SUBSIDIARY ENTERPRISES TO EMPOWER WOMEN AND RURAL YOUTHS

EDITORS:
SAROJ TOPPO
TASVINA R. BORAH
NAZRUL HAQUE
ABHIJIT MITRA

www.ttpp.in

SUBSIDIARY ENTERPRISES TO EMPOWER WOMEN AND RURAL YOUTHS
EDITORS:
SAROJ TOPPO
TASVINA R. BORAH
NAZRUL HAQUE
ABHIJIT MITRA

About the book

Tthis Book is useful to agrarian households especially women folk, landless farm laborers, unemployed youths, and economically weaker sections of the society. The book deals with various -agri-allied enterprises for subsidiary income such as mushroom cultivation, apiculture, orchid production, ornamental fish farming, piggery, poultry, duck, and goat rearing. These subsidiary enterprises involve activities that can be carried out without affecting major farm operations. The capital investments are comparatively low and so becomes a profitable venture for the women and rural youths. However, for an enterprise to be successful the involvement of farmers and the development of producers' organizations are important. These aspects are also dealt with, analyzed, and discussed in the book for appraising budding entrepreneurs. The book can be a resourceful guide for beginners on any of the subsidiary enterprises discussed with overall information from variety/breed/species selection to care and management of the components, economics of production involved. Hence, the book has multipronged use for the different stakeholders be it the farmers, women, rural youths or students undergoing vocational courses to know the importance of subsidiary enterprises.

156 pages, with colour figs. table, 2020

TTPP

Today & Tomorrow's Printers and Publishers
4436/7, Ansari Road, Daryaganj, New Delhi - 110002 (India)
Ph: 23242621; 23241021; Fax: 23242621
E-mail: ttppindia@gmail.com; info@ttppbooks.com; Web: ttpp.in

Rs. 2495.00

ISBN 9788170196716
9 788170 196716

Subsidiary Enterprises to Empower Women and Rural Youths (2020):131-139
Editors :Saroj Toppo, Tasvina R. Borah, Nazrul Haque and Abhijit Mitra
Today & Tomorrow's Printer and Publishers, New Delhi - 110 002

12

Empowering Subsidiary Enterprises through Farmers' Producer Organizations (FPOs): Scope and Benefits

Kamni Paia Biam and Abhijit Mitra

Introduction

Agriculture and its allied sectors are considered to be the mainstay of the Indian economy and play an important role in the socio-economic development of India particularly its farmers. These sectors besides providing cheap nutritional food to millions of people have helped in generating gainful employment in the rural sector by supplementing the family incomes of the landless laborers, small and marginal farmers and women. Livestock, for instance, is the best insurance against the vagaries of nature like drought, famine and other natural calamities. Similarly, the fisheries sector, besides having a huge export potential, provides significant employment opportunities for the rural population.

Agriculture and its allied sectors contribute 15.4 percent to the Gross Domestic Product (GDP) of the country with 65-70 percent of the population dependent on agriculture for their livelihood (Ministry of Statistics and Programme Implementation, 2019-20). The allied sectors have now become an important source of secondary income for millions of rural families particularly the livestock sector that has been growing at a Compound Annual Growth Rate (CAGR) of 7.9 percent during the last five years (Economic Survey, 2019-20).

The current Indian agriculture has become increasingly market-oriented and monetized. The proportion of agricultural production that is marketed by the farmers has increased significantly over a period of time (Sharma and Harsha, 2016). But, the agricultural produce marketing systems suffer from major distortions and multiplicities of levies and mandi taxes (Patnaik, 2011 and Subramanian, 2014). The marketing systems are neither transparent nor uniform across the states and are a major barrier to farmers realizing remunerative prices for their produce. There remain serious restrictions on the movement of various commodities even within states. The lower scale of operation, lack of information, poor access to cheaper credit, weak participation in the consumers' markets and consequently, exploitation by intermediaries in procuring inputs and marking of their products are some of the reasons for the high vulnerability of small and marginal households to risk and uncertainties in agricultural production. Consequently, individual farmers often fail to benefit from economies of scale. In this backdrop, aggregation of individual farmers into groups and thereby constitute Farmers Producer Organization (FPO) is an attractive alternative. Producers' organizations provide a forum for members to share information, coordinate activities and make collective decisions, and to help in reducing the transaction costs (Singh, 2013). FPOs have the potential to bring about vertical integration in the traditional fragmented supply chains with need-based long term business plans. They create opportunities for producers to get involved in all value supply chain activities such as input supply, credit, processing, marketing, and distribution.

