

Role of Farmer Producer Organisations in Augmenting Farm Income: Opportunities and Challenges

Elangovan P.¹, Paramasivan M.^{1*} Mahalingam A.¹ and Aslam N. M.²

¹Regional Research station, Vridhachalam, TNAU

²Assistant Director of Agriculture, Kollengode

Corresponding Author: paramasivan.m@tnau.ac.in

Abstract

Farmer Producer Organisations (FPOs) have emerged as a transformative strategy for enhancing farm income and promoting rural development in India. With more than 85% of Indian farmers classified as small and marginal, the role of FPOs has become pivotal in addressing challenges related to input procurement, market access, price realization, and collective bargaining. This paper examines the conceptual evolution, operational models, challenges, and opportunities associated with FPOs. Drawing on case studies and policy evaluations, it explores the mechanisms through which FPOs can reduce input costs, improve market efficiency, and foster agribusiness entrepreneurship. The manuscript also outlines a strategic roadmap for strengthening FPOs through phased financing, institutional reforms, and continuous capacity building. The findings emphasize the need for an integrated support ecosystem and adaptive governance to position FPOs as key drivers of inclusive and sustainable agricultural growth in India.

Introduction

Indian agriculture is the backbone of the country, supporting over 70% of the population and contributing nearly one-fifth to the GDP. Despite this significant role, more than 85% of Indian farmers are small and marginal, with an average landholding of only 1.16 hectares (Vinayak et al., 2019). These farmers face multiple constraints—limited access to inputs, lack of bargaining power, poor infrastructure, and inconsistent market access. In response to these persistent challenges, the concept of Farmer Producer Organisations (FPOs) emerged as a collective approach to empower smallholders.

Understanding FPOs: Concept and Evolution

An FPO is a legally recognized group of primary producers—farmers, milk producers, weavers, fishermen, artisans—who come together with the objective of improving their collective income and social capital. The concept gained momentum with the introduction of Farmer Producer Companies

(FPCs) in 2003 under the Companies Act. These entities combine the strengths of cooperatives and private companies, providing a structured platform for collective input procurement, output marketing, financial negotiation, and technology dissemination (Cherukuri and Reddy, 2014; Singh and Vatta, 2019).

Case Illustration: How FPOs Operate on the Ground

In one case, a group of smallholder farmers in a dryland district of Maharashtra formed an FPO to address their chronic market dependency and exploitative pricing by intermediaries. With initial support from NGOs and NABARD, they registered as a Producer Company and initiated bulk procurement of seeds and fertilizers, which significantly reduced their input costs. On the output side, they established direct linkages with institutional buyers, improving price realization by 20%. However, their journey was not without hurdles. The lack of business acumen, poor documentation practices, and difficulties in accessing bank credit slowed their progress.

This case is not isolated. Across India, FPOs encounter similar constraints: inadequate managerial capacity, low financial literacy among members, and rigid regulatory procedures that treat them on par with corporate entities (Ramappa and Yashashwini, 2018; Tripathi et al., 2020). For example, the Registrar of Companies often fails to differentiate FPOs from private companies, complicating compliance and reducing operational agility. These bottlenecks point to a broader issue—the need for tailored governance, financing, and policy frameworks that reflect the developmental objectives of FPOs.

Challenges Hindering FPO Performance

Despite significant policy support, FPOs continue to face multiple constraints that hinder their effectiveness. Most notably, many members lack basic managerial and business skills, making it difficult to run an organization based on corporate principles. Access to finance remains a challenge, as commercial banks are often reluctant to provide credit due to weak financial histories and the absence of collateral. Standardised governance frameworks are largely

missing, leading to inconsistencies in operations and compliance. Moreover, regulatory institutions such as the Registrar of Companies impose corporate norms that may not be suitable for community-based organisations, further complicating their operations (Sexton and Iskow, 1988). These challenges collectively underscore the need for dedicated institutional support and regulatory reforms to ensure that FPOs function efficiently while achieving their developmental goals.

Opportunities for Growth and Impact

Despite the aforementioned limitations, FPOs offer considerable opportunities to revolutionize the agricultural sector. They have the potential to significantly narrow the wide gap between producer and retail prices, thereby improving farmers' price realization. FPOs help reduce post-harvest losses, transportation costs, and transaction expenses, all while improving the shelf-life and quality of produce. Their role as intermediaries in schemes like RKVY, NFSM, and ATMA (Manaswi et al., 2019) enhances their ability to serve as conduits for input supply, technology dissemination, and institutional procurement. Additionally, FPOs are well-positioned to undertake branding, certification, and seed production, thus enabling farmers to tap into niche and export markets. The formation of umbrella marketing organizations further allows multiple FPOs to pool resources, achieve scale, and enhance their bargaining position in both domestic and international markets.

