Farmer Producer Organisations — Building Them to Last

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A Farmer Producer Organisation is a legal entity — typically registered as a Producer Company under the Companies Act — owned and governed by its farmer members. It is different from a cooperative (though similar in principle) and different from an NGO (it is a business entity that generates and distributes surplus to members).

The key legal features that make FPOs distinctive:

- **One member, one vote** — regardless of shareholding, every member has equal governance rights. This is fundamentally different from a private company where votes are proportional to shares.
- **Member as both owner and customer** — farmers who are FPO shareholders also sell through the FPO and buy inputs through it. Their interests as producers and as business owners are theoretically aligned.
- **Surplus distribution** — any surplus (profit) is distributed to members as patronage dividend, proportional to their transaction volume with the FPO. Members who sell more through the FPO get more of the surplus.
- **Board of directors** — typically 10–15 members elected by shareholders, responsible for strategic decisions and for appointing a professional CEO who manages daily operations.

The critical distinction: who is the FPO actually for?

There are two fundamentally different types of FPO in practice:

- **Production-centric FPOs** — focused on aggregating and selling what members produce, primarily in commodity markets. Income comes from volume.
- **Market-centric FPOs** — focused on accessing premium markets, value addition, and differentiated products that command better prices. Income comes from margin.

Most FPOs in India start as production-centric (easier to start, lower skill requirement) and struggle to become financially sustainable because commodity aggregation generates thin margins. The FPOs that become genuinely transformative for member incomes are those that move toward market-centric models — value addition, direct buyer relationships, quality differentiation.

This transition requires management capacity, market intelligence, and working capital that most newly formed FPOs don't have. The question of how to get from production-centric to market-centric is the central challenge of FPO building.

The Five Failure Modes — And What They Tell You About Design

Understanding why FPOs fail is the foundation for designing ones that don't. The research across India is consistent.

Failure mode 1: Inadequate working capital

This is the most commonly cited cause of FPO failure, and it is structural rather than accidental. An FPO that aggregates members' produce needs to pay farmers immediately at procurement — before the FPO has received payment from its buyers, which typically comes 30–60 days after delivery. This gap is called the working capital cycle, and without credit to bridge it, the FPO simply cannot operate.

A concrete example: an FPO plans to aggregate 100 metric tonnes of paddy from member farmers during the kharif harvest. At ₹2,100 per quintal (MSP), that is ₹2.1

crore of procurement. Payment from the miller or government procurement agency comes in 45 days. The FPO needs ₹2.1 crore of working capital for 45 days. Without it, farmers sell to the nearest trader, the FPO procures nothing, and the season is lost.

Design implication: Before promoting an FPO's market operations, ensure a working capital credit line is in place. The sources in Odisha's context:

- NABARD's FPO credit guarantee scheme — guarantees credit from commercial banks to FPOs
- NABARD's Equity Grant — up to ₹15 lakh per FPO to build equity capital, which serves as collateral for credit
- Small Farmers' Agribusiness Consortium (SFAC) — provides working capital loans and credit guarantees specifically for FPOs
- State Bank of India's FPO credit product — SBI has specific credit products for FPOs with two or more seasons of trading history

None of these are automatic. They require the FPO to have clean accounts, audited financials, and documented trading activity. Which means the FPO needs to have traded — even in small volumes — before it can access credit at the scale it needs to trade at larger volumes. The sequencing matters: start small, build a credit history, then scale.

Failure mode 2: Weak governance and unclear decision rights

The "one member, one vote" principle sounds democratic. In practice, it means that decisions require building consensus among potentially hundreds of farmers who have different crops, different risk appetites, different market orientations, and different relationships with each other.

When the IDR documentation describes SEWA proposing to scale paddy procurement from 6 to 60 metric tonnes for a Bihar FPO and facing resistance from the board — months of persuasion before the members believed it was possible — this is the

governance challenge in operation. It is not a failure. It is the reality of building institutional confidence in collective action among risk-averse smallholders who have good reasons for their caution.

Two governance failures that destroy FPOs:

- **Board capture** — where one or two members with higher education, social status, or political connections effectively make all decisions while the rest of the board defers. This is both unfair and fragile: if the captured members leave or use their position for personal benefit, the institution collapses.
- **NGO capture** — where the promoting NGO effectively runs the FPO because farmers don't have the business skills to manage it. When the NGO exits, the FPO collapses.

Design implication: Invest heavily in board governance from the start. Run quarterly board orientation sessions covering: what decisions the board makes vs. what the CEO manages; how to read financial statements; how to chair a meeting with diverse views; how to manage conflict between members. These are learnable skills. They need to be taught, practised, and reinforced.

