

FORMATION AND STRENGTHENING OF FARMER PRODUCER ORGANIZATIONS (FPOS): A PATHWAY TO EMPOWERING SMALL AND MARGINAL FARMERS

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Introduction

Agriculture in India is dominated by small and marginal farmers who face multiple constraints such as low productivity, high input costs, limited access to technology and weak bargaining power in markets. To overcome these challenges, Farmer Producer Organizations (FPOs) have emerged as a sustainable institutional mechanism. A FPO is a collective of farmers registered as a legal entity, enabling them to act as producers, aggregators, processors and marketers. By collectivizing, farmers can enhance their economies of scale, reduce risks and strengthen their bargaining power.

Concept and Legal Framework of FPOs

FPOs are generally registered under the following legal frameworks: Companies Act, 2013 (Producer Company provisions), State Cooperative Societies Act, Mutual Benefit Societies Act and Societies Registration Act, 1860.

The Producer Company model is the most common, as it provides flexibility of a private company while protecting farmers' ownership and control. This model balances social objectives with commercial orientation, making it suitable for agricultural enterprises.

Formation Process of FPOs

The formation of an FPO can be broadly classified into the following steps:

1) Awareness creation and mobilization of farmers:

Farmers need to be sensitized about the advantages of collective action through meetings, campaigns and demonstrations. Mobilization of farmers into smaller Farmer Interest Groups (FIGs) to encourage collective participation.

2) Cluster and Commodity Focus :

A core group of progressive and motivated farmers is then identified to act as promoters and lead the initiative. Select a cluster based on homogeneity of crops, livestock or allied enterprises.

3) Registration of FPO :

Once the cluster and focus commodities are finalized, the FPO moves toward legal registration. This involves drafting the Memorandum of Association (MoA) and Articles of Association (AoA) that define the objectives, structure and governance mechanisms of the organization. The FPO is then registered under the appropriate legal framework, most commonly under the Companies Act, 2013, as a Producer Company. After registration, the organization opens a bank account in its name to facilitate financial transactions and ensure transparency in operations.

4) Business Plan Preparation :

Preparation of a comprehensive business plan is a crucial step. This plan outlines both short-term (1–2 years) and long-term (5–7 years) goals, focusing on key areas such as input procurement, value addition, marketing and financial sustainability. The business plan serves as a roadmap for the FPO's growth and helps in attracting support from financial institutions and government schemes.

Strengthening of FPOs

For strengthening of FPOs involves continuous capacity building, institutional development, financial mobilization and business diversification.

- Capacity building includes conducting training programs on governance, leadership, financial management, record keeping and digital literacy to empower the members and board of directors. Exposure visits to successful FPOs are also arranged to help members understand best practices and gain confidence in managing their own organization.
- Institutional strengthening is achieved by forming a Board of Directors (BoD) and sub-committees responsible for specific functions such as finance, marketing and operations. A Chief Executive Officer (CEO) is appointed to manage day-to-day affairs, while regular meetings are conducted to ensure transparency and accountability in decision-making.
- Financial strengthening is another critical aspect, which involves mobilizing share capital from members and leveraging government schemes such as the Small Farmers Agribusiness Consortium (SFAC) Equity Grant Scheme, which provides financial

assistance of up to ₹15 lakh. Additionally, the Credit Guarantee Fund enables FPOs to obtain collateral-free loans from banks, thereby improving access to credit.

- For business development, FPOs focus on providing essential services to their members, such as the supply of quality inputs like seeds, fertilizers, and equipment at lower costs through bulk purchasing. They also engage in collective marketing by aggregating produce, grading and selling directly to markets or processors to secure better prices. Many FPOs also venture into value addition by establishing processing units, branding and packaging their products to enhance profitability. The integration of Information and Communication Technology (ICT) tools further helps in accessing real-time weather information, market prices and digital record-keeping, which improve efficiency and decision-making.

Government Support Mechanisms

Government support plays a pivotal role in the success of FPOs.

- The Central Sector Scheme for the Formation and Promotion of 10,000 FPOs (2020–2024) with a total budget of ₹6,865 crore has been a major initiative in this direction.
- Implemented through agencies such as NABARD, SFAC and NCDC, this scheme provides financial, technical and institutional support.
- Cluster Based Business Organizations (CBBOs) are appointed to provide handholding support to FPOs for five years, ensuring that they become self-reliant and sustainable.
- Schemes like the Equity Grant and Credit Guarantee Fund strengthen the financial base of FPOs, while digital initiatives such as e-NAM connect them to broader markets.

Benefits of FPOs

- ❖ Help to reduce input costs through bulk purchasing of seeds, fertilizers and equipment, allowing farmers to buy at lower prices.
- ❖ By selling produce collectively, farmers can eliminate middlemen and get better prices, leading to increased income and stronger bargaining power.
- ❖ Enable farmers to access institutional credit and government subsidies more easily since they are registered entities recognized by financial institutions.
- ❖ Promotes value addition by engaging in processing, grading, packaging and branding of agricultural produce, which helps increase profit margins.
- ❖ Also encourage entrepreneurship among rural communities by developing managerial and marketing skills among their members.

- ❖ Empower women and youth by providing leadership roles, training and employment opportunities within the organization.

Challenges and Strategies

- Low farmer participation, as many farmers lack awareness or trust in collective organizations. To overcome this, it is important to build trust through transparent operations and by demonstrating quick, tangible benefits to members.
- Weak governance which can lead to poor decision-making and internal conflicts. This can be addressed by organizing regular training programs, ensuring democratic elections and maintaining accountability in all operations.
- Limited financial resources often restrict FPO activities and growth. To solve this, FPOs should leverage government grants, bank loans and CSR funding and encourage members to contribute equity capital.
- Market risks such as fluctuating prices and competition from traders can also affect profitability. These can be mitigated by entering forward contracts, diversifying crops and investing in value addition through processing and packaging.
- A lack of professionalism in management is another common issue, as many FPOs are managed by individuals without business experience. Hiring trained managers and linking with Cluster Based Business Organizations (CBBOs) can improve efficiency and provide technical guidance.

Case Studies

1. Groundnut FPO, Ananthapuramu: Reduced seed costs by 20% and marketed groundnut oil collectively.
2. Turmeric FPO, Nizamabad: Established processing plant, branded turmeric powder and initiated exports.

Conclusion

The formation and strengthening of FPOs is a transformative approach to empower smallholder farmers in India. By collectivizing, farmers can overcome structural constraints in agriculture and integrate with modern value chains. For sustainability, FPOs must be nurtured with continuous training, financial support, transparent governance and market linkages. Strong institutional support is essential to ensure that FPOs evolve from nascent groups to vibrant agribusiness enterprises.