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Impact of Farmers Producer Organizations (FPOs) on income generation of farmers of Malwa region

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Abstract

The concept of a Farmer Producer Organisation is to bring together producers, particularly small and marginal farmers, in order to form an effective tool for improved access to investment, technology, inputs, and markets. FPOs can register themselves under the special provisions of the Companies Act, 1956. FPOs are a practical approach to empower smallholder and marginal farmers thereby ensuring their prosperity. In India, where a large population is dependent on agriculture as the primary source of income, an FPO is a means of actively engaging farmers in the development process. It provides an organized system to transfer modern-day technology, absorb them efficiently into rural development programs, monitor their socioeconomic progress, and play a critical role in creating sustainable employment for youth and women, and progress toward reducing poverty for millions of people. The present study entitled Impact of Farmers Producer Organizations (FPOs) On Income Generation of Farmers of Malwa region was undertaken to evaluate the impact on farmers. There were 300 member farmers selected for research investigation. The findings revealed that 5.66% of member farmers had medium income generation by farmers producer organization.

Keywords: FPOs farmers income, Malwa region, income generation, sample survey

Introduction

The Farmer Producer Organization is a legally constituted body of small and marginal farmers coming together to form a collective group for the objectives of improving efficiency at production, harvesting, and marketing. In concept, FPO is based on the cooperative model but adapted to suit rural and small-scale farmers. An FPO basically aims at improving farm income through better price realization, enhanced bargaining power, access to professional management, and reduction in transaction costs. This integrated model contributes to hedging peculiar risks in agriculture, thus offering a more sustainable livelihood opportunity. FPO formations in India track back to some consecutive policy initiations with regard to the empowerment of farmers through collective action. The movement of this concept gained momentum when the inclusion of the Companies Act, 1956, allowed farmers to register themselves as producer companies. In 2002, the Government of India introduced the 'Small Farmers' Agribusiness Consortium' with the aim of promoting the creation and scaling up of FPOs. Subsequently, in the year 2013, the introduction of the Companies (Amendment) Act further facilitated structured growth for FPOs through a regulatory framework. In that process, it also aimed at addressing the fragmentation of landholdings, reducing middlemen exploitation, and raising efficiency at agricultural value chains. The Ministry of Agriculture and Farmers' Welfare reported over 10,000 registered FPOs in India as of 2023. To be precise, it

calculates the formation of 10,000 new FPOs by 2027 as per the "Formation and Promotion of 10,000 FPOs" scheme. Producer companies are formed only among primary producers, that is, only people engaged in activities connected to primary production can join the company (Trebbin and Hassler, 2012) ^[18]. Primary produce has been defined as a produce of farmers arising from agriculture including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, revegetation, bee raising and farming plantation products; produce of persons engaged in handloom, handicraft and other cottage industries; by products of such products; and products arising out of ancillary industries (Murray, 2015) ^[19]. The minimum number of founding members is ten individual members, or two institutional members such as self-help groups (SHGs), cooperatives, or any other formal farmer organization. The seed capital of the company is generated through an initial sale of shares. The producer companies made it an obligation for farmers interested in becoming a member to buy at least one share in the company. The share value, on average, is very low, ranging from Rs. 50 to 200 (Trebbin and Hassler, 2012) ^[18]. On registration, the producer company shall become as if it is a private limited company with the difference that a minimum of two persons cannot get them registered, the provision relating to a minimum paid-up capital of Rs. 1 lakh will not apply and the maximum number of members can also exceed 50. Members' equity cannot be publicly traded but

only transferred. Every producer company must have a minimum of five but not more than fifteen directors. The members of this board of directors are appointed from within the participating farming communities. Hence, the farmers also have direct voting rights, which is a source of democratic power. The directors are a group of members of the village community and are, in consequence, deeply embedded within local social structures (Mohd. Ameer Khan, 2020) ^[14]. Farmers maintain the foundation of Indian agriculture, which is production-oriented and has fragmented landholdings, greater transportation and cultivation expenses, restricted market access, low technology adoption, weaker negotiating leverage, and higher transaction costs, weak infrastructure, low market efficiency, unemployment, and migration brought on by debt. In order to secure the involvement of agri-entrepreneurs and smallholder producer farmers, it is imperative that collective action be encouraged in the purchase and distribution of inputs, as well as in the aggregation, grading, and sale of the products through economies of scale. Consequently, by uniting farmers into Farmer Producer collectives.

Materials and Methods

In Malwa region, Rajgarh, Agar-malwa, Shajapur district will be selected purposively for the study of research problem. Presently, in Rajragh district the Hariyali Farmers Producer Company Limited, in Agar Malwa district the Khushaal kisan Samuridhi Producer Company Limited and Shajapur district the Malwamati Farmers Producer Company Limited is having maximum number of FPO member farmers. So, these Farmer Producer Organization was selected purposively because of having maxing number of member farmers. A district wise list of member farmers who were members of selected FPOs was prepared, from each selected FPO 100 member farmers was selected randomly; hence 300 farmers (members of FPO) were considered as sample of the present study.

Results and Discussion

The rise in farmers' earnings relative to specific economic metrics after a connection with the Famer Producer Organization relationship in those indicators. These indicators were ranked in descending order according to the rate of change in each of the following categories: annual income (80.21%), input material management (74.72%), saving (68.33%), annual expenditure (54.70%), employment generation (46.25%), subsidiary occupation (39.86%), participation in profitable market activities (26.13%), and income from value addition (2.89%).

