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EMPOWERING FPOs



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Sharpening the Saw:
Preparing FPOs as an effective tool towards Aatmanirabhar Bharat

"There are about 7374 Farmer Producer Companies (FPCs) in India which cover about 4.3 million farmers. The inherent strengths and capabilities of these institutions have been considered as one of the effective tools to combat adverse impact of COVID-19 on agrarian community. FPOs have a big role to play in not only building socio-economic resilience of farmers but also in achieving several sustainable development goals."

India has achieved remarkable success in agriculture sector, with footprints of development spread across various domains. The sector employs 50% of the total work force of country, contributes 16.5% [1] to GDP and 12.86%[2] to the national export. Any hurdle in the sector has a potential footprint on overall economy in general and on small and marginal farmers in particular.

Trickledown effects of COVID-19 have adversely impacted agrarian economy, causing supply chain disruptions thereby limiting the accessibility of factors of production to the farm sector. The impact can be observed in ground level disruption in supply of vital agriculture input resources, procurement of agriculture produce, accompanied with subsequent falling market prices of produce, labour unavailability and liquidity crunch across agriculture value chain. The projected GDP growth rate for 2020-21 which was pegged at about 6% [3] has now shrunk to 1.9%[4]. Keeping this in view, amid Covid-19 situation, the present announcement of Government of India under 'Aatmanirabhar Bharat' can be considered a cornerstone to further revamp agricultural sector with efficient and responsive supply chain and demand oriented marketing approach.

Farmer Producer Organizations (FPOs), a concept established for enhancing farmers' capacity and rural economy through its market-oriented approach, have also not been left unhampered in the present situation.

[1] Economic Survey 2019-20
[2] DAC&FW, 2018
[3] PIB, Jan 2020
[4] IMF projects India's growth rate at 1.9% in 2020, forecasts global recession due to COVID-19 (The Economic Times)

There are about 7374 Farmer Producer Companies (FPCs) in India which cover about 4.3 million farmers[5]. Covid-19 has further aggravated the challenges faced by Farmer Producer organisations. However, the inherent strengths and capabilities of these institutions have been considered as one of the effective tools to combat adverse impact of COVID-19 on agrarian community.

A multi-pronged intervention is paramount to encourage participation of various stakeholders towards collectively addressing the multidimensional impacts of COVID-19. FPOs, as a part of the new-normal ecosystem that is emerging, have a big role to play in not only building socio-economic resilience of farmers but also in achieving several sustainable development goals.

In recent announcement made by Hon'ble Finance Minister in third tranche of Aatmanirbhar Bharat, considerable focus has been given to FPOs. Among other things, it strongly emphasizes creation of farm-gate level agriculture infrastructure through FPOs and formalization of micro food enterprises, which will not only create suitable ecosystem for development of vibrant decentralized agriculture marketing system but also lead to better price realization of agricultural produce benefitting small and marginal farmers through value addition. These are very positive and welcome initiatives which have potential to catapult FPO ecosystem to its fortunes.

With a view to put a spotlight on various benefits that can be harnessed through FPOs, FICCI initiated a study with a group of practitioners working on various domains of FPO promotion such as FPO market linkage, value chain expert, promoting institutions, FPO finance . A study was done with a sample size of 50 respondents. The recommendations that emerged out of study will have medium to long term impact on FPO ecosystem. The same are mentioned as under:

FPO - An Institution to be relied upon for strengthening farm economy in times of COVID 19

Some of the weak points of FPOs such as limited aggregation capacity and inability to meet real time demand of member farmers in availing 3Ms i.e.- Money (credit), Market (return) and material (Agri-input), have limited the approach of FPOs. But the recent development around agricultural policies in last five years, can be considered as positive step, though slowly but steadily, strengthening FPO model in the country and bringing a greater number of farmers in its purview. FPOs are now moving towards a revenue-based model with farmers' income improvement at its focus. However, lack of adequate capital, has been considered as the most hindering factor among many others, in achieving the desired outcome of this centrality approach.

