



# **BANKERS INSTITUTE OF RURAL DEVELOPMENT, MANGALURU**



**“FPOs – Company of the Farmers for Future “  
“Centre for Indian Knowledge Systems (CIKS) way “**

## **Case Study Documentation**

### **Farmers Producer Organisation**

**A case study on PO Promoting Institutions (POPI)  
Centre for Indian Knowledge System (CIKS), Chennai**

**“FPOs – Company of the Farmers for Future”**



***Prepared by***

***L. Sanjivi***

***Faculty Member***

## **1. ABOUT POPI**

**2.**

### **(a) WHO WE ARE**

We are Centre for Indian Knowledge Systems (CIKS), a registered independent trust working in the areas of organic agriculture, biodiversity conservation and Vrکشayurveda (the ancient Indian plant science)

### **(b) WHAT WE DO**

We work to enhance livelihood security of small and marginal farmers in Tamil Nadu, through

- Sustainable Agriculture
- Research
- Trainings
- **Promotion of FPOs**

<b>OUR VISION</b>
-------------------

**“Use of Indigenous knowledge and resources for sustainable growth in Agriculture, Food and Nutritional Security ”.**

**CIKS** works mainly with the farming community and till now we have worked with over 110,000 farming families in Tamil Nadu in nine districts. We have supported the setting up of over 650 farmers' institutions involved in sustainable agriculture including – SHGs, JLGs, Farmer Clubs and Common Livelihood Groups. Small and medium enterprises have been set up carrying out a variety of activities relating to sustainable agriculture. Starting from the year 2013 CIKS has initiated and supported 23 Farmer Producer Companies (FPCs). The first two producer companies were formed in the year 2013 in collaboration with Vrutti Livelihoods Resources, Bengaluru.

**CIKS has been recognized as a**

- Producer Organisation Promoting Institution (POPI) and 10 FPCs are currently being supported by CIKS through the Produce Fund of NABARD.
- Resource Institution (RI) by SFAC for supporting FPCs and currently 11 FPCs are being supported by CIKS through the funding provided by SFAC
- Resource Support Agency (RSA) by NABARD and training programme have been conducted by CIKS for various POPIs in Tamil Nadu.

Trainings and capacity building support is being provided by CIKS to various FPCs and POPIs on a large number of topics relevant to FPCs, including – legal and regulatory frame-work, management and governance, business planning, financing and marketing, insurance accounting and allied topics.

## 2. PROFILE OF FPCs:

**CIKS** has been providing support to 22 FPCs which are spread over nine districts of Tamil Nadu. An overview of FPCs promoted by CIKS is as given below:

S. No	Name of the FPC	Details of Members			Authorized capital	Paid-up capital
		Male	Female	Total		
1	Marutham Sustainable Agriculture Producer Company Limited	1,641	2,361	4,002	50	39.655
2	Valanadu Sustainable Agriculture Producer Company Limited	1,759	1,023	2,782	25	14.8325
3	Chenngam Sustainable Agriculture Producer Company Limited	850	650	1500	35	19.52
4	Kanchi Sustainable Agriculture Producer Company Limited	348	1152	1500	35	17.135
5	Kuriniji Sustainable Agriculture Producer Company Limited	759	741	1500	35	25
6	Managiri Sustainable Agriculture Producer Company Limited	897	603	1500	35	19.775
7	Mullai Sustainable Agriculture Producer Company Limited	720	780	1500	35	25
8	Neithal Sustainable Agriculture Producer Company Limited	1060	440	1500	35	25
9	Pudupalayam Sustainable Agriculture Producer Company Limited	877	623	1500	35	30
10	Seeds Sustainable Agriculture Producer Company Limited	715	814	1529	50	30.015
11	Thandampattu Sustainable Agriculture Producer Company Limited	803	697	1500	35	17.8
12	Vadamadurai Sustainable Agriculture Producer Company Limited	785	715	1500	35	25
13	Cuddalore District Mangalore Millets Farmer Producer Company Limited	713	291	1004	25	20.04
14	Perambalur District Maize and Onion Producer Company Limited	921	79	1000	25	10
15	Peravurani Coconut Agro Producer Company Limited	814	186	1000	25	20
16	Raja RajaChozhan Farmers Producer Company Limited	848	185	1033	25	20.66

