



STRENGTHENING THE FARMER PRODUCER ORGANIZATION ECOSYSTEM FOR FARMER PROSPERITY

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In India, Farmer Producer Organizations (FPOs) are considered as the most preferred institutional mechanism for enhancing productivity and income of farmers. This is based on the resounding success of a few farmer collectives that have aggregated their produce to realise better incomes. However, when efforts were made to scale up this interesting model across the country, several challenges emerged. Some of the major challenges for FPOs were lack of sufficient capacities among farmers in managing their collective enterprise and engaging with market actors, and absence of a collective voice to shape the enabling environment. To address these challenges and to strengthen the FPO ecosystem, the different stakeholders in the FPO ecosystem came together in 2017 to set up the National Association for Farmer Producer Organisations (NAFPO). Over the last few years, NAFPO's network has expanded continuously with stakeholders ranging from the entire spectrum of the value chain, including FPOs across the country, state federations, financial partners, market players, technology service providers and academia.

In this Good Practice Note, Aneesha Bali reflects on the performance of NAFPOs and how they contributed to institutional consolidation of FPO mobilization efforts that have resulted in integrating resources specific to the FPO sector and providing end-to-end functioning of FPOs.

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CONTEXT

The majority of farmers in India own small landholdings – 83% of farmers belong to the small and marginal category (owning less than 1 ha of land) – and therefore the volume of farm produce by these small farmers is inevitably small. Many farmers and their farms are far away from markets where their produce can be sold. Their access to markets, to communication networks, to banking services, and to sources of information are limited. The ability of farmers to leverage these improvements calls for considerable reinforcement. An important challenge they face is the stranglehold of monopolistic and interlocked traders on whom they have to depend for buying inputs and selling their produce. Addressing these challenges would require institutional aggregation models that can mobilize farmers as collectives while addressing larger challenges such as sustainable agriculture for livelihoods, resource conservation and regeneration, and thus promote an equitable and inclusive model of rural economic growth.

FARMER PRODUCER ORGANIZATIONS (FPOs)

Collectivizing farmers and aggregating their produce through producer cooperatives have been tried in several countries including India. Such aggregation creates the possibility of acquiring greater bargaining power by the entity on behalf of the farmer. But the success of cooperatives has been limited to only a few places and a few sectors. FPOs are currently preferred to Cooperatives as they have less scope for intrusion and adulteration and can focus on the business aspect of collectivization. FPOs are essentially member-owned enterprises and can help in aggregating demand for inputs and supply of marketable surplus. Such aggregation creates the possibility of acquiring greater bargaining power for farmers.



Farmer Interest Group (FIG) meeting facilitated by community trainers © NAFPO

There is growing interest in collectivizing farmers and aggregating produce through FPOs as it is a way to ameliorate the impoverished conditions of farmers. Such aggregation creates the possibility of FPOs acquiring greater bargaining power on behalf of their member farmers. Thus, the FPO model has emerged as one of the most-preferred institutional mechanisms to mobilize farmers by development agencies and policy makers.

In the last decade, many farmers have been successfully mobilized into Farmer Producer Organizations (FPOs). An

estimated 26,000 FPOs have been registered so far (NAFPO 2023), and many more are under various stages of formation. Over the past few years, FPOs have moved beyond providing farmers with inputs and have started to add value through aggregation and primary processing before sale of commodities. Despite an impressive growth in the number of FPOs across the country, they face several challenges ranging from management of business, irregular supply, and lack of timely financial assistance (Box 1).

Box 1: Challenges faced by FPOs

Access to markets - Although aggregating raw produce from a cluster of several hundred or even a few thousand farmers seem to be a necessity, it is not enough for dealing market players. Often, local level intermediaries are replaced with regional/state level intermediaries, with unsatisfactory outcomes in terms of price realization and terms of trade. The ability to influence this value chain in a significant manner remains far-fetched for the majority of FPOs. Many scattered efforts to address challenges and gaps for promoting FPOs are there no doubt, however, these are very few as regards stabilizing business and supporting growth.