Failure mode 3: No market linkage before operations begin

FPOs that are formed, collect member shares, and then begin looking for buyers are starting in the wrong order. By the time the harvest season arrives, if no buyer relationship exists, the FPO aggregates produce and then scrambles to sell it — usually ending up selling to the same traders at the same prices as farmers would have without the FPO.

Design implication: Identify at least one committed buyer before an FPO begins commodity operations. "Committed" means: a written agreement or MOU specifying product specifications, minimum quantity, price discovery mechanism, and payment terms. Not a verbal expression of interest — a written agreement.

Possible buyer types for Odisha's tribal and smallholder FPOs:

- TDCCOL (Tribal Development Cooperative Corporation of Odisha) — government procurement for millets and selected NTFPs
- Food Corporation of India — for paddy at MSP (requires quality standards and logistics)
- Institutional buyers — hostels, midday meal schemes, government food supply
- Processors — flour mills, oil mills, fruit processors who buy at farm gate
- Private retail chains — for organic or GI-certified products at premium prices
- Export buyers — for certified products (organic millet, wild honey, tribal artisan products)

For a new FPO in a tribal block, TDCCOL is often the most accessible first buyer — government procurement with known prices and an established purchase mechanism. Starting with TDCCOL builds a transaction record that enables access to more commercial buyers later.

Failure mode 4: CEO not capable of managing a business

The FPO CEO — the professional manager hired by the board to run daily operations — is the person through whom most of the FPO's business intelligence, market relationships, and operational capacity flows. A capable CEO can compensate for a weak board in the short term. A weak CEO cannot be compensated for by a strong board.

In rural FPOs, finding and retaining capable CEOs is genuinely difficult. The salary that an FPO can afford in its early years is typically ₹12,000–18,000 per month. Candidates with the business and agricultural market knowledge to actually build FPO operations can usually earn more elsewhere.

Design implication: Support the FPO to build a detailed CEO job description before hiring, covering: accounts management; market liaison; member service; government scheme navigation; and basic financial planning. Use the first CEO's probation period to assess actual competence rather than credentials. And plan for CEO turnover —

build institutional systems (documented procedures, maintained accounts) so that the FPO's operations don't depend solely on one individual.

The NGO's role here is critical: during the first year of operations, the NGO field staff should be working alongside the CEO, not instead of the CEO. Monthly joint reviews of accounts, market relationships, and member services. Not taking over the CEO's role, but ensuring the CEO is building the right practices and can be held accountable for them.

Failure mode 5: Target-driven formation without organic member interest

The 10,000 FPO scheme put significant pressure on Cluster Based Business Organisations (CBBOs) — the agencies hired to form FPOs — to meet targets. The predictable result: FPOs formed quickly, with members who joined because an NGO told them to, without genuine understanding of what they were joining or genuine interest in collective marketing.

An FPO where members don't understand their rights as shareholders, don't attend annual general meetings, and don't actively bring their produce to the FPO is not an FPO in any meaningful sense. It is a registered company with passive shareholders.

Design implication: Spend more time on member orientation before formal registration than after. Two or three community meetings where potential members understand what the FPO will and won't do, what their share means, what their governance rights are, and what they'll need to commit to — honest, not aspirational — produces better members than rushing to registration. Farmers who join with realistic understanding of a three-to-five-year journey toward market access are better partners than farmers who joined expecting immediate income improvement.

The Timeline: What Realistic Progress Looks Like

The evidence from India's most successful FPOs — including Sahyadri Farms in Maharashtra and AMUL's district-level cooperatives in Gujarat — shows that building a self-sustaining producer organisation takes seven to ten years. The government policy expects FPOs to break even in three years. Both can be true: financial break-even is possible in three years; governance maturity, market depth, and genuine member ownership take longer.

Year 1: Registration, governance establishment, opening accounts, identifying and hiring CEO, first commodity aggregation (small scale), first buyer relationship, first NABARD equity grant application. No expectation of significant member income improvement. Build trust, build systems, build credit history.

Year 2: Scale up commodity aggregation based on year 1's buyer relationship. Access first working capital credit line. Begin value addition exploration — what can members' produce become, at what investment, for what premium? Second board governance orientation. First annual general meeting with transparent account presentation to all members.

Year 3: Consistent seasonal operations. At least one value addition activity operational. Working capital credit cycling reliably. CEO managing operations with decreasing NGO support. Board making strategic decisions independently. First approach to premium buyers (retail, export, institutional). First season where member net price is measurably better than without the FPO.

Years 4–5: Market diversification — more than one buyer, at least one premium channel. CEO capable of operating without NGO presence. Board holding CEO accountable with appropriate governance. Annual surplus being distributed to members. Consideration of expansion to new products or geographies.