17	Veera Narayanan Agriculture Farmers Producer Company Limited	913	91	1004	25	10
18	VeerachozhanUzhavan Producer Company Limited	877	167	1044	20	20
19	Cheyyar Farmer Producer Company Limited	740	261	1001	30	25
20	Groundnut Farmer Producer Company	649	398	1047	25	20.47
21	KanchiAnaithuVivasaigal Producer Company	679	321	1000	25	15.47
22	Thenpennai Farmers Producer Company Limited	813	258	1071	25	21.49
	<b>TOTAL</b>	<b>19181</b>	<b>12836</b>	<b>32017</b>	<b>690</b>	<b>466.86</b>

- About 32,000 shareholders of whom 40% are women and 60% are men have been brought in the network of FPOs.
- The FPOs have a total Authorised Share Capital of about INR 690 lakh with a paid up capital of about INR 467 lakh
- 160 members of Board of Directors of whom 24% are women and 76% are men Operations of FPCs
- Out of the above FPOs, 3 FPOs have more than Rs.100 lakh business, 13 FPOs between Rs.50 – 100 lakh business and 6 FPOs less than Rs.50 lakh business.
- 14 FPOs have attained a profit of Rs.5000 to Rs 1, 25,000 during the year 2019-20.

**(a)** They provide a range of services including – aggregation of demand and supply of seeds and inputs, credit linkages for crop cultivation and cattle, value addition, technical training and skill development.

**(b)** Credit Linkages and fund supports have been created for the FPCs with several finance institutions including – NABARD, NABKISAN, FWWB (Ahmedabad), Ananya Finance (Ahmedabad), IDBI Bank, Pallavan Grama Bank TNSFAC, DFID (UK), HIVOS (The Netherlands), Rabo Bank Foundation (The Netherlands). Total funds (working capital loan for FPOs and for asset creation for the Shareholders amounts to Rs.2000 lakh so far.

**(c)** One of the FPCs has qualified as a Banking Correspondent (BC) by NABFINS.

**(d)** FPCs have received support from NABARD under their PODF (Producer Organisation Development Fund) programme and the Produce Fund.

