



# THE ROLE OF FARMERS PRODUCERS ORGANIZATIONS IN LINKING FARMERS TO AGRI-COMMODITY MARKETS

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## **ABSTRACT**

*Reaching the market for selling their agricultural commodities is of high risky venture for the farming community. A key reason for this is that they are all small farm holders who do not have their commodities' bargaining capacity in India. Apart from fighting with the risks related to climatic changes, the small farmers also face selling their Agri commodities. Suppose the farmers in India can use the service of FPOs in selling their commodities both in the spot market and the futures market. In that case, it can give at least one more option of selling their produce in a different market condition, and they can overcome the demerits of selling in traditional markets such as Mandis and APMCs.*

**KEYWORDS:** FPOs, Collective bargaining, Agri risk, Commodity markets

**JEL CLASSIFICATION:** Q10, Q18, Q02

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## INTRODUCTION

Linking farmers to the commodity exchanges/market is not easy. The farmers are scattered in a vast geographical area, and their products usually do not meet the minimum lot to be traded in commodity exchanges as their landholdings are small. Moreover, farmers do not believe third-parties to sell their commodities. The panacea for this problem is the farmers they can create an organization on a cooperative basis. Such organizations are called Farmers Producers organizations/companies. These FPOs can work efficiently if managed systematically, just like what Amul did in Gujarat.

One more reason behind the creation of Farmers Producers Organisations is to enable the farming community to trade in the futures market. As India is countries with most of the farmers are either small or marginal, and they do not have the required output or agricultural produce to meet the minimum quantity to be traded in an exchange (Minimum contract size is 10 tonnes or 100 quintals)

**Table 1: All India Production Estimates for Foodgrains (million tonnes)**

Crop	Season	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR
Rice	Both	105.5	104.4	109.7	112.8	116.4	1.99%
Wheat	Rabi	86.5	92.3	98.5	99.9	100.5	3.05%
Maize	Both	24.2	22.6	25.9	28.8	27.2	2.36%
Barley	Rabi	1.6	1.4	1.8	1.8	2.1	5.59%
Coarse Cereals	Both	42.9	38.5	43.8	47.0	43.0	0.05%
Cereals	Both	234.9	235.2	252.0	259.6	261.6	2.18%
Tur (Arhar)	Kharif	2.8	2.6	4.9	4.3	3.6	5.15%
Gram	Rabi	7.3	7.1	9.4	11.4	11.6	9.71%
Pulses	Both	17.2	16.3	23.1	25.4	23.4	6.35%
Food grains	Both	252.0	251.5	275.1	285.0	285.0	2.49

Source: Ministry of Agriculture, GoI

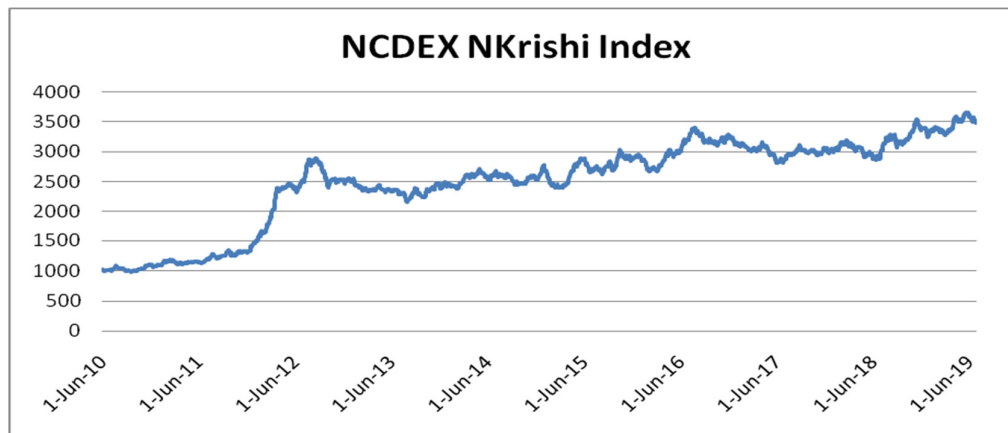
Most of the agriculture commodities in India have seen an increasing trend from the year 2014-15 to 2018-19. Out of this, Wheat, Grams, Pulses, and Cereals can be traded in both spot and futures markets. NCDEX has created the platform for the futures trading of agricultural commodities. The following table depicts the number of FPOs and farmers and the quantity and worth of Agri commodities traded. The increasing trend in the production and output of agricultural produce is a threat to the farming community. As they do not have the sophisticated and modern storage facility or warehouses they were forced to sell their commodity at lower prices in the open market or at Mandis.



