Promoting Farmers’ Producer Organisations

What is the issue?

There is a need to promote Farmers’ producer organisations (FPOs) to raise farmers' income and alleviate economic distress in rural areas.

What is an FPO?

- Farmers’ Producer Organisation (FPO), also known as farmers’ producer company (FPC), is an entity formed by primary producers.
- These include farmers, milk producers, fishermen, weavers, rural artisans, and craftsmen.
- An FPO can be a Producer Company, a Cooperative Society or any other legal form.
- FPOs are basically the hybrids of cooperatives and private companies.
- The participation, organisation and membership pattern of these companies are more or less similar to the cooperatives.
- But their day-to-day functioning and business models resemble those of the professionally-run private companies.
- The Companies Act was amended by incorporating Section-IX A in it to allow creation and registration of FPOs under it.

Why are FPOs significant?

- FPOs play a significant role in enhancing the earnings of their member-farmers.
- Small producers do not have the large marketable surplus individually to get the benefit of economies of scale.
- So the main aim of an FPO is to ensure better income for the producers through an organization of their own.
- It provides for sharing of profits/benefits among the members.
- FPOs count has increased from less than 200 in 2010 to over 4,000 at present, speaking for the success of this agri-business model.
- As professionally-managed enterprises, working on behalf of the farmers, FPOs enjoy better bargaining power.

- They hence procure inputs and services and sell the farmers' output at best prices possible.
- They are also better equipped to facilitate value-addition of the farm produce.
- So they ensure higher returns in almost all fields of agriculture and its allied activities - horticulture, plantations, dairy, poultry, fisheries, etc.
- Even the landless, tribals and those subsisting on collections from the wilds have gained by forming such organisations.

- Union Budget 2018-19 made announcements on a five-year tax holiday and setting up of a small credit guarantee fund of Rs 100 crore as pro-FPO measures.

What are the concerns?

- Many of the critical woes of this sector still remain unaddressed, including -

    i. difficulties in securing institutional finance
    ii. inability to operate in the regular agricultural markets
    iii. lack of legal recognition under the contract farming regulations

- The banks are usually wary of granting loans to the FPOs as they do not have assets of their own to serve as collaterals.
- Consequently, the FPOs have to rely on loans from non-banking financial companies or micro-finance companies.
- They are forced to raise their working capital at very high interest rates.
- Even the facility of cheap bank loans with liberal interest subvention by the government that is available to individual farmers is denied to the FPOs.
- Moreover, many other concessions, tax exemptions, subsidies and benefits provided to cooperatives, startups and the like have not been extended to the FPOs.
- They also usually face difficulties in operating at the regulated mandis because of the resistance offered by the licensed traders.
- It's because these traders have significant hold over the markets.
- All these issues need to be addressed expeditiously to enable the FPOs to perform to their full potential for the benefit of the farmers.

Source: Business Standard