

# Farmer Producer Organisations: Experience in Maharashtra

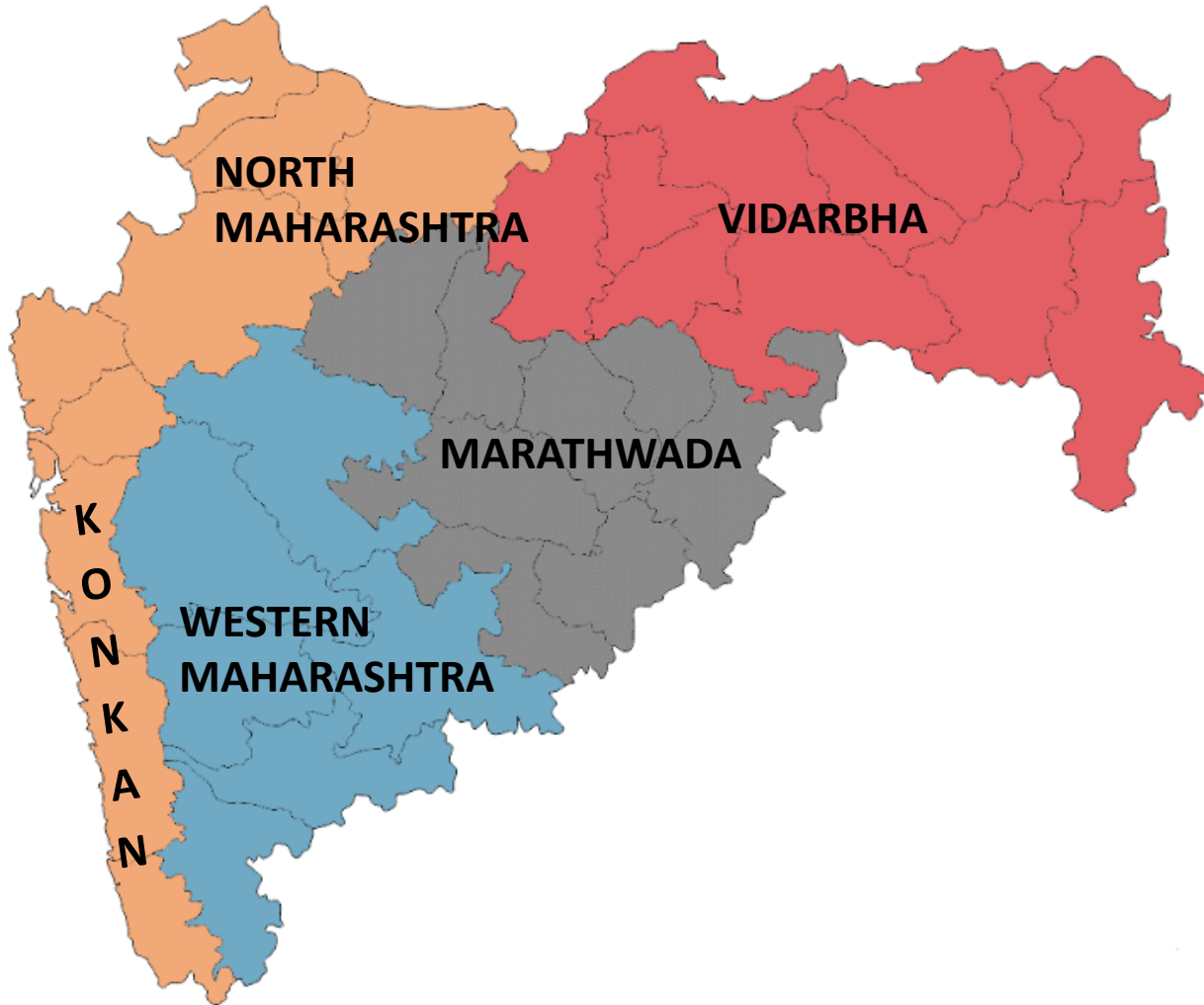
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# Maharashtra: The Importance of Agriculture



