

Original Research Article

Status of Farmer Producer Organizations in Karnataka- An Overview

G. Basavaraj¹, Ashok S. Alur², B.S. Swetha³ and Itigi Prabhakar⁴

¹Deputy Director, ²Director, ⁴Consultant, Centre of Excellence for Farmer Producer Organisations, Government of Karnataka, College of Horticulture Premises, UHS Campus GKVK Post, Bengaluru - 560 065, Karnataka, India
³RHREC College of Horticulture Premises, UHS Campus GKVK Post, Bengaluru - 560 065, Karnataka, India

*Corresponding author

ABSTRACT

The Farmer Producer Organisations (FPO) are emerging as one of the most effective means to cater to the needs of small and marginal farmers in Karnataka. The Department of Horticulture; Government of Karnataka (DoH-GoK) has facilitated the promotion of FPO as institutional vehicles for mainstreaming horticulture producers in horticultural value chains. The Department has enabled in facilitating collaborative linkages with different actors in supply and market chains especially the buyers and sellers. An attempt is made in the paper to understand the present status of FPO's and analyse the challenges faced by the FPO's. Majority of these FPO's are in the nascent stage of their operations and require capacity building efforts to train the member farmers and farmer representatives in compliances, governance, management, accounting, financial management, business, planning and leadership. Apart from technical handholding assistance, the FPO's also require adequate support on capital and infrastructural facilities to initiate business operations on a commercial scale.

Keywords

Farmer producer organisations, Horticulture, Integrated horticultural development and public private partnerships

Introduction

Horticulture a sunrise sector in Karnataka is one of the major sources of income, employment and livelihood apart from its role in nutrition security for the rural communities. It contributes to more than 40 percent to the total agricultural GDP of the state. As part of the state's effort to strengthen Integrated Horticultural Development through Public Private Partnerships (PPP-IHD), Department of Horticulture, Government of Karnataka (DoH-GoK) has facilitated the promotion of

Farmer Producer Organizations (FPO) as institutional vehicles for mainstreaming horticulture producers, especially the small holder farmers in horticultural value chains. The PPP-IHD initiative is targeted towards socio-economic up-liftment of the farmers growing horticultural crops in the State and also help in improving the food and nutritional security of the rural households (GoK, 2105)

The Department of Horticulture under the PPI-IHD scheme has taken proactive measures to empower the FPOs by providing

a range of financial and non-financial assistance such as revolving fund, infrastructure development assistance, resource institution support and various other types of technical and institutional support mechanisms and benefits. The financial assistance towards setting-up of infrastructural facilities for FPO's is to the tune of 90 per cent while the management costs of Rs. 35 lakh per FPO is extended for the first three years.

At present 92 FPO's are promoted by Department of Horticulture and are registered under Companies Act as amended during 2013. To facilitate access to inputs for the member farmers of FPO's the Department has assisted them in getting licences for sale of inputs such as quality seeds, fertilizers, pesticides and also facilitated in setting-up of the custom hire centres for promotion of farm mechanization. On the output side, the FPO's are facilitated to avail Agriculture Produce Market Committee (APMC) trade licence apart from enabling access to storage space at APMC's in few locations. The Department has also enabled in facilitating collaborative linkages with different actors in supply and market chains especially the buyers and sellers.

Over the last couple of years, the FPO's in Karnataka are engaged in procurement of inputs for agriculture in bulk and are selling it member farmers of FPO's. Some of the FPO's are engaged in aggregating the produce of the members and marketing it directly with end user by establishing linkages. A few FPCs have obtained licence to become nodal agencies for procurement of agricultural commodities at minimum support prices (MSP) and some other are selling directly to resident welfare associations, hotels and corporate buyers (Govil, *et al*, 2020).

Studies across India on FPO's have tried to understand their challenges, performance and impacts (Verma *et al.*, 2019, Singh and Kamal, 2019, Singh and Singh, 2014). However, for FPO's promoted in Karnataka, there is a gap in understanding their broad characteristics such as governance, management, accounting, compliances, financial management, business, planning and leadership. As these FPO's are in the nascent stage of their operations, understanding these characteristics will help in designing intervention such as building capacities of the Office bearers of the FPO's and the members which is considered to be the dire need for FPO's. In this context, a modest attempt is made in the study to understand the status, challenges faced by the FPO's and to analyse their characteristics.

