Enabling Farmer Producer Companies' Success in Marketing

Focus Group Discussion with FPC members in Odisha

In 2019, IDinsight visited six Farmer Producer Companies (FPCs) to study challenges they face in agricultural marketing and identify solutions that could facilitate their success. We worked with the Ministry of Agriculture to make recommendations on steps government agencies can take to support FPCs in agricultural markets.

KEY CHALLENGES FPCS FACE

- FPCs struggle to connect with bigger and non-local buyers.
- Insufficient capital, due to low awareness of different credit instruments and financial institutions' unwillingness to provide loans.
- Lack of formal storage space limits trade scale-up and access to loans.
- No access to machinery prevents FPCs from initiating value addition and capturing a larger portion of the agricultural value chain.
- Building member trust is hard for new FPCs.

RECOMMENDATIONS TO SUPPORT FPCS

- Provide targeted training for FPC managers in different credit instruments and marketing practices.
- Promote state-level federations of FPCs to facilitate market linkage and provide effective training.
- Prioritise FPCs within existing government support in agriculture, including schemes to improve access to credit and farm machinery.
- Facilitate FPC-buyer interactions to build connections and grow buyer understanding of FPCs.

BACKGROUND

Why are FPCs important?

In India, more than 86 percent of agricultural landholdings are less than two hectares in area, with the proportion of small and marginal landholdings increasing over the years (Ministry of Agriculture, 2019). Small and marginal farmers often have less knowledge and access to technology, capital and infrastructure, and, with small harvest quantities, lower bargaining power in agricultural markets (Srinivasan & Srinivasan, 2017; Sharma, 2013).

In this situation, collectivisation of small farmers into Farmer Producer Organisations (FPOs) can greatly support small farmers in modern agricultural markets, through functions that small farmers cannot perform individually, such as supplying high-quality inputs closer to villages, aggregation and marketing of produce, facilitating access to infrastructure and technology, and providing training.

An FPC member shows bell peppers growing in his greenhouse in Haryana

FPOs in India can take different legal forms. **This study focused on Farmer Producer Companies, groups that are registered under the Companies Act of India as corporations**[1]. Two nodal agencies are responsible for the formation and support of FPCs in India: Small Farmers' Agri-Business Consortium (SFAC), a society under the Ministry of Agriculture, and the National Bank for Agriculture and Rural Development (NABARD). These agencies provide start-up funding for FPOs, channelled through Resource Institutions (RIs) - organisations empanelled to form and support FPOs.

While several thousand FPCs are registered in India today, few are performing at high levels and maximising benefits for members. IDinsight's scoping visits to FPCs and interviews with experts demonstrated that while FPCs can often provide agri-inputs to members, many struggle with initiating aggregation of produce. **Thus, this study focuses on FPCs' post-harvest activities - marketing, and value addition to produce**[2].

RESEARCH OBJECTIVES

In October and November 2019, IDinsight visited six FPCs in Bihar, Odisha and Tamil Nadu[3], to answer two primary research questions:

1. **What are the perceived barriers preventing FPCs from initiating and sustaining post-harvest activities - specifically, marketing and value addition?**

2. **What services and policies are effective at helping FPCs access the inputs they need for post-harvest activities?**

In total, we interviewed more than 800 farmer members, and officials from all six FPCs and their RIs. This report also includes observations from previous visits and interviews with six FPCs in Madhya Pradesh.

We worked with the Ministry of Agriculture to develop recommendations for the Ministry and NABARD on effective ways to promote FPCs specifically in post-harvest activities.

