purposes which relate exclusively to religious teaching or worship. Like non-profit organisations, the trusts can mobilise funds through following means of donations, gifts, grants and/or loans. The income of a PO registered as Trust is not exempted from the income tax, as it is not a charitable purpose. Simple process of registration, simple record-keeping and even simpler regulations, low possibility of interference by regulator and exemption from tax due to charitable nature of operations are the certain advantages of POs registered as trust over other forms.

5. Producer Organisation formed as Section 8 Company

Section 8 Companies are those companies which are formed for the sole purpose of promoting commerce, art, science, religion, charity or any other useful object. The conditions to be fulfilled by the PO in order to register as a Section 8 company are; a) Minimum 2 Shareholders (for Private Limited Co.) and 7 Shareholders (for Public Limited Co.), b) Minimum 2 Directors (for Private Limited Co.) and 3 Directors (for Public Limited Co.), c) DIN (Director Identification Number) is required for every director, d) At least one Director of the PO should obtain Digital Signature, e) Memorandum of Association and f) Articles of Association.

Uniform law across the country, preference as compared to others in foreign funding because of stringent disclosure norms and regulatory provisions under Companies Act, 1956 and Foreign Contribution Regulation Act, recognition of Section 8 Company by Central and State Governments in various Schemes implemented by them, wide range of activities, exemption from using the word Private Limited or Limited, members/ owners easily transfer ownership in shares and interest by the manner provided by the Article of Association and continuation of an incorporated Section 8 Company is unaffected by the death of any of its owner(s) or the transfer of its shares to a new entity/ person are the specific advantages of this form.

Mechanism of Doubling Farmer income through Farmer Producer Organisations (FPOs)

The concept behind Farmer Producer Organizations is the farmers, who are the producers of agricultural products, can form groups and register themselves under the Indian Companies Act. To facilitate this process, the Small Farmers' Agribusiness Consortium (SFAC) was mandated by Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India, to support the State Governments in the formation of Farmer Producer Organizations (FPOs). The aim is to enhance farmers' competitiveness and increase their advantage in emerging market opportunities. The year 2014 was observed as the "Year of Farmer Producer Organisations", and slowly but surely, the concept is catching on. The FPO's major operations include supply of seed, fertilizer and machinery, market linkages, training, networking, financial and technical advice.

A variety of approaches have emerged in response to the problems faced by the small and marginal farmers. The first approach is the facilitation of collective action by small and marginal farmers. Agricultural cooperatives, formed under the Co-operative Credit Societies Act, 1904, have long been the dominant form of farmer collectives; however the experiences with cooperatives point too many limitations that prevent effective collective action.

a. Better farm income

A FPO will support the members in getting more income. By aggregating the demand for inputs, the FPO can buy in bulk, thus procuring at cheaper price compared to individual purchase. Besides, by transporting in bulk, cost of transportation is reduced. Thus reducing the overall cost of production. Similarly, the FPO may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce.

b. Provision of market information

The FPO can also provide market information to the producers to enable them hold on to their produce till the market price become favourable. All these interventions will result in more income to the primary producers. Many FPOs provide information to their members in a variety of forms — from workshops and conferences, to field days and focus group sessions. Printed materials like newsletters, brochures, and websites also provide valuable information.

c. Economies of scale

Large membership base also gives organizations the opportunity to benefit from collective ordering and purchasing, allowing the organisations to provide certain common items to their members at reduced cost. The cost reduction includes in ordering cost, transportation cost, economies in large scale purchase of agricultural inputs such as seed, fertilizers, pesticides, agricultural equipment, etc. on behalf of their members.

The ability to meet high food safety and quality standards was lowest in smallholder agriculture because of the scale economies. The most important reason was the inability of the smallholder dominated production systems to meet the food safety and quality requirements of the rich country markets. They stressed more on need of collective action from small holders. While there are some examples of successful collective action in both the spice and fishery export industries in India, it has been lacking in many other sectors, notably in horticulture (Deininger and Sur, 2006) [6]. Urban Poverty and Environment series report (2007) stated that to minimize the cost of inputs and ensure proper handling of output by middle men or command higher output prices, group negotiation through producers' organizations' was a valuable advantage. It also strengthened experience sharing, and offered opportunities for inter-change programmes and training.

d. Enable vertical integration

Producer-owned organisations were good examples for the vertical integration based on the horizontal coordination of farmers as initiators as they proved that by co-operation there was an opportunity to significantly improve their countervailing power and to establish ownership for farmers in the upper part of the food chain if they can secure strict quality requirements, solid financing, loyalty and trust in their organisations (Gábor and Szabó, 2009) [9].

e. Ensure market access

Market access is ensured by purchasing of members' produce and transports are equivalent to the inbound logistics activity of the manufacturing organisation. Quality control and pricing of the raw materials are also parts of the purchasing activity. Consolidation and processing covers the typical value-adding operations of the FPO. While consolidation takes care of bulking activity and storage of the produce to sell it at a favourable price later, processing is about enhancing the value of a product by changing its form and/or structure.

