



Analysing the Impact of Farmer Cooperatives on Sustainable Agriculture and Role of Farmer Producer Organizations in the context of Rural Development in India

Sunita Chhaba

Rajasthan Government Education Department

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Abstract

In recent years, there has been a noticeable decline in the agricultural sector's contribution to the Gross Domestic Product (GDP). This decline has been substantial, dropping from 50 percent in 1950 to 16.5 percent in the fiscal year 2019-20. Notably, amidst the ongoing Covid-19 pandemic, agriculture remains a shining exception, demonstrating a positive growth rate of 3.4 percent during the first quarter of the 2020-21 financial year. Farmers in India grapple with a multitude of challenges, including issues related to land and water resource scarcity, inadequate infrastructure such as poorly maintained roads, limited access to financial services, and a lack of access to modern agricultural technologies. In response to these challenges, the government has set an ambitious goal to double farmers' income by the year 2022-23. This involves addressing the fundamental issues plaguing the agricultural sector. One of the government's key strategies in achieving this objective is the promotion of farmer producer organizations (FPOs) as the most suitable institutional framework for farmers to unite and enhance their collective capacity to improve production and marketing. FPOs are composed of smallholder farmers who come together with the common aim of enhancing their livelihoods through improved farming practices, more effective marketing strategies, and local processing activities. Regrettably, the adoption of new technologies and contemporary marketing practices remains limited within the majority of FPOs in India. To achieve the goal of doubling farmers' income and ensure the sustainability of FPOs, it is imperative that the government actively promotes and supports these organizations through well-considered policy interventions. This support will be instrumental in elevating the agricultural sector and, in turn, the livelihoods of India's farming communities.

Keywords— Agricultural Sector Decline, Covid-19 Pandemic Impact, Farmer Producer Organizations (FPOs), Doubling Farmers' Income, Agricultural Policy Interventions

INTRODUCTION

Agriculture constitutes the primary source of sustenance and income for over 50 percent of the Indian population. Amid the ongoing Covid-19 pandemic, the agricultural sector has exhibited noteworthy resilience, demonstrating positive growth during the initial quarters of the fiscal year 2020-21. In stark contrast,

several other sectors have experienced negative growth trends, as reported by The Hindu in 2020.

The majority of Indian farmers heavily rely on agricultural activities for their sustenance and financial well-being. However, they frequently encounter significant resource constraints that hinder their potential for success. In numerous regions, the limits to

productivity gains are evident, unless there is a reinforcement of appropriate institutions that facilitate farmers' access to critical information, inputs, and services. Simultaneously, the promotion of collaborative efforts for natural resource management, marketing, and processing becomes imperative.

Regrettably, the agricultural sector has witnessed an alarming trend of farmer suicides in recent years, often attributable to the failure of agricultural enterprises or sudden market price crashes. Farmers bear the brunt of agricultural risks, as highlighted by Skees and Enkh in 2002. Farmers, in their pursuit of risk management, employ a continuous adaptive process rooted in their perception of the external environment, available resources, and personal attitudes and preferences, as outlined by IFAD in 2004. In this risk management endeavor, farmers take into account a constellation of external and internal factors, including their access to markets and the resources at their disposal within their households.

Indian farmers exhibit commendable agricultural prowess but frequently encounter challenges in efficiently marketing their agricultural produce, primarily due to the limited availability of rural markets and inadequate marketing skills. One promising avenue for optimizing the marketing process involves mobilizing farmers for collective action, where they collaborate to procure inputs and collectively market their products, thus harnessing the benefits of economies of scale, as suggested by Sahu in 2014.

Producer organizations (POs) have gained significant recognition as pivotal contributors to poverty alleviation and the attainment of food security, as acknowledged by FAO in 2010. Furthermore, FICCI in 2020 affirmed the substantial role played by Farmer Producer Organizations (FPOs) in not only bolstering the socio-economic resilience of farmers but also in advancing progress towards various sustainable development goals.

Producer organizations (POs):

Producer organizations (POs), as defined by Rondot in 2001, represent formal rural entities comprised of smallholder farmers. These organizations are established with the overarching objective of enhancing farm income through the improvement of production, marketing, and local processing activities. Significantly, POs have been successful in elevating the economic standing of their members by facilitating access to agricultural inputs, credit, processing, and

marketing services, as noted by Narayanan and Gulati in 2002.