Materials and Methods

To understand the characteristics of the FPO's a detailed questionnaire comprising questions on FPO awareness and capacity needs of the Board of Directors, conduct of meetings and procedures followed by the FPO's, education status of both the CEO and BOD's of the FPO's, capacity needs of the FPO's (productions, inputs linkages, markets, business etc), cropping pattern, infrastructure needs, activities undertaken by the FPO's was collected from the Chief Executive Officers (CEO's) of 96 FPO's promoted by Department of Horticulture and NABARD. The data collected was analysed to provide the descriptive statistics

Results and Discussion

For sustainability of FPO's in the long run, a congenial ecosystem is a must as the FPO's have to deal with various stakeholders in the agriculture value chains, starting from the farm to fork. To build a favourable ecosystem, following challenges and issues

confronted by FPO's are to be addressed on priority basis. The challenges and issues confronting are summarized under the sub-headings of - FPO size, governance, management, capacity enhancement needs, compliance issues, infrastructure and market linkages.

FPO categories and size

NABARD reports that 86% of FPOs supported by it have 500 or fewer members of shareholders (NABARD, 2018). Only 1% of FPOs have more than 1000 shareholders or members. Based on experience and keeping in view of the sustainability and viability of FPOs on business, the optimum size for formation of FPO is suggested to be in the range of 500-1000. However, data analysed indicates the number of shareholders in the FPO's in the range from less than 500 to 1000. The FPO's promoted by DoH which are about 45 FPOs in the sample have 1000 farmer members as shareholders while about 24 FPOs promoted by NABARD have less than 500 farmer members as shareholders (Table 1). The FPO's promoted by DoH have larger member based which contributes to larger capital base which in-turn will contribute to FPO business and thereby improving the income of small and marginal producers. Study conducted by Govil, *et al* 2020, have reported that a typical producer company in India engaged in farm-related activities and has paid-up capital of about Rs. 1 lakh which is inadequate to carry out substantial business activities, or have a significant impact on incomes of their members. Previous studies have also pointed out that equity mobilization of FPO's must be higher in order to create and sustain member loyalty and patronage (Kanitkar, 2016; Singh, 2016).

On the spread of FPOs across districts in the state, the distribution is skewed with more

FPO's located in southern Karnataka rather than in northern Karnataka. The size and functioning of the FPO depends on the objectives, activities, capabilities and opportunities to business. If there are not enough resources, to work with members to carry out more activities, the FPO's might become unsustainable in the long run and lose focus.

Governance

Good governance is a key factor for success and is the base for ensuring the growth and sustainability of any organization (VAMNICOM, 2018). Governance is the activity performed by the Board of Directors (BOD) on-behalf its members to make decisions, set policies and strategies to achieve vision and mission of the FPO.

It is presumed that representation of farmers as members in the Board of Directors will bring in responsibility and effective functioning of the FPO's. Section 581 P of the Companies Act 2013 specifies that an FPO registered under the Companies Act should have a minimum of 5 directors and maximum of 15 directors. However, only 16 FPO's in the sample have maximum of 15 BOD's while 8 FPO's have less than 10 BOD's (Table 2). Majority of the FPO's have BOD's in 10-14 range.

Status of education of board members and their participation in the board meetings

Education is the necessity of every individual and helps in analysing the situations and decision making. For FPO's, education level of BOD's is a significant component which will aid in making decisions on day to day activities and business. The education status of the board members of the FPO's reflect that 23 per cent of the members have completed graduation while 5 per cent did not

have any formal education (Table 3). Since majority of the board members are high school educated, governance in-terms of decision making becomes difficult. According to the compliance requirement under Companies Act, the BOD has to meet at least once in every three months and at least four times a year and if a Board member abstains attending 3 consecutive Board meetings, he can be vacated from the Office (Balasubramanian and Vijayalakshmi, 2016). On participation of members in the board meeting, directors of 48 FPOs had 100 per cent participation while in 6 FPO's the participation was 25 per cent (Table 4). However, 100 per cent participation does not indicate effective functioning of FPO's.