Collectivization of producers, especially small and marginal farmers, into producer organizations has emerged as one of the most effective pathways to address the many challenges of agriculture but most importantly, improved access to investments, technology, and inputs and markets (Extension Digest, 2018). As per the National Policy for the Promotion of Farmer Producer Organizations (2013), Ministry of Agriculture and Farmers Welfare, Government of India has "identified FPOs registered under the special provisions of the Companies Act, 1956 as the most appropriate institutional form around which to mobilize farmers and build their capacity to collectively leverage their production and marketing strength".

The Concept of FPO

It is one type of Producer Organization where the members are farmers and producers of any produce, e.g., agricultural, non-farm products, artisan products, etc. (SFAC/ FAQ). They are considered to be institutions that have all the significant features of private enterprise while incorporating principles of mutual assistance in their mandate, like co-operatives (Pustovoitova, 2011). However, Famers' Producer Company (FPCs) or FPOs differ from co-operatives in several other respects as given in Table. FPOs' basic purpose is envisioned to collectivize small farmers for backward linkage for inputs like seeds, fertilizers, credit, insurance, knowledge and extension services; and forward linkages such as collective marketing, processing and market-led agriculture production (Mondal, 2010). While co-operatives entail benefits to farmers via state intervention, FPOs are perceived to empower farmers through collective bargaining along with instilling an entrepreneurial quality to farming, which otherwise is an issue of subsistence alone, particularly for the small and marginal farmers and offer ways for such farmers to participate in the otherwise imperfect market of the developing countries. FPO, therefore, is a means to bring together the small and marginal farmers and other small producers to build their business enterprise that will be managed by professionals (Salokhe, 2016).

Differences Between Co-Operatives And Producer Companies/Fpos

Parameters	**Co-operatives**	**Producer Company/ FPOs**
Registration	Co-operative Society Act	Indian Companies Act
Area of operation	Restricted regionally	Entire Union of India
Nature of Business	Primarily service and delivery	Primarily agencies to provide marketing solutions to polled produce
Membership	Based on ownership of land	Based on the concept of shareholding
Share	Non-tradable	Non-tradable but transferable, limited to members on par value
Profit sharing	Limited dividends on shares	Commensurate with the volume of business
Voting rights	One member, one vote, but Government and Register of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company cannot vote
Governance	Federated into the District Cooperative Central Bank (DCCB). Business conducted is based on the policies of the DCCB.	Stand-alone, self-reliant bodies with self-governing capabilities
Reserves	Created if there are profits	Mandatory
Borrowing power	Restricted to loans granted and disbursed by the co-operative bank	More freedom and more alternatives are available. FPOs are allowed to raise capital from external sources
Relationship with other business and non-profit entities	Transaction based	Producers and corporate/non-profit entities can together float a Producer Company

Source: Department of Agriculture and Cooperation (2013); Dwivedi (1996); Mondal (2010)

Objectives of FPOs

The primary objective of FPO is to help small farmers in the country to enhance agricultural production, productivity, and profitability. Other objectives are-

- To support to select appropriate crops which are suitable for their area and which are having market demand.
- To provide access to modern technologies through community-based processes for improving productivity and quality of produce.
- To facilitate access to forward linkages for new technologies for improving productivity, for value addition of the produce and market tie-ups.
- To ensure access to the use of quality inputs and services for improving agricultural production.
- To help farmers to strengthen their capacity for increasing productivity through the use of best agricultural practices.
- To help to link producers to market for getting fair prices for their produce.

Guiding Values and Principles for sustaining farmer producer organization development

Values: FPOs are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. FPO members must believe in the ethical values of honesty, openness, social responsibility and caring for others (Salokhe, 2016).

Principles: FPO principles are the guidelines by which FPOs will put their values into practice

Sl. No.	Principle	Details
Principle 1	Voluntary and open membership	FPOs are voluntary organizations, open to all persons who are able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
Principle 2	Democratic Farmer Member Control	FPOs are democratic organizations controlled by their farmer-members who actively

		participate in setting their policies and making decisions. FPOs farmer-members have equal voting rights (one member, one vote).
Principle 3	Farmer-Member Economic Participation	Farmer-members contribute equitably to, and democratically control, the capital of their FPO. At least part of that capital is usually the common property of the FPO. Farmer-members usually receive limited compensation, if any, on capital subscribed as a condition of membership.
Principle 4	Autonomy and Independence	FPOs are autonomous, self-help organizations controlled by their farmer-members. If they into agreements with other organizations, including Governments, or raise capital from external sources, they do so on terms that ensure democratic control by their farmer- members and maintain their FPO's autonomy.
Principle 5	Education, Training, and Information	FPO gives training to member farmers and provides them the necessary market information & product information.
Principle 6	Co-operation among FPOs	FPO serves its members most effectively and strengthens the FPO movement by working together through local, national, regional and international structures.
Principle 7	Concern for the Community	FPOs work for the sustainable development of their communities through policies approved by their members.