CURRENT STATUS OF SELECTED FPCS

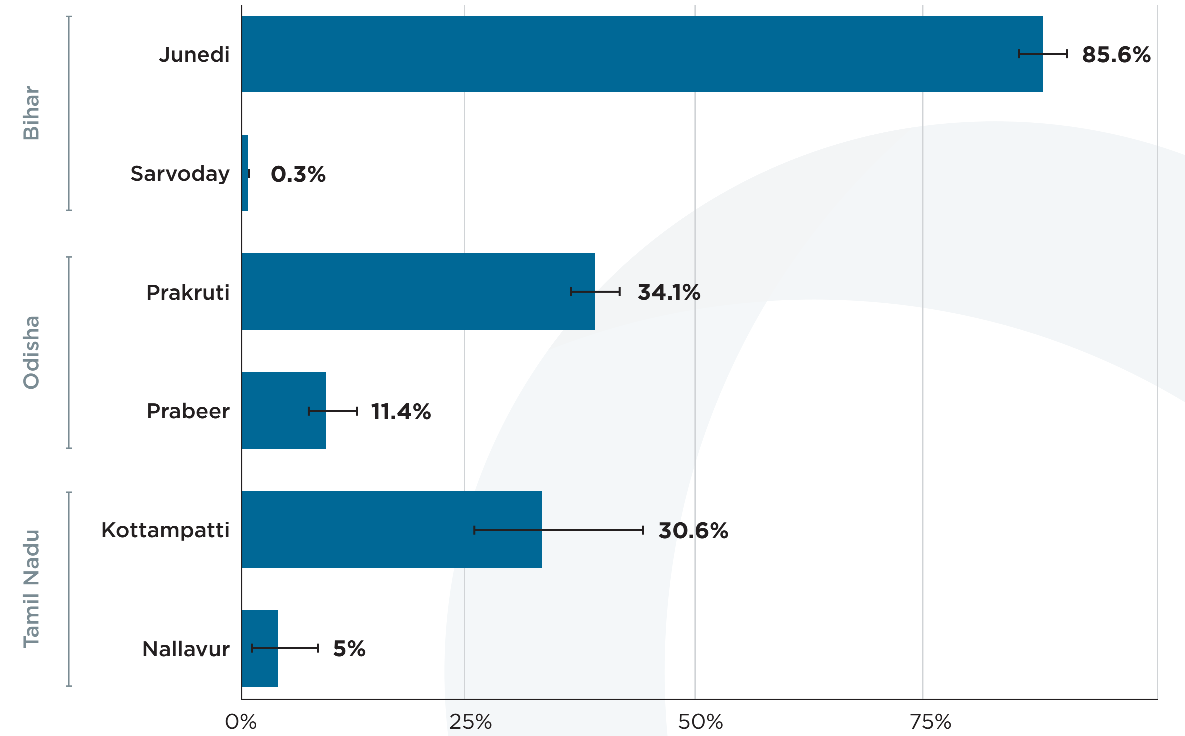
We visited two FPCs each in Bihar, Odisha and Tamil Nadu. Some key aspects of each FPC are highlighted in the table below.

State	FPC Name	Number of Members	Major Crops	Annual Turnover (2018-19)
Bihar	Junedi FPC, Nalanda	518	Chilli, Groundnut	10+ lakhs
	Sarvodaya Sabji Utpadak PC, Muzzafarpur	500	Vegetables & Wheat	3 lakhs
Odisha	Prakruti Bandhu FPC, Ganjam	483	Cashew, Mango	30 lakhs
	Prabeer Organic FPC, Balangir	1000	Cotton	33 lakhs
Tamil Nadu	Kottampatti FPC, Madurai	1000	Coconut, Groundnut	64 lakhs
	Nallavur FPC, Villupuram	1000 (+500 upcoming members)	Blackgrain, Groundnut	75 lakhs

Current marketing activity

Of the six selected FPCs, five were active in trading of harvested produce at different levels[4]. However, most CEOs reported purchasing produce from less than half of the FPC members - confirmed in our survey of FPC members (*Figure 1*).

