

# FPOs: The Institution Building Challenge

12th March 2020



Incubating collective enterprises

# Workshop Objectives

- Taking stock of collective experience of last year
- Thinking around strategy for CSOs given new FPO policy
- Collaborating for new knowledge – FF 2?
- Focus on Institution Building

# FPCs in India

- nation-wide spread
- Greater voice of small and marginal farmers, women and tribals too in these new institutions
  - Microsave study (7 states) 92% were small and marginal farmers as members (of which 16% were women and 12% tribals)
- Huge diversity – typology required.. Sahyadri + MPC and most FPOs in 1-10l range of profits
- Detailed cases – Hasnabad, Krushidhan, Satpura, Dharani ...constant change in business models.
- Size (1000 in DFI), optimality, single vs multi..., varying norms of support, incubation

## FARMING AS AN ENTERPRISE - TEN YEARS OF FPO MOVEMENT IN INDIA

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Finance Minister, Nirmala Sitharaman, in her maiden Budget speech for the year 2019–20, mentioned the government's intent to create 10,000 more Farmer Producer Organisations (FPOs) by 2022. While the Budget speech has little details on the methodology or the proposed financial allocation, there have been several deliberations and discussions on the need for newer policy guidelines on FPOs. An expert committee under the Ministry of Agriculture had earlier been constituted to revise the policy guidelines, drafted in 2013, considering the rapid growth of FPOs. State governments of Karnataka, Odisha, Telangana have already announced or are in the process of drafting state-specific FPO policies. The Tamil Nadu government's budget speech talks of 200 FPOs in the financial year 2019–20 with an allocation of INR 100.42 crore.<sup>1</sup>

There are enough reasons to think that there is an FPO movement. From being an obscure word in a few conferences by civil society organisations a decade ago, FPO has become

a buzzword that means many things to many people. Two independent award functions have been scheduled in 2019 to recognise FPOs.<sup>2</sup> Even industry barons and entrepreneurs like Ms Kiran Shaw have articulated the need for FPOs as part of a new deal for rural India and recommended the formation of entrepreneurship clusters.<sup>3</sup> FPOs have been an integral part of discussions in several forums on agrarian and rural studies, rain-fed areas, apart from initiatives at the national and state level to deliberate on appropriate policy and ecosystem support for FPOs.<sup>4</sup>

