Cooperative Spirit with Corporate Strategy: Can Farmer Producer Organisations Improve the Viability of Indian Agriculture?

V. Ratna Reddy  
Livelihoods and Natural Resources Management Institute  
Hyderabad, India.

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Background

- FPO is a legal entity formed by primary producers (farmers, milk producers, fishermen, weavers, etc.), which can be a private company or cooperative society with a provision for sharing the profits / benefits among its shareholders.

- Act as corporate bodies integrating small and marginal farmers (SMF) into the input / output supply chain networks and help them reap the benefits of scale economies by adopting a business model.

- An estimated number of 5 to 7 thousand FPOs registered between January 2003 and March 2019 covering an estimated 4.3 million SMF. Further fillip in 2020 i.e., formation and promotion of 10,000 FPOs in the next five years with a total budget of Rs. 6866 crores. The ultimate objective is to create one FPO in each of 14000 blocks / Tehsils across the country.

- FPOs are seen as a critical intervention for inclusive and sustainable agriculture development in India (improving the viability of agriculture / doubling the farm incomes and welfare of the farming communities).
FPOs: Context, Rationale and Objectives

- Over the past three decades Indian agriculture is facing severe viability crisis. Increasing costs and low and uncertain prices.
- Enhancing the productivity and viability of agriculture in general and SMFs in particular is the main rationale behind the promotion of FPOs.
- Complementing the scale economies, the corporate strategy could facilitate better access to technologies, processing and value addition activities along the value chains. Resulting in higher revenues.
- Price risk can be managed by building storage facilities and better access to transportation facilities to reach far off markets.
Research Questions

- How existing market distortions affect the functioning of FPOs?
- Is the present policy and institutional environment conducive for efficient functioning of FPOs i.e., as business / corporate entities?
- Is the scale at which FPOs are promoted feasible or effective? i.e., are FPOs equipped or supported in terms of funds, functions and functionaries to face these challenges in the real world?
Approach

- Review of existing Studies across India covering most states and regions.

- Drawing from the experience of 9 FPOs facilitated by AF-EC in Anathapuramu district of Andhra Pradesh

- Focus was mainly on the functioning and performance of FPOs (not on the impact on the farmers / members)
About 7059 FPOs have been promoted by NABARD, SFAC and other private agencies since January 2003.

NABARD has funded 55 percent of these FPOs followed by other agencies (32 percent) and SFAC (13 percent).

Distribution of FPOs across the states is skewed in favour of few states—Karnataka, Maharashtra and Madhya Pradesh account for 24 percent of the total FPOs in the country and seven states account for more than 50 percent of the total FPOs.

Of the total FPOs 80 percent were registered only after 2015, hence most of the FPOs are less than 5 years old i.e., 87 percent.
Number and Spread of FPOs

- The real number of functional FPOs are much less than that of promoted.
  - 84 percent of the FPOs that are above 5 years old are closed.
  - No account of the status of less than three years old, as they are not supposed to be closed before 3 years.
  - Numerous dysfunctional FPOs only exist on paper without doing any business.

- This clearly indicates that the focus is more on promotion than supporting and sustaining them.

- Low membership, low paid up capital

- Paid-up capital gap of Rs. 3 lakhs (only Rs. 1.10 lakh as against required Rs. 4-5 lakhs)
Functioning and Impact of FPOs

- Majority of the FPOs are limited to the activities of selling inputs. Only a few adopted the full business model, as per the objectives, especially focusing on normal agriculture crops.

- Only the dairy cooperatives, along with other single product FPOs (coconut, etc), have substantial paid-up capital and are growing over the years.

- On the contrary, the FPOs catering to the typical agriculture crops are either stagnant or failing – low paid-up capital (low membership base), limited government support, poor access to credit, no integration or linkages with market chains, institutions, etc.

- In the context of typical crop products, FPOs are unlikely to address the price risk effectively, as there is no price support for majority of these crops. 65 percent of the farmers perceive that price risk (decline or collapse) remains the biggest risk even after joining the FPO.
Functioning and Impact of FPOs

- Given the complexity of agricultural commodity markets comparing FPOs with dairy cooperatives or even high value products is rather naïve. Milk cooperatives face less price risk, aggregation, transportation, processing and storage issues. Dairy is a low cost subsidiary activity for the farmers unlike crop production which is the main activity with high cost.