Compliance issues

FPO's registered under the Companies Act are "body corporates" which means the FPO's are regulated by the law of the land concerning the activities of the FPO's (NABARD, 2015). Hence, FPO's are to be fully legally compliant organizations and BOD has the primary responsibility to ensure this. However, the findings of the study indicate that Chief Executive Officers (CEO) and BOD's FPO's are not fully aware of registrar of companies (ROC) compliances (Table 5). Since compliances such as conduct of board meetings, annual general meeting, maintaining registers' etc., are not practiced on time, few FPO's have ended up in paying penalties. Hence, to comply with the Companies Act, FPO's are dependent on auditors whose charges are high and further have compounded the problems for FPOs. The FPO's are caught between ROC compliances on one hand and the other is the charges towards auditor's fees and penalties. Formation and registration of FPO's is a recent phenomenon and are in the primitive stage require sufficient time to grow into an effective business enterprises. Since FPO's are even in the position of making sufficient

business for their sustenance, non compliance and penalty charges aggravates the problem. Hence, penalties towards non compliances can be relaxed only for FPOs till they achieve decent profits or on time bound manner.

Management

For effective management of FPO's, the decisions taken by the BOD's are to be implemented by CEO's. The performance of the FPO's is dependent on synergy between governance (BOD) and management (CEO). For effective implementation of decisions taken by the BOD, a qualified and experienced CEO in FPO management is very much essential. However, such trained manpower is presently not available in the rural space to manage FPO business professionally. Of the 96 FPO's surveyed, 4 FPO's CEO's qualification was Pre-University (PUC) while 32 FPO CEO's qualification was bachelors degree (Table 6). Only 10 CEO's had qualification in Masters in Business Administration (MBA).

The other challenge that the FPO's are facing is high attrition of CEO's due to rural work environment, lack of coordination with BOD's and low salary structure. Additionally, the CEO's are overburdened with job responsibilities such as business activities, maintaining books of account, conduct of meetings, financial transactions, attending trainings, accounting and day to day Office activities. Since, FPO's require qualified professional management to run their business, it is important to create a pool of professionals through offering a post-graduate diploma in FPO management by Institutes engaged in higher education.

Capacity enhancement needs

Small farmers which form about 85 per cent of the farming community in India have faced several problems over time in farming.

Farmer Producer Organization as an institutional mechanism is found as a means to address the concerns by aggregating the produce of the small and marginal farmers, enabling them to achieve scale economies and realize better price for their produce. These FPO's are registered under the amended Company Act of 2013. Before registration of FPO's under the Companies Act, the process of formation of FPO's involves creating awareness, building confidence, convincing, exposure visit to successful FPO's, demonstrations, identifying potential value chains, facilitating linkages and building capacities of the members of the FPO's. Capacity enhancement is increasing the ability of a person or organization to achieve their objectives effectively and efficiently (Kanni, 2009). This usually involves building internal capacity, the skills and knowledge of an individual, or the systems of an organization. Analysis on the capacities needs of the FPO's indicate that more than 70 per cent of the FPO's have indicated training needs on production, technical and marketing aspects while the other training needs were felt by more than 40 per cent of the FPO's (Table 7).

FPO's need various other capacity building trainings on book keeping, accounting, audit, statutory compliances, roles-responsibilities of BOD's and developing business plans and their execution. Hence, agencies have to be identified to build the capacities of the FPO's. In this context, to fulfil the institutional void on building the capacities of the FPO's, Government of Karnataka has established Centre of Excellence for Farmer Producer Organizations (CoE-FPO) a first of its kind initiative in the entire Nation which would bring together the unique strengths of entities from the public, private and social sector for overall development of FPO's in Karnataka.