Access to finance/working capital - The Government of India through its Public Sector Banks (PSB) has made available several schemes/mechanisms for FPOs to avail credit. However, there is an inherent lack of trust in FPOs from the side of banks and finance institutions, as a result of which banks impose stringent requirements for FPOs to get credit. FPOs are left to borrow from Non-Banking Finance Companies (NBFCs) at a higher interest rate that further hurts the profitability of the FPOs. This situation puts FPOs

into a vortex of high interest rate debts, thus making it harder for FPOs to turn profitable and acquire further credit.

Access to professional human resource for management support and technology adoption - The talent constraint has rippling effects on the operability of FPOs as the talent they can afford usually do not have the know-how to access credit facilities, lack awareness of government schemes, have poor statutory compliances/bookkeeping ability, lack managerial skills required for mobilizing farmers, and developing access to markets. Overall, this jeopardizes the FPO business model and sets up FPOs for failure rather than success. It further restricts FPOs from adopting technology for improving FPO operations.

NAFPO was set up in August 2017 as an apex organization to address these challenges faced by FPOs, and to work towards strengthening the FPO ecosystem. This can be done by augmenting farmer incomes and capacities through trainings on best practices on governance standards, financial accounting, management, and business development, as well as by linking them with market players and financiers and representing their voice on national policy platforms.

NATIONAL ASSOCIATION FOR FARMER PRODUCER ORGANIZATIONS (NAFPO)

In the initial phase of FPO mobilization in 2011, while grassroots mobilization was essential, it was not sufficient to enable the primary bodies to achieve scale and viability. There was a felt need for leveraging the aggregation of farmers into FPOs through higher representative bodies, such as federations and associations. By 2014, state level producer companies realized the need for a national level body to sufficiently leverage bargaining power with policy makers, market players, financial institutions, etc.

In response to this, NAFPO was set up in 2017 as an institutional innovation to build a profile for FPOs at the national level and to bring in appreciation at senior policy level of the need for aggregation of producers across the country. The idea was to create an enabling ecosystem for FPOs and help them identify a path towards scale and sustainability by bringing in important stakeholders onto one platform.

NAFPO (www.nafpo.in) is a stakeholder driven institutional consolidation of FPO mobilization efforts and it works towards creating a support structure for FPOs to identify a path towards scale and sustainability. Its main objective is to facilitate FPOs to function as collectives while addressing larger challenges, such as sustainable agriculture for livelihoods, resource conservation and regeneration, and promotion of an equitable and inclusive model of rural economic growth.

NAFPO has a Steering Committee with 11 members drawn from diverse areas of the FPO ecosystem and it guides NAFPO Programs. The Committee includes experts and practitioners from policy, market access, financial access and FPO leaders. NAFPO's activities are mainly supported by different donors.

So far, NAFPO has raised INR 1.5 crore from Rabobank Foundation, and CSR funding from HDFC Bank Ltd over a period of three years. NAFPO has also raised funds through interventions such as capacity building trainings, publishing of books, and membership subscription for Associate Council.

KEY AREAS OF INTERVENTION

Capacity Development

NAFPO has curated a 12-day training module for capacity building of FPOs at different stages of promotion and maturity. NAFPO has trained more than 1000 women farmers associated with 120+ FPOs in leadership and staff positions. Most of the training is implemented via a blended learning pedagogy which has shown success with an impact equivalent to 80% of what an in-person training could give. This has potential to become an answer for the entire sector by capacitating multiple stakeholders and over-utilizing resources. The following topics are covered for various managerial personnel at the FPO, including the Board of Directors, CEOs, Accountants, and Independent Directors:

- FPO concept seeding and Board visioning;
- Business Plan development;
- FPO membership building and patronage;
- Planning & monitoring, Human resource management;
- FPO accounting & compliances;
- Setting up governance standards at the FPO level – The Independent Director Development Program (IDDP) is meant to facilitate senior professionals to support business and institutional development, in addition to providing fiduciary and statutory guidance to FPCs.