**15%**

Contribution to the  
State GDP



**15.2 M**

No. of farmers actively involve  
in agriculture



**12 M**

No. of small & marginal  
holdings - below 2 Ha



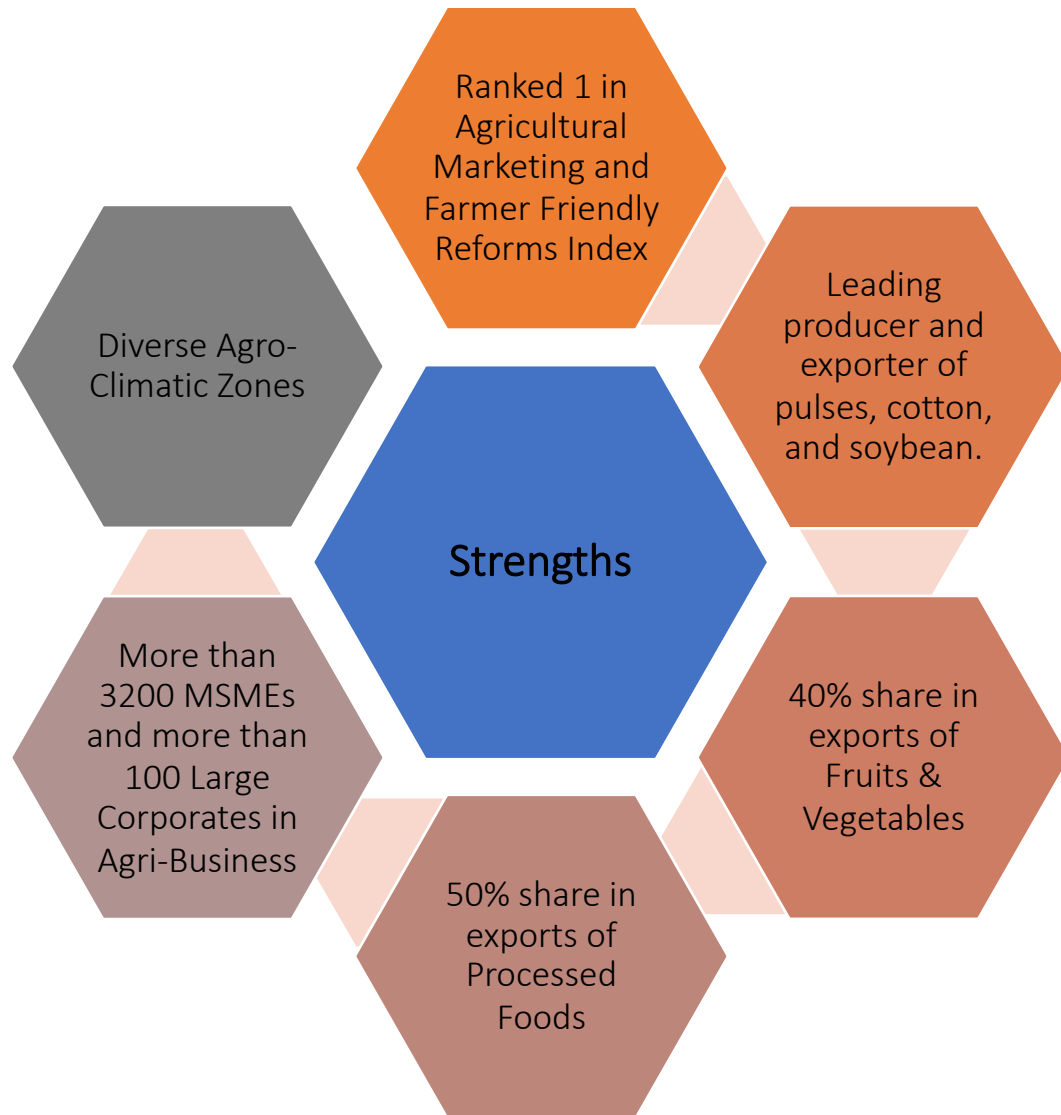
**52.1%**

State Labour Force in  
Agriculture



Source – State Agriculture Census 2015-16

# Maharashtra : Agriculture Overview



## Leading Producer in :

- ✓ Fruits & Vegetables
- ✓ Pulses
- ✓ Oilseeds
- ✓ Cotton

## Agri-Marketing Infrastructure:

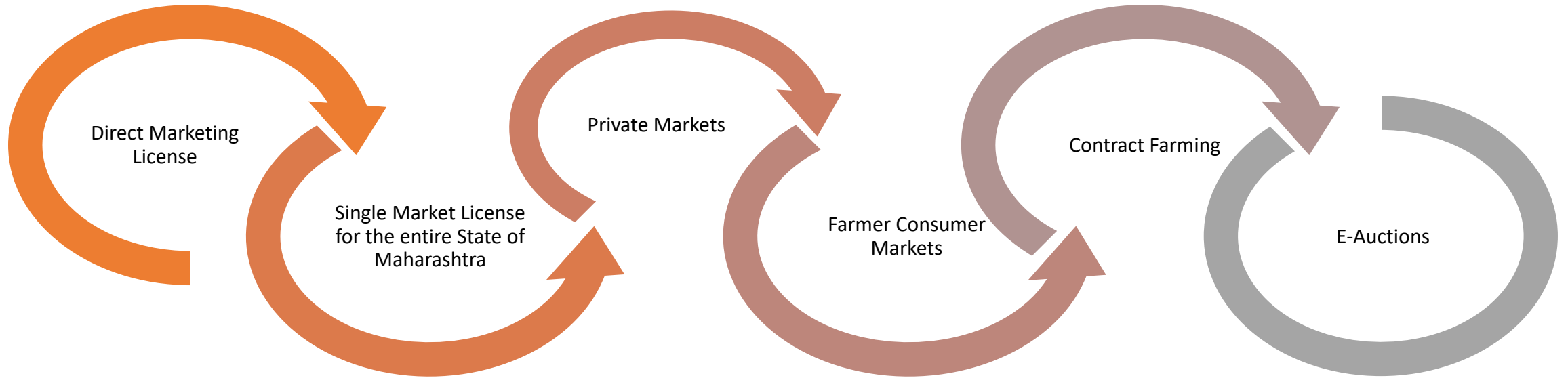
- ✓ Integrated Production and Processing Clusters
- ✓ Robust Logistic Network
- ✓ Largest Network of APMCs , Private Markets and Storage facilities
- ✓ State of Art Export Facilities

## Research & Extension Support:

- ✓ State Agriculture Universities
- ✓ National Research Centres
- ✓ Krishi Vigyan Kendras ( Agri Science Centers )
- ✓ Training Institutions

# Agri-Marketing Reforms

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- 1<sup>st</sup> state in India to create an enabling environment for setting up of **Private Markets**. There are 57 Private Markets established and run by the **private entrepreneurs** who have invested more than **USD 21 Million**.
- Annual turnover of agricultural produce in these markets is to the extent of **USD 704 million** (Rs.5000 cr.)
- **Promoted Direct Marketing** to enable more flexible environment. Till date, **1064 Direct Marketing Licenses** issued, out of which **400 licenses** have been issued to the **Farmers Producer Organizations (FPOs)** and their total turnover has exceeded **USD 395 million** (Rs. 2806 Cr.).
- **Provision for Single License** and permission for Purchase of agriculture produce across the state in more than one market yard has been introduced with great success. Maharashtra has issued total 38 total licenses and has led to total **USD 877 million** (Rs. 6226.32 Cr) **transactions across Maharashtra**.

# Key Challenges

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## Broad challenges faced by Agriculture Sector:

### Policy and Reforms

- Major focus has been towards increasing agriculture productivity and production.
- Unfair trade practices
- Farmer's price realisation in most agri produce is in the range of 35-50% of the price paid by end consumers.