1) FPOs and the need for catalytic, easy and affordable financing

There has been positive development in FPO ecosystem to build its financial health. Small Farmer Agribusiness Consortium, with its matching equity grant support and venture capital assistance is leading the initiative. Though there is need to further scaleup such initiatives as about 49% of the FPCs in India have paid-up capital less than Rs 1 lacs and about 86% of them have paid-up capital less than Rs 10 lakhs[6]. In such scenario, easing access to working capital is of paramount importance.

Discussion with major Non-Banking Finance Corporations (NBFCs) providing working capital support to FPOs, reported inability to process newer loan application requests due to their restricted ability to travel for physical verification and other documentation process. Additionally, disruption in agriculture value chain has also made NBFCs risk averse while lending to FPOs, resulting in acute liquidity crunch in FPO system.

[5] Richa Govil, Annapurna Neti and Madhushree R. Rao. 2020. Farmer Producer Companies: Past, Present and Future. Azim Premji University, Bangalore

[6] Richa Govil,, Annapurna Neti and Madhushree R. Rao. 2020. Farmer Producer Companies: Past, Present and Future. Azim Premji University, Bangalore.

Most of the FPOs will suffer losses risking erosion of their share capital due to disruption in agrarian ecosystem. FPOs who have warehoused maize or cotton will bear immediate thrust as prices of such commodities have tumbled down significantly vis-à-vis last year.

FPOs who have availed working capital from lenders are facing challenges in repayment due to reduced or slow business activities. Whereas, most of the NBFCs are in a fix over granting moratorium support to FPOs as they are finding it difficult to receive the support from banking institutions from where they have raised the capital. One is yet to see the benefits of such announcement on extending moratorium to NBFCs.

Amidst the situation, few immediate supports have come to tackle the liquidity crunch such as one of the national banks has offered support up to Rs 5 lakhs to existing FPOs borrowers; Govt. of Tamil Nadu has introduced Mezzanine Capital Assistance of a maximum of Rs 10 Lakh per FPC. Such efforts need to be applauded. Though these initiatives are in right direction they further need to be streamlined towards the current issue of liquidity crunch in FPO system.

Recommendation for facilitating affordability and ease of accessing financial instruments

- ***Product modification through existing commercial banks:*** *Banks with wider penetration, are better poised to reach to significant scale with suitable product designs for FPOs and need to invest considerably in sensitizing bank officials regarding FPO's financing requirements.*

- ***Digitization matrix:*** *Promotion of process design and digital architectural framework as digitization matrix in streamlining the verification and disbursement processes will help in speedier disbursement of loan under any future uncertainties.*

- ***Innovative financial models****: Innovative financial instrument for FPOs like warehouse receipt financing, increased first loss default guarantee, risk funds, impact bonds should be promoted to strengthen the FPOs capabilities.*

- ***Acknowledging FPOs as Micro Small and Medium Enterprises (MSMEs):*** *Inclusion of FPOs in definition of MSME will open up new avenues of support for FPOs in raising capital for business operations. Additionally, FPOs will also become eligible for exploring opportunities of benefits from various government schemes which identify MSMEs as primary beneficiaries.*

- ***Clamping down rates via impact investors****: Role of Impact investors have become crucial in present scenario to bring down the cost of capital from 14% to 6% for FPOs, thus enhancing its EBITDA (Earnings Before Interest, Tax, Depreciation, Amortization-to-Interest Coverage ratio.*

2) Immobility across supply chain hampering business activities

During initial phases of strict lockdown enforcement across India, FPOs were facing severe difficulty to avail logistic services to transport agriculture produce from farmgate to collection centres of buyers or urban market centres. This coupled with ground level supply chain disruption in agri-input, labour unavailability and hampered mandi operations have disrupted business activities of FPOs. Almost all activities of FPOs are being affected with varying degree of intensity across different geographies, commodities, and stages of the value chain. However, FPOs promoted under state government programs like State Rural Livelihood Missions or State Horticulture Missions are relatively better placed in arranging necessary permissions for movements of agriculture produce from fam-gate to consumers' doorsteps. The launch of *Krishi Rath App* has been an extraordinary effort in easing logistical challenges during these challenging times.

