

## Enhancing Financial Sustainability: Developing a Supportive Framework for Farmer Producer Organizations (FPOs)

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### SUMMARY

Collectivizing farmers into Producer Organizations (POs) has been considered as one of the way to overcome the challenges faced by the small and marginal farmers. This approach is demonstrating the potential to be more successful in breaking farmer's dependency on intermediaries, and enabling them access better markets (inputs and output). In the last decade, efforts have been made towards creating and strengthening POs and thus strengthening their position in the mainstream value chain/s. Over the years, there has been a growing interest in promoting an enabling environment for the FPOs. Several initiatives have been taken by the Government, Apex financial institutions such as NABARD, private donor organizations, financial institutions and many other institutions to support the growth of the FPOs and facilitate their emergence as successful business enterprises. This article proposes a comprehensive financial supportive system tailored for Farmer Producer Organizations (FPOs). FPOs play a crucial role in enhancing the economic status of smallholder farmers by aggregating their produce and providing collective marketing and bargaining power. However, they often face financial challenges that hinder their growth and sustainability. This study aims to address these challenges by designing a framework that incorporates financial mechanisms and strategies to bolster the financial resilience of FPOs. By synthesizing existing literature and practical insights, this paper offers a roadmap for stakeholders and policymakers to develop effective financial support systems for FPOs, thereby promoting inclusive agricultural development and rural prosperity.

### INTRODUCTION

India had over 138 million farm holdings as per the Agricultural Census, 2011. Of this, about 92.8 million were marginal farm holdings i.e. having individual operational land holding of less than 1 hectare while another about 24.8 million were small farm holdings with individual operational land holding size less than 2 hectares. Therefore, the marginal and small farm holdings together accounted for a whopping 85.0 percent of the total farm holdings in India in 2010-11. However, their share in the country's total operated area was only 44.6 percent. On a national average, the size of operational land holding of each farm varied from 0.39 hectare in the case of the marginal farm holdings to 1.42 hectares for small farm holdings to 17.38 hectares in the case of the large farm holdings, which worked out to 1.15 hectares for all farm holding groups taken together. Such is the predominance of small farms in Indian agriculture. As per estimates, about 1.5 to 2.0 million new marginal and small farms are being added every year due to continued land fragmentation.

Farmer Producer Organizations (FPOs) are pivotal in transforming agriculture from subsistence to commercial farming by enabling smallholder farmers to collectively engage in production, marketing, and value addition activities. Despite their potential, FPOs encounter significant financial constraints, including limited access to credit, inadequate capital for infrastructure development, and insufficient risk management tools. These challenges often impede their ability to scale operations and achieve sustainable growth. Recognizing the critical role of financial support in fostering FPO sustainability, this paper seeks to outline a structured financial supportive system designed to address these barriers effectively.

### Review of Literature:

**1. Importance of FPOs in Agricultural Development:** FPOs are instrumental in promoting agricultural modernization and enhancing farm productivity by facilitating access to inputs, technology, and markets (Gupta et al., 2019; Singh and Aggarwal, 2020). They empower farmers economically by aggregating their produce and negotiating fair prices, thereby increasing their income and livelihood security (IFAD, 2018).

**2. Financial Challenges Faced by FPOs:** Despite their potential benefits, FPOs struggle with various financial challenges, including inadequate capitalization, lack of financial literacy among members, and insufficient access to formal credit (NABARD, 2021; Kumar et al., 2022). These challenges hamper their operational efficiency and sustainability in the long run.

**3. Existing Financial Support Mechanisms:** Several financial instruments and mechanisms have been proposed to support FPOs, including subsidized credit schemes, grant funding, venture capital investments, and capacity-building programs (World Bank, 2019; FAO, 2020). However, the effectiveness of these mechanisms varies, and there is a need for a cohesive framework that integrates these resources strategically.

**Developing a financial supportive system for Farmer Producer Organizations (FPOs) in India requires a multi-faceted approach that addresses their unique needs and challenges. Here's a proposed empirical model:**

#### **1. Diverse Financial Products and Services:**

- **Customized Credit Facilities:** Collaborate with banks and financial institutions to design tailored credit products suited to the needs of FPOs, such as crop loans, working capital loans, and term loans for infrastructure development.
- **Microfinance Initiatives:** Partner with microfinance institutions to provide small-ticket loans to FPO members, especially women and marginalized farmers, for agricultural activities and livelihood improvement.
- **Risk Management Tools:** Introduce insurance products, weather-indexed insurance, and crop insurance schemes to mitigate risks associated with crop failure, natural disasters, and price fluctuations.

#### **2. Capacity Building and Financial Literacy:**

- **Training Programs:** Conduct workshops, seminars, and training sessions to enhance financial literacy and management skills among FPO members, covering topics such as budgeting, bookkeeping, loan management, and investment planning.
- **Digital Financial Services:** Promote the adoption of digital financial services such as mobile banking, digital payments, and e-wallets to improve financial inclusion and access to formal banking services among FPOs and their members.