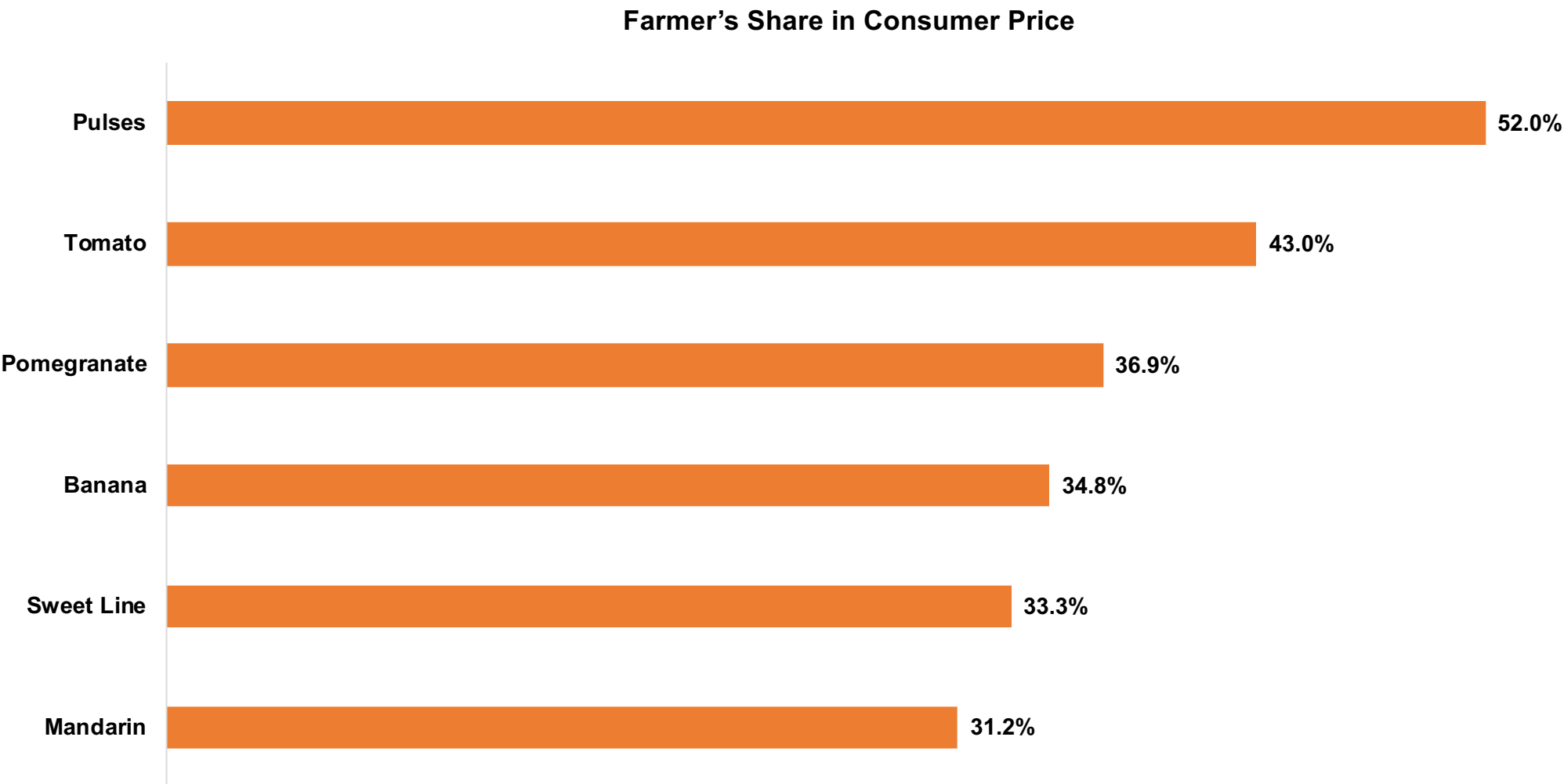
### Technology

- Lack of technology adoption for prediction & mitigation
- Low output yields due to poor agriculture practices
- High post harvest losses (8-25%)
- Low micro irrigation penetration
- Gap in technically skilled manpower
- Obsolete technology for food processing.

### Infrastructural Gaps

- Lack of post harvest management
- Lack of processing and preserving infrastructure
- Low private investment (only 10% investment in warehouses)
- Major capacity shortage in pack houses, cold store, reefer vans, ripening chambers etc.

# Effects of Key Challenges on Farmers' Price Realization



Sources: MACP ICRR 2019, ADB Value Chain Report

# Need for Farmer Producer Organizations (FPOs)

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Market architecture in respect of agriculture has been lopsided - major focus on traders & strong wholesale market institutions i.e. APMCs, which are far from the farmer's farm gates



Very few farmers have the capacity to link their produce to terminal destinations and intermediate market players deprive them from appropriate remunerations by keeping them outside of the consumer markets.



Over the years, these APMCs have turned out to be highly regulatory and restrictive in their market practices. It is realized that transactions at these APMCs between farmers and traders & commission agents is very asymmetrical with farmers having very little or no bargaining powers.



This vicious cycle has been responsible for depriving farmers & primary producers of optimal or market linked price realization. Hence, need has been felt of a new market architecture which is more farmer friendly and could help boost farmers real income.

# Transformation from Cooperatives to FPO

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- Agricultural cooperatives were formed under the Co-operative Credit Societies Act, 1904 to facilitate the collection of agriculture output from small and marginal farmers.
- Co-operative model has long been the dominant form of farmer output collection in India, however, the experience with cooperative model leads to many limitations that prevent effective collective action.
- Most cooperatives in India have kept their political agenda ahead of the economic benefits of their entities. As a result, the cooperative model point to many limitations that prevent effective collective action.
- A few key challenges faced by small and marginal farmers are access to investments, technological advancements, and efficient inputs and markets.

Co-operative Model

Transformation to

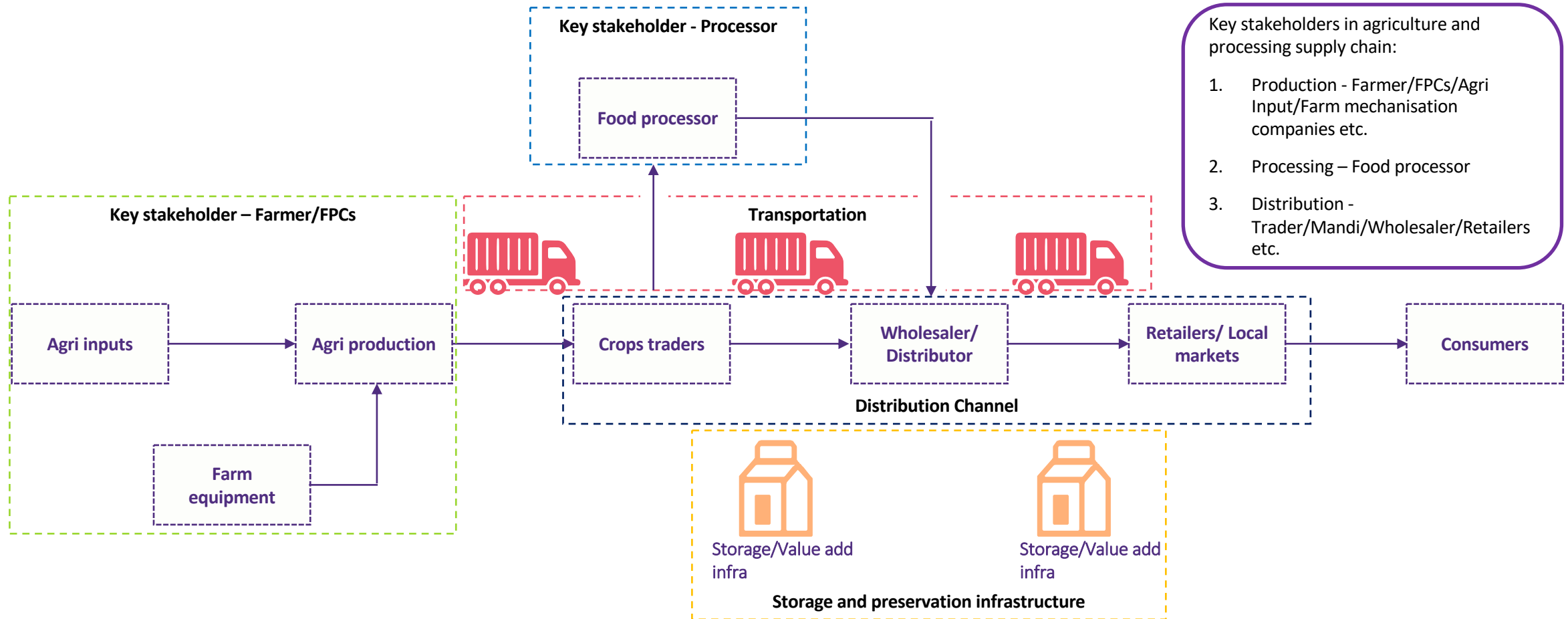
FPO Model

- A large number of these cooperatives in the country currently are in a state of financial crisis and are growing increasingly dependent on state subsidy for survival.
- In 2002-2003, the Government of India amended the Companies Act, 1956 by incorporating part IX A, based on the recommendations of the Y.K. Alagh Committee.
- A provision for setting up FPCs was made in the Companies Act primarily to address the challenges faced by the small and marginal farmers.
- The Government of India has identified FPO as the most appropriate institutional form to mobilise farmers and build their capacity to collectively leverage their production and marketing strength.
- FPO enjoys the benefits of professional management of a private limited company as well as mutual benefits derived from a cooperative society.



# Agriculture and Processing Ecosystem

## Typical supply chain – Agriculture sector



# FPCs promoting agencies

FPCs in India are largely being supported by NABARD, SFAC, and other state government departments.



## Key agencies promoting FPCs

FPCs are formed by different agencies including State Governments (with funding support from the Central Government Schemes) as well as through World Bank supported Projects, NGOs, corporates etc.

