



सत्यमेव जयते

Government  
of Rajasthan

# BUILDING AN ENABLING FPO ECOSYSTEM IN RAJASTHAN

An Approach Paper



# **BUILDING AN ENABLING FPO ECOSYSTEM IN RAJASTHAN**

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## Introduction

Organizing farmers into Producer Organizations (POs) is seen as one of the most effective ways to help the small & marginal farmers in overcoming the challenges faced by them. It has been observed that FPOs enable farmers to enhance productivity through efficient, cost-effective and sustainable resource mobilization & usage. FPOs are seen to benefit the farmers in the following ways:

- Help them realize higher returns for their produce, through collective and fruitful collaboration with key stakeholders, including academia, research agencies, financial institutions, civil society and the private sector
- Direct access to end consumers with lesser dependence on intermediaries
- Leverage their collective strength and bargaining power to access financial and non-financial inputs, services and appropriate technologies more effectively
- Enter into partnerships with private entities on more equitable terms

Over the last decade, several initiatives have been taken by the government, apex financial institutions, private donor organizations and many other institutions, to strengthen the position of POs in the mainstream value chain(s). These initiatives aim to support the growth of Farmer Producer Organizations (FPOs) and to facilitate their emergence as successful business enterprises.

Under the 12th Five Year Plan of the Government of India, promotion and strengthening of FPOs has been one of the key strategies adopted to achieve the over-arching goal of inclusive agricultural growth. Over the last three years, there has been significant growth in the formation of new FPOs. Given this growth, there is an urgent need to reorient the existing agribusiness ecosystem and practices to support the newly formed FPOs and enable them to achieve sustainability.

Several initiatives have been taken by the State Government to support the growth of the FPOs and facilitate their emergence as successful business enterprises. Given the track record of success of such bodies in the past, both nationally and internationally, there is a strong case for further extension of policy support.

This approach paper attempts to examine the issues faced by the FPOs and recommends certain policy measures in order to initiate a result & solution oriented discussion among policymakers, financial institutions, resource institutions and practitioners. The approach paper lays out the current scenario and challenges faced by FPOs followed by possible policy recommendations to overcome the challenges with the following objectives:

- Promote economically viable, democratic and self-governing aggregation of Farmers i.e. Farmer Producer Organisations (FPOs)
- Provide support for the promotion of FPOs through qualified and experienced Resource Institutions (RIs)
- Provide requisite assistance and resources via policy action, inputs, technical knowledge, legal framework, financial resources, marketing support and infrastructure to strengthen FPOs
- Remove the hurdles preventing farmers from accessing the markets through FPOs

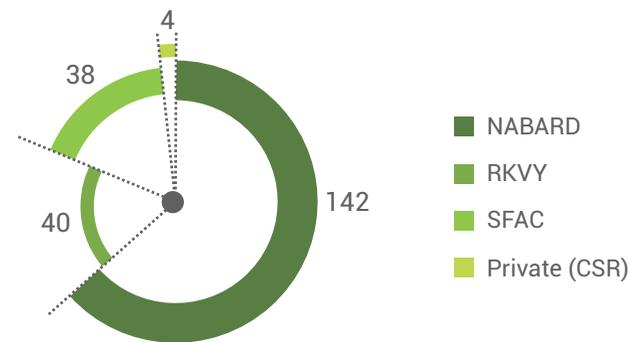
## Current Scenario and Challenges

The FPO movement in Rajasthan started in 2009. However, the movement has gained traction in the last few years given a strong impetus from the various policy and financial institutions like NABARD, SFAC (Small and Marginal Farmers Agribusiness Consortium), Banks and private institutions working in agri and allied sectors.

As on January 2017, 224 FPOs have been formed in Rajasthan and more than 1.1 lac farmers of the state are being benefited from the same.

