

## Status of Farmer Producers Organizations (FPOs) in Andhra Pradesh

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### ABSTRACT

A variety of approaches have emerged over the years to address the problems of small and marginal farmers' agriculture. In order to improve the welfare and living standards of farmers, there is a need to create appropriate ecosystem in the state. Such institutional arrangement/membership-based institutions are found to be the backbone for primary sector. Both Central and State governments are stressing on promoting 'Farmer Producers Organizations (FPOs)' as an important strategy for creating an ecosystem for enhancing farmers' profits. The Government of Andhra Pradesh (AP) had organized a series of meetings with all stakeholders and came out with a strategy and policy for FPOs in the state. Further, the state is also envisioned to set-up 1000 FPOs to benefit at least one million farmers during the initial stages. ICRISAT has undertaken a comprehensive scoping study on FPOs in the state upon the request from Govt. of AP. This study is an outcome of intensive discussions with several proposed and functional FPOs and other stakeholders across state. The findings emanated from this study are highly useful for academicians, researchers and policy makers in the state.

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### 1. Introduction

The high vulnerability of small and marginal households is largely attributed to 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 marketing of their produce. A variety of approaches have emerged over the years to address these problems. The success of cooperatives in India point to many limitations, except few successful exceptions in the field of dairy farming. In recent years, 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. Hence, on the recommendations of a high-power committee, the Government of India introduced the Companies (Amendment) Act 2002, which paved the way to Producer Companies (PCs). It is one of the important elements in innovative institutions to support farmers in this transformation.

Experiences in India and other parts of the world clearly indicate that farmers' institutions that are membership based, financially robust, adopt business model, well integrated (to technology, research, markets, banks and other infrastructure facilities) and could provide enormous economic benefits to its members i.e., farmers. Such collective action goes beyond coming together for merely aggregation of outputs, but goes to realms of business and markets through scale of operations. In this backdrop, both Central and State governments are pressing the need for promoting 'Farmer Producers Organizations (FPOs)' as an important strategy for creating an ecosystem for enhancing farmers' profits. This structure not only provides technical know-how to farmers but also connects effectively to both input and output markets by completely negating the role of intermediaries. The formal networking of small & marginal farmers also strengthen their capacity and empower them significantly.

Small Farmers Agribusiness Consortium (SFAC)<sup>2</sup> is an autonomous society promoted by Ministry of Agriculture Cooperation and Farmers' Welfare, Government of India launched a pilot programme for promoting FPOs in the country during 2011-12 in partnership with 25 State governments and mobilized approximately 0.69 million farmers in over 694 FPOs (428 registered and 266 under the process of

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<sup>2</sup> Refer more at [www.sfacindia.com](http://www.sfacindia.com)

registration), the majority of which have been incorporated as producer companies under the Companies Act, 1956. Support to Producers Organizations (POs) has been one of the priority areas also identified by NABARD considering the significant role the POs can play, if nurtured in right manner, in empowering the farming community especially in production and marketing. To give a fillip to NABARD's initiatives, Govt. of India, in the Union Budget 2014-15, announced setting up of "Producer Organization Development and Upliftment Corpus (PRODUCE) Fund" in NABARD<sup>3</sup> with a corpus of Rs.200 crores to be utilized for the building and promotion of 2000 FPOs across the country in two years.

With similar enthusiasm, Government of Andhra Pradesh has envisioned double digit growth in primary sector in collaboration with the ICRISAT and has developed a primary sector strategy. It also brought out the 'policy and operational guidelines to promote FPOs'<sup>4</sup> in the state. The State government also envisioned to set-up 1000 FPOs to benefit at least one million farmers during the initial stages. The State government also requested ICRISAT to carry out a comprehensive scoping study<sup>5</sup> of the FPOs in the state with an objectives to: (i) understand the status, initiatives and strategies for setting-up of FPOs in the state (ii) examine the organization, functions and constraints of existing FPOs and (iii) to identify key issues and strategic options to move forward. With this background, the present paper made an attempt to summarize the snapshot of FPOs in the state across different sub-sectors of agriculture.