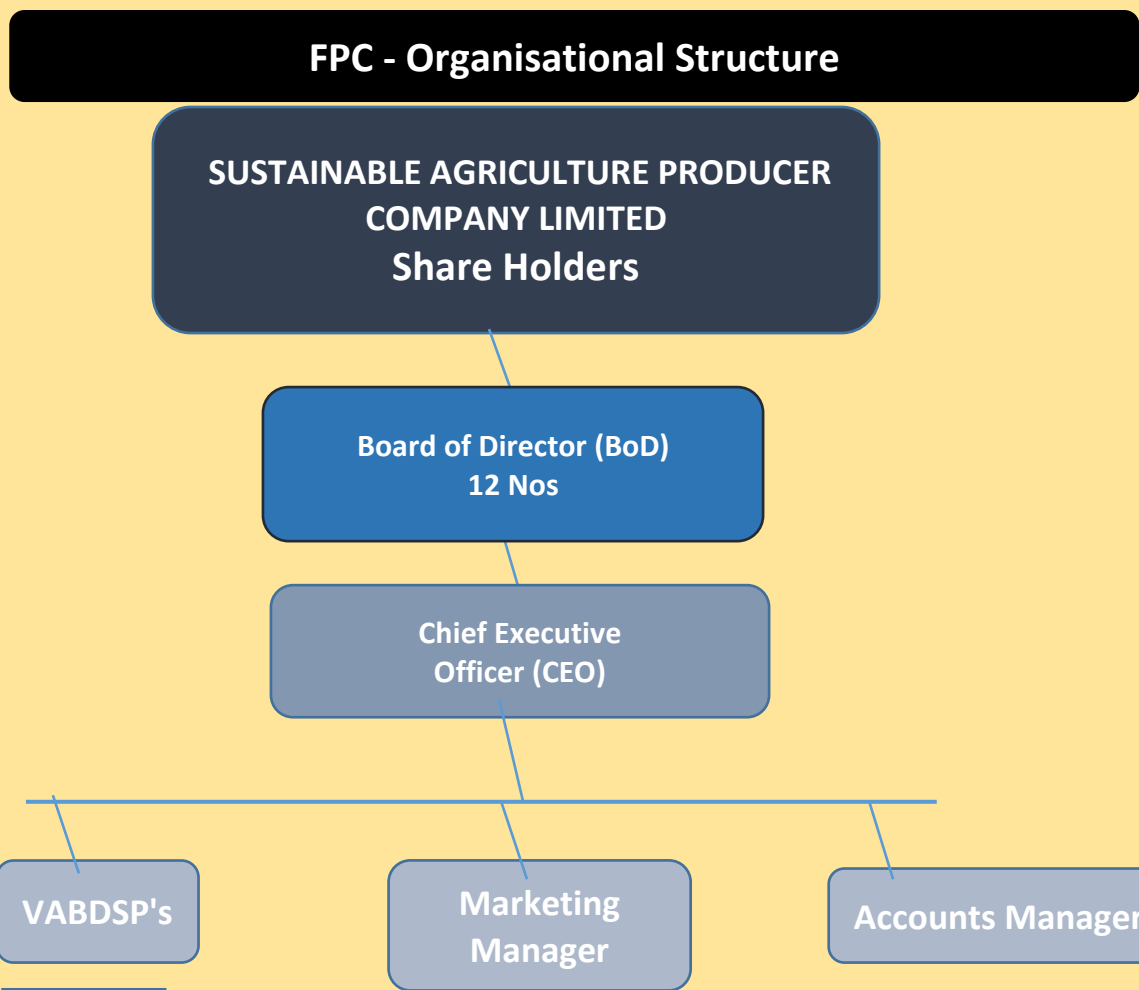
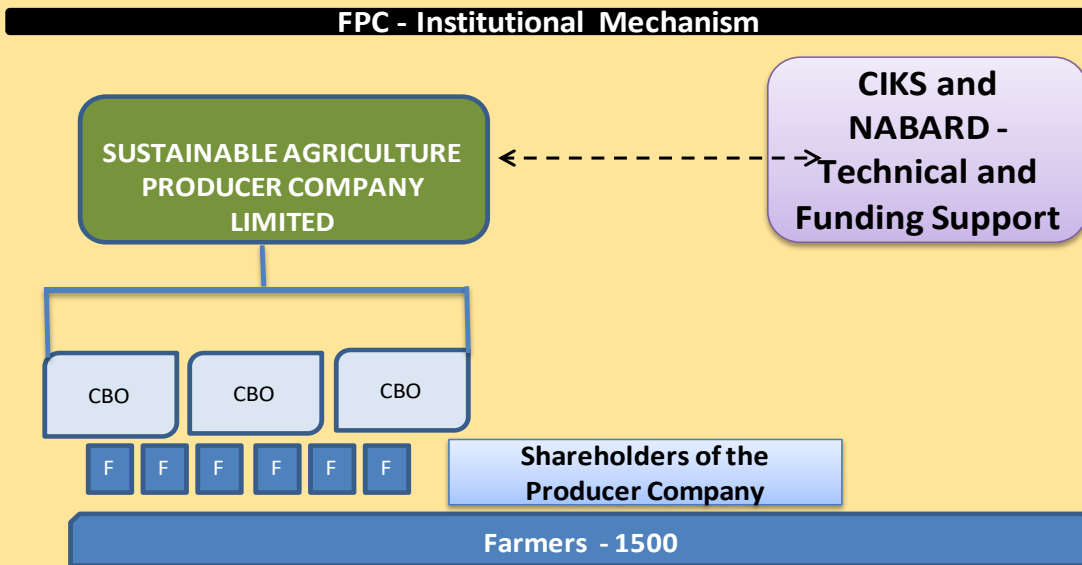
**(e)** SFAC has provided matching equity grant for 21 of the FPCs supported by CIKS totally to the tune of Rs. 177 lakh.

**(f)** Linkages have been established with various Government departments including agriculture, marketing and horticulture Trainings and Capacity Building.

**(g)** CIKS has also brought out a series of publications on various aspects of FPCs, their management, governance and performance both in English and Tamil.

