VEHICLE FOR ECONOMIC, SOCIAL MOVEMENT

FPOs THE GAME CHANGER

India's vast swathe of 141 million hectares (ha.) of arable land is cultivated by an equally gargantuan 120 million number of agriculturists. This high density of cultivators has resulted into land division and fragmentation with 86 percent of holdings dropping under small (2 or less than 2 ha.) and marginal (1 or less than 1 ha.) categories of land classification.

India crossed the hump of food insecurity by 1971, thanks to infusion of new seed technology, agronomic practices, effective extension, and price support in the year 1965. It was a seven-year miracle that lifted our country from a shameful position of 'Ship to Mouth'. Thereafter, our farming system has only progressed into greater output and diversified array of agricultural commodities. This combined with poor agri-logistics has over the last about decade and a half led to supply-demand imbalance, causing low market prices and poor returns.

FPOs introduce horizontal cooperation among small and marginal farmers and balance the economic asymmetry in the food supply chain. Farmers gain better access to market, exercise more efficient contractual leverage to sell produce or buy inputs, and achieve higher productivity from better access to technology and services

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Parallelly, the production component of the agricultural chain has also come to reflect declining marginal rates of returns across a basket of commodities, thanks to degrading state of soil and water.

In response to this complex of challenges, the Government has sought to transit agriculture from production-centricity to income-centricity, which was envisioned by the Prime Minister in February 2016 as doubling farmers' income by 2022. An income approach necessitates transformation of agriculture sector into agri-business, which entails it to run on the principles of profit. It is no gainsaying that profit is a function of volume of production, cost of production and monetisation of the produce. What this simple equation suggests is the importance of imparting scales of operation all along the agricultural value chain, with a view to achieving the desired level of efficiency.

The scale of operation is predicated upon the size of business. Studies suggest that small farms are not inefficient in management. It is their small volumes of production and turnover that lets them down when it comes to earning net profits. This is obviously a structural weakness that needs to be addressed if farmers' average income is to be enhanced.

Socialist Paradigm

The Indian Constitution and our democracy commit the nation to greatest good of all. The government is focussed on Antyodaya – Welfare of the Last Man. Land ownership is of paramount importance and is considered as an asset of immense value. It is in a way a Stock in which the farmers vest their family value. Our land management Acts have responded to this by distributing surplus land to the landless, and protecting land ownership.

This leaves the country with the only choice of promoting Farmer Producers Organisations (FPOs) for the purpose of realising aggregation of land parcels, without compromising land ownership. Mobilisation of farmers into FPOs facilitates operation of agriculture at all three stages – pre-production, production, and post-production segments – in an efficient manner. Collective management that now becomes possible will embellish it with scales of operation. The Committee on Doubling Farmers' Income (DFI) laying dividend by FPOs recommended to mobilise at least 7,000 by 2022, and to scale up thereafter.

FPOs In India

The experience of cooperatives in Indian agriculture or even that of the Collectives in the then communist USSR and China has not been very encouraging, particularly at the production stage. A cooperative action, therefore, at production stage can incentivise a farmer only when he continues to be an owner of his holding, and is driven by the idea of profit, as propounded by Adam Smith. Similar incentives for the farmers can be expected at the post-production stage through efficient transaction cost in conducting various operations like harvesting, storage, transportation etc.

Based on the learnings from operating cooperatives, India decided to try a new model of FPOs, wherein the spirit of cooperation is blended with the management efficiency of a professional company. This resulted in amending the Indian Companies Act, 1956 by inserting Part IX A, which enabled mobilisation of farmers into Farmer Producers Companies (FPCs).

It is now legally possible to register three different types of FPOs, namely as a Society under the Society Registration Act; or as a Cooperative vide the State or Central Cooperatives Act; or as a Company under the Companies Act, 1956.

Initiatives in India

The Government of India has found it most appropriate to mobilize farmers around FPCs, and has tasked the Small Farmers Agribusiness Consortium (SFAC) to do so. The Ministry of Agriculture issued Policy and Process Guidelines in 2013 which articulate the vision, mission and guidelines. An FPO can be

defined as:

"Any entity that has been formed by and is controlled by farmer producers in a specific sector for realising horizontal cooperation, with a view to pursuing jointly one or more of the objectives."