## 2. Sampling framework

Currently, five FPOS are registered with help of SFAC, while NABARD has set-up nearly 93 FPOs in the state. Besides, various state departments and SERP are planning to set up 689FPOs across different sub-sectors like agriculture, horticulture, animal husbandry, fisheries, etc. The scoping study (Raju et al. 2017) has covered both proposed (existing) and functional FPOs in the state. These have been visited and interviewed by the ICRISAT team during May-August 2016 across the state. The primary survey covered 45 FPOs in 39 *mandals* belonging to twelve districts of Andhra Pradesh (Table 1). Among the total, agriculture (16) occupied the highest followed by horticulture (15), fisheries (8) and animal husbandry (6) sub-sectors. Overall, about two-third of the total sample consisted of proposed FPOs, while the remaining were functional FPOs to help extract required information from diverse sub-sectors.

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<sup>3</sup> Refer more at 'FPOs - Enriching Lives of Farmers', Brochure prepared and published by NABARD

<sup>4</sup> See complete details at 'Andhra Pradesh Farmers Producers Organization Promotion Policy, 2016' Operational guidelines, GoAP, 2016.

<sup>5</sup> Refer Raju et al 2017

**Table 1. Coverage of baseline survey.**

Sl no	District	No. of mandals covered	No. of FPOs interviewed			FPO belongs to sub-sector			
			Proposed	Functional	Total	Agril.	Hort.	AH	Fisheries
1	Krishna	5	1	4	5	1	2	0	2
2	Guntur	3	5	1	6	4	0	1	1
3	Kadapa	4	3	1	4	1	1	1	1
4	Kurnool	3	2	1	3	2	0	1	0
5	Prakasam	2	1	1	2	1	0	1	0
6	East Godavari	5	5	1	6	0	3	0	3
7	West Godavari	3	4	1	5	5	0	0	0
8	Visakhapatnam	5	5	0	5	0	3	1	1
9	Chittoor	3	3	0	3	0	2	1	0
10	Nellore	3	0	3	3	0	3	0	0
11	Vizianagaram	2	0	2	2	2	0	0	0
12	Srikakulam	1	1	0	1	0	1	0	0
	Total	<b>39</b>	<b>30</b>	<b>15</b>	<b>45</b>	<b>16</b>	<b>15</b>	<b>6</b>	<b>8</b>

### 3. Methodology

A series of interaction with line departments paved the way for designing the suitable sampling framework for the study. The step-by-step procedures used across sub-sectors actually brought out the commodity-based approach/stratification for this study. On the whole, the present study has used both quantitative and qualitative methods to deeply understand the scope of FPOs in the state. Primary data collection was done using standardized pre-tested survey instruments in case of proposed FPOs and respective stakeholders. While a case study approach was used to collect appropriate information from functional FPOs. A simple tabular average analysis with appropriate measure of central tendencies were used for summarizing the results. Appropriate scales/weights were also defined based on the need and applicability.

### 4. Results and Discussions

For better clarity and brevity, the study results are summarized in two major sub-sections. While section 4.1 summarizes the results from proposed/existing FPOs and section 4.2 details with functional FPOs in the state.

#### 4.1 Insights from proposed/existing FPOs

- Almost half of the total sample FPO's set-up are facilitated by Government organizations, mostly department of agriculture/horticulture/animal husbandry/fisheries. Another 43% are supported by Non-Governmental Organizations (NGOs)/charity foundations existing in various *mandals*/villages. About 6.7% of the total FPOs are also encouraged by Multi-aided Cooperative Societies (MACS). Almost all of the focal persons from the proposed FPOs in the sample expressed that they are aware about the roles of Producer Organization Promoting Institutions (POPIs). But, nearly half of them are only aware of the roles of Resource Support Agency (RSA) in setting up of the FPOs. The results clearly indicated that the concept of FPO and roles of various stakeholders has not yet percolated at the gross-root level i.e., up to small & marginal farmers in these villages. There is a clear need for creation of more awareness and sensitization of both stakeholders and farmers.
- The roles and initiatives of POPIs and RSAs are very critical in early stages of setting-up of an FPO in any district/state. A checklist of activities for both POPIs and RSAs were administered separately during personal interviews to obtain the necessary information from sample proposed FPOs. Based on no. of activities initiated, a simple cumulative scale was developed across POPI and RSA listed activities and correspondingly proposed FPOs were classified against them. Only five each of the proposed FPOs have initiated both all check listed POPI and RSA activities elicited in the questionnaire out of the total sample (N=30) interviewed. About 26.7% of total FPOs are still in the initial stages (Cumulative of scale -1) of POPI activities due to various reasons. Nearly 40% of sample FPOs are not even initiated (Cumulative scale - 0) the RSA activities in the respective FPOs. These findings clearly reveal that many of proposed FPOs are in very nascent stage.
- The sample FPOs were categorized based on 'stage of FPO formation' across study districts. Overall, nearly half (46.7%) of the sample proposed FPOs have just initiated the process of setting-up and registration formalities. Another 33.3% of sample proposed FPOs have 'just identified' the sectors or crop groups to move forward. About 16.7% of those have 'just completed the registration process but not functioning'. Only one out of the 30 proposed sample FPOs is existing but not yet registered. The categorization slightly varies from sub-sector to sub-sector. However, majority of them either have just identified the area to form the FPO or 'initiated the process' category. It is a long way to move forward and complete the registration formalities and kick-start. Many of the focal persons expressed that the 'registration of FPO' takes a minimum of six-twelve months' time. It costs a minimum of Rs. 50,000 towards