Database on FPOs

In a drive to bring awareness of the massive opportunity that FPOs have to transform agriculture, NAFPO has consolidated a database of 26,184 registered Farmer Producer Companies across the country, updated till March 2023. The link to access this data is www.nafpo.in/fpo-data

Linking FPOs with the Private Sector

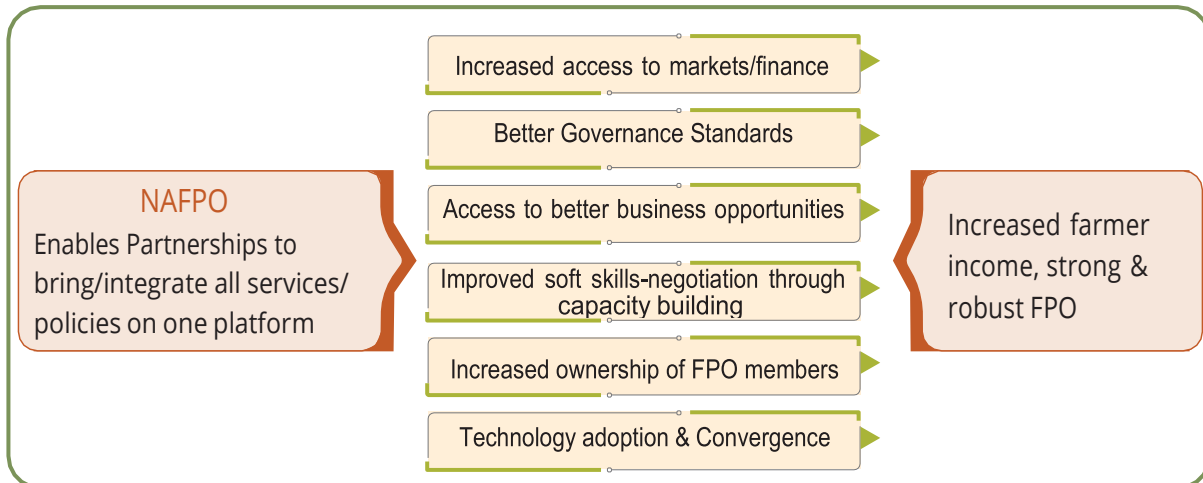
NAFPO has bridged many gaps between private sector and FPOs by organising trainings, webinars and formal interactions showcasing the substantial potential of the FPO sector. NAFPO has partnered with multiple organizations – HDFC Bank, Samunnati, ICRISAT, FDRVC, FICCI, NCDEX-NICR, VAF, Invest India,

IFHD, Credible India and others. Support has been provided to FPOs by way of collaborations and linkages with these partners on a one-on-one basis. Some FPOs have received support with opening bank accounts and receiving loans at lower rates, while some others have established linkages with input companies and technology start-ups working in this domain.

Most importantly, as part of the recent partnership with Samunnati Financial Services Pvt Ltd, a leading NBFC and SFAC of the Government of India, NAFPO is involved in the promotion of 100 All Women FPOs, which allow space for facilitating best practices in building governance standards, accounting services, access to credit, and market linkages along with convergence with other government schemes.



Blended training model: NAFPO's adult learning techniques for Board of Director's training ©NAFPO



NAFPO's model for creating an enabling impactful ecosystem through partnerships

Turnaround Support to Fledgling FPOs

NAFPO extends incubation support to fledgling FPOs that have been promoted for more than two years but are dormant or needs support to turnaround their luck. So far, NAFPO has executed turnaround support to two FPOs in Central India with the support of the Government of Jharkhand. Stakeholders such as Walmart Foundation and National Rural Livelihood Missions (NRLM) have shown interest in this program for implementation with their FPOs across India.

Digital Toolbox

NAFPO has developed a toolbox for FPOs which includes applications such as FPO Incorporation App, Management & Control System, HR portal, E-LMS and FPO Accounting tool. This has received good feedback from the Ministry for Rural Development & Ministry of Agriculture & Farmer Welfare along with the FPOs (Box 2).



Inclusion of members into the FPC through share capital contributions at the FIG meetings ©NAFPO

Box 2: Digital tools developed by NAFPO

Management & Control System - It is a sophisticated system prepared for developing ERP of the FPOs and their members. The objective is to cater to requirements under the 10k FPO Project and develop an end-to-end project management tool. NAFPO has launched this with an adoption of more than 350 FPOs.

Simplykhata - NAFPO has developed an FPO accounting software which solves the challenge of keeping manual record books. The Ministry of Rural Development, the Government of India is already using the application and Ministry of Agriculture has recommended the tool for all 26,000+ FPOs across the country.

