



## **Impact of Farmer Producer Organizations in Entrepreneurship Development**

### **Research Guide**

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### **ABSTRACT**

The Farmer Producers Organizations (FPO) are grassroots level, farmer managed legal companies which aggregate the small producers' inputs and products, perform commercial activities, and share the profits/benefits among the members. Currently, over 5000 FPOs are functioning in India, but their critical success factors in serving the member farmers are relatively unknown. The purpose of the study is to delineate the critical success factors and challenges of FPOs through perceptual impact of their members. This study follows survey research design to assess the perceived impact of FPO members from 14 FPOs from two regions of India. Data were collected through a self-reported and standardized questionnaire from a random sample of thirty selected members from each FPO to evaluate the perceived-impact on their member's livelihoods using five-point continuum scale. Member's perception towards performance of FPO was also gauged using seven-point continuum scale. The analysis indicated two dimensions of perceived impact of FPOs such as "Facilitating members for profitable farming" and "Fundraising for value addition". The facilitating members for profitable farming included seven items such as "Increase in utilization of farm mechanization and power", "Increase in input availability", "Increase in cropping intensity", "Increase in knowledge of improved production technology", and "Increase in adoption towards production technology" while the Fundraising for value addition had three items namely "Value addition linkage and related infrastructure", "Ways of raising funds" and "Dovetailing of Govt. schemes".

**Keywords: Challenges, farmer producer organizations, perceived impact, performance**

## INTRODUCTION

Indian agriculture is predominantly a small and marginal farmer profession, who constitutes 86.2 per cent of the total farming population and own 47.3 per cent of crop area in the country (Dept of Agriculture, cooperation and Farmers Welfare, 2019). Despite having a higher contribution to agriculture, the small and marginal farmers are vulnerable and often suffer due to risks and uncertainties like erratic climatic conditions, lack of technical and market information, poor communication linkages with extension system, problems in accessing markets and exploitation by intermediaries in procuring inputs and marketing fresh produce, access to and cost of credit (Dev, 2005). With agriculture acquiring the business outlook owing to economic growth and Increasing consumer income, creating opportunities for small and marginal farmers to maximize farm income by addressing the emerging consumer needs. However, the problems like poor access to institutional credit and low producers' share in consumer's price affect the small and Marginal farmers significantly. Currently, only 50 per cent of the small and marginal farmers have access to public sector institutional credit, which limits their production capacity. Studies also indicated that the farmers share in consumer price was relatively low for high value perishable commodities such as vegetables (33-44 %) (Panda & Sreekumar, 2012) and fruits (28-29 %) (Murthy *et al.*, 2009)

## METHODOLOGY

The study follows survey research design using a mixed-methods approach. Seven FPOs including five from Maharashtra were selected based on the type of FPOs, which are community based, resource oriented, commodity based and market oriented. The selected FPOs were promoted by Government, NGO individuals. A total of 210 members from each seven FPOs at the rate of thirty each were randomly selected for the study. Data on perceived impact of FPOs on social and economic conditions of the farmers along with members' Perceptions about their performance in economic and social dimensions were collected using a scientifically validated questionnaire. Nine equi-weighted statements on economic indicators, eight equi-weighted statement on social indicators and 13 equi-weighted statements on success factors were measured on a 7-point scale and administered with the producer members of Individual promoted FPOs (30), Government promoted FPOs (90) and NGO promoted FPOs (90) to assess the perceived effectiveness of the members. Data on perceived impact of FPO were analyzed using Exploratory Factor Analysis (EFA) following Maximum Likelihood Method with Promax rotation. Factors with Eigen value more than one were retained for analysis (Field, 2000). The internal consistency reliability was estimated through Cronbach alpha, while the item-item and item-to-total correlations were calculated to

establish convergent validity. After extracting the latent factors in the data, the factor-wise variable loadings were pooled and subjected to One-way ANOVA to identify the differences in their scores across the Government, NGO and individual promoted FPOs. When significant differences were detected, post-hoc analysis was performed using LSD method. All analyses were performed using statistical software SPSS (Ver10.).

## **CHALLENGES FACED BY FPO'S**

It has been observed that the FPOs perform better when its management systems, governance and capital structure are strong. Other factors like market and financial accessibility, farmer-members engagement plan, infrastructure development, etc. should also be strengthened to scale up the business of the FPOs for its long-term growth and viability. The following challenges need proper attention to provide enabling ecosystem for the FPOs to function:

### **Business plan and scaling opportunities**

A well-defined business plan is an essential element for the success of any business organization. It becomes more imminent when all the executive members are farmers, who are mostly unskilled about different aspects of any business. The business plan helps the FPOs to diversify and scale up their business activities in a well-planned manner. Currently, majority of the FPOs lack such business plan, and therefore they limit their activity to merely bulk buying and selling of the inputs and/or farm produce

### **Difficulties in marketing of the produce**

FPOs are being recognized on various platforms for procurement by private companies. Private companies find FPOs as a better source for procurement of vegetables and high value crops which helps them cut down the procurement cost and ensure quality to a greater extent. But the practice is limited to few FPOs. However, for long-term sustainability of the FPOs, there is a need of strong market linkage for the farm produce or its value-added products.

### **Ownership and controls**

It has also been observed that many FPOs have been formed by few progressive farmers or rural households. These individuals have good intent to support other smallholder farmers in their locality by collectivizing the operations. However, it becomes difficult for such persons to maintain balance between personal interest and the interest of the farmer-members. They also hesitate in handing over the charge of management to democratically elected person within the FPO. This conflict leads to poor governance structure of the FPOs, and over time other member's loose interest in participating in the business of the FPOs.

## Poor capitalization and funding scope

There is a provision of funding support under various government schemes to the FPOs promoted by [NABARD](#) and/or [SFAC](#). However, such financial assistance is not available to all the FPOs, particularly outside the ambit of NABARD/SFAC. The average paid-up capital (PUC) of majority of the FPOs are between ₹ 1.0 to 3.0 lakhs. Due to lack of any collateral assets with the FPOs, financial institutions are hesitant to finance the FPOs, unless the latter is well-capitalized. These FPOs find huge challenge in managing their working capital requirements as well. Running a business organization with such small capital base is a daunting task.

A critical look at the results shows a significant difference in performing the production facilitation and fundraising for value addition functions. Though all FPOs, irrespective of the governance structure, showed similar trend in production facilitation dimension, they differed value addition dimension. The Govt promoted FPOs had higher preference for value addition component of the impact, compared to Individual and NGO promoted FPOs. This trend is the result of initiatives taken by Government to promote value addition among FPOs. The results displayed in Table 5 confirm that only Govt promoted FPOs had value addition and export functions, while others didn't offer. The results show a trend of Govt promoted FPOs moving towards fully commercial forms of business from traditional production and welfare functions. This is consistent with the trend observed by (Trebbin, 2014), that for-profit FPOs ventured into food processing and export. Other FPOs expressed few issues which prevented them to venture into value addition like lack of funds, problems in accessing quality technical expertise and delay in getting statutory clearances from the Government.

## CONCLUSIONS

The emerging paradigm of agriculture focuses on adding value to farm produce to exploit new opportunities arising out of increase per capita income, change in food consumption patterns, changes in life styles and others. The FPOs as grassroots entrepreneurship organizations, are in transition phase from securing farmers welfare to venturing into commercial activities. Though Govt promoted FPOs have refocused into commercial ventures, the Individual and NGO promoted FPOs faced struggles in creating new businesses. Therefore it is essential to strengthen the individual and NGO promoted FPOs by offering them quality technology and mentoring support while relaxing business creation norms.

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