One of the important issues that has come up under FPO business portfolio, is its intended efforts to serve end-markets of urban areas with no or limited approach to serve the local consumption-based demand.

Recommendation for building resilient business portfolio of FPOs

- ***Creation of GRID of farm-gate infrastructure:*** *The proposed farm-gate infrastructure to be created through Rs 1 lacs Crore of Agri-Infrastructure Fund should be digitized to convert it into a virtual market GRID by capturing necessary details of agriculture produce stored. The grid can have parameters like name of commodity, quality of produce, variety etc. This will enable development of vibrant FPO driven alternative marketing channel. In this regard, innovative partnerships should also be established to assay quality of produce stored. It would be instrumental in development of necessary trust for smooth facilitation of market linkage activities.*

- ***Business Portfolio Centrality Approach:*** *It implies a careful balance between different business portfolio so that the center of mass (revenue system) can bear the weights of risks and uncertainties. FPOs that have business operations around distribution of saplings and seedlings of horticultural produce to its member farmers or local region are considered relatively less affected by current pandemic. Whereas FPOs that have sought distant markets have considerably lost a major chunk of their revenue. However, this can be improved if FPOs can cater to demands based on local consumption like nursery cultivation, micro food processing initiatives.*

- ***Local linkages towards varying business opportunities:*** *Agriculture economy in India has thrived based on its local availability of facilitators. Institutional mechanism should be promoted for creating linkages of FPOs with local ecosystem players like agri-input providers as well as marketing entities including organized wholesale and retail chains.*

3) Covid Has Brought the Skill Gap in FPO Ecosystem to Fore

FPOs have been promoted by various resource institutions (RIs) wherein resource institution-based staffs usually look after organizational and business activities of FPOs during initial years of its incorporation. A critical handholding support is provided in terms of training and capacity building activities; however, it is either for a limited period or it creates an over dependency on the RI's staffs. FPOs are nurtured in rural ecosystem with members from farming background. Expectation of sudden change in behaviour towards organizational and business activities in a limited time frame of 3-5 years, is not only unrealistic but also demanding. The agony is further magnified due to lack of ability in attracting and retaining potential rural professionals with most of them leaving the FPOs high and dry in critical situation like Covid-19.

Reduced mobility and social distancing norms are going to be the new normal, as experts suggest that COVID-19 is here to stay for long. Under such circumstances, capacity building activities will suffer the most. Given most of the existing FPOs are still in nascent stage and there is a big challenge to impart training and capacity building going forward.

In the budget of FY20, Govt.'s visionary approach of strengthening the FPO ecosystem by forming and strengthening of 10,000 new FPOs across nation embedded with other agricultural and marketing benefits is definitely a welcome step. However, for successful implementation of the scheme, there will be requirement of 10,000 CEOs, marketing managers, accountants among others

to form the strong management team in cost competitive manner. The same is lacking in the current ecosystem.

Recommendations for Bridging Skill Gap in FPO Eco-system

- ***Re-skilling a way forward:*** *Skilling local youths on various capabilities like marketing, accounting & financial management, business planning is required by FPOs. Such contextual courses could be designed for local youth to be trained using extensive network of Industrial Training Institutes (ITI) and other skill building institutions. Various Government initiatives on skill building can be an added advantage by introducing vocational, soft-skilling and technology driven courses. ITIs can be necessary tool to impart farm level innovations.*

- ***Technology at the steps of Trainee and Trainers (T-T-T):*** *The sector needs a push towards leveraging technology for different needs of FPOs in situations like the one we are in. Using digital platform for capacity building of Board of Directors and management staffs of FPOs must be promoted. Though in order for it to be adopted in rural areas among Board of Directors and farmer members, it must be socially embedded and disruptive in its nature.*

4) Covid and FPO Governance Framework

Amid current pandemic and disrupted supply chains, FPOs are bridging the supply chain gap by providing marketing support to member farmers, retailing agriculture produce directly in urban centres. Such initiatives are commendable and are providing immediate relief to both farmers and urban consumers.