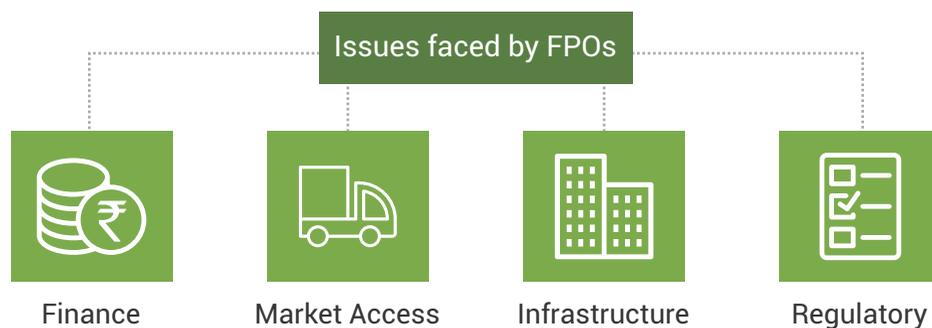
Currently, the key activities being undertaken by FPOs in the state include vegetable

Number of FPOs by Funding Agencies in Rajasthan, 2017



production, pulses and field crops, spice cultivation and fruit production. While FPOs have witnessed a significant growth in last few years, a number of issues need to be addressed to provide sustainability to these FPOs and encourage formation of more FPOs in the state.

These issues include access to credit (linking the FPOs to reliable and affordable sources of financing), market access, infrastructure development, and regulatory issues (as depicted in the figure below):



### a. Finance Issues

Given the rapid growth of the FPOs, the issues of access to credit-linking the FPOs to reliable and affordable sources of financing to meet their working capital, infrastructural development and other needs, has assumed the centre stage. As the FPOs strive to grow and achieve sustainability, there is an urgent need to reorient the funding ecosystem to support the FPOs based on the stages in their life-cycles.

Government is providing support to FPOs growth through multiple budgetary initiatives including:

- Matching equity grants to augment the equity base of FPOs
- The Credit Guarantee fund (also set up as part of the 2013-14 Union budget) to provide Credit Guarantee Cover to eligible lending institutions, minimizing their lending risks with respect to loans not exceeding INR 1 crore and enabling them to provide collateral-free credit to FPOs
- RBI included financing to FPOs under Priority Sector Lending (PSL) which covered
  - Financing up to INR 2 crore under Direct Agriculture finance
  - Loans up to INR 5 crores to FPOs under Indirect Agriculture finance

Despite the current level of support, there are a number of challenges in the lending ecosystem.

### Issues being faced by FPOs - Finance:



### I. Access to finance for investments and working capital

- a. Most of the FPOs are formed by small and marginal farmers thus resulting in low equity base for the organization which is often insufficient to sustain the FPO operations. Hence, major challenges exist in mobilizing working capital and investment credit.
- b. FPOs do not have access to international funds as they do not have FCRA exemption.
- c. Currently, start-up risks are not covered in FPO promotion programmes.

### II. High Cost of Financing

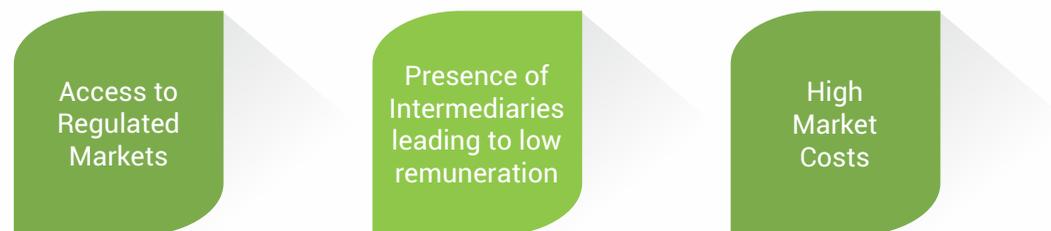
As a result of the low capital base, FPOs are not able to provide collateral security, a prerequisite for many financial institutions to provide financing. The rate of interest is also as high as 13-14% which creates a significant burden on cash flow.

### III. Lack of long term financing of donor organizations

- a. Most project funding by donors is limited to a period of 24 to 36 months. As soon as promotional grant support ends, promoting institutions face challenges to meet up the operational expenses of the FPOs required to achieve the scale up post the starting phase.

### b. Market Access Issues

FPOs face significant challenges to market their produce effectively, owing to the following challenges:



### Issues being faced by FPOs - Marketing

#### I. Access to regulated markets

- a. Rajasthan's density of regulated markets (average area served by a regulated market: 830 sq. km.) is significantly lower than the national average (457 sq. km.) thus resulting in limited access to FPOs to market their produce.
- b. Monopoly of the licensed traders in the regulated markets as there is a requirement that only commission agents/ traders have a shop/ godown in these, which results in lack of direct connect of FPOs with the buyers.
- c. Lack of space in APMCs and low availability of storage facilities inhibit FPOs from reaching their full potential and also result in increased post-harvest losses.