The act of organizing farmers into distinct producer groups also contributes to the enhanced efficiency and effectiveness of the agricultural system. This approach enables the direct provision of commodity or product-specific information and training to farmer groups engaged in the cultivation of particular crops or products, as emphasized by Swanson in 2008. Globally, the pivotal role of POs within the Agricultural Innovation System is increasingly acknowledged, as observed by Heemskerk and Wennink in 2005, Shapland and Kampen in 2006, and FAO in 2010.

In alignment with these perspectives, the Government has recognized farmer producer organizations as the most suitable institutional framework for mobilizing farmers and nurturing their collective capacity to harness their production and marketing potential, as stated in the Government of India's directive in 2013. Nevertheless, it's important to note that while some POs have flourished, a significant number have faced challenges sustaining their activities beyond their initial years of formation, as observed by Barman in 2019.

Producer organizations engage in a spectrum of activities to fulfill their core objectives, and they adopt diverse organizational structures, such as legal entities, associations, cooperatives, self-help groups, multi-layer organizations (including local cooperatives and regional or national unions), shareholder-based companies, and hybrids of these organizational forms, following Rondot's categorization from 2001. The specific activities undertaken by POs are contingent on their goals, investment opportunities, member circumstances, and external factors. These activities encompass organizing farmers to access external support, bulk procurement and distribution of inputs, collective sale or purchase of agricultural products, storage and handling, processing, transportation, provision of mechanization services to farmers, and facilitating access to financial resources from banks and microfinance institutions.

Notably, the formation of collective entities among farmers, particularly in the form of producer companies, has gained popularity. This is due to the various advantages they offer in comparison to traditional producer cooperatives. These benefits include the ability to pursue multiple objectives, registration under the Indian Companies Act, autonomy in borrowing capacity, reduced government intervention, stringent disclosure and auditing requirements, among other

advantages, as highlighted by Mondal in 2010, the Government of India in 2013, NABCONS in 2011, and Singh and Singh in 2013.

Farmers Producer Organization:

The Farmers Producer Organization (FPO) represents a specific category of Producer Organizations (POs), wherein the membership comprises individuals engaged in farming activities. During the 12th Plan period spanning from 2012 to 2017, the Small Farmers' Agribusiness Consortium (SFAC) has been actively supporting the promotion of FPOs, as outlined by the Government of India in 2013. It is important to note that the term "PO" is a general designation for organizations formed by producers involved in the production of various goods, including agricultural produce, non-farm products, artisanal items, and others.

The government anticipates that this concerted effort will contribute to the wider dissemination of technology, enhance productivity, facilitate improved access to vital resources and services, and ultimately lead to an increase in the income levels of farmers, as articulated by Chander in 2019. Furthermore, Farmers' Organizations (FOs) are regarded as indispensable institutions for the empowerment, poverty alleviation, and the overall betterment of farmers and rural communities, as acknowledged by the Food and Agriculture Organization (FAO) in 2006.

In accordance with the recommendations of the National Commission on Farmers (NCF) in 2004, there is a recognized need to promote farmers' organizations, aiming to amalgamate the advantages of decentralized production with centralized services, post-harvest management, value addition, and efficient marketing practices.

It is worth noting that a PO can also be established to represent non-farm producers. For instance, if producers are engaged in the creation of non-farm products such as handloom or handicrafts, the resulting PO would be classified as one representing non-farmers. This underscores the flexibility and applicability of the PO concept across diverse production sectors.

Types of Farmer Producer Organizations:

Producer Organizations (POs) are designed to serve the diverse interests and needs of producers, organizing activities that enhance the capabilities of their members in addressing production and marketing challenges. POs can take on various forms, such as farmer associations centered around a specific

commodity, for instance, the Maharashtra State Grapes Grower Association, or they can revolve around particular activities, such as water management, as exemplified by Pani Panchayats. Additionally, they can manifest as producer cooperatives, such as the milk cooperatives promoted by the National Dairy Development Board, or even as producer companies, like the Vanilla India Producer Company Limited (VANILCO), as highlighted by Mahesh Chander in 2019.