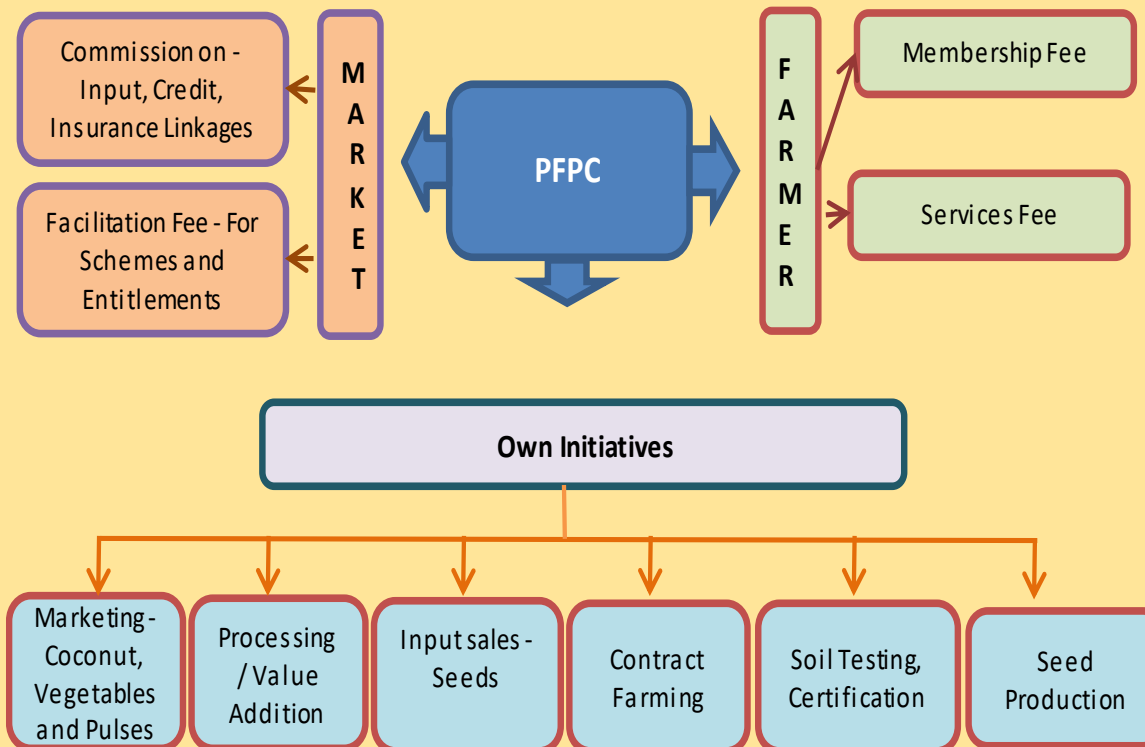
**(h)** CIKS is currently planning a series of training programmes for trainers as well as farmer leaders on various aspects of FPCs.

### **3. Institutional Structure – Monitoring**



### **4. Business Operations – FPOs**

# FPCs- Revenue Streams





## **5. The experience in promoting FPOs:**

Based on the experience with FPCs during the last 5 years, it is felt that FPOs offer a great potential as the organizational form that can help farmers – they can indeed be the – **“Cooperatives of the farmers for future”**. Based on the experiences of FPCs promoted by CIKS we can identify some positive factors.

- A strong sense of ownership by the members and participation in planning and running the affairs of the company which is not just notional or symbolic but substantial.
- A democratic style of operation which enthuses and invites participation from a large cross section of the members.
- Programmes and activities that cater imaginatively to the requirements of varied stakeholders and all the members keeping in mind their diversity.
- Active involvement of women.
- Balancing of social and business objectives.
- Developing various streams of revenue and activities taking place throughout the year due to which the risks are minimized and the cash flow is taken care of.
- Ideally the sources of revenue includes material services which may be inputs supply, output marketing, input production, value addition etc. as well as non-material services such as – Credit linkage, technical trainings, insurance etc.
- Coming up with services and activities that are sensitive to risks and problems due to the vagaries of weather – low / delayed rain fall, drought etc.
- The FPOs have acquired several assets – harvester, transplanters, cargo vehicle, grinding machine, small pieces of land, etc. These assets either have opened new avenues for business or have reduced operational costs. This shows an intelligent use of grants.
- **DIVERSIFICATION OF BUSINESS ACTIVITIES:** The sheer number of services and activities the company is involved in is a safety valve. It does two kinds of things.