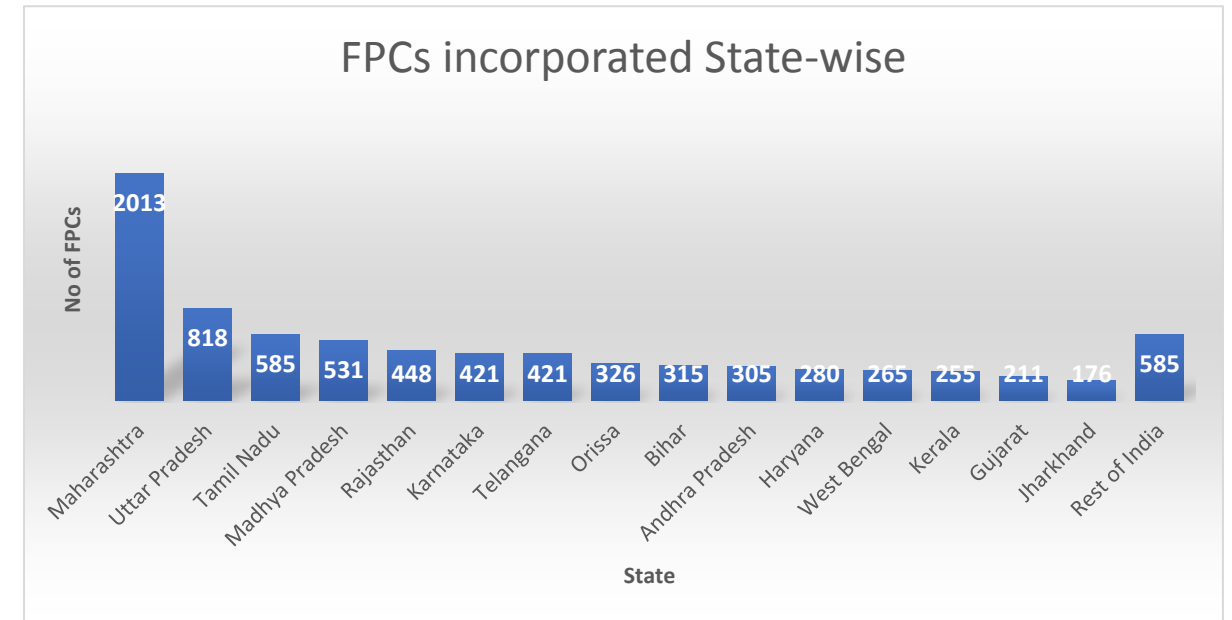
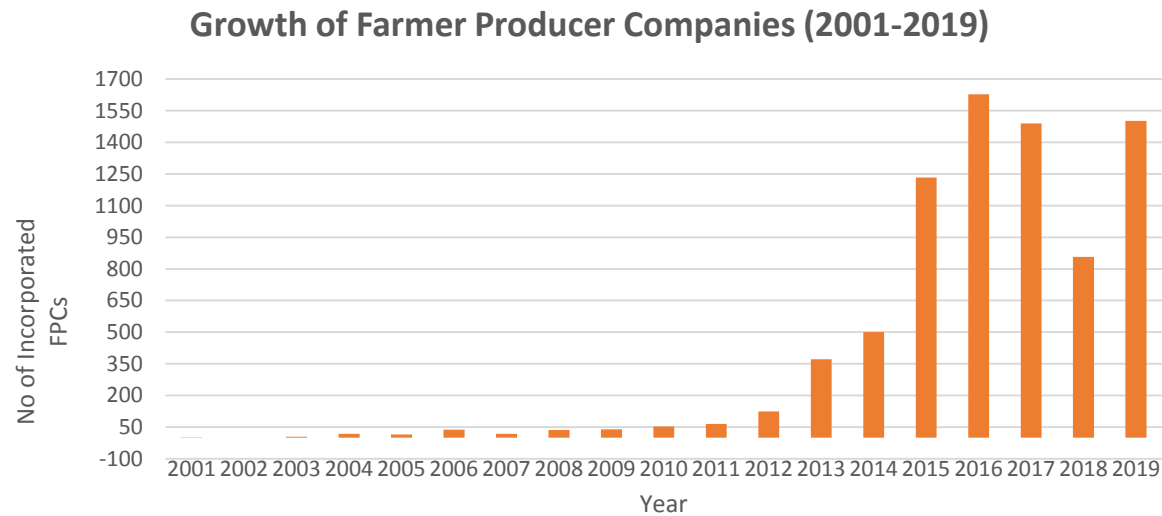
These are reflective of the shift in understanding of farming or agriculture as a 'value-led enterprise', as articulated in the Doubling Farmers' Income (DFI) report, whose last volume was released in early 2019. Accordingly, farmers are to be empowered with improved market linkages and FPOs seem integral to this strategy. There are over 280 references to FPOs in the 14-volume report. The FPOs are to become effective in reaching out to small and marginal farmers, building

1 For Finance Minister's budget speech see <https://www.indiabudget.gov.in/doc/bspeech/bs201920.pdf> and for the Tamil Nadu budget refer to [http://www.tnmbudget.tn.gov.in/tmweb\\_files/budget%20highlights/2019-20/BS%202019-20%20English-highlights.pdf](http://www.tnmbudget.tn.gov.in/tmweb_files/budget%20highlights/2019-20/BS%202019-20%20English-highlights.pdf)