The question here is why the farmers should go to the Futures market to sell their produce. These following observations can throw light on the benefits farmers derive by participating in the futures market;

- Price discovery- based on demand and supply of a particular commodity futures market will help farmers discover the scientific price of the agricultural commodity.
- Real-time provision of price information to the farmers as well as the participants in the exchange.
- Price information or price signaling will enable a farmer to make the right decision on the cropping pattern.
- It also enhances the farmers' bargaining capacity as they will be aware of both spot and futures prices of their produce.
- Another reason farmers should use the futures market is that they will benefit from storing their produce in an exchange accredited warehouse and can sell in subsequent periods when they get a suitable price for the product, thus avoiding distress sale. Moreover, farmers can also use Warehouse receipts to borrow loans to meet their immediate financial requirements.

Chart 1: MCDEX MKrishi Index



Source: Author compilation. NKrishi is a value-weighted index, computed in real-time using the prices of the 10 most liquid commodity futures traded on the NCDEX platform.

## MEANING OF FPOS

“Producer institution” means a Producer Company or any other institution having only producer or producers or Producer Company or Producer Companies as its member whether incorporated or not having any of the objects referred to in Section 581B and which agrees to make use of the services of the Producer Company or Producer Companies as provided in its articles.

The creation of hope and belief on farmers to join a producers company is challenging. Even though farmers tend to be unconvinced about the company, the promise of higher price realization through better bargaining power persuades them to sign on. FPCs help the farmers achieve the economies of bulk purchases and the assurance of quality in inputs such as fertilizer, seeds, and chemicals. Since modern agriculture must be run as a business, where



technology and good agronomic practices play a key role, they can jointly hire agronomists as well.

Organizing and grouping the farms to operate in the association as a large cluster is a concept behind forming farmer producer organizations' (FPOs). Small Farmers' Agri-business Consortium (SFAC) is the nodal agency at the national level to create FPOs.

The FPO can offer various services related to agriculture, especially to the members of the organization. FPOs can provide almost all the services to the members' right from input provision to market access. The FPO will help link the farmers, processors, traders, and retailers for harmonized supply and demand and get necessary business expansion services, including market information, the supply of inputs, and the provision of transport services. Depending on the ever-emerging requirements of the members, the FPOs can add new services to timely requirements. Some of the services that can be provided by FPOs are as follows.

**Table 2: Number of FPOs registered and No. of Farmers Mobilised by SFAC**

Year	No of FPOs Registered	No of Farmers Mobilised
2015-16	410	494513
2016-17	586	615638
2017-18	737	733658

**Source:** Annual Reports of SFAC

Table 2 clearly shows the increasing trend in the number of FPOs registered. The number of farmers mobilized through these FPOs with an Annual Compound Growth Rate of 21.59% for the number of FPOs and 14.05% for the number of farmers mobilized by late SFAC has been successful in creating the awareness among the farmers in collective work rather than an individual.

### **SERVICES PROVIDED BY FPO**

Services related to Finance - The FPO will supply loans for crops, purchase equipment such as tractors, pump sets, help build wells, and lay pipelines.

Services related to Inputs - The FPO will supply less cost and high-quality inputs to the organization members. The FPOs can supply fertilizers, pesticides, seeds, sprayers, water motor pump sets, accessories, and pipelines to their members. Services related to Procurement and packaging - The FPO can also provide the storage facility to members by procuring their produce during the harvesting season apart from some value additions such as packaging. Services related to Market - The FPO will sell the commodities procured from the farmers directly by saving the time, transaction costs, weight losses, distress sales, price fluctuations, transportation, and quality maintenance.

Services related to Insurance - The FPO can provide different insurance services, such as crop insurance, electric motor insurance, and life and health insurance to the farmers and their



family members. Services related to Networking – provision of information about the product specifications, market prices, and other business services accessible to rural producers; aid linkages with financial institutions, facilitate linkages with government programs and build linkages of producers and processors traders and consumers.

Farmer organizations can play an essential role in contributing to poverty reduction and improved livelihood security.