NABARD and SFAC are playing a pivotal role and have become major FPC promoting agencies in India.

### 1 NABARD

### 2 SFAC

### 3 State Government departments

### 4 Others:-

- International aid agencies
- NGOs
- Corporates

NABARD



NABARD is an apex development financial institution in India. The institution has been entrusted with “matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India.” It has taken special initiative to promote and nurture new FPOs out of PRODUCE fund created in NABARD by the government of India during 2014-15, to be utilised for the promotion of 2000 FPOs.

- Budget – \$ 34 million (INR 200 crore) under PRODUCE fund.
- Activities involved:- Financial support to existing FPCs, promotion of new FPCs, capacity building through training programs, market linkages, support in business policy, etc.

SFAC



The institution is promoted by Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India. It has been mandated to act as a nodal agency to promote FPOs during the XII Plan. Activities involved:

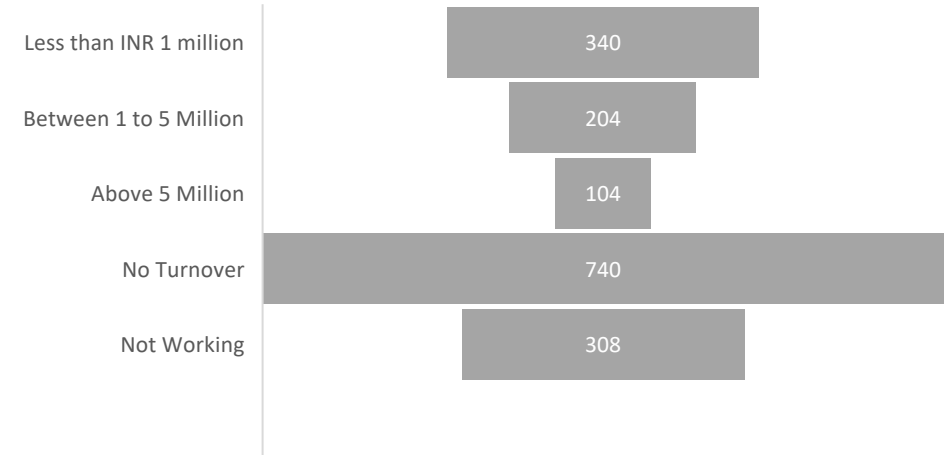
- Mobilization and Formation of FPOs with the help of Resource Institutions (RIs) such as consulting firms, NGOs, development institutions.
- Training of CEOs, BODs and member farmers on business plan, formulation & execution, compliances administrative under Companies Act and basic accounting, etc.
- Support to FPOs for management cost such as salary of CEO, office expenses, etc. for 3 years after registration of FPO
- Infrastructural support through dovetailing existing schemes
- Funding support.

# FPC scenario in Maharashtra

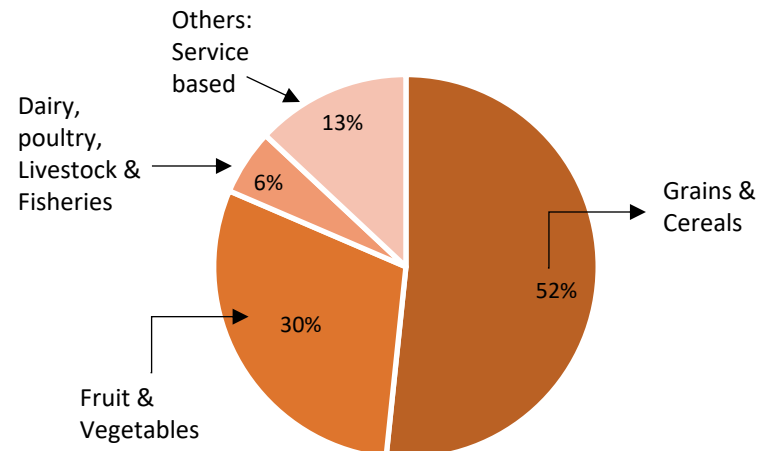
As of now, Maharashtra has more than 1690 FPCs operating in the regions across various crops.

Key agency promoting FPCs	Total FPCs
Maharashtra Agricultural Competitiveness Project (MACP)	406
NABARD	103
ADB – JFPR Project	18
SFAC	91
CAIM	21
Others (Self promoted etc.)	1,057
<b>Total</b>	<b>1,696</b>

**Classification of FPCs: Turnover wise**



**Classification of FPCs: Business Activity wise**



# Key schemes/incentives – Promoting FPCs

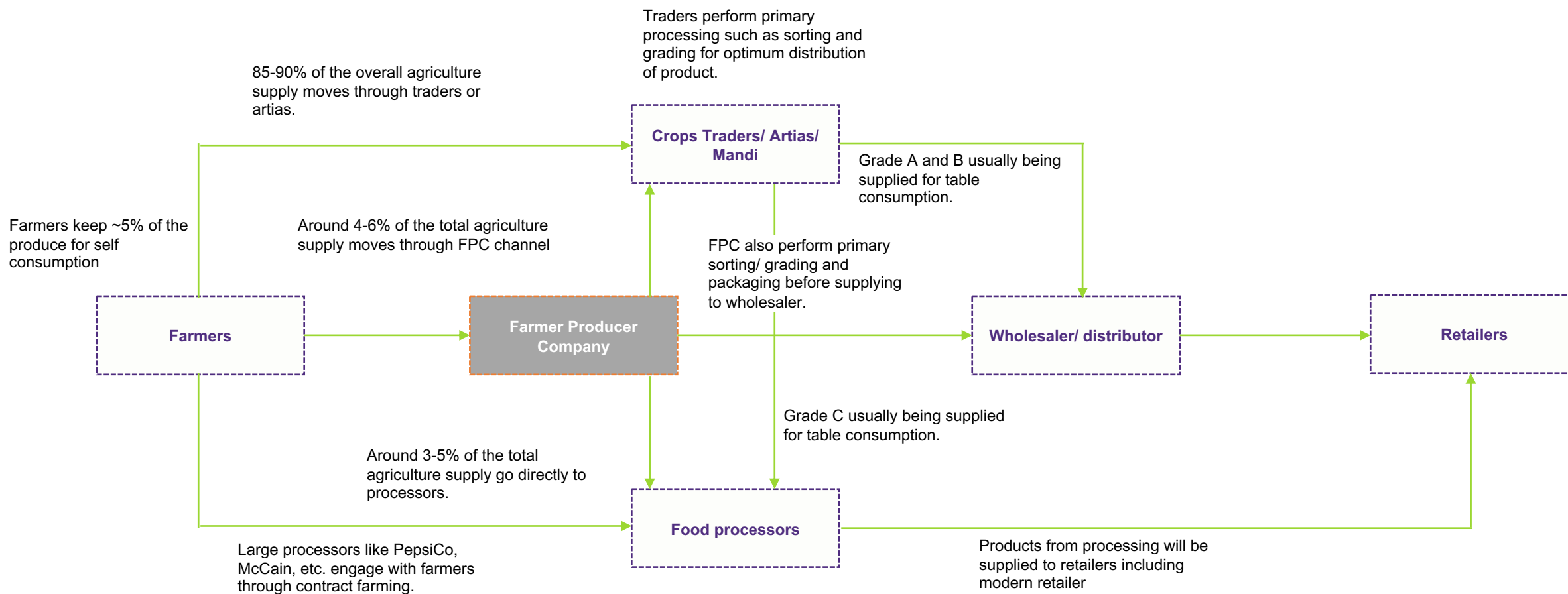
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## Maharashtra State Government:

- Gat Sheti (Group Farming) – INR 200 crore budget
- 50% discount on storage charges agri produce in Maharashtra State Warehousing Corporation (MSWC)
- Free direct market licenses to FPCs given by the directorate of marketing.
- Interstate 50% transportation subsidy given to FPCs for agri produce trade. This subsidy is given by the Maharashtra State Agricultural Marketing Board (MSAMB).
- Priority given to FPCs to trade market their produce in weekly market organised by MSAMB.
- Under several agriculture schemes, priority/preference is given to FPCs, for example, crop production, seed production, farm equipment etc.
- Preference given to FPCs under PPP-IAD ( Public Private Partnership-Integrated Agriculture Development) scheme under RKVY, for example, modern onion storage projects.

