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Developing FPOs as Startup

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The Government of India launched the Central Sector Scheme 'Formation and Promotion of 10,000 Farmer Producer Organization (FPO) Scheme' in the year 2020 with total outlay of Rs.6865 Crores in order to enhance overall income of farmers by improving their bargaining power, helping them scale up the business, reduce cost and improve efficiency through aggregation of their agricultural produce. As per the guidelines, these FPOs can be registered either under the Cooperative Societies Act of the States or the Companies Act, 2013. Thus, these organizations can exist as cooperatives or companies depending upon their choice. However, they are expected to fundamentally be involved in economic activities affecting income of the farming community and its members.

The FPOs are collectives and are based on the principles of cooperation. They are expected to follow certain key principles for their formation and operation. International Cooperative Alliance (ICA) has proposed seven principles, if followed may help such organizations thrive over a long period. These principles include voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training, and information, cooperation among cooperatives and concern for community.

Under the FPO Scheme, financial assistance of Rs 18 lakh per FPO is provided for three years subject to fulfillment of certain norms including membership norms. These FPOs are mentored by Cluster Based Business Organizations (CBBOs) for which they are given a total of Rs 25 lakh for the handholding period. Nine agencies including Small Farmers Agri-Business Consortium (SFAC), National Cooperative Development Corporation (NCDC) and NABARD implement this Scheme. These implementing agencies engage CBBOs to help in aggregation, registration and subsequently provide professional hand-holding support to the FPOs for five years.

During recent years the number of FPOs in India has increased significantly. In fact, about 7,597 FPOs have been registered in India till November 2023, under the 10,000 FPO scheme including around 1,150 in Uttar Pradesh, 566 in Madhya Pradesh, 521 in Maharashtra, 475 in Punjab and 474 in Bihar. National Bank for Agriculture and Rural Development (NABARD) study indicated an increase in farm productivity in the range of 18.75 - 31.75 % for farmers associated with FPOs with reduction in input cost in the range of Rs 50 - 100 per bag of seed and fertilizer (2021 & 2022 study). However, there has been a general observation that majority of these FPOs are still struggling to perform efficiently as a business organization. This calls for changing the approach towards FPOs from typical collectives to a Startup Oriented business organization.

FPOs as Startups: Changing the Perspectives

Startups are typically characterized by innovation, focus on growth, risk taking, flexibility, focus on solving a problem, scalability, working in teams etc. to name a few. FPOs are also involved in economic activities but there is a fundamental difference in their approach. They largely work on traditional and less risky businesses. The founding team plays a major role in deciding the vision and pace of the organization. Therefore, even among these FPOs certain collectives focus more on market opportunities more than focusing on their available products for marketing. This is the beginning of looking FPOs as an entrepreneurial enterprise and if continued may ultimately help them to pursue the business approach akin to Startups.

How FPOs can Follow Startup like Approach

Certain modification in how the organization is formed (FPO formation), economic activities decided, and business rolled out and maintained can help FPOs understand the process that is generally implemented by Startups. However, a few steps are unique in case of FPOs considering the nature of organization which is primarily a rural collective. Therefore, a lot of time and energy is to be spent on social and community mobilization stage for the formation and growth of such enterprise. Unfortunately, this aspect is missed out many times by the FPOs and CBBOs due to various reasons and ultimately affects the process of sharing a common and enduring 'common goal and vision' of the organization.

The FPOs can follow the 7-stage framework of startup with suitable customization to transform their approach towards business. These stages include:

- a) *Pre-seed stage:* Like startups, the FPOs founding team and members need to define their business idea and prepare in such a manner that they are able to attract more active members to join their organization and seek investment. Also, focus should be on developing business ideas that can get funding support from banks and other organizations.
- b) *Seed stage:* Once FPOs get initial level of investments (from members and other sources) the seed stage begins. During this phase, there should be focus on market testing and product development in order to create prototypes and get validation of the business model chosen by them initially.
- c) *Early stage:* The focus is on identifying a minimum viable product that has just enough features to attract initial business.
- d) *Growth Stage:* When they find the new product attractive, in tune with market demand they will get more orders from the market. The customer base increases and there is a need to expand capital for business development. They need to hire professionals to run the business.
- e) *Expansion Stage:* In this stage the business expansion is quite fast. The annual growth rate could be in the range of 20 % and therefore there is need to explore new markets, customers and businesses.
- f) *Maturity Stage:* After expansion stage, the business becomes mature enough, the system and processes are institutionalized. The leadership team then decides to hand over business function to a professional management team and only look after periodical governance matters and issues.
- g) *Merger and Acquisition Stage:* Once the FPOs become matured, they need to explore new businesses which can be done by acquiring the existing businesses through acquisitions or merge some of their businesses for the sake of higher efficiency and growth. The purpose is to have increased shareholder value.

Conclusion

If FPOs try to follow the seven-stage framework of Startups for carrying out their business activities they are more likely to see economic activities as business activities and sustain in the competitive market. This will require a lot of training and sensitization to the founders and members. There may be a case for involving high performing startups as CBBOs who can help in doing such activities. Once this innovative approach is aligned with the community mobilization perspective, the FPOs may truly become an FBO (i.e. Farmer Business Organization).

Further readings and References

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