**Table 3: State-wise Number of FPOs promoted by SFAC (As of 29/02/2020)**

Sl. No.	State	No. of Farmers			No. of FPOs		
		Mobilized	Under Mobilization	Total	Registered	Under process	Total
1	Andhra Pradesh	8715	4825	13000	8	8	16
2	Arunachal Pradesh	2050	2700	4750	2	4	6
3	Bihar	9331	1169		12	6	18
4	Chhattisgarh	29616	0	29000	26	2	28
5	Delhi	3535	0	3500	4	0	4
6	Goa	1810	0	1750	2	0	2
7	Gujarat	20875	3125	24000	21	4	25
8	Haryana	14049	0	12750	23	0	23
9	Himachal Pradesh	6528	322	6850	7	1	8
10	Jammu	3694	287	3981	1	0	1
11	Srinagar	3120	960	4080	1	0	1
12	Jharkhand	12009	0	12000	10	0	10
13	Karnataka	122907	5593	128500	120	6	126
14	Madhya Pradesh	138118	11882	150000	144	5	149
15	Maharashtra	100845	3655	104500	100	5	105
16	Manipur	5671	1279	6950	7	1	8
17	Meghalaya	2990	760	3750	3	1	4
18	Mizoram	1700	1000	2700	1	1	2
19	Nagaland	1750	2000	3750	2	2	4



20	Odisha	38622	0	38900	41	0	41
21	Punjab	6288	0	6000	7	0	7
22	Rajasthan	58670	1830	60500	50	0	50
23	Sikkim	16279	0	15750	30	0	30
24	Tamil Nadu	14657	2343	13000	13	4	17
25	Telangana	29225	773	29998	21	5	26
26	Tripura	2874	0	2750	4	3	7
27	Uttarakhand	6004	0	6000	7	0	7
28	Uttar Pradesh	55936	0	56000	55	3	58
29	West Bengal	91865	0	90500	86	3	89
<b>Total</b>		<b>846039</b>	<b>43963</b>	<b>884709</b>	<b>843</b>	<b>67</b>	<b>910</b>

Source: Annual Reports of SFAC

There are a total of 843 registered FPOs are working in India with a total No. of 846039 mobilized farmers. The state of Madhya Pradesh has the highest number (144) of FPO, followed by Karnataka (120) and Maharashtra (100). Most of the Farmers Producers Companies were formed under the National Vegetable Cluster and National Accelerated Pulses Production Programme of India's Government under which SFAC as a nodal agency will provide two-year management subsidy to NGOs for forming FPCs. According to the agricultural census of 2011, more than 92.8 million landholdings are less than 1 hectares, and more than 24.8 million farmers are having landholding of fewer than 2 hectares. Both these categories of farmers constitute more 85 percent of the total farm holding in India.

The benefit of futures markets for farmers is that they can easily hedge their futures market positions and ensure the risk of price fluctuation in physical markets. However, as the farmers have small and marginal land holding, they cannot directly participate in hedging because they have to meet minimum quantity requirements. The panacea for this problem is the FPOs.

Agriculture is diversifying towards high-value food commodities, and the food marketing system is moving towards vertical coordination. These imply a greater need for strong linkages between production and markets. Linking smallholders of all sizes to ordered procurement markets is an upward prospect that can be a rewarding alternative for many farmers located in areas with operating procurement markets.



**Table 4: FPOs trading with NCDEX**

<b>Particulars</b>	<b>1/4/2016</b>	<b>1/4/2017</b>	<b>1/4/18</b>
<b>FPOs traded</b>	1	30	69
<b>Farmer base of FPOs traded</b>	25	875	5878
<b>Commodities traded</b>	1	10	16
<b>Quantity traded (MT)</b>	60	11492	24185
<b>Traded Turnover (Rs in crores)</b>	0.24	20.91	54.50

Source: NCDEX

Most small farm holder farmers are looking for ways to enhance their farms' efficiency and improve their performance in the market. Modernization of the extension and improvement of the link to the market can play an important role in improving the farming community's livelihoods. Helping farmers enhance their access to the commodity market, and performance will need building business relationships in all types of markets. Though formal markets offer the best returns, they are best suited to smallholders with at least 2 hectares of land and reasonable proximity to the markets. To help farmers with less land and poor proximity to urban markets, it may be best to strengthen their links to informal markets.

## **CONCLUSION**

FPOs can be utilized for the benefits of the mobilization of small farmers so that the farmers can develop the capacity to leverage their strength in production and the marketing of their commodities. Apart from linking farmers to the market, the FPOs can also work as a catalyst to provide Agri input facilities such as fertilizers, seeds, agricultural implements, technical assistance, weather-related information, collective bargaining, amongst others.



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