Within the realm of Farmers Organizations (FOs), several possible structures are conceivable, encompassing Farmer Interest Groups, Commodity Interest Groups, Cooperatives, Self-Help Groups, Farmers' Associations, Producer Organizations, Federations, and Unions. Regardless of their specific organizational format, FOs are bound by common characteristics that unite them. These include a shared interest among their members, mandatory membership, a framework of rules and regulations, a commitment to maintaining quality standards in production, and the sharing of roles and responsibilities on a rotating basis, as articulated by Sahu in 2014.

Chamala, in 1990, categorized farmer organizations into two primary types. The first type comprises community-based organizations with a focus on resource management, while the second type centers on commodity-based organizations primarily oriented toward market-related activities. These categorizations reflect the inherent diversity and adaptability of farmer organizations to cater to a wide array of agricultural and rural development needs.

There are several types of Farmer Producer Organizations (FPOs), which are structured to serve the specific needs and interests of different groups of farmers. These variations can include:

Primary Producer Companies (PPC): Primary Producer Companies are registered under the Indian Companies Act. They are typically composed of individual farmers and are focused on primary agricultural and allied activities.

Producers' Cooperative Societies: These are cooperative organizations formed by farmers to collectively undertake agricultural and related activities. They may be registered under various cooperative acts.

Farmers' Producer Companies (FPC): These are registered entities that are specifically designed to cater to the needs of farmers. They help in aggregating farm produce and marketing it collectively.

Agricultural Cooperatives: These are traditional cooperative organizations formed by farmers for various agricultural purposes, including input procurement, credit, and marketing.

Fishermen Producer Organizations: These organizations are tailored to the needs of fishermen, helping them access resources, technology, and markets for their fish and seafood products.

Artisanal Producer Groups: These groups consist of artisans involved in traditional crafts, handicrafts, and related activities. They work together to improve production, marketing, and access to resources.

Horticultural Producer Organizations: These FPOs are focused on the cultivation and marketing of horticultural products, such as fruits, vegetables, and floriculture.

Dairy Producer Organizations: These are formed by dairy farmers to collectively manage and market milk and dairy products.

Livestock Producer Groups: These groups are involved in the rearing and trading of livestock, including cattle, poultry, and other animals.

Agri-Entrepreneur Groups: Some FPOs are designed to support and empower agri-entrepreneurs who may not be traditional farmers but are engaged in agricultural or agribusiness activities.

Forest Producer Organizations: These are formed by forest-dependent communities engaged in activities like non-timber forest product collection, forest management, and sustainable resource utilization.

Women's Producer Groups: These are FPOs with a focus on empowering women farmers and artisans by addressing their unique needs and challenges.

Organic Producer Organizations: These groups are dedicated to organic farming and the promotion of organic agricultural practices.

The specific type of FPO may vary based on the region, agricultural activities, and the objectives of the group. The key goal of these organizations is to improve the economic and social well-being of their members by enhancing productivity, providing access to resources and markets, and promoting sustainable and inclusive agricultural practices.

The role of Farmer Producer Organizations (FPOs):

The role of Farmer Producer Organizations (FPOs) is instrumental in uniting small and marginal farmers and other small-scale producers to establish their own business enterprises that are professionally

managed. These farmers opt to collaborate, pooling their resources to reinforce specific activities and foster the development of a producer organization. These targeted activities encompass the procurement of inputs, the collection and post-harvest processing of produce, as well as the marketing of products.

FPOs serve as invaluable support systems for farmers, not only in the production of a diverse range of agricultural produce but also in navigating the complexities of the marketing process. By facilitating collective action, farmer organizations empower small-scale farmers to participate more effectively in the market. This collective strength equips them with the ability to reduce transaction costs related to input and output procurement, gain access to critical market information, adopt new technologies, and tap into high-value markets. In essence, this enables them to compete on a level playing field with larger farmers and agribusiness enterprises, as corroborated by Kathiravan in 2017 and Stockbridge et al. in 2003.

Moreover, FPOs serve as an extension of farmers' core production activities. While farmers concentrate primarily on the cultivation process, other auxiliary activities can be outsourced to the farmer-owned organization. This arrangement ensures that the farmer can deliver products of the desired quality, at the right time, and for the appropriate price in the market. It is worth noting that another advantage of FPOs is their capacity to attract professional and specialized talent, which may otherwise be beyond the reach of individual farmers, as indicated by Maijers et al. in 2016.