## II. Presence of Intermediaries leading to low remuneration

- a. Large number of intermediaries is a major cause of lower remuneration for the FPOs. Agricultural Produce Market Committees (APMCs) are authorized to collect market fee ranging from 0.50% to 2.0% of the sale value of the produce from the buyers/traders. Further, commission charges (ranging from 1% to 2.5% for food grains and 4% to 8% in case of fruits and vegetables) are required to be paid by buyers to commission agents. Presence of intermediaries not only results in sub-optimal returns to FPO but also restricts access to end consumers and entering into long term buying agreements.

## III. High Marketing Cost

- a. Most of the FPOs are formed by small and marginal farmers who have limited access to marketing resources. Setting up of brand or marketing of FPOs products require reaching out to both B2B and B2C buyers which requires significant investment. High cost of marketing with limited finance results in limited scale up of FPOs.

## c. Infrastructure Issues

A number of operational and infrastructural challenges exist for FPOs of the state.



## Issues being faced by FPOs - Infrastructure

### I. Limited warehousing and cold chain facilities

- a. The existing marketing and warehouse facilities in the state are inadequate to meet the demands of the farmers. Currently, 540 godowns with warehousing capacity of 11 lakh tons are operational in Rajasthan. Cold storage units exist in only 9% of the markets and grading facilities in less than one-third of the markets. As FPOs scale up, they require significant amount of warehousing space/cold chain facilities for storage and distribution. Limited storage facilities result in high cost of storage for the FPOs.

### II. Inability to avail benefits of WHR

- a. Though FPOs are accessing the Warehouse Receipt (WHR) scheme of the banks, there are multiple operational issues due to which the FPOs are not always able to avail the benefits of the scheme as not all warehouses are covered under the WHR scheme.

## III. Capacity building and technology challenges

- a. FPOs also face challenges in attracting talent and capacity building in the various areas of their functioning. The issue of technology adoption is also an important reason for lack of scale of FPOs. SFAC is supporting FPOs through empanelled Resource Institutions (RIs), that provide various inputs on training and capacity-building, and assist in linking these bodies to input suppliers, technology providers and market players. However, significant work needs to be undertaken at the ground level.

## d. Regulatory Issues

Issues around multiple licenses through various licensing authorities create significant hurdles for the FPOs to operate efficiently and cost effectively.

- a. Currently, FPOs require a different License/ Registration for each APMC market yard and notified market area, which is a limitation in the current system.
- b. FPOs would also need to undertake various registrations, certifications and licenses related to company formation, tax registration, food body registrations, etc. Most of the FPOs are currently being operated by small and marginal farmers who face difficulties in understanding and complying with regulatory requirements.



## Policy Recommendations

### a. Objectives of the Policy Framework

The primary objective of mobilising farmers into member-owned producer organisations, or FPOs, is to enhance production, productivity and portability of agriculturists, especially small farmers. The policy framework aims to ensure growth of FPOs in the state through:

- i. Easier access to financing at affordable rates
- ii. Support in market access and increasing market reach
- iii. Support in capacity-building activities, technology adoption and infrastructure availability
- iv. Reducing regulatory challenges

### b. Policy Recommendations for FPOs in Rajasthan

The approach paper addresses policy recommendations under the four categories which have been identified as challenges in the growth of FPOs



Finance



Marketing



Infrastructure



Regulatory support

#### 1. Policy Recommendations (Finance)

##### a. Credit Facilitation

- i. Provide initial seed capital in the form of grants to help FPOs in undertaking business activities in the initial period
- ii. Allocate funds earmarked for Custom Hiring Centers under ATMA program, to FPOs based on their needs and merit
- iii. Reorient the current funding ecosystem to align it with the life-cycle of the FPOs
- iv. Re-engineer the equity grant and credit guarantee funds (EGCGF Scheme managed by SFAC) into different bands based on the maturity level of the FPOs
- v. Establish a similar new fund for additional financial resource mobilisation for FPOs
- vi. Formulate a separate scheme to provide interest subsidy to FPOs
- vii. Collateral requirement should be dispensed with for loans up to Rs.25 lakh to FPOs, given that FPOs are a federated body of primary groups like SHGs, Farmers' Interest Groups, Farmers' Club, etc.
- viii. Make the rate of interest for FPOs at par with the rate charged from individual farmers for crop loans under the priority sector lending (Crop loans are currently available to farmers at 7%, for loans up to INR 3 lakh. For farmers who repay promptly, interest rate is even lower)



## b. Promotional and Advocacy Measures

- i. Declare FPOs at par with cooperatives registered under the relevant State legislation and self-help groups/federations and allow FPOs to avail all benefits and facilities that are extended to member-owned institutions from time to time
- ii. Promote FPOs on a larger scale, as done for the SHG movement. For FPOs, advocacy would need to be taken up not only with different government agencies but also with banks and other financial institutions.