registration of each FPO. Many of them have also opined that they do not have sufficient funds to move further.

- It would be interesting to elicit and understand the target membership pattern and decisions about unit share values from proposed/existing FPOs across sub-sectors. A majority (50%) of FPOs are having the proposed membership range between 51 and 500 across sub-sectors. Only 13.3% of proposed FPOs also indicated that they targeted membership range beyond 500 per FPO. Around 30% of the sample FPOs also expressed that their target membership range will be less than 50. Most of these FPOs proposed under Natural Farming (NF/NPM) belongs to agricultural sub-sector. The unit share values varied from sub-sector to sub-sector and from proposed FPO to FPO. Majority of them started with Rs.10 or multiples of it. Few of those also started with Rs.100 or multiples of it.
- Composition of FPO members is the key for taking appropriate decisions to move forward and also for long-term sustainability of operations. Most (50%) of the proposed FPOs have planned to include 'small and marginal farmers' as their 100% members. Another sample of nine proposed FPOs have targeted to include small and marginal farmers in the proportion of '50% to 99%' in their respective total membership coverage. The remaining proposed FPOs planned to include less than 50% of members as small and marginal farmers. In general, the existing fisheries groups/proposed FPOs in the state were dominated by medium to large farmers' category. Overall, there is a clear focus and emphasis to include 'small and marginal farmers' in the proposed FPOs.
- Majority (90%) of the sample proposed FPOs in case of agriculture sub-sector are located around or near to existing regulated markets. This leads to a big question on 'how the proposed FPOs are going to outperform than existing regulated markets in terms of function and infrastructure'? How these proposed FPOs are going to offer better incentives/facilities than existing regulated markets? The proposed sample FPO locations in case of horticulture are away from existed regulated markets. There is a good scope or incentives to offer to horticultural farmers by setting-up of these proposed FPOs in terms of better market linkages and storage facilities. In case of dairy and fisheries sub-sectors, the proposed FPO locations are having a good potential to be set-up as there were very few regulated or formal markets in these sub-sectors.
- In general, setting-up of or nurturing of FPO is a capital intensive process. Awareness regarding the mobilization of needed capital is an important step in formation of an FPO. Utilization of

sufficient financial resources through various on-going government schemes is critical in early stages of FPO. About 60% of total sample FPO's focal persons does not have awareness about these opportunities. Only the remaining (40%) of them opined that they have reasonable awareness about these financial opportunities.

- Creation of basic infrastructure facilities like storage space, grading facilities, scientific post-harvest handling, transportation vehicles etc. are, in general, major attractions for mobilizing the new members in the FPO. But, creation of these facilities required sufficient capital and strong business model to move forward. Only 30% of the total proposed sample FPOs have started at least some of these services to offer to their members. The most interesting issue is majority of these FPOs belongs to either horticulture or fisheries sub-sectors. The remaining 70% of FPOs did not even create any of these facilities. These findings clearly indicate that majority of the sample FPOs are in their nascent stage and there is a long way to go.
- Conduct of farmers' training and awareness creation programs are critical in the initial stages of FPO set-up to mobilize large number of farmers as its member. Necessary field trips for exposure to new technology, value addition opportunities and visit to functional FPOs are mandatory to instill confidence among farmers about scope of FPO. About 90% of the proposed FPOs under study have initiated such activities. The remaining 10% of FPOs are yet to organize for their members.
- Estimation of anticipated costs and revenues is an important step in preparation of a business proposal for any proposed FPO. The step clearly visualize the anticipated investments to be made in setting-up of an FPO and corresponding streams of revenue to be generated by various activities. Both backward and forward linkages also needs to be identified while preparing the business plan. Similarly, various strategies for value addition opportunities and marketing needs to be sorted out. Ultimately, the volume of products to be handled and respective economies of scale also needs be worked out. This entire exercise will bring out the anticipated costs and revenues of a proposed FPO. It also identifies future evolution of strategies over a period of time. Only 36.6% of the total proposed FPOs have carried out this important and critical exercise. Nearly two-thirds of the sample are yet to develop their business plans.
- Development of risk mitigation plans is inevitable for long-term sustainability of FPO in any sub-sector. Also, anticipation of major risks and corresponding mitigation plans always insulate the FPO from both external and internal shocks. Being well prepared to diverse risks will always minimize the income fluctuations and provide some cushion to an FPO and its members. Only