**(a)** It hedges the risks among the different activities. It is a safety valve against risk. Being in agri-business with all the risks involved, handling multiple risky ventures is better than being neck deep in any one. Profitable activities would always compensate and bail out the not so profitable ones. Different kinds of members – full time farmers with marketable surplus, small-time farmers with other self-employment, non-landed agri-labour, etc and many others. The services they would require from the company would be different, according their needs. So having diverse activities expands the number of members who can avail some or the other service relevant to their needs. So, it increases the number of

Participating members. So, even if some activities do not earn as much profits, they earn goodwill and keep the trust of the diverse members.

**(b)** Farming is a very seasonal activity. But the relationship between members and company cannot be a completely seasonal one. Thus, more number of services offered increases the scope for the different members to interact with the company as its clients, throughout the year.

**(c)** It also ensures continuous financial rotation for the company. There is almost always a revenue stream which is active – there is service delivery happening through the year in some form or the other.

- The board and community members have acted with an overwhelming dedication and utmost sense of ownership of the company. Well trained board members have come up with alternative plans whenever there are possibilities of risks and failures.
- A lot of the strengths are due to the strength of the groups. Sustaining such high repayments for example, would be impossible without well-functioning SHGs. These SHGs have fairly simple documentation and thus the entire accounts and documents are handled by group members themselves. The groups are able to run by themselves, autonomously – just some occasional support and help is given by volunteers who are also community members. This has increased trust and effectiveness of any collective action that they engage in.
- In view of the popularity of the company and the regularity of their services, these services have become predictable and reliable for the members. **Members have completely stopped going to the local stores for items available with the company.** For many members, it is no longer a question of whether an activity will happen or not, but about when it will happen. In other words, members' habits for these services have changed. A corollary of this is that, whatever items come, always get sold out. The community has come to expect these services from the company, and this helps keep the company on its toes to deliver, and also help the members.

## **6. Challenges faced during the implementation of the programme And possible solutions**

In order to fulfill the potential available to FPOs, FPOs have to overcome some major challenges. These pertain broadly to the following three areas namely, - legal and regulatory aspects, finance and capital as well as governance and management. We have described these challenges briefly in the following section.

### **(a) LEGAL AND REGULATORY FRAMEWORK**

A major bottle neck is non-familiarity with the legal and regulatory framework – both by the shareholders and the board members. While members of the farming community may have exposure to organizational forms such as societies or cooperatives, the company is a form with which most of them are quite unfamiliar. The basic documents such as the Companies Act, the Rules and Regulations, various notifications etc. are available only in

English and Hindi. There are a large number of records to be maintained, forms to be filled and documents to be filed with the Ministry of Corporate Affairs (MCA) irrespective of the volume and size of operations.

#### **(b) FINANCE AND CAPITAL**

With respect to finance and capital the problem arises from the fact that - nobody other than a producer can invest and become a shareholder. Hence, there is no incentive for anyone to pick up a large number of shares since your voting rights are the same irrespective of the number of shares you hold. Investors who provide loans for working capital would typically like to pick up and hold shares as equity – in this case it is not possible. Some agencies have funds which are specifically meant to help producer organizations. However, in general they also look for producer organizations which have been an existence for at least three years or can offer collateral security for the loans. Only a limited contribution can come from small and marginal farmers especially in the initial period. Increased equity contribution may come with time. Additional problems arise due to the fact that PCs have limited skills to provide required documentation. Agro businesses require flexible, time sensitive customized products which are not available in the market. Accumulated losses of initial years could be high thus leading to a negative credit rating. Also, agriculture has been deemed a high risk sector hence collaterals become a must.

#### **(c) GOVERNANCE AND MANAGEMENT**

Most FPCs get started with support from NGOs which in turn are operating projects on a 1 – 3 year timeline and trying to meet donor expectations. Very often promoting NGOs have – “Project mindset” and lack commercial skills. There are also language barriers since many of the Board members may not be fluent or even familiar with the English language. It is difficult to ensure that the FPC has a good business plan to establish good market linkages. It is also a challenge to ensure that operational, marketing and financial plans are in synchrony. Balancing interests and constituencies is also required. This means that the PC must take care of the interest of small and marginal farmers and also balance business and social objectives. Good Governance means that the PC must - comply with the law of the land, and the governance must be transparent, equitable and participatory.