2 The FPO of the Year and FPO promoting institution of the year is in its second year; <https://www.livelihoods-india.org/fpo-impact-awards/categories-and-guidelines.html>. Samunnati with *Economic Times* has instituted FPO awards in five categories <https://www.et-edge.com/conferences/fpoawards/award-categories/>

3 For Ms Shaw's article prior to the budget see <https://www.livemint.com/budget/expectations/india-needs-a-new-deal-for-rural-india-1562254473284.html>

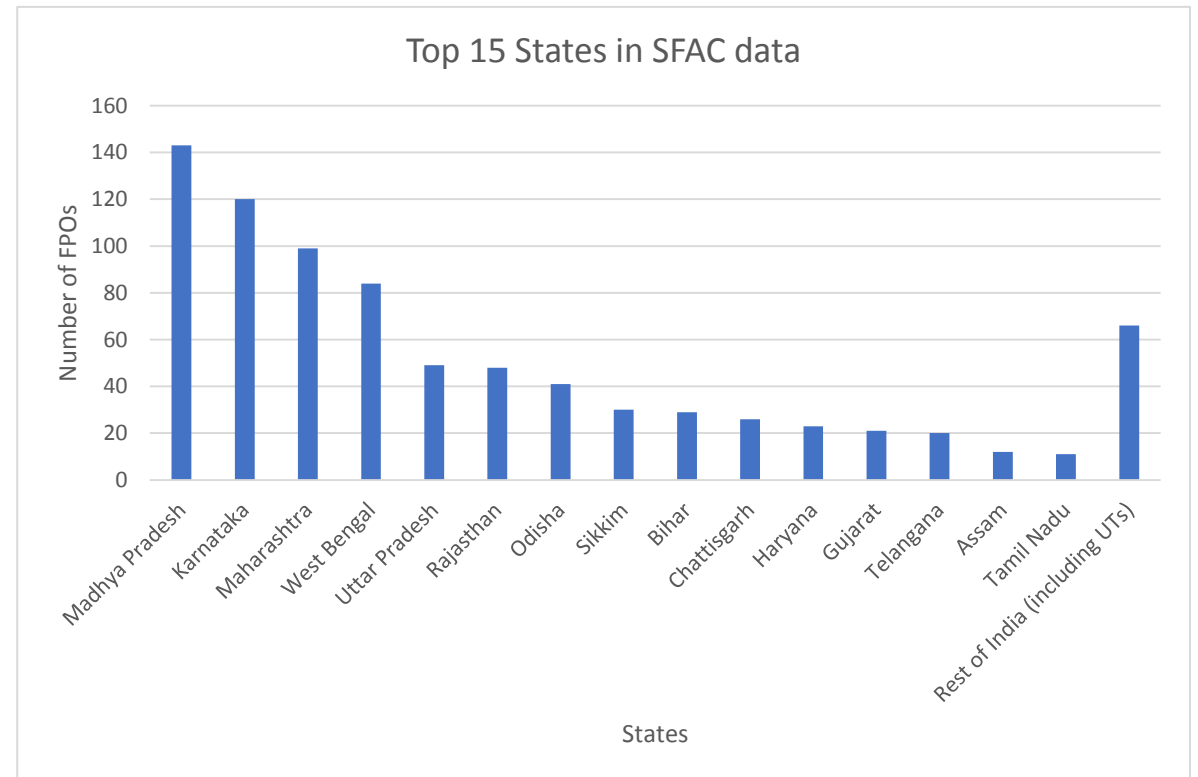
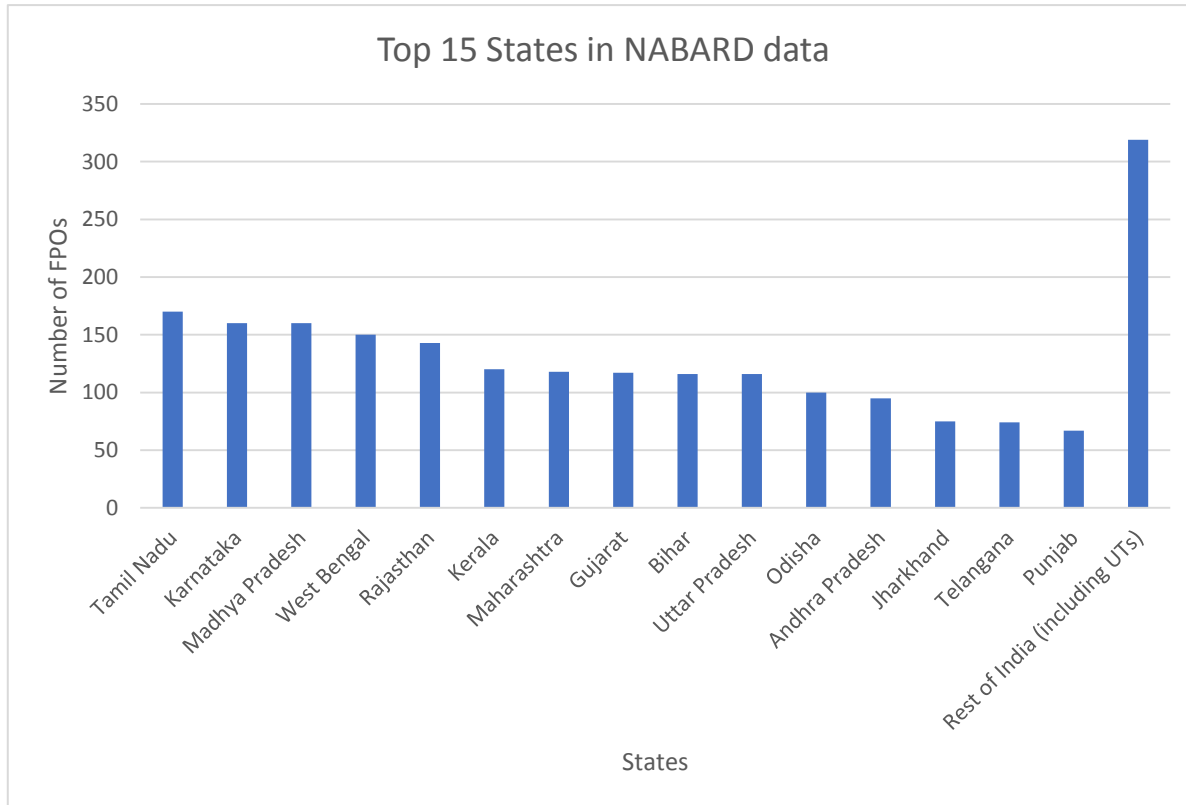
4 The rain-fed area network discussed FPOs in markets and institutions theme at its national convention <http://www.rainfedindia.org/wp-content/uploads/2019/08/A-Summary-of-the-Proceedings-RRA-Convention-2019.pdf> in February 2019; the Network of Rural and Agrarian Studies in its policy conference <http://www.ruralagrarianstudies.org/conference/nras-policy-conference-2019/> in September 2019. The Institute of Rural Management in collaboration with National Association for Farmer Producer Organisation (NAFPO) held a national conference <https://www.seedirma.in/fpo-workshop> in March 2019 and with APMAS a regional consultation of southern states <http://apmas.org/naipo.php>. These are but a few of the many forums where FPOs are being discussed across the country.