Figure 1: Proportion of farmers who reported selling harvest to the FPC



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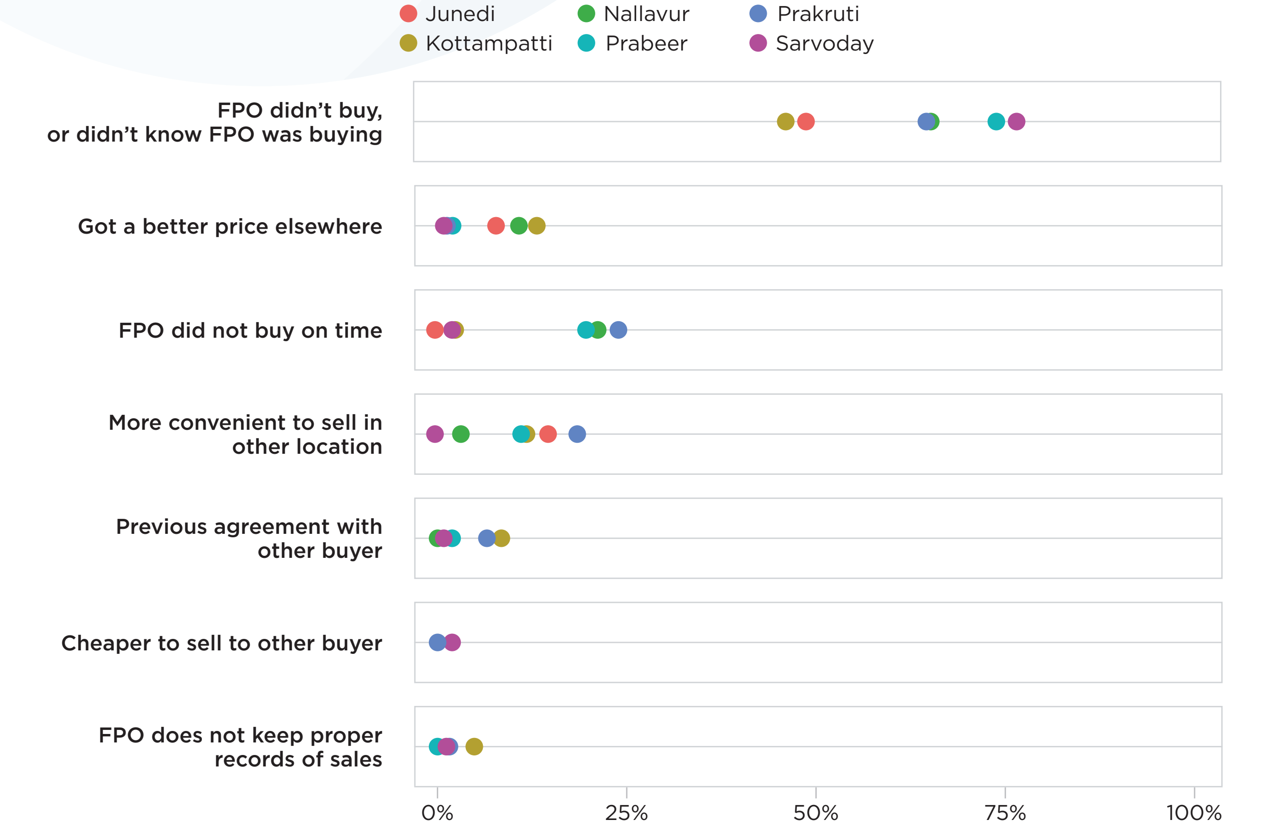
Focus group discussion with FPC members in Odisha

Other than one FPC in Bihar, none of the FPCs were purchasing all of farmers' harvest. The only FPC purchasing most of the harvest from the majority of its members traded at its own stall at the local mandi - facilitating farmer sales to buyers at the mandi, rather than procuring produce and reselling it to a direct buyer, as the other FPCs did.

Interestingly, most farmer members are not actively choosing to sell their harvest to other buyers. When we asked farmers their reasons for not selling to the FPC, the reason most frequently cited was that the FPC didn't buy their produce, or that they didn't know that the FPC buys produce (*Figure 2*). As discussed further in our findings, CEOs report insufficient capital and lack of connections with buyers, which constrains their ability to reach more members.

Figure 2: What reasons do farmers give for not selling to the FPC?



Value addition and storage

Only two of the six FPCs processed harvested produce before sale, with another conducting basic quality-based segregation. One FPC had access to machinery to conduct grading and processing. Both FPCs only processed one of the two crops they traded in, needing different machinery for processing the second.

Four of the six FPCs stored purchased produce before sale to wait for prices to rise. One was constructing a dedicated storage warehouse, and one FPC used a nearby warehouse - the others used office space and members' houses as storage areas.