Source: Department of Agriculture and Cooperation (2013)

FPO Structure

Farmers are mobilized into groups of between 15-20 members at the village level called Farmer Interest Groups (FIGs) and building up their associations to an appropriate federating point i.e. FPO. Planning, Implementation, and Monitoring of FPO are done by the Board of Directors.

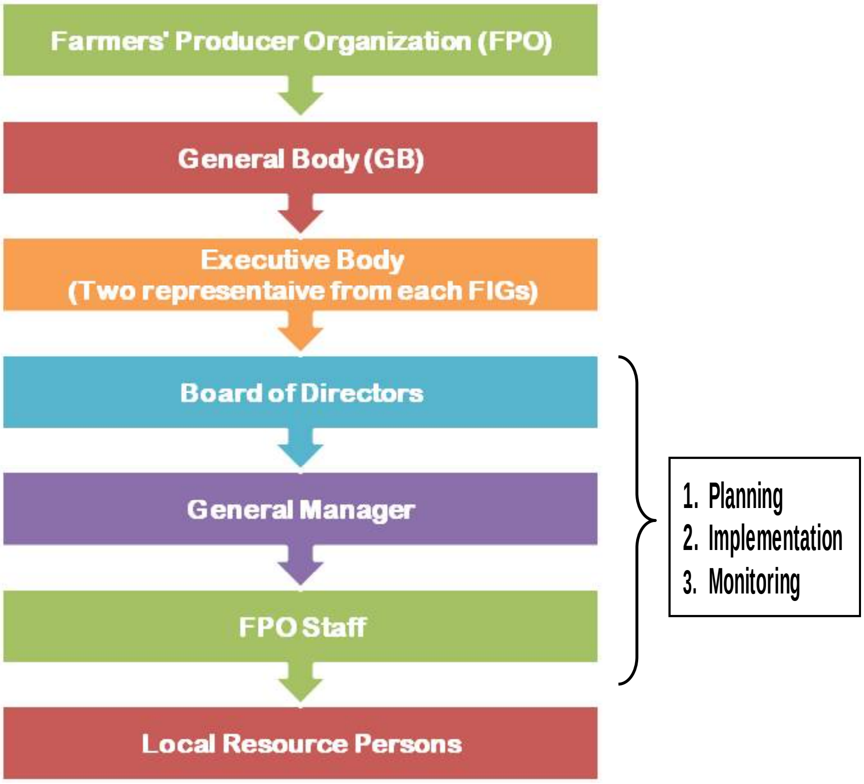
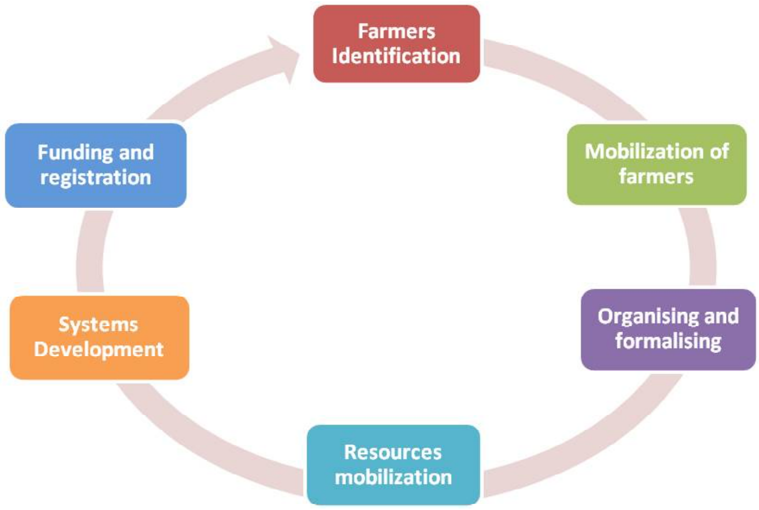


Fig: FPO structure

FPO development process

- Mobilization of farmers through meetings so that all families of villages are informed and they are educated on the FPO concept, its purpose, methods of operation and its benefits.
- All interested and willing farmers are made members of the FPO. Each member will have one vote in the company/organization, irrespective of their share.
- The government or its nominated bodies/ resources institutions (RI) will then help to fund and guide for its formation.
- Professional from Human Resource Development (HRD) organizations assigned by the government will help in selecting professionals who will run the company.