26.6% of total sample proposed FPOs has given some thought about these issues. The remaining are not even aware of these measures.

- Several other constraints and limitations were also expressed by focal persons and POPIs in setting-up of FPOs across four sub-sectors. They were thoroughly discussed and summarized in the scoping study report (see Raju et al. 2017).

#### 4.2 Insights from functional FPOs

On the other dimension, it would be always interesting to understand how the functional FPOs are working across sub-sectors and the lessons learnt over the time and across districts. The primary survey covered 15 functional FPOs located in 15 *mandals* and nine districts of the state. Majority of them were from horticulture (8) sub-sector followed by agriculture (4), fisheries (2) and animal husbandry (1). The brief insights from 5-6 functional FPOs are summarized below and other functional/registered FPOs couldn't provide the detailed information due to their fragmented or initial stages of operation. They are:

- All the sample functional FPOs in the sample are facilitated either by NGOs/MACS/Charity Foundation etc.
- Non-Governmental Organizations (NGOs) acted as the Producers' Organization Promoting Institutions (POPI) for almost all the functional FPOs under study. In few cases, NABARD itself acted as a POPI (under PRODUCE fund) and promoted them.
- NABARD and Indian Grameen Service (IGS) acted as a Resource Support Agencies (RSA) in majority of them. However, few FPOs are still not aware about the role of RSA.
- Majority (73.3%) of them were registered in the year 2015 under Companies Act. The remaining were registered between the year 2013 and 2014.
- The minimum membership size observed was 58 and the maximum identified as 1,671. But, majority of FPOs were having membership ranging between 200 and 500. The minimum membership fee paid was Rs.10, while the maximum reported were Rs.2000.
- The extent of mobilization of capital ranged between Rs. 1 to 4 million for two-third of sample functional FPOs. Approximately, one-third of sample FPOs are still waiting for financial assistance from NABARD.
- Nearly 73.3% of total functional FPOs have created some/minimum infrastructure facilities for the benefit of their members. The remaining FPOs are yet to establish the facilities for their members.

- Only four FPOs out of fifteen were able to show the business plans for the financial year 2015-16. The remaining FPOs have not kept their financial records up to date.
- None of the sample functional FPOs are currently using any ICT applications to communicate with their members regarding farm inputs, technologies and market linkages information, etc.
- Many of the sample FPOs also faced lot of challenges over time. Some of the major issues expressed are: still dominating role of traders/middle men in the markets, facing issues when want to scale-up business from one commodity to others, no formal credit and insurance facilities, no formal working capital support and high interest rates from bank etc.

### 5. Key issues and Options

This research paper distill out key issues from earlier sections, based on results and elaborated discussions. But, it also identifies the possible options to move forward based deep consultations and feedback from various stakeholders. They are:

Key issues	Options
Lack of convergence of govt. agencies /schemes	Support establishing state and district level agency for convergence
Untapped social capital/ community resources	Utilize existing CBOs like SHGs, Rythu Mithra groups, JLGs, Cooperatives, MACS etc.
Inadequate business planning	Prepare business plans through professional help and facilitation
Inadequate knowledge base of resource institutions	Identify Resource organizations for skill improvement
Traders have become key functionaries of FPOs	Create farmer member organizations
Few executive members handle all responsibilities	Governance and function of FPOs should be transparent
Improper market identification and price discovery	Use digital platforms and link FPOs to transparent trading facilities
Primary level processing is inadequate	Transfer technological innovations on commodities to FPOs
Absence of forward and backward integration	Facilitate forward and backward linkages
Access to credit is limited	Provide bank credit linkages at district and <i>mandal</i> level
Better growth models	Obtain institutional support and building strong linkages with the institutions to achieve better growth models

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