FINDINGS

What challenges prevent FPCs from initiating, sustaining and expanding post-harvest activities?

Our first research objective was to identify why FPCs were buying produce from only a small percentage of their members, and why they weren't able to scale up their operations. We also wanted to know why FPCs were unable to start processing or grading primary produce to move up in the agricultural value chain.

1. Insufficient capital, due to low awareness of different credit instruments and bank unwillingness to provide loans

Most CEOs we spoke to attributed small scale of business activities to insufficient working capital. There were several reasons for this:

- Banks are unwilling to give term loans to FPCs, which seldom have enough collateral or profit to attract bank loans[5].
- FPCs do not know of many different ways to raise capital. For example, according to one leading RI, it is easier for FPCs to obtain credit limits on current accounts, which are based on business turnover rather than profit. However, only one FPC we visited was aware of this channel of accessing capital.
- FPCs lacked awareness of government support to access capital. Only one FPC had used Warehouse Receipt Financing, for example. Not every CEO knew about the SFAC credit guarantee fund for FPCs.
- Lastly, FPCs are often selling only to local buyers and markets, restricted to low profit margins. This is discussed in the next section.

2. FPCs struggle to connect with bigger and non-local buyers

The FPCs we visited were heavily reliant on the local dominant buyer. Of the five FPCs that were trading produce, four were selling to the same local buyer that many individual farmers sold harvest to. Most traded with a single buyer, unchanged over the years.

Consequently, FPCs faced low margins and could not offer higher prices to members. Some FPCs gained a larger margin by waiting for the local price to rise through produce storage, but were still unable to reach different stages of the value chain or non-local markets with higher prices.

Some CEOs had tried to connect with new buyers, but were unable to build relationships. In other cases, CEOs seemed to put in little effort to identify and reach non-local buyers. Without processing or quality-based sorting, FPCs can't reach buyers at different stages of the value chain, such as retailers or direct wholesalers.

Machine to process raw pulses for retail sales in Tamil Nadu

3. Lack of machinery prevents FPCs from processing produce before sale

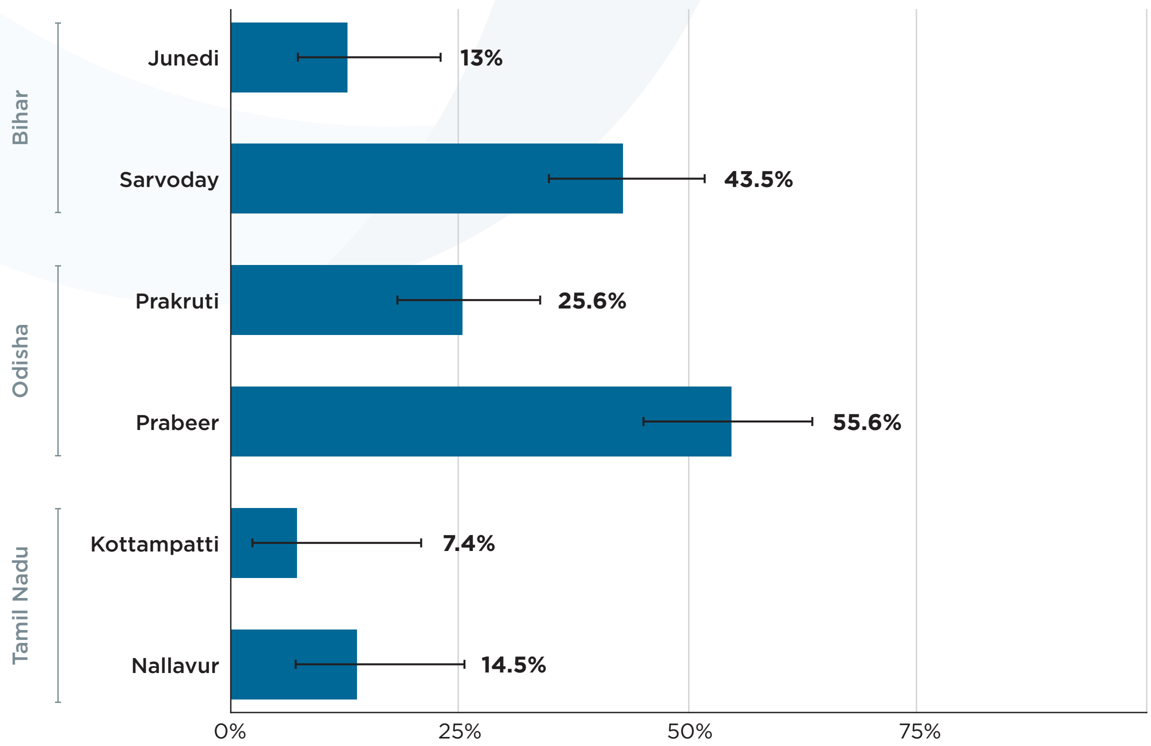
Three FPCs visited during our study were processing aggregated produce before sale, though only one was using its own machinery to do so. One FPC paid a mill to process cotton before sale, and another used manual labour, assisted by some tools, for basic processing.