## 2. Policy Recommendations (Marketing)

- a. Preferential allotment of selling space to FPOs in existing Mandis. FPOs can be recognized as members of Mandis. The Agricultural Produce Marketing Committee (APMC) Act can be reformed to remove the deterrent provisions therein and barriers to agriculture trade for FPOs.
- b. Incentivise PPP model-based direct selling initiatives with FPOs. Financial and tax incentives to be provided to both private players and FPOs that engage in long term procurement/selling contracts.
- c. Promotion of Trade and Transactions for FPOs through rationalization of Mandi fees and tax.
- d. Promotion of Direct Selling Initiatives for FPOs through:
  - i. Setting up regular Farmer Markets in suburban areas
  - ii. Providing subsidy support for branding initiatives
  - iii. Providing selling space for outlets across state
  - iv. Common technology platform for selling of products by various FPOs of the state
- e. Promotion of Grading/Standardization:
  - i. Frame, disseminate & promote rules regarding the grading and standardization of agricultural commodities
  - ii. Provide subsidized grading equipment and facilities to FPOs
  - iii. Subsidized transportation costs for FPOs
  - iv. Create a standards bureau on PPP mode that will facilitate benchmarking and enforcement of standards

## 3. Policy Recommendations (Infrastructure)

- a. **Resolution of operational issues of the Warehouse Receipts Scheme:**
  - i. Include FPOs along with the Producer companies and cooperatives among the eligible users of the WHR
  - ii. Consider the warehouses of the FPOs, if accredited, under WHR, etc.
  - iii. FPOs to offered a choice between selling their un-graded produce through an APMC auction and selling on a Spot Exchange, after grading
  - iv. FPOs to have a choice of storing the produce at a Spot Exchange warehouse, in order to subsequently obtain Warehouse Receipt financing and selling the produce at a later time



**b. Investment in marketing infrastructure**

- i. Investment under RKVY may be increased to a minimum level of 10-15% of the State RKVY spending and to be mainly targeted towards the development of FPOs
- ii. Joint development by APMCs and Spot Exchanges of grading and quality certification of FPO produce
- iii. In order to provide market linkage to FPOs in the command area of existing/ emerging Food Parks, suitable backward integration with FPOs may be explored
- iv. Besides market linkage, Food Parks may also provide extension services and technology support to farmers for maintaining consistency in raw material supply

**c. Facilitation of FPOs**

- i. Engage with FPOs for channelizing benefits under various farmer-centric schemes (minor irrigation systems, solar water pumps) to enhance outreach and also to enable FPOs to participate in procurement scheme of the Government.
- ii. Facilitate consolidation of FPOs from a block/ district to a national level. FPOs at block/ district level could contribute to the share capital of the FPOs of State Level. Such a tier-based structure can facilitate development of product-specific consortiums at national level.
- iii. Fund creation to provide training, capacity building and technology adoption by the FPOs in order to ensure scale up and sustainability.

**4. Policy Recommendations (Regulatory Support)**

- a. Directly involve FPOs in procurement activities as producers of certified seed, saplings and other planting material
  - I. The National Seeds Corporation and similar bodies at the national and state levels to reserve a certain percentage of their procurement of seeds through FPOs.
- b. FPOs to be exempted from the requirement of a licence for establishing a new fertilizer project or for expanding the capacity of existing fertilizer plants. However, would still need to get a statutory clearance of the project site from environmental perspective.
- c. Establish single window system for
  - I. All regulatory needs relating to seed, pesticide and fertilizer licenses
  - ii. All company, tax and regulatory related registration for FPOs
- d. Grant licence to FPOs for direct purchase from agriculturist for the following purposes:
  - i. For processing to a processor
  - ii. For export of agricultural produce
  - iii. For trading of agricultural produce of particular specification, and
  - iv. For grading, packing and value-addition
- e. FPO to be made an agency for the execution of 'Beej Swavlamban Yojna'



Department of Agriculture  
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