Online HR marketplace - www.hr.nafpo.in - This finder portal aims to solve the problem of access to and availability of talent and professional support, which

is critical in enabling FPOs/ Agribusinesses to achieve self-reliance and sustainability.

E-Learning Management System - A comprehensive digital Learning Management System has been developed to benefit FPOs by dynamically aggregating quality learning material, enhancing their capabilities, and augmenting farmers' income.

The goal is that everyone in the FPO ecosystem should have access to quality learning material.

FPO Incorporation App - NAFPO has developed a proprietary mobile application to automate the FPO incorporation process. The idea is to make registration of FPOs easy and accessible to anyone. Seventy-five FPOs have already adopted it.

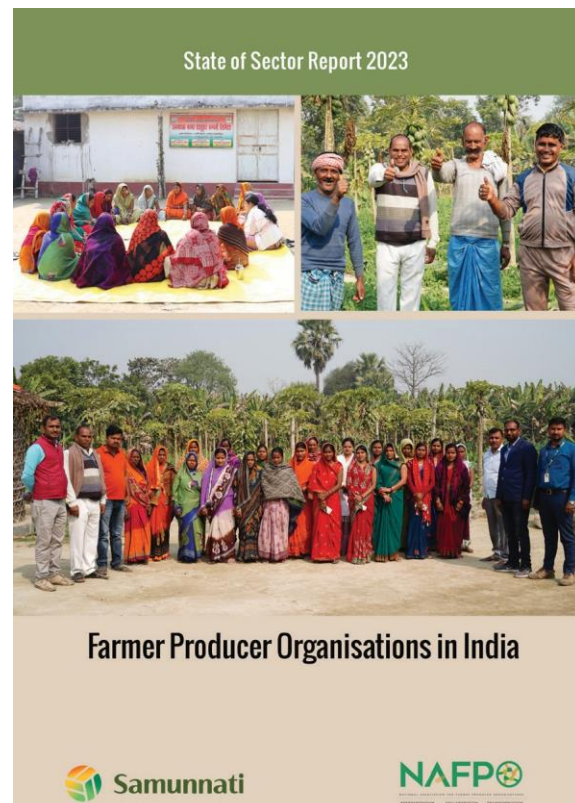
Policy Engagement

NAFPO has also organised multiple webinars and consultations on strengthening FPOs and drafted policy papers and recommendation notes that have been shared with authorities like Niti Aayog, NABARD, SFAC, state governments, and several ministries. In its effort to become the voice of FPOs, NAFPO has represented FPOs at national and regional forums for positive policy endorsements and investments in the FPO ecosystem.

Many initiatives have also been accepted by virtue of NAFPO being part of the Advisory Committee to Nodal agencies of the Government of India.

Knowledge Hub

NAFPO publishes *The State of Sector Report - FPOs in India* on an annual basis, the third edition of SoFPO 2023 was widely endorsed and shared with the Ministry of Agriculture, Niti Aayog, SFAC, NABARD, NCDC.



The report showcases the potential of FPOs and provides learnings from the past with workable solutions.

The other book published is *Making FPOs Achieve Viability: A Practical Guide* to identify the nature of challenges faced by FPOs, and provides an understanding of factors that can boost sustained growth.

CHALLENGES

NAFPO in its journey towards building a supporting ecosystem for FPOs faced several challenges. One of the most important challenges was to identify a balance between the short-term needs of FPOs and long-term aspirations of partner organizations. FPOs needed immediate support/assistance in terms of capacity building, human resources, finance/credit for carrying out business, access to new markets etc., but are often constrained by their limited financial resources. Thus, organizations that provide such services to FPOs had to be sensitized about the importance of looking at long term goals over short term profits/goals. For example, all FPOs almost immediately need finance or credit facilities to carry out business of trade in agricultural commodity at a scale that makes them profitable.

However, FPOs have very poor or no credit history which deters financial institutions from lending to FPOs. NAFPO faced multiple challenges in bringing on board financial partners who had to be sensitized and reminded of their long-term aspiration in accessing newer lending demographics, benefits of lending to FPOs, ripple effects on communities to overcome the lack of/poor credit history.

Also, no financial product or service was available that fit the short term needs of FPOs, and newer products had to be developed for FPOs by financial institutions.