Among these eight indices, yearly income growth, input material management, savings, and annual spending all

showed greater increases in change with respect to specific economic indicators. Conversely, there were very slight changes in the revenue indices of employment creation, subsidiary occupation, participation in profitable market activities, and income from value addition.

Farmer Producer Organizations (FPOs) boost farmers' earnings through collective action, but impacts vary across indicators due to their core functions and implementation challenges. FPOs primarily enable bulk procurement of inputs like seeds, fertilizers, and pesticides at lower prices, directly slashing costs and improving input material management by 74.72%. This efficiency flows to higher annual income (80.21%), as farmers sell produce at better prices via collective bargaining, eliminating middlemen. Savings rise sharply (68.33%) from reduced input costs and increased net revenue, while annual expenditure grows moderately (54.70%) as farmers invest in assets and consumption enabled by higher earnings. FPOs generate on-farm and off-farm jobs, such as packing or transport, boosting employment by 46.25% and subsidiary occupations (*e.g.*, dairy, nurseries) by 39.86%. These stem from expanded operations and skill-building in post-harvest activities, like raisin-making from grapes, providing supplementary income streams. However, gains are moderate because many small farmers lack initial capacity for diverse roles, limiting scale. Participation in profitable markets increases by 26.13% as FPOs link farmers to buyers, but progress is slower due to inconsistent market linkages, poor infrastructure, and seasonal demand fluctuations. Smallholder farmers often face transportation barriers or mismatched produce quality, hindering full realization of premium prices. Income from value addition sees the smallest rise (2.89%) because FPOs typically focus on primary aggregation and marketing, not processing facilities requiring heavy capital, technology, or expertise. Setting up units for juices, jams, or drying demands investments many nascent FPOs can't afford, plus regulatory hurdles and skill gaps among members. Studies note that only mature FPOs, like those in Nashik handling grapes, achieve minor value addition via basic post-harvest practices. High performers (income, inputs, savings, expenditure) leverage FPOs' immediate strengths: economies of scale in procurement and sales, yielding quick wins for small/marginal farmers (over 80% of India's cultivators). Low performers demand long-term investments training for jobs, market contracts, processing plants which face barriers like funding shortages, weak governance, and external dependencies (*e.g.*, policy support). Early-stage FPOs prioritize survival over advanced activities, explaining the gradient. Heterogeneity plays in: larger or female-headed households benefit more overall. Scaling FPOs with targeted aid could balance these.

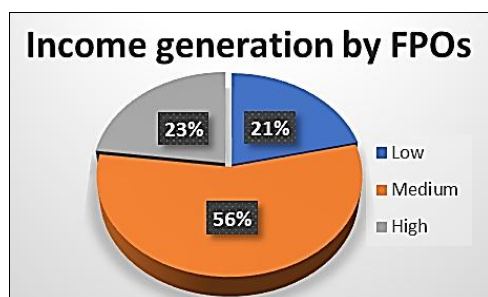
Table 1: Income generation of member farmers due to FPOs

S. No.	Indicator	Mean index of Income generation (%)	Rank
1	Annual income growth	80.21	I
2	Increase in annual expenditure	54.70	IV
3	Increase in savings	68.33	III
4	Input material management	74.72	II
5	Subsidiary occupation	39.86	VI
6	Income from value addition	02.89	VIII
7	Employment generation	46.25	V
8	Involvement in gainful market activities	26.13	VII

Table 2: Distribution of farmers according to Income Generation by FPOs

S. No.	Categories	Score	%age
1.	Low	64	21.34
2.	Medium	167	55.66
3.	High	69	23.00
	Total	300	100

The data of the table 2 reveals that out of total farmers, 55.66% had medium income generation, bulk input purchases cutting costs by 20-30% and better market prices boosting net farm income by ~30% (e.g., ₹31,763/acre vs. non-members). Small/marginal holders (86% of India's farmers with < 2 ha) gain moderately from aggregation, but limited land constrains scale. followed by 23.00% had high income generation comprises larger farmers or early adopters with bigger holdings, hired labor, and higher crop sales volumes. Factors like education, proximity to markets, and FPO scheme access (e.g., exports, value addition) enable 46-80% income rises, as in mature FPOs. and 21.34% farmers had low income generation. are often new members, remote smallholders, or those with age/education barriers, facing weak linkages or non-adoption. FPOs reduce inequalities but can't fully offset low production bases.

**Fig 1:** Income generation by FPOs

Conclusion

The finding that a majority (55.66%) of farmers experienced a medium level of income generation through Farmers Producer Organizations may be attributed to partial but not optimal utilization of FPO benefits. FPOs deliver moderate uplift through collective input procurement (20-30% cost savings), better prices via aggregation, and reduced transaction costs, raising net income ~30% over individual farming. Small/marginal farmers (86% of India, <2 ha holdings) gain here but lack volume for outsized returns. Most farmers gained moderate advantages such as collective input procurement, better access to markets, and reduced transaction costs, which contributed to an improvement in income compared to individual farming. However, limited scale of operation, inadequate professional management, insufficient access to credit, and fluctuating market prices restricted the potential for higher income gains. Additionally, variations in farmers' participation level, production capacity, and awareness about advanced value addition and marketing strategies further constrained income enhancement, resulting in income gains remaining at a medium level rather than high. The result is in medium because inadequate professional management in nascent FPOs hampers advanced marketing/export; credit shortages block infrastructure like cold chains; fluctuating prices

erode margins. Low economic motivation (59% medium), risk orientation, and leadership (64-56% medium) among members curb optimization. Variations in participation, land size, education, and awareness of value addition keep gains medium, not high.

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