#### **3. Institutional Support and Collaboration:**

- **Government Schemes and Subsidies:** Facilitate access to government schemes, subsidies, and incentives aimed at promoting FPOs, such as the Formation and Promotion of Farmer Producer Organizations (FPO) Scheme, Agriculture Infrastructure Fund (AIF), and interest subvention schemes.
- **Partnerships with Agri-Finance Institutions:** Forge partnerships with specialized agri-finance institutions, agricultural development banks, and rural cooperatives to provide targeted financial support, technical assistance, and market linkages to FPOs.

#### **4. Market Linkages and Value Addition:**

- **Value Chain Financing:** Introduce value chain financing mechanisms where financial support is extended not only to FPOs but also to their entire value chain partners, including input suppliers, processors, traders, and exporters.
- **Market Intelligence Services:** Establish market intelligence platforms and agri-business networks to provide FPOs with timely information on market trends, prices, demand-supply dynamics, and export opportunities, enabling them to make informed decisions and negotiate better prices for their produce.

#### **5. Monitoring and Evaluation Mechanisms:**

- **Performance Metrics:** Define key performance indicators (KPIs) and benchmarks to measure the financial viability, impact, and sustainability of FPOs, including indicators related to financial performance, governance, membership growth, and social outcomes.
- **Impact Assessment Studies:** Conduct periodic impact assessment studies and evaluations to assess the effectiveness of financial support interventions in strengthening FPOs, improving farmer livelihoods, and contributing to rural development.

#### **Case Study Illustration:**

**Amul Dairy Cooperative in India** serves as a compelling case study for the successful implementation of a financial supportive system for FPOs. Amul provides comprehensive financial support to its member dairy cooperatives through a range of financial products and services, including loans for cattle purchase, animal feed, veterinary services, and milk collection infrastructure. Additionally, Amul offers capacity building programs,

technical assistance, and market linkages to its member cooperatives to ensure their financial sustainability and growth. This holistic approach has enabled Amul's member cooperatives to thrive, empower dairy farmers, and establish India as the world's largest milk producer.

**Here are more case studies from around the globe showcasing successful financial supportive systems for Farmer Producer Organizations (FPOs):**

**1. Grameen Bank - Bangladesh:**

- Description: Grameen Bank pioneered microfinance and social entrepreneurship, providing small loans to poor individuals, including farmers, without collateral.

**Financial Supportive System:**

- Grameen Bank offers group-based lending to FPOs, enabling members to access credit for agricultural inputs, livestock, and small-scale enterprises.
- The bank provides financial literacy training and technical assistance to FPOs, fostering financial inclusion and empowerment among rural communities.

**2. Coffee Farmers Cooperatives - Ethiopia:**

- Description: Coffee cooperatives in Ethiopia play a crucial role in the country's coffee industry, representing smallholder farmers and promoting sustainable coffee production.

**Financial Supportive System:**

- Cooperatives access financing through partnerships with impact investors, development finance institutions, and Fair Trade organizations.
- Financial support is provided for coffee processing equipment, quality improvement initiatives, and organic certification, enhancing market access and premiums for cooperative members.

**3. Sogesol - Haiti:**

- Description: Sogesol is a microfinance institution in Haiti that provides financial services to rural communities, including agricultural producers.

**Financial Supportive System:**

- Sogesol offers agricultural loans to FPOs for crop cultivation, livestock rearing, and agro-processing activities.
- The institution facilitates savings and credit groups, financial literacy training, and mobile banking services, improving access to finance and promoting economic resilience among rural entrepreneurs.

**4. National Dairy Development Board (NDDB) - India:**

Description: NDDB promotes dairy cooperatives in India through its flagship program, Operation Flood, aimed at increasing milk production and farmer incomes.

**Financial Supportive System:**

- NDDB facilitates access to credit from commercial banks and cooperatives for dairy infrastructure development, including milk collection centers, chilling plants, and processing units.
- Financial support is complemented by technical assistance, training programs, and market linkages, enabling dairy cooperatives to expand their operations and improve milk quality.

**5. Cooperative Bank - Kenya:**

- Description: Cooperative Bank of Kenya provides financial services to various cooperative societies, including agricultural cooperatives, across the country.

**Financial Supportive System:**

- The bank offers loans and overdraft facilities to agricultural cooperatives for farm inputs, equipment purchase, and marketing activities.
- Financial support is combined with capacity building initiatives, including farmer education, business management training, and cooperative governance workshops, enhancing the viability and sustainability of agricultural cooperatives.

**CONCLUSION:**

Implementing this empirical model can create a robust financial supportive system for FPOs in India, fostering their growth, resilience, and socio-economic impact. By providing diverse financial products and services, building financial literacy and management capacities, facilitating institutional support and collaboration, strengthening market linkages and value addition, and implementing monitoring and evaluation mechanisms, FPOs can access the financial resources they need to flourish and drive inclusive rural development. The success of such initiatives, as exemplified by cases like Amul Dairy Cooperative, underscores the transformative potential of tailored financial support systems for FPOs in India. These case studies demonstrate diverse approaches to providing financial support to FPOs worldwide, ranging from microfinance initiatives and cooperative banking to impact investing and development finance partnerships. By leveraging financial resources, capacity building programs, and market linkages, these initiatives empower FPOs to improve agricultural productivity, increase incomes, and contribute to rural development and food security.

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