The most common reason cited by CEOs preventing FPCs from processing was the lack of access to required machinery. One FPC had tried renting machinery from a local KVK, but not done this regularly. Many FPCs did not know about available subsidies to purchase machinery, and in some cases, did not have enough capital to pay for the part of the machine cost that a subsidy would not cover.

4. Lack of formal storage space restricts business scale-up and access to loans

Storing harvested produce before sale and waiting for a higher price is a key way for FPCs to obtain higher prices and offer higher rates to members. Individual farmers are seldom able to store harvest and wait for a sale (*Figure 3*), with the most common reason being immediate need for money after harvest. FPCs can raise their profit margins by storing produce purchased from members until prices are higher.

Figure 3: Proportion of individual farmers who reported storing harvest for better prices



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Four FPCs were using storage for hedging. However, only two FPCs had dedicated storage space. Lacking access to formal warehouses, two FPCs could only purchase and store a low quantity of produce. Some FPCs pass part of the profits made from storage back to members as a "bonus" payment.

Formal storage can help FPCs not just to obtain higher prices and increase their traded quantities, but also to access loans through warehouse receipt financing. This is where farmers, traders or FPCs can use negotiable receipts from a warehouse as collateral for a loan from a bank. Only one FPC was able to leverage their stored produce for a loan; others either had no access to or knowledge of a formal warehouse in the area, or were unable to get space in the warehouse that they claimed was dominated by wholesale traders.

5. Building member trust is hard for new FPCs

In some cases, we found that farmers were not willing to trust FPCs. While many farmers were willing to become members (which cost ₹1,000 in most cases), they were less willing to wait for payment for their produce, or sell their entire harvest to the FPO. Farmers also had long-standing relationships with middlemen or local traders that FPOs could not easily break.

RECOMMENDATIONS

What services and/or policies could support FPCs in post-harvest activities?

Based on our conversations with CEOs and support organisations working with FPOs, we identified four key steps that the Ministry, SFAC and NABARD can take in their efforts to promote FPCs, to help them tackle the challenges discussed above.

1. Provide targeted training for FPC management on credit instruments and marketing skills to access better buyers

Training for FPC management - CEOs and Board of Director members - is largely conducted through RIs. While all CEOs had attended at least one training, these sessions focus heavily on compliance requirements and farmer mobilisation, rather than marketing and business planning.

FPC booth in the local fruits and vegetable mandi in Bihar

We identified three areas where greater training is required.

Marketing: All CEOs wanted additional training in marketing. To help FPOs form business connections outside local markets, they need training on the needs of different kinds of buyers (for example, quality and quantity requirements, or frequency and timing of purchases), how to meet these needs, and how to initiate conversations with new buyers unfamiliar with FPOs.

Credit Instruments: Few CEOs were aware of different sources of credit. RIs must include alternative sources of finance, especially credit limits on current accounts and warehouse receipt financing, in their trainings for FPC CEOs.

Government Support: Not every CEO knew of central and state government schemes that could help FPCs in marketing and agricultural value addition, such as the credit guarantee scheme offered by SFAC, or farm mechanisation subsidies. These should be an essential part of trainings conducted for FPC management.