60% of the FPCs incorporated from 6 states Maharashtra, Uttar Pradesh, Tamil Nadu, Madhya Pradesh, Rajasthan and Karnataka

Haryana, West Bengal, and Maharashtra have added nearly 50% or more of their FPCs in the last 3 years

# NABARD & SFAC SPAC data



4235 FPOs that have been formed as per the NABARD database as on August 2019

2082 in NABARD have been registered under PRODUCE fund, 1405 as FPCs

SFAC database there are a total of 822 FPOs



# New Policy on FPOs

- 10,000 more in next 5 years, 15% aspirational, one in each block
- Minimum 300 members, 100 in N east (500/ 200 for profitability and sustainability)
- SFAC, NABARD, NCDC(?), ....CBBO, One District One Product
- Equity grant of Rs 2000/ member and 15 lakhs/FPO, credit guarantee of Rs 2 crore of loan, CGF – NABARD 1000 cr, NCDC 500 Cr
- Provision for specialized training and skill development
  - CB through national/ regional institutes BIRD + LINAC
- State Level Consultative Committee (SLCC)...NABARD member secy, no CSO reps

# Budgetary Allocation for Promotion of 10000 FPOs

S. N.	Components	Unit Cost	Budget for 1 to 5 years (2019-20 to 2023-24)						Budget for committed liabilities for 6 <sup>th</sup> to 9 years (2024-25 to 2027-28)					Grand Total Budget for 10,000 FPOs
			Year	Year	Year	Year	Year	Total (1 to 5 year)	Year	Year	Year	Year	(6 to 9 year)	
			1	2	3	4	5		6	7	8	9		
Number of FPOs		Nos.	250	1000	2500	4500	1750	10000	NA	NA	NA	NA	NA	
1	FPO Formation & Incubation Cost (10,000 FPOs) including CBBOs engaging cost	0.25 / FPO for 5 years	12.5	62.5	187.5	412.5	500	1175	487.5	437.5	312.5	87.5	1325	2500
2	FPO Management Cost (10,000 FPOs)	0.18 /FPO for 3 years	15	75	225	480	525	1320	375	105	0	0	480	1800
3	Equity Grant (10000 FPOs)	0.15	0	38	150	375	675	1238	263	NA	NA	NA	263	1500
4	*Credit Guarantee Fund	L.S.	0	0	150	150	250	550	200	NA	NA	NA	200	750
5	Monitoring & data management/MIS Portal including cost of NPMA	L.S.	5	8	10	10	8	41	3	3	1.5	1.5	9	50
6	Capacity Building through specialized Training Institutes #	L.S	-	3	3	3	3	12	3	3	3	3	12	24
Sub Total (1+2+3+4+5+6)			32.5	186.5	725.5	1430.5	1961.0	4336.3	1331.5	548.5	317.0	92.0	2289	6625.0



Variable	NABARD/ SFAC	ASC
<b>Purpose</b>	To create commercially oriented institutions to benefit farmers	To create institutions that will provide commercial and other material benefits to improve members' livelihoods
<b>Assumption about business</b>	FPOs can make agriculture a profitable business	FPOs cannot help in intrinsic volatility and cyclical elements of agriculture Can help in minimising structural dimensions
<b>Source of profitability</b>	Capturing a larger share of the value chain	Reducing exploitation arising out of asymmetry of information, lack of network, primary processing
<b>Basis of business planning</b>	analysis of commodities market/ input market etc	Study current 12 month livelihood pattern & identify opportunities through collectivisation
<b>Success looks like</b>	Strong FPO / strong farmers	Resilient farmers / relatively fragile FPO
<b>FPO vis a vis farmer</b>	An entity in itself and needs to look after its growth and profitability	ASC is just an instrument of expressing aggregated will of the members
<b>Business model</b>	To straddle deep in the value chain going up to B2C, if necessary	Focus on comparative advantage of the farmer ensure price maximisation at the ASC gate. B2C for local market B2B for distant market
<b>Risk management in commercial issues</b>	High risk high reward	Low risk low reward; Last mile connectivity for inputs and first mile connectivity for outputs
<b>Expertise</b>	Deep expertise in one or many commodities in the entire value chain	Shallow expertise in all aspects of farmers life which can benefit from aggregation
<b>Managerial expertise</b>	External managerial talent to manage the deep expertise in various parts of the value chain	Local graduate empowered with tools to think and plan.