The benefits of farmer organization for market access were more evident in the vegetable sector, characterized by high transaction costs. There was less incentive for farmers producing an undifferentiated commodity such as maize to organize as the transaction costs associated with market access were relatively low. Although farmer organizations do not provide clear benefits in accessing undifferentiated commodity markets, they can still contribute to members' welfare by offering other services (Hellin *et al.,* 2009) [11].

f. Develop market and buyer relations

Strong and longer-term relationships with different buyers are needed to become a reliable market partner. It also require strong contractual arrangements and agreements with them. Market intelligence is important for making commercial decisions as FPO, as well as to transfer market signals to the members to influence their decisions on production and to define the conditions of supplying to the FPOs. Group of small producers through producer organizations were capable of making strategic investments to gain access to agro industrial markets where their produce was more profitable by establishing more complex contractual arrangements with potential purchasers. Javier and Cavero, (2012) [12] explore the distributional effects of lowering transaction costs to allow access to improved market opportunities for small farmers. They found that when new marketing opportunities arise, those that have more land, are better educated and are well organized are able to deal with the complexities that the new contractual arrangements entail.

Farmer organisations have the potential to improve services and reduce transaction costs but effective mechanisms of downward accountability were necessary so that issues such as poor management and elite capture can be addressed, and farmers are motivated to invest in actions that have collective benefits (Mbeche and Dorward, 2014) [13].

Status of Farmer Producer Organizations (FPOs)

The concept of 'Farmer Producer Organizations, (FPO)' consists of collectivization of Producers especially small and marginal farmers so as to form an effective alliance to collectively address many challenges of agriculture such as improved access to investment, technology, inputs and markets. Department of Agriculture and Cooperation under Ministry of Agriculture, Govt. of India has identified Farmer Producer Organizations registered under the special provisions of the Companies Act, 1956 as the most appropriate Institutional form around which the mobilization of farmers is to be made for building their capacity to collectively leverage their production and marketing strength. The Department of Agriculture and Cooperation (MoA) has setup 'Small Farmers Agribusiness Consortium' (SFAC) as designated Agency for organising FPOs though various schemes and projects. These projects subscribe to a broad objective of mobilizing farmers into groups called Farmer Interest Groups (FIGs), forming Farmer Producer Organizations (FPOs), strengthening farmers' capacity through training on agricultural best practices for enhancing crop productivity in sustainable manner, ensuring access to and usage of quality inputs and services, and facilitating access of the producer groups to fair and remunerative markets for marketing the crop produce as well as their value added products, where feasible.

Table 1 shows the state wise summary of registered and the process of registration FPOs promoted by SFAC. The total number of FPOs in the country is about 586 as on 31st March 2017.

Table 1: State wise summary of registered and the process of registration FPOs promoted by SFAC (as on 31st March, 2017)

S. No	State	No. of Farmers			No. of FPOs		
		Mobilized	Under Mobilization	Total	Registered	Under the process of registration	Total
1	Andhra Pradesh	1729	5271	7000	3	4	7
2	Arunachal Pradesh	1750	0	1750	2	0	2
4	Bihar	19065	3935	23000	19	5	24
5	Chhattisgarh	20670	5330	26000	10	15	25
6	Delhi	3535	0	3535	4	0	4
7	Goa	1810	0	1810	2	0	2
8	Gujarat	18959	1041	20000	20	1	21
9	Haryana	12570	0	12570	19	6	25
10	Himachal Pradesh	4887	-37	4850	5	0	5
11	Jammu	3694	287	3981	1	2	3
12	Srinagar	3120	960	4080	1	3	4
13	Jharkhand	10009	0	10009	8	0	8
14	Karnataka	83904	38596	122500	81	39	120
15	Madhya Pradesh	102401	42599	145000	117	27	144
16	Maharashtra	79691	11809	91500	71	21	92
17	Manipur	2884	4066	6950	4	4	8
18	Meghalaya	2990	760	3750	3	1	4
19	Mizoram	1700	1000	2700	0	3	3
20	Nagaland	1750	0	1750	2	0	2
21	Odisha	28121	10779	38900	30	12	42

22	Punjab	6288	0	6288	7	0	7
23	Rajasthan	47079	3421	50500	38	2	40
24	Sikkim	1876	0	1876	2	0	2
25	Tamil Nadu	10945	55	11000	11	0	11
26	Telangana	24539	0	24539	20	0	20
27	Tripura	2874	0	2874	4	0	4
28	Uttarakhand	6004	0	6004	7	0	7
29	Uttar Pradesh	35746	0	35746	33	2	35
30	West Bengal	60497	9003	69500	62	5	67
Total		601087	138875	739962	586	152	738

Source: http://sfacindia.com/FPOS.aspx

It is clear from the table that, highest number of FPOs registered is in Madhya Pradesh state with 117 numbers of FPOs. Followed by Maharashtra (71 FPOs), Karnataka (81 FPOs) and West Bengal (62 FPOs).

Conclusion and Policy Implications

The role of the Farmer Producer Organisations (FPO) is critical in the development of inclusive and sustainable supply chains. These organisations can be effective and vital players in the supply chain due to their ability to connect smallholder farmers to markets, including the school feeding market. The key hindrances faced by the FPOs are low membership and seasonal nature of agriculture which force the FPOs to be sit idle during off-seasons. The FPOs should take up additional activities in order to ensure the regular income of their members in off-seasons. Apart from this wrong selection of model, non-availability of suitable market linkages, problems within the clusters, non-availability of APMC licence etc. are the other hurdles in their growth. It is suggested that selection of the model should be according to the local conditions and needs. The managements of such FPOs should be take initiatives to identify good market linkages where the members will be more benefitted. The respective state government and Agricultural Produce Marketing Committee (APMC) should make changes in the current APMC Act in order to cover the FPOs also.

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