- Even in the case of other indicators like access to credit, productivity, income, etc, the performance of FPOs has not proved to be a game changer even after 20 years of their advent.

- Most of FPOs suffer from all the earlier problems associated with adverse selection, agency, elite capture, rent-seeking, etc.

- Organically evolved FPOs have performed better when compared to the State promoted FPOs.
Strengthening and Sustaining the FPOs: Experiences of 9 FPOs in AP

- Started in 2016 (8) & 2018 (1)
- More than 90% SMF
- SC/ST preference
- Larger Women participation (73%)
- The business model adopted: convergence and drawing resources from various government and private organisations viz APSEEDS; APMARKFED; APOILFED; ICRISAT; WALMART Foundation; etc.
- Convergence has helped in accessing various programmes, funds, establishing market linkages, investments in machinery and processing, etc.
Activities

- Community managed seed system (CMSS)
- Input supply shops in each FPOs
- Custom hiring centre in each FPO
- Procurement of main agriculture products
- Primary Processing as well as secondary processing
- Sale of main agricultural products as commission agents and also sell in the market before and after primary or and secondary processing.
## Balance Sheet (in Rs.) (< 5 years)

<table>
<thead>
<tr>
<th>FPO Name</th>
<th>OB as on 1st April 2021</th>
<th>Receipts</th>
<th>Payments</th>
<th>CB as on 31st March 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
<td>Bank</td>
<td></td>
<td>Cash</td>
</tr>
<tr>
<td>Atmakuru</td>
<td>790</td>
<td>21,39,589</td>
<td>32,16,527</td>
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<td>Beluguppa</td>
<td>9,000</td>
<td>4,99,512</td>
<td>15,39,246</td>
<td>9,34,502</td>
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<tr>
<td>Kuderu</td>
<td>90,500</td>
<td>14,75,514</td>
<td>35,67,181</td>
<td>30,61,852</td>
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<tr>
<td>Kalyandurgam</td>
<td>8,384</td>
<td>18,57,060</td>
<td>24,42,894</td>
<td>14,54,602</td>
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<tr>
<td>Kundurpi</td>
<td>0</td>
<td>22,83,862</td>
<td>14,96,677</td>
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<tr>
<td>Setturru</td>
<td>0</td>
<td>13,30,472</td>
<td>15,98,075</td>
<td>7,20,548</td>
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<tr>
<td>Dharmavaram</td>
<td>35,537</td>
<td>12,04,384</td>
<td>50,77,085</td>
<td>37,46,868</td>
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<tr>
<td>Raptadu</td>
<td>12,549</td>
<td>18,01,039</td>
<td>24,12,152</td>
<td>14,34,163</td>
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<tr>
<td>Dharmavaram (All Women)</td>
<td>3,545</td>
<td>6,62,150</td>
<td>21,20,377</td>
<td>18,55,040</td>
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<tr>
<td><strong>Total</strong></td>
<td>1, 60, 305</td>
<td>1, 32, 53, 584</td>
<td>2, 34, 70, 214</td>
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</tr>
</tbody>
</table>
Conclusions

- Spread of FPOs has picked up but their performance and impact has been marginal.
- It is hard to find viable FPOs dealing with typical agricultural crops.
- FPOs are not equipped to face the complex market situation in the existing policy and institutional environment.
- In the absence of effective implementation of MSP for most commodities, traders and middlemen rule the markets.
- Distorted price policies coupled with distorted input policies have made it difficult for the farmers to diversify their cropping.
- Policies scaling up the promotion of FPOs should recognise that FPOs can't operate in isolation devoid of the policy and institutional environment.
Conclusions

- The experience of 9 FPOs suggests that FPOs have the potential to achieve the set objectives with a comprehensive and multi-pronged approach.
- Convergence with the government departments facilitated supply of quality seeds and procure the grains at MSP.
- All members buy inputs from the business shops and sell their produce to the FPOs.
- But for the promoters long standing credibility and linkages with the Govt. this would not have been possible. How many of the FPOs can boast of such a strong hand-holding partner and generate resources independently?
Thank You