Infrastructure and market linkages

The objective of the FPO's is to enhance the income of the member farmers through collectivising, adding value to the produce wherever opportunity exists and to maximise the value of produce. However, this requires access to infrastructure such as transport facilities, storage, cleaning, grading, sorting, brand building and marketing. Apart from access to infrastructure, there is need to establish business and market linkages, honouring commitments, awareness on market needs (grades & standards) and opportunities for value addition.

Analysis on these aspects indicate that the FPO's face constraints on infrastructure needs, establishing market and business linkages, awareness, pricing and aggregation. Also, since FPO's have entered business both in input and output market, they face stiff competition from the existing players. The management and the BOD's are to be trained on how to handle competition. On output business, market is dynamic, volatile and risky. Hence, FPO management and BOD are to be taught on how to handle volatile markets and sustain business.

On access to credit, though there are several schemes launched by Government of India and NABARD such as Credit Guarantee Fund to assist the FPOs to implement and expand their business activities on commercial scale and Equity Grant Schemes provided in 1:1 ratio against the paid up equity share capital of farmer members to the maximum tune of Rs 2000 per FPO member (SFAC, 2020). NABARD has created its own subsidiary (NABKISAN Finance Ltd.) for meeting the credit requirements of FPOs by adopting a flexible approach based on life cycle needs, while it continues to provide promotional support towards capacity building, market linkages and other

incubation services to FPOs out of grant fund (Tripathi, 2019). However, findings indicate that the FPO's are challenged by high interest

rates in the range of 11-15 per cent and healthy balance sheet for lending.

Table.1 Categorization of FPO on the number of farmers as shareholders

Category	Number of FPO's	Administrative division	FPO numbers
<500	24	Belagavi	23
>500 &<1000	25	Bengaluru	37
1000	45	Kalaburagi	14
		Mysuru	25

Table.2 Farmer members as board of directors in FPO's

Category	FPO's
<10	8
>10<11	35
>=11<=14	31
15	16

Table.3 Education status of board members of FPO's

Level of education of BOD's	Number of Members
No education	61
Primary	150
High school	341
PUC	247
Degree	238
Total	1037

Table.4 Participation of members in board meetings

Category	Number of FPO's
100%	48
50%	43
25%	6

Table.5 Status of FPO's on legal compliances

Parameter	Response	
	Yes	No
1.Awareness on by-laws by the board members	30	49
2.Conduct of meetings according to procedures of the board	70	23
3.Preparedness of members for the board meetings	62	23
4.Participation of members actively and contributions during the meetings	60	30
5.Sharing of experiences and knowledge gained by the members during the meetings	84	07
6.Awareness of members about financial matters pertaining to the board and FPO	48	42
7.Do members communicate effectively during meetings	50	40
8.Documentation and recording of proceedings and minutes during the meetings	61	32

Table.6 Qualification of CEO's of FPO's

CEO qualification	Number of FPO's	Percentage
Degree	32	35.16
Post Graduate	25	27.47
Agriculture graduate	13	14.29
MBA	10	10.99
Diploma	3	3.30
Engineering	2	2.20
Food Science	2	2.20
PUC	4	4.40
Grand Total	91	

Table.7 Capacity needs of the members of the FPO's

Training aspects	Number of FPO's
Production & technical	70
Marketing	70
Business	52
Value addition& processing	63
Governance	43
Leadership	51
Conflict management	40
Any other	17

Conclusions and recommendations are as follows:

FPO's registered under the Companies Act are "body corporates" and are regulated by company laws in performing its various activities. FPO's still are in the teething stage and have several challenges which are discussed by the authors. For any institutional mechanism which is collective in nature, sense of belongingness, ownership and faith is critical factors for building institutional strength. Though member farmers have paid the initial share capital, majority of them are not aware about the purpose and hence the sense of ownership is to be ensured. Lack of sufficient feeling of the ownership on their FPO has resulted in member farmers not transacting in business activities of FPO and thereby threatening its sustainability. Hence, creating awareness about member roles and functioning of the FPO will help in understanding value of collectivization and their willingness to contribute to growth of the institution.

Inadequate skills in governance and management, business, technical and managerial are evident in most of the FPO's.