### **8. CONCLUSION**

Towards the strengthening of the FPCs there is a need to undertake a comprehensive programme which can lead them to financial and institutional stability. These include support to be provided to the individual FPCs as well as those involving networking, formation of a federation and common efforts. The programme will consist of the following components.

- a)** Training programmes
- b)** Exposure Visits
- c)** Publications
- d)** Mentoring of CEOs, Board of Directors
- e)** Annual meeting for consultations with all Stakeholders
- f)** Undertaking efforts for certain common / generic activities required by the sector including – developing a website / portal, working on an MIS system, evolving a credit rating system suitable to FPCs etc.

Institutional support from BIRD, NABARD and other Developmental and financial institutions are important to take the FPOs to the higher plane of growth and sustainability and to make the

**“FPOs – Company of the Farmers for Future”**

\*\*\*\*\*

## **Points/ issues for discussion a**

1. Role of POPI in promotion of FPO
2. Various roles of POPI in promoting, developing and sustaining FPOs
3. How strategize marketing of various products - aggregation, processing, value addition and marketing through FPOs
4. Value chain and role of FPO in promoting the value chain
5. Value chain financing by Banks
6. Through adopting organic farming / NPM, how to reach sustainable growth
7. Trainers' Note

### **1. Objectives:**

NABARD has been promoting FPOs and the role of Producer Organisation Promoting Agencies (POPIs) is very important in sustaining the growth of FPOs.

The case has been documented to demonstrate the role and success of POPI in promoting FPOs, enhancing the ability of the POs to market their produce, promote credit linkage with financial institutions and other institutions for technical and skill development.

This case study show cases the success achieved in collectivisation, arranging institutional finance and increase in the income of farmers thereby providing adequate confidence to farmers groups and bankers on the efficacy of the model.

Further, the experience of POPI in promoting 23 FPOs over a period of 5 years and their experience in organising farmers collectives elaborates on the challenges in sustaining the achievements and taking forward “ the movement of FPOs to the future”.

### **2. Target Group**

The case can be administered to trainee participants from POPIs, academicians, Govt. officials involved in promoting farmers collectives, Community Based Organisations and financing banks.

### **3. Session Plan and Time Required**

#### **a. Session Plan**

The faculty member, after initial briefing, may give adequate time for the participants to read and understand the case and clarify initial doubts raised by participants. Then groups may be formed. It is better to have not more 8 participants per group. The groups can be advised to discuss for about 30 minutes by keeping the following points in mind.

- Role of POPI in promoting FPOs – Identification and rating norms for POPI

- Methodology to be adopted by a POPI to identification of clusters, farmers interest group, etc. for promotion of Producer Organisations
- Challenges for the POPI / FPO for sustainable development of FPO – Role of various institutions.

#### **b. Time Required:**

The time required for a batch of 25 to 30 participants, will be about 120 minutes. The tentative breakup is given below

<b>Activity</b>	<b>Duration (in minutes)</b>
Formation of Groups (3 to 4) after explaining the case by the faculty	<b>15</b>
Discussion in Groups	<b>30</b>
Preparation of Report and PPT if any	<b>30</b>
Presentation by individual groups followed by discussion	<b>30</b>
Summing up by faculty	<b>10</b>
<b>Total</b>	<b>120</b>

#### **4. Trainers' inputs for discussion**

- POPI need to have adequate experience in undertaking development project for farmer's viz. implementation of watershed projects, tribal development projects, etc.
- Understanding the various sources of funds and incentives available for POPIs and POs.
- Exposure visit of prospective members facilitate formation of FPCs and develop greater cohesion among members.
- FPCs may rather facilitate aggregation and marketing of members' produce, than try to trade in the produce, so as to limit risks especially in the initial stages.

\* \* \* \* \*

***Case documented by : Shri L. Sanjivi, DGM (Faculty Member), BIRD, Mangaluru***