It is important for training to be conducted by professionals experienced in marketing. Most RIs, however, are non-profit organisations with little experience in business planning or marketing. We recommend bringing in organisations like Nabkisan or NCDEX to conduct some training for FPC CEOs on marketing.

2. Promote state-level federations of FPCs to facilitate market linkage and provide effective training

State-level Farmer Producer Companies can play a crucial role in supporting FPCs within the state, especially in market linkage, training and policy advocacy. State FPO federations need greater support from state and central governments, especially higher initial investment to attract experienced management.

For example, the Madhya Bharat Consortium in Madhya Pradesh connects FPOs with buyers, procures produce from its member FPOs to aggregate and sell to a large buyer, provides member FPOs with breeder seeds from agricultural universities for seed production, connects members with public schemes, and negotiated a deal with state mandis to provide FPOs with storage space at lower rates. The Consortium also works with state and central governments to advocate for policy change to support FPOs, and is getting certified as a trainer for FPOs. Madhya Bharat has an experienced CEO and board of directors who provide the strategic vision and coordination to build an ecosystem for FPOs in the state.

A surveyor interviews an FPC member in Odisha

3. Prioritise FPCs in government support

The central government offers many forms of public support to farmers that can be very effective if extended to FPOs. For example, farm mechanisation subsidies can be critical for FPOs, especially in accessing grading and processing machinery for value addition. Clearly prioritising FPOs in scheme guidelines will encourage district and state officials, who are not always aware of FPOs, to spread awareness of the schemes among FPOs and support their applications.

In Tamil Nadu, for example, the Mission on Sustainable Dry Land Agriculture scheme explicitly prioritises FPOs in setting up a value addition machinery unit and creating custom hiring centres.

Other schemes that can more clearly prioritise FPOs include crop diversification efforts under MIDH, storage and seed production subsidies, and public warehousing (through reserving space for FPOs in public warehouses).

4. Facilitate FPC-buyer interactions to build connections and grow buyer understanding of FPCs

One factor limiting FPCs' abilities to connect with new buyers is buyers' unfamiliarity with FPCs, or lack of willingness to trust new organisations. In this context, 'buyer-seller meets' specifically for FPCs organised by state governments could play a major role in helping buyers understand FPCs. These events could also help FPCs understand the requirements of different kinds of buyers, and build professional connections for business transactions.

APPENDIX: STUDY METHODOLOGY

Data Collection

During October and November 2019, we conducted data collection in two districts each in Bihar, Odisha and Tamil Nadu. Our study had two components:

1. Qualitative in-depth interviews and focus group discussions
2. Larger-n survey of farmer members

We spoke to several types of respondents:

Farmer members: The quantitative survey collected information about the level of members' interaction with FPCs, their current access to markets and their activities in value addition and storage. Focus group discussions and in-depth interviews focused on deeper details of their experience with the FPCs, their reasons for joining, and challenges they face in markets today.

FPC management (either CEO or Chief Managing Director), to understand the trajectory of the FPC, challenges faced, needs to grow in the future

Resource Institutions, to understand the services they offer to FPCs, their role with the FPC in each stage of the FPCs trajectory and in different areas of an FPCs operations

Sampling

Geography: The three states of Bihar, Odisha and Tamil Nadu were selected in consultation with NABARD, the Ministry of Agriculture and the Bill and Melinda Gates Foundation.