To address the issues in governance and management and gap in skills, professionals are to be developed with different skill sets catering to the different needs of the FPO's. Hence, to build the skill sets, standardized curriculum has to be designed for each of the identified skills as modules, training local youth in rural areas, training of trainers (ToT) and mass media approaches have to be explored toward fulfilling the gaps in skills of the FPO's

On statutory compliances, maintaining records and accounts, implementing by-laws, following protocols and procedures by the board will help in avoiding penalty payments. Hence, challenges faced by FPO's on legal compliances have to be addressed on priority basis. For ease of doing business, strengthening the financials of FPO's to deliver services and products are important. Hence, advocacy with banks and financial institutions for interest rate reductions is needed to cater to the credit needs of the FPO's. The key to enhance the income of the FPO's through its member farmers is to maximize the value of the produce. Identifying niche products and business, orienting the produce to the market

demand, value addition and processing, achieving efficiency, risk management, establishing market linkages and network, access to finance, agri-logistics, and infrastructure arrangements are critical enabling factors for sustainability of FPOs'. Hence, efforts are required to strengthen the existing schemes and policies and creating an enabling environment towards building successful and commercially viable business for FPO's.

Reference

- Balasubramanian. A.V. and Vijayalakshmi. K. 2016. Duties, Rights and Responsibilities. Manual for Shareholders, Directors & Chief Executive Officers of Producer Companies. Centre for Indian Knowledge Systems, Chennai. India
- Govil, Richa, Annapurna Neti and Madhushree R. Rao. 2020. Farmer Producer Companies: Past, Present and Future. Azim Premji University, Bangalore.
- Kanni Wignaraja, 2009, Capacity Development: A UNDP Primer, United Nations Development Programme Bureau for Development Policy Capacity Development Group 304 East 45th Street, FF-6th Floor New York
- GoK (Government of Karnataka) (2105), Department of Horticulture, Government of Karnataka, available at http://www3.weforum.org/docs/IP/2016/NVA/Karnataka_PPPIHD.pdf.
- VAMNICOM (Vaikunth Mehta National Institute of Co-Operative Management). (2018). Report of national workshop on "Making FPOs Smart, Competitive, and Sustainable" on 20th September, 2018 at the Vaikunth Mehta National Institute of Cooperative Management, Pune, Maharashtra.
- Smriti Verma, Vinay Kumar Sonkar, Anjani Kumar and Devesh Roy. 2019. Are farmer producer organizations a boon to farmers? the evidence from Bihar, India. Agricultural Economics Research Review, 32 (Conference Number), 123-137 DOI: 10.5958/0974-0279.2019.00022.3
- Gurpreet Singh and Kamal Vatta. 2019 Assessing the economic impacts of farmer producer organizations: a case study in Gujarat, India. Agricultural Economics Research Review, 32 (Conference Number), 123-137 DOI: 10.5958/0974-0279.2019.00022.3
- Kanitkar, Ajit. 2016. The Logic of Farmer Enterprises (FEs). Occasional Publication 17, Institute of Rural Management, Anand.
- NABARD (National Bank for Agriculture and Rural Development). 2015. Farmer Producer Organisations - Frequently Asked Questions (FAQs). Farm Sector Policy Department & Farm Sector. Development Department, Mumbai
- NABARD (National Bank for Agriculture and Rural Development). 2018. Annual Report 2017-18
- SFAC (Small Farmers Agribusiness Consortium). 2020. Strategy Paper for Promotion of 10,000 Farmer Producer Organizations. New Delhi. India
- Singh, Sukhpal, and Tarunvir Singh. 2014. Producer Companies in India: Organization and Performance. New Delhi: Allied Publishers.
- Singh, Sukhpal. 2016. "Smallholder organization through farmer (producer) companies for modern markets: experiences of Sri Lanka and India." In Cooperatives,

Economic Democratization and Rural Development, by eds. Bijman Jos, Muradian Roldan and Schuurman Jur. Edward Elgar Publishing.

Tripathi Agyeya. 2019. Farmer producer companies – benefits are still away. Available at <https://timesofindia.indiatimes.com/blogs/agyeya/farmer-producer-companies-benefits-are-still-away/>. Accessed on 01.08.2020