# Post harvest supply chain with FPCs as a stakeholder

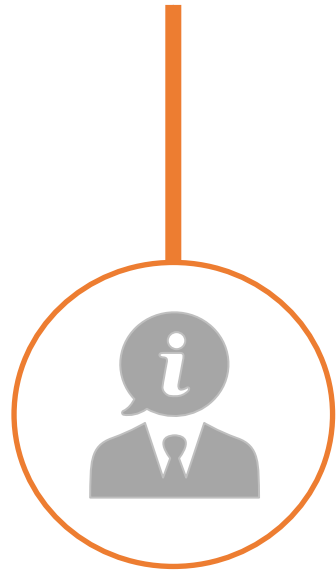
Mentioned below is the typical supply chain with FPCs as one of the stakeholders.



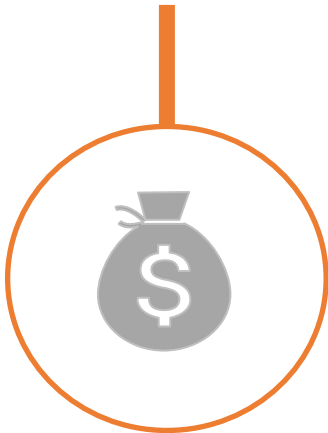
# Challenges being faced by FPCs

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Majority of FPOs formed in India are in the nascent stage of their operations with shareholder membership ranging from 100 to over 1000 farmers. Even though the central and state governments are taking measures to strengthen FPCs network and improve their current situation, majority of FPCs are facing some critical challenges, which are mentioned below:



**Inadequate professional management**  
(Lack of leadership and business acumen)



**Inadequate access to credit**  
(1. Weak financial performance, i.e. net worth and profitability  
2. Collateral-free loan at low rate of interest)



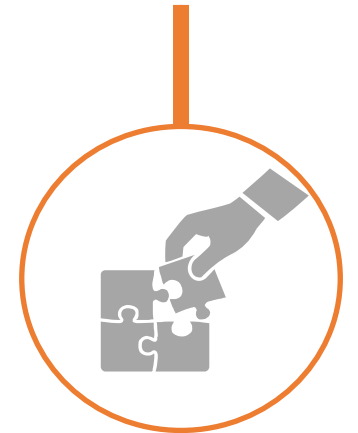
**Inadequate access to market linkages**



**Inadequate access to post-harvest infrastructure**



**Lack of technical skill and awareness**



**Lack of risk mitigation mechanism**

# Enhancing role of FPCs: A new approach



## Need

### Gaps in value chain

- Limited direct linkages between farmers and processors
- Farmers lacks understanding of market

### High cost of cultivation

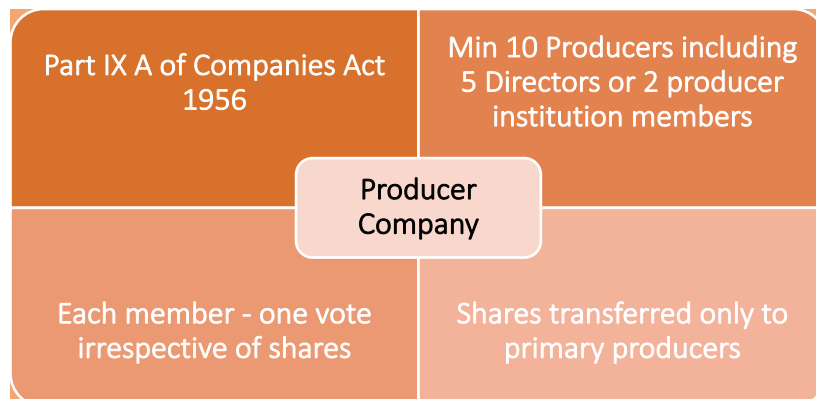
- Input cost (Seed, Fertilizers, Pesticides)
- Cost for farm machinery and labour

### Limited resources

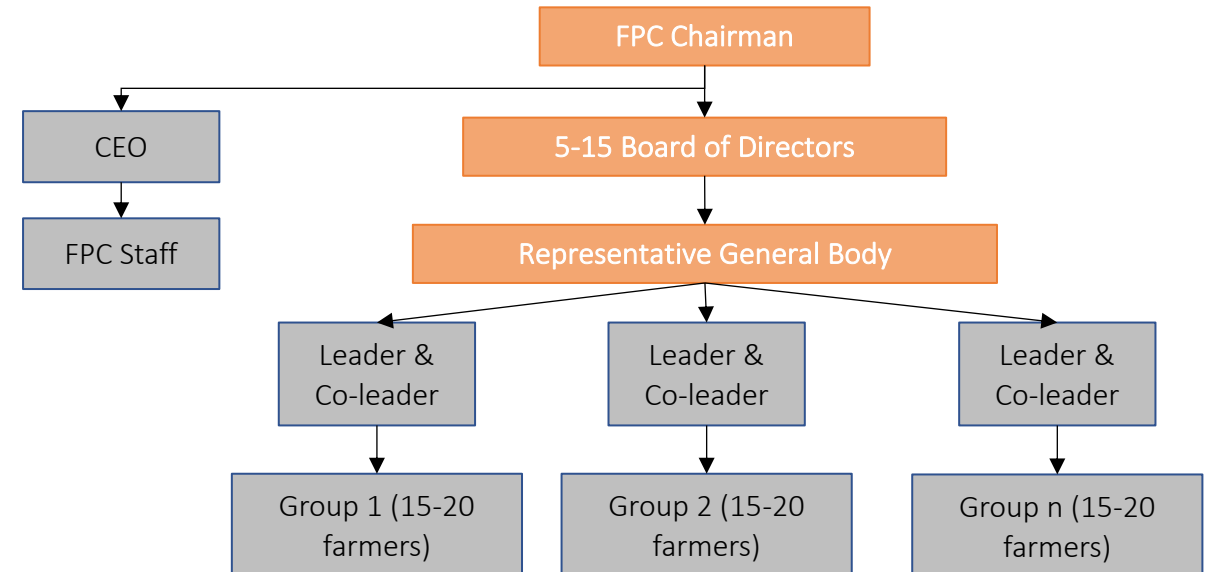
- Credit linkages
- Technical knowhow / Good Agricultural Practices
- Logistics support