The establishment of Farmers' Organizations (FOs) serves the critical purpose of internalizing extension services for their members, encompassing both backward linkages, including input, credit, and technology support, and forward linkages, which involve production facilities, market access, and value addition. This holistic approach strengthens the agricultural ecosystem and empowers small-scale farmers to overcome the challenges associated with production and marketing, ultimately leading to improved livelihoods and sustainable agriculture, as emphasized by Sahu in 2014.

Establishing a Producer Company and the Steps for Forming a Farmer Producer Organization (FPO):

Eligibility and Member Composition:

Producer companies are exclusively formed by primary producers, i.e., individuals engaged in primary production activities. This includes farming, animal husbandry, horticulture, floriculture, pisciculture,

viticulture, forestry, forest products, re-vegetation, beekeeping, handloom, handicraft, and cottage industries. A minimum of ten individual members or two institutional members (e.g., self-help groups, cooperatives, or other formal farmer organizations) are required for founding the producer company.

Seed Capital and Share Purchase:

The seed capital for the company is raised through the initial sale of shares. To become a member, farmers are obligated to purchase at least one share in the company.

Share values are generally quite low, ranging from Rs. 50 to Rs. 200.

Registration and Governance:

Upon registration, the producer company assumes the status of a private limited company. Notably, it differs in that the registration requires more than two individuals, the minimum paid-up capital of Rs. 1 lakh is not mandated, and the maximum number of members can exceed 50.

Members' equity cannot be publicly traded; shares can only be transferred. Each producer company must have a board of directors, comprising a minimum of five but not more than fifteen directors. Directors are chosen from within the farming communities, ensuring democratic representation and local engagement. A full-time chief executive is appointed by the board, who is also an ex-officio director and holds significant management powers as determined by the board.

Advantages of Producer Companies:

Producer companies offer certain advantages over producer cooperatives, including the incorporation of cooperative principles, open membership, and the ability to engage in business activities while being professionally managed.

Objectives of FPOs:

The primary aim of forming Farmer Producer Organizations (FPOs) is to enhance production, productivity, and profitability for agriculturists, particularly small-scale farmers in the country.

Formation of FPOs:

The main steps in the formation of FPOs, according to the Government of India (GoI, 2013), include mobilizing farmers into groups known as Farmer Interest Groups (FIGs) at the village level, with each FIG comprising 15-20 members. These groups are then developed into appropriate federating points, referred to as Farmer Producer Organizations (FPOs), to plan and execute product-specific cluster or commercial crop cycles.

Stages in FPO Formation (GoI, 2013):

- Pre-project implementation
- Enhancing Capacity and Implementation of Surplus Farm Production Plan (Mobilization Phase)
- Pre-formation Stage of FPO/Collective and preparation of FPOs business plan through FIG level exercise
- FPO formation Stage
- FPO establishment stage
- Implementation of the business plan of FPO
- Phase-out Systems for post-project sustainability
- Choice of Legal Framework:

FPOs can be registered under various legal provisions, including the Companies Act, 1956 (for special provisions), Cooperative Societies Act, Autonomous or Mutually Aided Cooperative Societies Act of the respective State, Multi-State Cooperative Society Act, 2002, Societies registered under the Society Registration Act, 1860, and Public Trusts registered under the Indian Trusts Act, 1882.

The establishment of Farmer Producer Organizations (FPOs) aims to enhance the collective strength of farmers, enabling them to overcome production and marketing challenges. These organizations offer a vital avenue for the empowerment of small-scale farmers, improving their access to resources and markets, ultimately contributing to the sustainability of agriculture in the country.

Benefits to Farmer Producer Organization (FPO) Members:

FPOs offer a comprehensive range of services to their members, effectively covering all facets of farming, from inputs and technical support to processing and marketing. This extensive support benefits farmers and their communities in various ways, making FPO membership highly valuable. Notably, FPOs have also displayed remarkable resilience during the COVID-19 pandemic, as evidenced by a survey organized by the National Institute of Agricultural Marketing (NIAM), which highlighted the following contributions:

Comprehensive Services: FPOs provide almost end-to-end services to their members, encompassing all aspects of farming, from inputs and technical assistance to processing and marketing.

COVID-19 Initiatives: During the pandemic, several FPOs extended support by distributing masks, providing cash advances to members, and offering assistance to vulnerable communities. For instance, 24 FPOs distributed food and groceries to those in need.