The guidelines advocate the FPOs to adopt the values of self-help, self-responsibility, democracy, equality and solidarity. The members are expected to honour the ethical values of honesty, openness, social responsibility and caring for others. More specifically, the seven principles are:

- Voluntary and Open membership
- Democratic farmer member control - governance
- Farmer-member economic participation – one vote per shareholder
- Autonomy and Independence – no external interference
- Education, training and information
- Cooperation among FPOs (regional, national and global level federation)
- Concern for the community – go beyond financials and build social capital

Benefits that accrue from FPOs

There are several benefits that will accrue to various stakeholders as a result

of collective management and operation of scales of economy. These include:

- Clusterization of production and consolidation of supply
- Planning & adjusting of production to demand – fork to farm in contrast to farm to fork
- Optimisation of production costs and stabilising produce price
- Improvement in farm gate level agri-logistics and marketing efficiency
- Promotion of best practices and effective transfer of technology – extension
- Adoption of best practices, that accelerate the pace of scale-up
- Efficiency in primary processing and use of co-products for generation of additional jobs & incomes under the rubric of secondary agriculture
- Operating risk management tools – both financial and technological
- Undertaking of research & development activities (R&D)

Though the farmers constitute the starting point of a food supply chain (FSC), they suffer from weak bargaining power, and therefore fail to control it. There operate large number of gate keepers between them and the consumers, who may or may not be adding value. Any intermediation that does not add an extra value in the FSC is barren and a burden. FPOs help in strengthening the position of the farmers. They enable farmers to build the needed farm gate infrastructure and reach out to far-range markets through alternate market channels. Farmers thus benefit from remunerative price discovery, as also higher share in consumers' rupee.

FPOs introduce horizontal cooperation among the small and marginal farmers, and balance the economic asymmetry in the FSC. In result, the farmers gain better access to market, exercise more efficient contractual leverage to sell their produce or buy inputs, and achieve higher productivity that comes from better access to technology and services.

Likewise, the service providers (wholesalers, processors, exporters etc.) too stand to benefit. They now need to establish fewer business relationships at the FPO level in place of individual farmers. They can also benefit from more stable long-term planning; better organisation and delivery of supplies; quality assurance (specifications, traceability, safety etc.). An effective supply chain benefits the consumers too, in terms of purchase price, tastes and preferences.

More importantly, the resource use efficiency that will generate from aggregated use of water, land, fertilizer etc. will not only reduce cost of production but also minimise their use, helping sustain the ecology.

It is therefore obvious that FPOs can yield a quartet of victory for the principle stakeholders, namely farmers, consumers, trade and ecology - a win:win:win:win scene for all.

Global Experience with FPOs

Global experience, more particularly that of European Union (EU) which

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has worked with FPOs since 1990s is extremely encouraging. On an average, EU has mobilised 254 Producer Organisations (POs) for every 1 million farm holdings. An evaluation of their performance demonstrates that they are as efficient as Investor Owned Firms (IOFs), though FPOs are called upon to reconcile the varying interests of their members and the overall corporate goals. A positive correlation between PO membership and farmers' income has been observed. The apple growers in Poland as PO-members were seen to be fetching cents 5/kg higher than non-members. In Brittany, France, 90 per-cent of tomato producers are members of recognised POs. The EU POs were also found to be consumer-friendly, offering them sale concessions. These illustrate the value of mobilising farmers into groups for joint operation.

In India, where SFAC and NABARD, (as also SHGs/FIGs of Ministry of Rural Development) have promoted FPOs, there are several cases of outstanding success. It would be worth quoting the case of Sahyadri, a Grape Growers FPO mobilised by the young Vilas Shinde in Nashik District. Over just about a decade, this FPO of small and marginal farmers in a poorly endowed region has grown to arrogate to itself the top place among the grape exporters of the country.

Atma Nirbhar Bharat (ANB)

The 2020 ANB announcement of the Government is a comprehensive package for transforming the country's agriculture, comprising reforms and capital investments. The Government targets to promote 10,000 FPOs by 2024,and offers a fairer package of support along with credit guarantee on bank loans. The Operational Guidelines issued by the Ministry of Agriculture and FW rightly focus on training and orientation, so as to instil in the FPOs, values of seven principles and business culture. The leadership in this regard will come from SFAC, NABARD and NCDC. They will be supported by various national academies/institutions, as also the state governments whose pro-active support is well recognised.

Considering that farmers mobilisation and produce aggregation are a key to scale-based agricultural efficiency, FPOs will have to become a default norm in Indian agriculture encompassing field crops, horticulture, animal husbandry and fishery and aquaculture sectors. Arithmetically, at the rate of one FPO for every 1,000 ha., while the country may need 141,000 of them, it will not be so practically. As we progress with the targeted 10,000 FPOs and evolve the spirit of cooperation and management practices, we should be setting a goal of 30, 000 FPOs by 2030, each covering larger membership and area/activities.

This is a task, nay a philosophy that can be achieved only by creating a movement of farmers themselves, who need to appreciate the current challenges of disaggregated production. They must visualise to harvest the strength that comes from horizontal cooperation of members and vertical integration of the value chain. Concomitantly and beyond the financial, a socially beneficial spin-off is the trust and social capital that the country will come to enjoy at peoples' level.