## Constitution



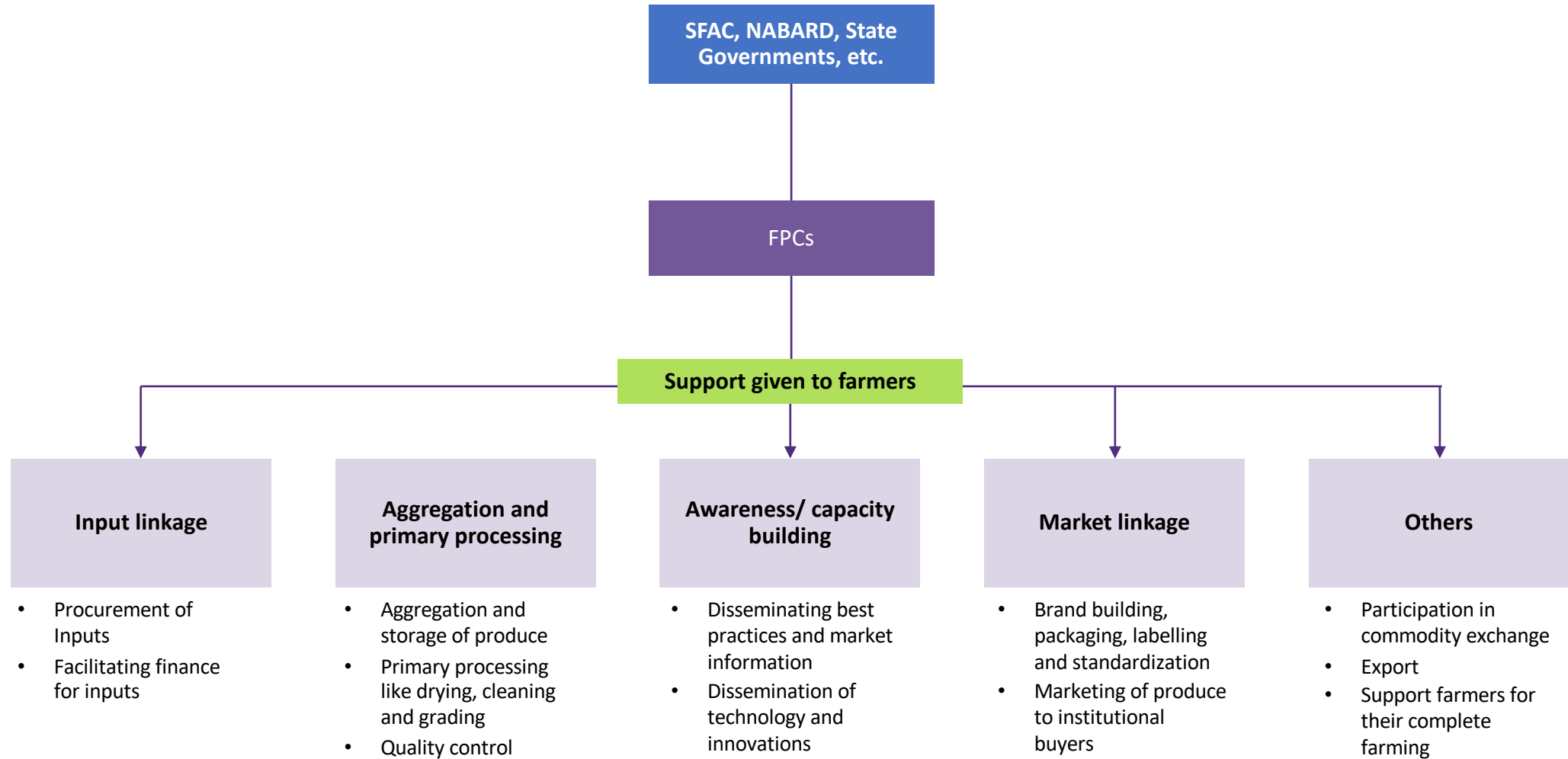
## Structure



- **Chairman**
  - By election method
  - Progressive, passionate and proactive farmer
- **Chief Executive Officer**
  - By selection method
  - Graduate youth with social development orientation

# Enhancing role of FPCs: A new approach Cont. . .

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# Benefits with FPCs and Business Model



## Benefits with FPCs

Input Facilitation	<ul style="list-style-type: none"><li>Farmers saving on inputs</li></ul>
Custom Facilitation	<ul style="list-style-type: none"><li>Cost reduction on harvesting &amp; reduction in losses</li></ul>
Primary/ Secondary Processing	<ul style="list-style-type: none"><li>Increase in value of the produce &amp; encourages farmers to undertake risk</li></ul>
Working Capital	<ul style="list-style-type: none"><li>Providing working capital as compared to individual farmers. Better price realization</li></ul>
Seed Production	<ul style="list-style-type: none"><li>Assured quality of seed available to farmers along with additional source of income</li></ul>
Training & Capacity building of farmers	<ul style="list-style-type: none"><li>Awareness about the package of practices &amp; to better techniques for better quality &amp; productivity</li></ul>
Market Linkage	<ul style="list-style-type: none"><li>Assured market for farmers &amp; better price realisation. This leads to market driven production</li></ul>



## Typical infrastructure with FPCs

### Farmer Common Service Centre (FCSC)

**Land Area:** 1000-2000 sq. meter

**Investment:** Rs.18 to 20 Lakhs



- Cereals & Grains**
- 1. Primary Processing**
    - Cleaning, Grading and Sorting
    - 2 MT per hour
  - 2. Storage** – 200 to 300 MT
  - 3. Value Addition** – Milling/Seed Processing, Packaging etc.
  - 4. Other facilities** – electronic weighing, moisture meter, computers, farm implements

- Fruits & Vegetables**
- 1. Pack house**
    - Cleaning, Grading, Sorting and Packaging
    - 3 - 5 MT per hour
  - 2. Pre-cooling** – 100 to 150 MT
  - 3. Transport** – Pick-up Van 2 MT
  - 4. Other facilities** – electronic weighing scale, crates, computers, farm implements

# Case Study: Maharashtra Agricultural Competitiveness Project

## Project objectives

“Increase the farmer’s **productivity, profitability** and **market access** of the farming community in Maharashtra”

### Project Strategy

- promote the development of **alternative marketing options** to farmers;
- support the top tier of **regulated wholesale markets** in the state, to **reform, invest and provide better services**.
- gradually undertake further incremental **regulatory reforms**.

### Project Cost

- Rs.708.20 crore

### Project Components

- A. Intensification and Diversification of Market led Production
- B. Improving Farmers Access to Markets
- C. Project Management, Learning & Adjusting

Total Beneficiaries Impacted – **45.62 Lakhs**

### Productivity

- Average 23% net increase in crop productivity across (Cereals, Pulses, Fruits & vegetables)

### Profitability

- An average 165% increase in farm income for all target crops.