However, the on-ground observations on modus operandi of such initiatives, pointed that such activities are executed with heavy handholding support by resource institutions. Operating such businesses in these times require high level of responsiveness which are usually being achieved by bypassing various processes that were set to strengthen FPOs' governance capabilities. Board of Director's meetings and their involvement are usually lacking in most of these activities currently, thereby weakening the institution and subsequently ownership of the community over their FPOs. There is need to promote design principles which can strengthen governance framework of FPOs while providing necessary responsiveness in business activities as well.

Recommendation for Strengthening Institutional Governance in the times of crisis

- ***Subcommittees of Board of Directors:*** *Sub committees of Board of Directors and management staffs to modularize monitoring and evaluation around various activities like agri-input procurement and produce marketing , should be promoted. It would not only increase Board of Director's engagement with FPOs but would also build necessary responsiveness in decision making.*

- ***Expanding the representative role:*** *Producer Groups/Farmer Interest Groups should be further strengthened and day to day activities should be carried out in partnership with representatives of these groups.*

- ***Technology-at-Community:*** *There is need to promote simpler technologies like dial-in conference call initiated by CEO of the FPC to conduct board of directors / producer groups meetings in such times of natural calamities to increase responsiveness required to operate in such times.*

5) Covid and FPO Promotion Funding Ecosystem

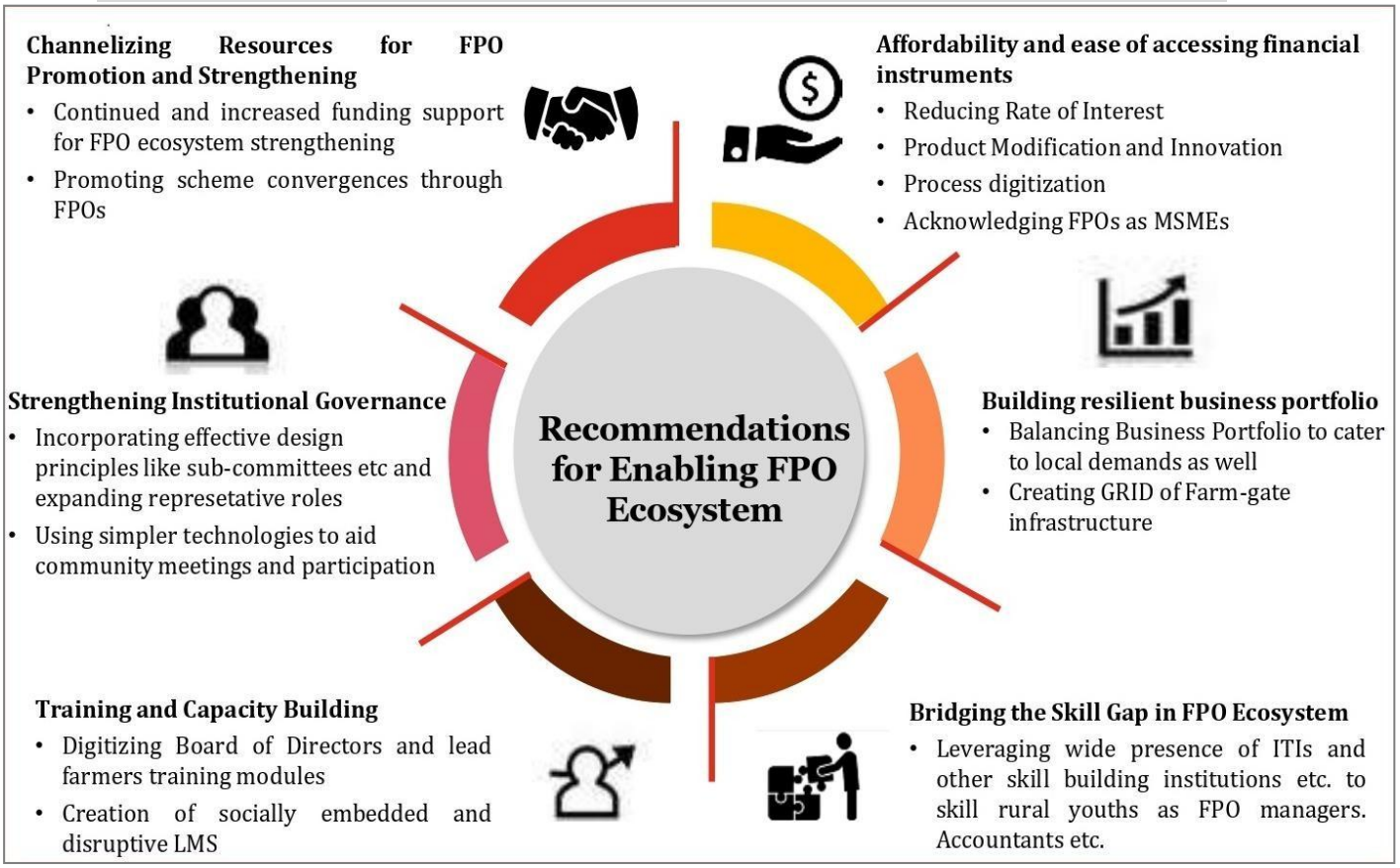
Most of the FPO promoting/resource institutions are largely dependent on grant received from the government and other funding agencies for FPO Promotion. Existing support in terms of funding is geared towards primary mobilization of producer organizations and mostly lasts for only three years. Additionally, quantum of support is also found to be inadequate. As believed by many practitioners and academicians, FPOs take about six to eight years' time for maturing, and even more in tribal, hilly or other sensitive areas. The funding support must be extended till the period when FPOs' businesses are stabilized, and they become full-fledged service provider to its member producers.