Another challenge NAFPO faced is in building the private sector's trust in FPOs and in its ability to meet private sector's requirements. Most businesses dealing with farm produce procure large quantities via the mandi system or agents as they have been able to provide the large volumes demanded. However, only a few capable FPOs are able to supply such volumes. Even today the private sector has limited trust in the FPO's capabilities due to lack of a sustained track record of such volumes marketed by FPOs as well as FPO's social and community related challenges and geographic limitations.

Technology adoption has been another challenge NAFPO has faced during implementation of its projects. NAFPO has championed the development of several digital tools to enhance the productivity of FPOs. However, as FPOs are promoted and run by farmers in rural India where digital literacy and technology penetration is low, several NAFPO products needed multiple trials and demonstrations to convince FPO members on the value of these digital tools.

LESSONS LEARNT

Over the years, we learnt several lessons from our intensive engagement with FPOs and these are discussed below.

Continuous handholding support

Most farmers have very little experience of running/operating companies and most lack formal education. The tasks associated with running a company such as accounting/bookkeeping, compliances are far-fetched concepts that require continuous hand-holding. Both farmers and FPO management need new capacities and NAFPO's capacity building module is an effort towards addressing this capacity gap.

Enhancing digital literacy

To remain in business and to expand sales and services, FPOs must rapidly digitize their operations. FPOs need appropriate digital tools and the FPO management

(Board Members) need capacities to use these digital tools. There is a need to organize familiarization sessions on using new digital tools so as to enhance the capacities and confidence of FPO members in using digital tools.

Creating a nurturing and enabling ecosystem

In order to increase the participation of FPO members in various FPO initiatives, there is a need to create a supporting and nurturing environment where members see clear benefits in actively engaging with the FPO. It was important for us to conduct multiple conferences and stakeholder meetings to ensure all partners understood the larger aspirations of FPOs, and felt comfortable in sharing their goals and how they can add value to FPOs while benefiting from this association. Creating this kind of environment that nurtured discussion and participation was most essential to the success of our initiatives.



Board of Directors' exploration of roles and responsibilities for effective FPC management ©NAFPO

LOOKING AHEAD

NAFPO over the years has built a strong network of 100+ Associates including FPOs/State federations, promoting organisations, academia & institutional as well as financial institutions and market players with an outreach of 3500+ FPOs. This reflects the relevance and need for an organisation that integrates all efforts and services for accurate outcomes.

These Associates are part of a network and have access to all developments in the FPO ecosystem collated by NAFPO and contribute to policy engagements for representation at State and National level dialogues.

SFAC has been onboarded to become an institutional partner of NAFPO considering

the value addition done by NAFPO in FPO ecosystem building. NAFPO has partnered with SFAC & Samunnati to promote 100 All Women Farmer Producer Companies (FPCs) across five states, namely, Madhya Pradesh, Uttar Pradesh, Jharkhand, Chhattisgarh and Assam, to empower and accelerate growth by augmenting incomes of small and marginal farmers. This is a long-term partnership, with FPOs registered and promoted by NAFPO, which will also enable us to provide comprehensive capacity building programs for FPOs along with implementation of digital tools. It is a strategy for facilitating end-to-end support to FPOs right from registration, market, financial linkages, technology, and capacity building.



Active FPO members engaged in organic manure preparation ©NAFPO

END NOTE

As an institutional innovation, NAFPO has contributed to building relationships and promoting interactions and knowledge flows among the multiple stakeholders in the FPO ecosystem. It intends to become the impact multiplier of ongoing efforts of both government and market agencies to strengthen the capacities of FPOs to meet the new challenges in agriculture. Without a multi-stakeholder platform, such as NAFPO, efforts of diverse agencies working on setting up and strengthening FPOs would have remained scattered.

NAFPO helped in consolidating these efforts and facilitated cross learning, capacity development and more effective policy engagement that will go a long way towards strengthening the FPO ecosystem in the country.

REFERENCE

NAFPO. 2023. State of Sector Report 2023. New Delhi: National Association of Farmer Producer Organisations

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There is a growing recognition on the importance of institutional innovations in promoting more efficient and productive collaboration among the various actors in AIS. The publication of this series of Good Practice Notes by APIRAS and APAARI is an attempt to document cases of institutional innovations that are currently transforming agrifood systems.

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