Eastern UP Bets Big On FPOs To Bolste Growth: Is It Working?

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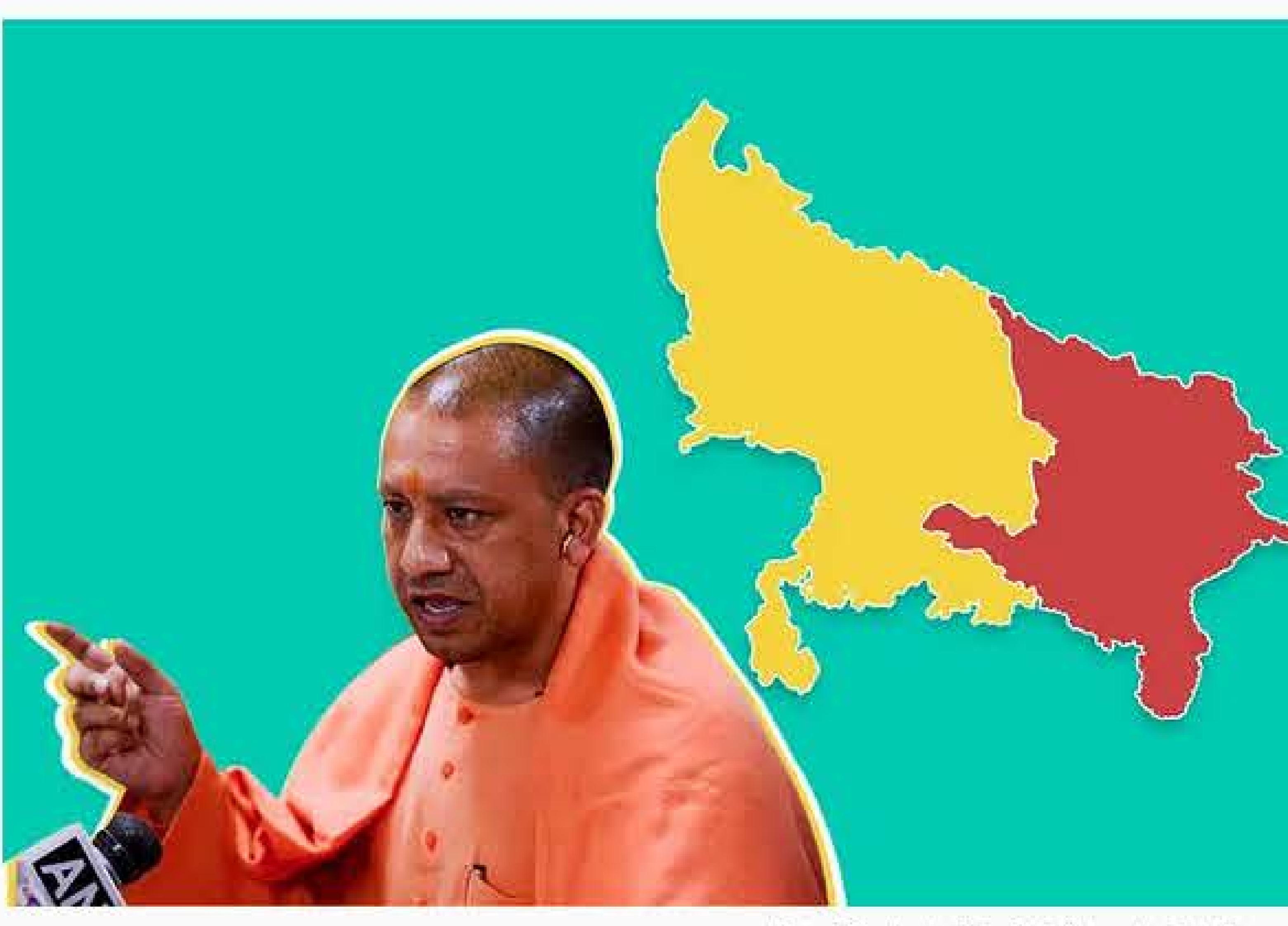

Uttar Pradesh Chief Minister, Yogi Adityan

Snapshot

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Over the last six years, the Yogi Adityanath government in Uttar Pradesh ensured the availability of basic infrastructure like roads, electricity etc., and restored law and order. He now has the third and the most difficult task in hand — turning the jammed wheels of growth.