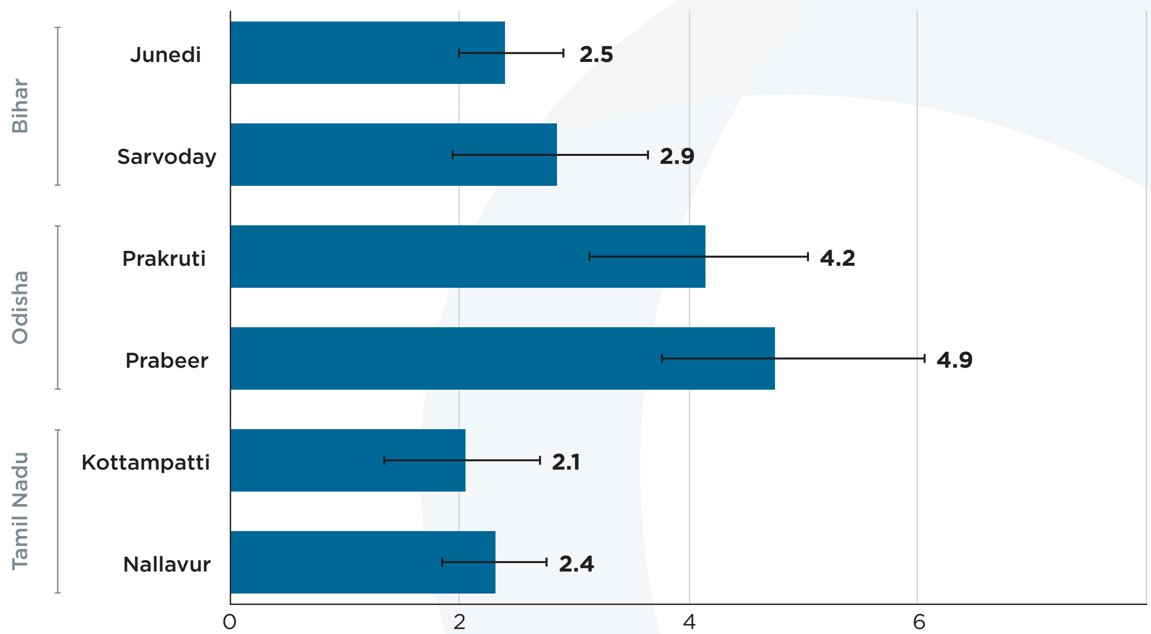
FPC selection: In Bihar, we selected one high-performing and one-lower performing FPC - one FPC with above average annual turnover and active in output marketing, and one FPC that was not aggregating or trading produce and had low turnover. In Odisha and Tamil Nadu, the sampling strategy was modified to exclude FPCs that were not active in output trading, since learnings from the FPC with no marketing activity were low in Bihar.

To identify higher and lower performing FPCs, we conducted short phone surveys with more than 50 NABARD-supported FPCs in each of the three states, using NABARD's online database of FPCs. We collected information on the FPCs' primary commodity, annual turnover, and whether or not they were active in output marketing.

Respondent selection: In each selected FPC:
- We met the CEO/CMD as well as some members of the board of directors
- Farmer members for in-depth interviews and focus group discussions were selected with the help of the CEO, with village selection done by IDinsight
- Farmer members for the larger-n quantitative survey were randomly selected from the FPC membership database, within selected villages. Villages with members were stratified by distance to FPC headquarters, and then randomly selected within each stratum, with sample size within each stratum proportionate to stratum population size. In three FPCs, all villages with at least six members were selected, while in others, 12-18 villages were selected.

Sample characteristics: In total, we surveyed 779 farmers who were members of the six selected FPCs.
- More than 65% of our sample was male. In Tamil Nadu, however, the FPCs prioritised female membership, so our sample was 58% female.
- Only 10% of the respondents had graduated high school
- The average age of our respondents was about 47 years, with little variation among states or FPCs.
- The majority of farmers in our sample were small and marginal farmers, owning less than two hectares (4.9 acres) of land (*Figure 4*).

Figure 4: Average landholding of farmer members (in acres)



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Focus Group Discussion with FPC members in Tamil Nadu

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About IDinsight

IDinsight is a global advisory, data analytics, and research organisation helping development leaders maximise their social impact.

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1 This report uses "FPO" and "FPC" interchangeably to refer to Farmer Producer Companies.
2 Value addition includes activities like grading, processing or packaging harvested agricultural produce before sale.
3 Details on sampling methodology and data collection instruments are given later in this report
4 In Bihar, we intentionally selected one FPC active in output trading and one that wasn't. In Odisha and Tamil Nadu, we limited eligible FPCs to those participating in output trading. More details are given in the sampling methodology section of this report.
5 More research is required to understand banks' perspectives on loan-giving to FPCs, which was outside the scope of this study.