Supply Chain Coordination: FPOs play a pivotal role in facilitating connections between farmers, processors, traders, and retailers. They coordinate supply and demand while offering essential business development services like market information, input supplies, and transport services.

Continual Service Expansion: FPOs remain adaptable, regularly incorporating new services to meet emerging needs. The benefits of FPO membership are extensive, covering various aspects as outlined by GOI, 2013; Murray, 2015; Trebbin and Hassler, 2012.

Financial Support: FPOs provide loans for various agricultural needs, including crops, livestock, machinery, tractors, pump sets, well construction, pipelines, and sheds.

Input Supplies: Member farmers receive cost-effective, high-quality inputs such as fertilizers, pesticides, dairy equipment, seeds, sprayers, pumpsets, and accessories, all sourced by the FPOs. Procurement and Packaging: FPOs procure agricultural produce from their member farmers, undertake storage, add value, and package products for the market.

Direct Marketing: By eliminating middlemen, FPOs engage in direct marketing after procuring agricultural and livestock produce. This saves members time and costs, reduces losses, minimizes distress sales, maintains prices, manages transportation expenses, and ensures quality. Bulk Pooling and Bargaining Power: Collectively pooling farm produce allows members to negotiate more effectively in the market. Insurance Coverage: FPOs offer various types of insurance, including crop insurance, livestock insurance, electric motors insurance, and life insurance.

Technical Knowledge and Skill Enhancement: FPOs assist farmers in improving their knowledge and skills in agricultural production, promoting best farming practices, and providing quick access to marketing information.

Networking Opportunities: FPOs establish links with financial institutions, producers, processors, traders, and consumers.

Export Orientation: FPOs can be oriented toward foreign exports by ensuring quality consistency,

securing long-term contracts, and regularly supplying corporate buyers.

Principles for FPO Sustainability:

FPOs are built on principles rooted in self-help, responsibility, democracy, equality, equity, and solidarity. FPO members must adhere to ethical values such as honesty, openness, social responsibility, and care for others. The guiding principles for FPO sustainability, according to GOI, 2013, include:

Voluntary and Open Membership:

FPOs are voluntary organizations, and membership is open to all individuals, without discrimination based on gender, social status, race, political affiliation, or religion. Democratic Farmer Member Control: Members of FPOs actively participate in setting policies and making decisions in a democratic manner. Elected representatives are accountable to the collective membership, with equal voting rights for primary FPOs. Farmer-Member Economic Participation: Members contribute equitably to FPO capital and democratically control it. Part of the capital is often held collectively by the FPO, with surplus funds allocated for various purposes, including development and member benefits.

Autonomy and Independence:

FPOs maintain their autonomy and self-help principles, even when engaging with other organizations or raising external capital.

Education, Training, and Information:

FPOs provide education and training to members, elected representatives, managers, and employees, ensuring they contribute effectively to FPO development. They also inform the public about FPOs' nature and benefits.

Cooperation Among FPOs:

FPOs work together through local, national, regional, and international structures, strengthening the overall FPO movement.

Concern for the Community:

FPOs aim to contribute to the sustainable development of their communities by implementing policies approved by their members.

Examples of FPOs in India:

India has seen significant efforts to establish FPOs, with approximately 7,374 FPOs in the country and plans to form an additional 10,000 by 2024 (IFPRI, 2020). Some notable examples include:

Indian Organic Farmers Producer Company Ltd:

The first organic product-producing FPO, where members with organic certification are eligible for membership, with a fixed share patronage of Rs. 40,000.

The Maharashtra State Grapes Grower Association:

This association collaborates with research centers, provides educational programs for grape growers, and supports integrated plant protection measures and pesticide residue reduction.

Vanilla India Producer Company Ltd (VANILCO) / Banana India Producer Company Ltd (BIPCL): VANILCO collaborates with vanilla growers to produce and market high-quality vanilla beans and extracts.

Pani Panchayats of Odisha:

These organizations promote farmers' participation in irrigation system operation and maintenance, fostering local-level involvement.

Spices Board:

The Spices Board has promoted producer companies like Coinonya Farm Producer Company Limited for turmeric and Karbi Farms Producer Company Limited for ginger and chilly, focused on organic.

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