The job is not easy. The government is doing its best to attract industry and has achieved a degree of success as well. However, the benefits largely went to the western part of the state, which is closer to Delhi, and has access to better infrastructure.

In the vast hinterlands of the eastern UP, which is almost bereft of large industry, the government is banking heavily on the farm sector to revitalize growth.

The farmer-producer organisations (FPOs) are proving the right vehicle to achieve this goal.

The potential benefits from this objective can be increased by reducing the compliance costs for nascent FPOs.

For example, the introduction of low-cost pre-cooling and cool-transport solutions can improve the market potential of vegetables and fruits. Similarly, a solution is also expected for the Blue Cow menace.

Why FPOs?

FPOs are mostly body corporates with individual shareholding capped at five percent and directors elected by members for a maximum of five years. Functionally, therefore, FPOs are more of a social or community enterprise.

Considering the small size of average land-holding in India and particularly in eastern UP, the farmer misses the benefits of scale. FPOs are supposed to mitigate that gap through the aggregation of both the agri-inputs and outputs.

The FPO policy was introduced in 2013. In February 2020, The Narendra Modi government rolled out a scheme to promote 10,000 new FPO in five years. Till then India had less than 5,000 FPOs with 654 in UP.

As part of the new scheme, the Centre offered a matching equity grant and 80-100 percent capital grant for setting up seed processing facilities and farm machinery banks.

A dedicated credit guarantee fund of Rs 1,000 crore is created to ensure working capital finance.

The policy push increased the number of FPOs in India by 42 per cent in two years. In UP, the number of producer organisations increased by more than double in three years.

According to the UP FPO Shakti portal[i], the state now has over 1,340 FPOs with a combined turnover of Rs 155 crore. Nearly one-third FPOs have farm machinery banks and over 100 have seed processing units.

High Auditing cost

There are, however, some unintended, indirect beneficiaries of the FPO rush in UP.

During a recent study for Grameen Foundation India (GFI), this author found that state FPOs are paying Rs 40,000 in auditing fees, on average, for regulatory compliance.

As community enterprises, FPOs live on very thin margins. The GFI study on 40 farmer organisations in eastern UP shows that the majority of the profitable entities are earning barely one percent or less on turnover.

Some FPOs earn a better margin of four to five percent. But that depends on the availability of farm produce on credit from the farmer, the availability of working capital to book inputs in advance and others.

A back-of-the-envelope calculation reveals that the average turnover of state FPOs is barely Rs 11.5 lakh, which is too small and just enough to trade 500 quintals of wheat a year. And, they are paying 3.5 per cent of turnover to chartered accountants.

This must change. FPOs should have access to standard but low-cost auditing services. Interestingly, lenders allege that despite high costs most FPO balance sheets are poor in quality, which in turn affect their ratings and access to cheaper credit.

Logistics for vegetables

Eastern UP has low precedence of crop diversification. Most FPOs are into the trading of foodgrains (wheat and paddy) and agri-inputs. Some FPOs in chosen pockets, as in Varanasi, are into the horticulture trade.

However, their ability to aggregate is hamstrung by a near complete lack of preservation infrastructure. Vegetables suffer the most as they start rotting within six hours of harvesting.

UP has built good roads up to villages. However, the long distance from major consumption centres in the North and in the East, limits the market access and production potential.

Reefer vehicles are exorbitantly costly to hire. Moreover, it needs volume and two-way traffic. Volume is also critical for the viability of cold storage infrastructure.

A solution can be struck through innovative farm gate cooling and the introduction of low-cost cool boxes. Start-ups like RuKart[ii], Ecozen, ColdStar, Promethean and Coolify[iii] are working on such solutions.

Blue Cow

Another factor impacting crop diversification, particularly the production of pulses, is the Blue Cow menace. Blue cow or Blue Bull (also known as Nilgai) is the largest antelope.

As of 2016, UP had nearly 2.5 lakh[iv] of them. While they are protected by law, the shrinkage of forest area and lack of predator population in the forests, led to a population explosion of Blue Cow.

The impact is severe in the eastern UP, where they come out in hundreds at nightfall. Farmers across the region have stopped growing pulses for fear of crop loss.

The loss is not limited to pulses alone. Farmers say that the hungry animals have now started feeding on whatever is available. If due policies are not taken to keep their population under control, agriculture will face increasing risks in the region.