Years 6+: Sustainable without ongoing NGO facilitation. NGO role shifts to occasional technical support. FPO building its own institutional connections — NABARD,

government procurement agencies, private sector buyers.

This timeline is not pessimistic. It is accurate. NGOs and CSR programmes that fund FPO work for one or two years and then exit are funding the formation phase and leaving before the outcomes phase. The funding structure needs to match the timeline.

Specific Guidance for Odisha's Tribal Context

Start with what members already produce and sell

The most common FPO failure in tribal contexts is designing the FPO around a product that has potential but that farmers aren't yet growing at scale. Before building an FPO's market strategy, establish: what are member households actually producing? What do they actually sell? Where do they currently sell it, and at what prices?

This baseline — which takes two or three community visits to establish through participatory tools — tells you where the existing market disadvantage is largest and where the FPO's first intervention can produce visible, credible results for members.

In Odisha's tribal blocks, this baseline typically reveals: millets and NTFP are sold through local traders at prices well below the nearest market town; paddy is sold through the same traders or to government procurement at MSP; vegetables and fruits rot because there is no cold chain and no reliable buyer. The FPO's first intervention should address the largest price gap — typically NTFP or millet market linkage, where the difference between village trader price and TDCCOL or direct buyer price is significant.

NABARD's FPO equity grant

Every newly registered FPO is eligible for NABARD's equity grant — up to ₹15 lakh — provided through the promoting institution. This money builds equity capital for the FPO, which serves as the collateral base for credit. It is real money, it is available, and most rural FPOs in tribal districts don't access it because nobody guides them through

the process.

The process: the promoting organisation (which should be your NGO) submits an application to the regional NABARD office with the FPO's registration documents, business plan, list of shareholders, and bank account details. NABARD's regional office reviews and approves. The grant is transferred to the FPO's account.

This should happen in year 1 of the FPO's operation. Don't wait.

The Mission Shakti linkage

Odisha's SHG federations and FPOs are not separate universes. In many tribal blocks, the women who are members of Mission Shakti SHGs are also the farmers in smallholder households. An FPO that links with the Mission Shakti VO structure for member mobilisation, with the SHG's savings infrastructure for member share capital, and with the VO's existing government relationships for scheme navigation — is building on infrastructure that already exists rather than starting from scratch.

Specifically: Mission Shakti SHGs managed millet procurement and processing under the Odisha Millet Mission. This demonstrated that SHG federations can be the FPO's member and supply chain simultaneously. NGOs designing FPOs in tribal Odisha should explicitly map how the FPO relates to the existing SHG structure — whether as the marketing arm of an SHG federation, or as a distinct entity that draws members from SHG households.

What NGOs Should Not Do

Do not register an FPO without market assurance. If you cannot identify a buyer before registration, do not register yet. More FPOs have failed from premature registration than from late registration.

Do not run the FPO's accounts yourself. The FPO's CEO must own the accounts. If the NGO's programme officer is effectively the de facto finance manager, the FPO will collapse when the programme officer leaves.

Do not promise member farmers immediate income improvement. Managing expectations honestly is the NGO's most important role in year 1. Farmers who join expecting double their income in one season and don't see it will become disengaged members who spread negative word of mouth. Farmers who joined understanding the three-to-five-year journey and see consistent incremental progress remain engaged.

Do not design for one buyer. Single-buyer dependence is a significant risk factor. If the buyer changes requirements, reduces offtake, or exits, the FPO has no fallback. From year 2 onwards, build toward at least two market channels.

The Test at Year Three

At the end of three years, a functioning FPO should be able to answer "yes" to four questions:

1. Did member farmers receive a price for at least one commodity this season that was measurably better than they would have received without the FPO?
2. Has the FPO completed at least two seasons of accounts that have been audited and presented to member shareholders?
3. Does the FPO have a working capital credit line that it has successfully drawn and repaid?
4. Can the CEO articulate who the FPO's buyers are for the next season, at what specifications, and at what prices?

If yes to all four: the FPO is on the right trajectory. Continue. If no to any one: that is the priority for the next year. Don't move to the next level until the foundation is solid.

Related Knowledge Commons content: Agriculture & Markets Sector Primer (Sector 09) · Practice Note: Millet Value Chains — the Odisha Millet Mission Model · Practice Note: NTFP Market Development — From Forest Produce to Fair Price

Evidence Grade: B — Multi-study. This Practice Note draws on the EPW meta-analysis of FPO functioning (2024), NABARD's 2024 FPO assessment, Frontiers in Sociology

long-term viability study (2024), IDR's FPO building documentation, and field evidence from WASSAN and PRADAN's FPO facilitation in tribal Odisha. Last reviewed: April 2026.

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