Strategic Roadmap for Strengthening FPOs

To unlock their full potential, FPOs need to adopt a strategic and phased approach to growth. The first step involves a thorough assessment of their operational environment through SWOT analyses to identify market opportunities and risks. Based on these insights, FPOs can position themselves competitively in the market by crafting suitable marketing strategies, including appropriate pricing and promotion. Drawing from the success of NDDDB's dairy cooperatives, there is also a need for patient capital and long-term vision to nurture FPOs over multiple years. A robust ecosystem comprising financial institutions, government bodies, and NGOs is essential to provide continuous support. In parallel, productivity must be improved through the adoption of better agronomic practices, quality seeds, and

efficient cropping systems (Chatterjee et al., 2019). Converging various government schemes and aligning them with FPO activities will ensure both financial viability and sustainability.

Financing and Institutional Support Mechanisms

Financing remains a critical component of FPO success and must be tailored to the stages of their growth. In the initial years, FPOs require access to seed capital and incubation support to develop their business models. As they transition into operational maturity, working capital and equity grants become essential. For example, the Small Farmers Agribusiness Consortium (SFAC) recommends increasing the per-member equity contribution to ₹2,000 with matching grants up to ₹15 lakh. As FPOs gain market stability and regulatory compliance, they should be eligible for interest-free term loans and preferential treatment under the APMC licensing framework (Bishnoi and Shivani, 2020). Institutional reforms should ensure that FPOs are not burdened with corporate-level compliance requirements and are supported through flexible financial products and performance-based incentives.

Role of Training and Capacity Building

Building the managerial, technical, and financial capabilities of FPO members is essential for long-term success. Institutions such as MANAGE, NAARM, NIAM, and KIED play a pivotal role in delivering structured training programs that focus on entrepreneurship development, marketing strategy, financial literacy, and governance (Karanam et al., 2021). Moreover, partnerships with private companies and NGOs can enhance innovation and efficiency through mentorship and real-time problem-solving. By taking dealership rights for fertilizers, seeds, and pesticides, FPOs can generate a consistent revenue stream, enhance farmer loyalty, and reduce reliance on intermediaries. These capacity-building efforts must be sustained and aligned with the operational maturity of the FPOs to ensure scalability and resilience.

Conclusion: FPOs as Catalysts of Inclusive Agribusiness

Farmer Producer Organisations represent a transformational model for inclusive rural growth. By reducing input costs, improving market access, and enabling capacity development, they empower small and marginal farmers to enhance their incomes and

livelihoods. However, success hinges on policy support, financial backing, institutional capacity, and leadership development. With a robust and inclusive support ecosystem, FPOs can truly become engines of rural prosperity and agribusiness transformation in India.

References

- Bishnoi, R.K., & Shivani, K. (2020). *Challenges faced by FPOs & strategies to overcome: a review*.
- Chatterjee, T., Raghunathan, R., & Gulati, A. (2019). *Linking farmers to futures market in India*.
- Cherukuri, R.R., & Reddy, A.A. (2014). *Producer organisations in Indian agriculture*. South Asia Research, 34(3), 209-224.
- Joshi, S.K., & Choudhary, V.K. (2018). *Performance of FPOs in Chhattisgarh*. Indian Journal of Agricultural Economics, 73, 399-406.
- Karanam, S.D., Achar, A.P., & Kulkarni, R.V. (2021). *Digital Kissan Hub for FPOs*. IGI Global.
- Manaswi, B.H. et al. (2018, 2019). *Progress and SWOT analysis of FPOs*. Indian Journal of Extension Education, 54(2), 108-113.
- Prasad, C.S., Dutta, D., & Ravichandran, V. (2020). *E-survey on Operational Guidelines for 10,000 FPOs*.
- Ramappa, K.B., & Yashashwini, M.A. (2018). *Evolution of FPOs*. Research Journal of Agricultural Sciences, 9(4), 709-715.
- Sexton, R.J., & Iskow, J. (1988). *Factors critical to cooperative success*. University of California.
- Singh, G., & Vatta, K. (2019). *Economic impacts of FPOs: A case study in Gujarat*. Agricultural Economics Research Review, 32(conf), 139-148.
- Tripathi, S. et al. (2020). *Evaluating the Women's Advancement in Rural Development and Agriculture programme*.
- Vinayak, N. et al. (2019). *FPOs as institutions for small farmer upliftment*. Indian Journal of Agricultural Sciences, 89(9), 1383-1392.