- The government assists FPOs in training farmers, administration, storing farm produce and adding value to it.
- Need-based seed capital is given to the FPO to enable to borrow the required capital and working capital from financial institutions for the implementation of the project proposal after it has been appraised and accepted as viable.



Management of FPO

The FPO is made and managed by farmers with the support from Government organizations or non-governmental organizations (NGOs). In the initial few years, holding support in the form of financial assistance is given and then it is expected that the members of all the FPO must take it forward on their own. Professionals from Producer Company (PC) guide its members for planning and budgeting macro planning for three years and micro-planning for one year only. Professionals guide farmers for selecting the crops to be grown, the area under particular crop and the price they will get on the harvest. PC Professionals will be accountable to the Board of Directors of the PC, which will include some farmers. The General Body of the farmers/ members will have the ownership of the PC, through an annual business plan and budget. Each farmer is paid for the price of his/ her produce that was determined at the time of sowing.

Funds for setting FPO

Grants provided to FPOs are one-time support measures designed to ensure the viability of FPOs, and cannot be used to acquire shares for any individual or institution connected with the Central or State Government. The funds required for setting up one FPO is different in different cases, i.e. it depends on the farm or non-farm enterprise, potential, and location of the FPO, funding available from Government, guidelines covering various Government programs and schemes. Financial support to the FPOs is provided by the Small Farmers Agri-business Consortium (SFAC), National Bank for Agriculture and Rural Development (NABARD), Government Departments, Non-Governmental Organizations (NGOs) and Domestic and International Aid agencies.

a. Mainly two types of support are available to the FPOs from the SFAC (*www.sfacindia.com*): SFAC operates a Credit Guarantee Fund to mitigate credit risks of financial institutions that lend to the Farmers Producer Companies (registered as Producer Company under Part IX-A of Companies Act) without collateral. This helps the FPOs to access credit from mainstream financial institutions for establishing and operating businesses.

b. SFAC provides matching equity grant up to Rs. 10 lakh to the FPCs to enhance borrowing power, and thus enables the entities to access bank finance.

NABARD provides financial support to the Producers' Organizations (POs) only through project mode through two financial products. Under the fund titled "Producers Organization Development Fund", financial aid is provided to the FPOs/FPCs. Details are available at *www.nabard.org* (Financing and Supporting Producer Organizations).

a. Lending to FPOs for a contribution towards share capital on a matching basis (1:1 ratio) to enable the FPO to access higher credit from banks. This is a loan without collateral which will have to be repaid by the FPO after a specified time. The maximum amount of such assistance is Rs. 25 lakh per FPO with a cap of Rs. 25,000 per member. Credit support against collateral security for business operations.

b. Credit Guarantee Scheme of SFAC. The credit product can be customized as per the requirement of the business. In general, credit support is available for business activities and creation of assets like building, machinery, equipment, specially designed vehicles for transportation, etc. and/or working capital requirements including administrative and other recurring costs connected with the project as a composite loan. Capital expenditure like the purchase of land, vehicles for general transportation and personal use, etc. will not be considered for support.

Membership of FPO

An FPO is a farmer's enterprise. According to the law, any farmer producers who have 1-4 acres of land or more than that can become a member of an FPO. Membership is given to farmers keeping their needs in mind and not necessarily based on the crop that they produce to ensure that there is round the year business for the FPO. It must have a minimum of 50 shareholding members at the time of registration and can be increased over three years to a sustainable level.

Summary

Most of the farmers in India are directly or indirectly dependent on agriculture and its allied sectors. Some farmers may be directly attached to farming and some are involved in doing business with these goods. Empowering and doubling farmer's income will require addressing issues such as access to credit, insurance coverage, and investments in agriculture and its allied sectors. As the small farms struggle to get access to inputs, markets, and credit, they will need a level playing field to be able to compete with other market players in equal terms that will not marginalize them. Therefore, the approach to collectivize farmers into FPOs can help in integrating the farmers directly through their institutions to market for both inputs and output. As federated organizations, FPOs are deemed to enhance backward and forward linkages through negotiating power, including linkages with financial institutions and linkages between farmers, processors, traders, retailers, transport services and customers (Department of Agriculture and Cooperation, 2013). Thus, it offers a proven pathway to successfully deal with a range of producing and marketing challenges that farmers today encounter, especially small and marginal producers. As indicated, through FPO, farmers can access quality inputs at low cost, can obtain the market information on different markets and prices in different markets, secure access to new technologies and tap into high-value markets. FPO links producers to market for getting fair prices for their produce at the markets so they are not marginalized in terms of profit. Today FPOs, SFAC are receiving policy support, are being promoted by multilateral development institutions and are increasingly visible as possible alternatives to other institutional forms in Indian Agriculture.