### Market Access

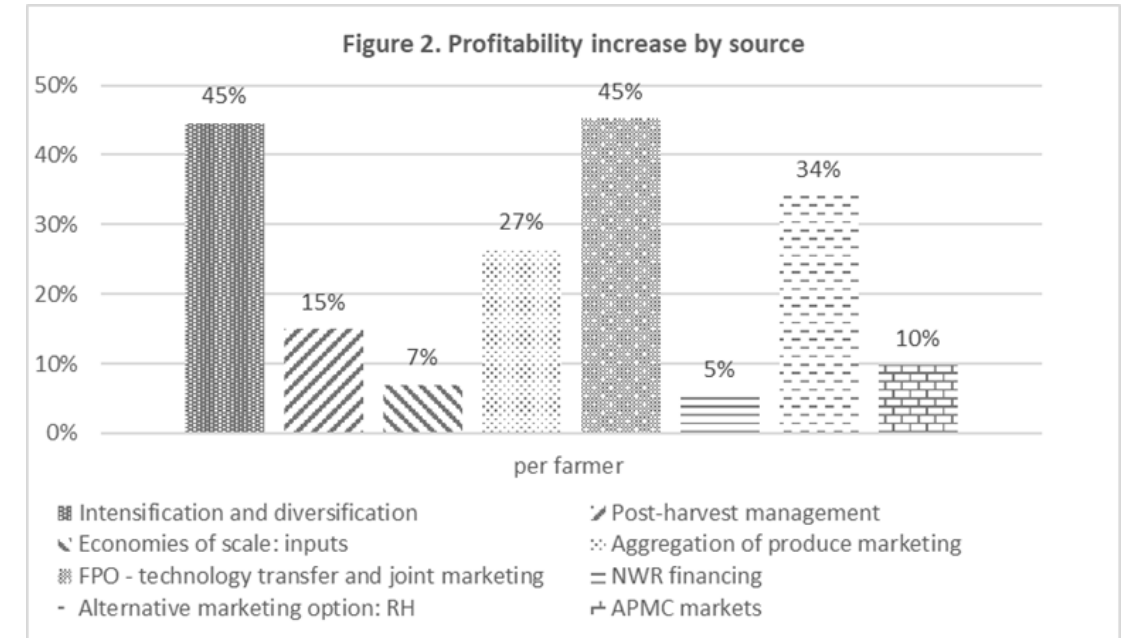
- Alternative marketing channels increased the average share of farmers in retail price by 4.7%.
- Net price realization in private markets i.e. 5.0% higher than traditional markets.

Impact

# Case Study Cont. . .

## Farmer Producer Companies (FPC)

- Over 1.8 Lakh farmers – Mobilized into 406 FPCs.
- 406 FCSCs were set up by FPCs.
- 22% higher price realization and 8% inputs cost reduction.



Sources: World Bank Implementation Completion And Results Report 2019 for MACP Project

# Government of Maharashtra and ADB Project : MAGNET



Government of  
Maharashtra



Asian Development Bank

## Objective –

Increase farmer income while promoting commercially attractive private investments in selected horticultural value chains.

## Goals -

- reduction in post-harvest losses and extension of the horticulture shelf-life
- demand-linked value addition and efficiency of food distribution
- increased participation of farmers organizations (FOs) in value chains.

**Outcome** - Maharashtra's horticultural production values and farmers organizations' profits increased

**Impact** - agriculture made profitable, yield and quality of horticulture improved, and value chain promoted.

**Project target** – support 2 lakhs farmers through Farmers organizations by improving value chain

## Output 1:

Capacity and business plans of farmers organizations enhanced

## Output 2:

Financial support provided for farmers organizations and value chain operators with improved postharvest handling practices

## Output 3:

Agriculture value chain improved and operational for the target horticulture crops

**THANK YOU**

# Annexures

# Maharashtra : a pioneer state of India in marketing reforms

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- Maharashtra is the pioneer state in kick starting drastic agricultural marketing reform process
- It has rolled out structural marketing reforms to empower farmers to get better remuneration through enhanced market access through Farmers Collectives or Farmer Producer Organization (FPO) bringing better post harvesting management of crop produce , better aggregation, better logistics and
- Policy focus and efforts to intensify and diversify crop production, improve crop quality and yield, making it more market led production with better post harvesting handling.
- To facilitate farmers' improved access to markets, farmers collectives and FPOs have been encouraged through various domestic and externally aided programs and projects

# Maharashtra : a cradle of marketing reforms through empowerment of farmers' collectives

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- Deregulation of Fruits and Vegetables (July 2016)
- Sub Section 6(2A) - Market Committee to regulate the marketing of Fruits and Vegetables only within market yard.
- APMC can levy market fee only on transactions of Fruits and Vegetables within the market yard.
- Provision of e-Trading - Sub Section (f-1b) of Section 2 and Rule 12
- Single point levy of market fee across the State – Sec. 31
- Commission charges to be paid by purchaser.
- De-linking of Provisions of Compulsory Requirement of Shop / Spaces for Registration of Traders / Market Functionaries - Conditions for obtaining license is laid down in the bye-laws of concerned APMCs.
- Maharashtra was the first state to create an enabling environment for setting up of **Private Markets**. There are 57 Private Markets established in the State and are run by the *private entrepreneurs* who have invested more than Rs.150 cr.
- Annual turnover of agricultural produce in these markets is to the extent of Rs.5000 cr.



# Maharashtra : a cradle of marketing reforms through empowerment of farmers' collectives

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- Maharashtra has also done the path breaking work of promoting **Direct Marketing** and has created enabling environment to facilitate by bringing amendment in the act so that any Person, Partnership firm, Cooperative Society, NGO, Local/Govt body and Company is eligible for direct marketing license. We have issued total no of 1064 Direct Marketing Licenses , out of which **400 licenses have been issued to the Farmers Producer Organizations (FPOs) and their total turnover has exceeded Rs. 2806 Cr..**
- Provision for Single License and permission for Purchase of agriculture produces across the state in more than one market yard has been introduced in the state to great success. Maharashtra has issued total 38 total licenses and has led to total Rs. 6226.32 Cr transaction across Maharashtra.

# Understanding FPO

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- FPO is a group of primary producers & farmers coming together to pursue specific common interests of their members
- Formation of FPO/FPC is a process of collectivization of primary producers, specially small and marginal farmers , into a formal legal entity .
- It has emerged as one of the most effective pathways to address many challenges of agriculture –access to markets, quality inputs, technology applications, improved logistic and public investment.
- The FPOs , registered as FPCs ,under the special provisions of the Company Act,1956,has emerged as most appropriate institutional formats to mobilize farmers, build their capacity and collectively leverage their production and marketing strength.
- According to NABARD, a FPC is a hybrid between a private limited company and a cooperative Society. It enjoys the benefits of professional management of a private company and mutual benefits derived from cooperative society