In wake of looming uncertainty over funding due to imminent global recession as well as changes in sectoral priorities of funders, resource institutions are either facing or anticipating financial instability to sustain their support to FPOs. Also, the needs on the ground are continuously evolving, which is causing some diversion of existing resources, human and/or financial, to respond to immediate needs of the community in light of COVID-19. For example, some resource institutions are negotiating with funders for restructuring/ repurposing the existing grant support to address finance requirement for providing agriculture input to farmers for the next crop season.

Recommendation for Channelizing Resources for FPO Promotion and Strengthening

- ***Convergence a tool for funding support:*** *There is a strong case for continued and increased funding support from the government as well as other funding agencies to promote and strengthen FPOs by providing active training, capacity building and handholding support to build sustainable FPOs ecosystem. While doing so we should actively promote convergence of various schemes which can be implemented more effectively through FPOs. Third tranche of announcements as a part of Aatmanirbhar Bharat is welcome step in this direction.*

Recommendations in Nutshell



Increased Relevance of FPOs for future Agriculture growth

FPOs exquisitely bind together the social development interest of member farmers along with its business interests and hence present itself as an effective tool to fight the situation. Individual as well as collaborative actions from government, financial and development institutions, impact investors and non-profits are required to overcome this unprecedented and critical situation.

In such scenario, FPOs can play great role in creating income augmenting opportunities through innovative interventions like FPO-led small scale food-processing based entrepreneurship, local agriculture inputs production like seeds and saplings, to promote sustainable agriculture. It will balance the FPO's business portfolio between dependence on local consumption and external market centres.

FPOs depict greater transparency & traceability and hence are better placed for speedier and effective dissemination of government welfare schemes or other in-kind grant support to its member farmers. Such convergences should be promoted to build necessary responsiveness in welfare scheme dissemination mechanism.

In recent times, the need for alternative and decentralized channel of marketing of agriculture produce to reduce pressure from existing marketing system such as APMCs which are less resilient to withstand amid current crisis is felt. FPOs have been established with an objective to minimize the risks and uncertainties and bring more prosperity to farmers through its various activities. They have emerged as one such model to provide the much-needed alternative channel by directly linking farmers produce to urban consumers specially for perishable commodities such as- fruits and vegetables. FPOs must be capacitated with essential but customized infrastructure like small farmgate based warehouses or pack houses.

Development of Farmer Producer Organizations is one of the best tools to effectively drive *Aatmanirbharta* and establish an effective and well-balanced bridge between rural and urban economies. However, to empower FPOs, ecosystem around it needs to evolve further. Recommendations as are mentioned in this paper will positively impact the FPO ecosystem by resulting in empowerment and resilience of small and marginal farmers.

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