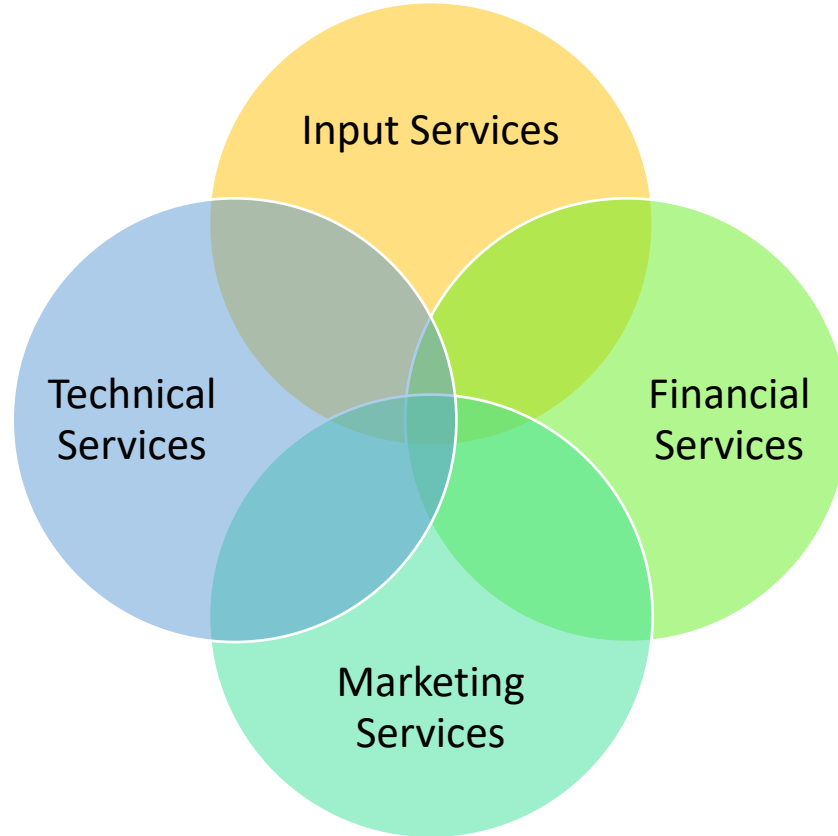
# Basic features of FPO

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- Formed by group of producers
- Registered body and legal entity
- Producers shareholders of the FPO
- Deals with various business activities related to primary produce/product
- Works for the benefit of member producers
- Part of profit shared among member producers
- Rest of surplus is added to its owned funds for business expansion

# Key Services provided by FPOs to farmers

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# Critical role of FPO

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- Bulk procurement of inputs & facilitating finance and distribution to member farmers
- Dissemination of technology and innovations
- Dissemination of market information
- Aggregation and storage of produce
- Primary processing like cleaning, drying, grading and packaging
- Value addition
- Brand building, labelling and standardization
- Quality control & assurance
- Marketing to institutional buyers
- Participation in commodity exchange
- Compliance to export led parameters
- Facilitation of export
- Facilitation of better access of primary producers to Government schemes viz. MNREGA,PDS, Various packages of incentives & better liaison with government departments from single node of convergence for basic services like drinking water, electricity, sanitation, health and hygiene to the organized and empowered collectives of farmers as service consumers

# Why FPOs were required ?

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- Market architecture in respect of agriculture has been lopsided - major focus on traders & strong wholesale market institutions i.e. APMCs, which are far from the farmer's farm gates.
- Over the years, these APMCs have turned out to be highly regulatory and restrictive in their market practices. It is realized that transactions at these APMCs between farmers and traders & commission agents is very asymmetrical with farmers having very little or no bargaining powers.
- Very few farmers have the capacity to link their produce to terminal destinations and intermediate market players deprive them from appropriate remunerations by keeping them outside of the consumer markets.
- This vicious cycle has been responsible for depriving farmers & primary producers of optimal or market linked price realization. Hence, need has been felt of a new market architecture which is more farmer friendly and could help boost farmers real income.

# How does the FPO work?

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- At the most primary level, FPO aggregate the demand for inputs of member farmers, buys in bulk and supplies to member farmers in comparatively cheaper prices.
- Provides market information and price intelligence to enable the producer farmers to hold on their produce till market prices are favorable
- Aggregation of produce of all members' and marketing in bulk leading to fetching better price per unit of produce
- By transporting the agricultural produce to the markets, reduces the cost of transportation
- FPO helps member farmers to meet the quality specifications of commodity exchanges and sell the produce through the exchanges
- FPOs help farmer access scientifically managed good quality warehouses and get electronic Warehouse receipts , which is negotiable instrument for getting them bank credit smoothly

# Critical role of FPO

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- Integration of small holder farmer producers' collectives e.g. FPOs & FPCs in market value chains by developing productive partnership between FPOs and private sector retailers ,which results in much improved marketing linkages
- Increase volume of sales of FPOs leading to self sustainable & win win partnerships between FPCs and their agribusiness partners
- Major contribution of FPOs is promoting smart crop cultivation decisions, reducing cost of cultivation and help member producers to increase profitability by gaining economies of scale, enhancing their collective bargaining powers and facilitate knowledge sharing
- FPOs help in long term improve the competitiveness of producing farmers in terms of price, cost, productivity, quality and sale volumes



# Case Study Cont. . .

## A. Intensification and Diversification of Market led Production

### Key Interventions

#### A.1 Market led extension



#### A.2. Agribusiness promotion facility



#### A.3. Livestock services



#### A. 4. Market information services

### Achievements

#### Market led agriculture technology transfer

- 91 thousands field demonstrations conducted for 9 crops with more than 36 technologies per crops were demonstrated.
- Total 174 technologies for the nine target crops and goat were disseminated.

#### Agribusiness promotion facility

- Promoted private investment in agribusiness sector, established backward and forward linkages and promoted positive policy changes.
- Total investments mobilized - Rs 397 crore from 1,836 agro-enterprises startups.
- 6,577 jobs were generated including 28% of female.

#### Livestock services

- Productivity increased by 28% in response to improved bucks, fodder, animal health;
- High Value Goat Model generated net profits at Rs. 1.35 lakhs per ha with minimum market and drought risks.
- 750 Lady Link Workers (Pashu-Sakhi) delivered last mile services to all livestock.

#### Market information services

- 138 APMCs has not electronic market information display (MID).

# Case Study Cont. . .

## B. Improving Farmers Access to Markets (1/2)

### Key Interventions

#### 1. Farmer Common Service Centres



#### 2. Warehouse receipt development



#### 3. Rural Haats



#### 4. E-marketing platform

### Achievements

#### Farmer Producer Companies (FPC)

- Over 1.8 Lakh farmers – Mobilized into 406 FPCs.
- 406 FCSCs were set up by FPCs.
- 22% higher price realisation and 8% inputs cost reduction.

#### Warehouse receipt development – 112 MSWC warehouses

- Negotiable Warehouse Receipt (NWR) funding of USD 160 million
- Farmers' share in storage capacity doubled (from 17% to 37%).
- NWR increased the net price arbitrations by 8.7%.

#### Rural Haats created – 472

- 29% increase in arrival volumes.
- 83% increase in marketed values.
- 73% increase in lease values.

#### E-marketing platform

- Piloted e-spot trading in warehouses

# Case Study Cont. . .

## B. Improving Farmers Access to Markets (2/2)

### Key Interventions

#### 1. Modernization of wholesale market



#### 2. Upgrading livestock market yards (LSM)



### Achievements

#### Modernization of wholesale market

- Modernized 81 APMC markets.
- Volumes of arrivals in the project APMC increased by 77%.
- 5.04% increase in the average share of farmers in wholesale price.

#### Upgrading livestock market yards (LSM) and Small Ruminant Market (SRM)

- Modernized 20 LSM and 4 SRM
- Enhanced increased market arrivals and competitive prices based on milk yield potential and live weight.
- Average net incremental benefits per farmer – Rs. 5,900 (per annum)