Understanding Issues Affecting Sustainability of Farmers' Producer Organizations for Development in Rural India

By

Priyanka Jana

Dissertation submitted for the partial fulfillment of the MBA Rural Management

Academic year, 2017-2019

The IIHMR University, Jaipur

1, Prabhu Dayal Marg, Sanganer, Airport
Jaipur 302029, Rajasthan
Ph: 0141 3924700, Fax: 3924738
Website: **www.iihmr.edu.in**

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Ph: 0141 3924700, Fax: 3924738
Website: **www.iihmr.edu.in**

INSTITUTE OF HEALTH MANAGEMENT RESEARCH
(WHO Collaborating Centre for District Health System Based on Primary Health Care)

IIHMR UNIVERSITY

TO WHOMSOEVER MAY CONCERN

This is to certify that PRIYANKA JANA student of MBA Rural Management from The IIHMR University, Jaipur has undergone dissertation at Manjari Foundation, Dholpur, Rajasthan from 25/02/2019 to 03/05/2019.

The Candidate has successfully carried out the study assigned to her during dissertation and her approach to the study has been sincere, scientific and analytical.
The dissertation is in fulfillment of the course requirements.

I wish her all success in all her future endeavors.

Dean In Charge
School of Development Studies
The IIHMR University, Jaipur

Ms. Ratna Verma
Assistant Professor
The IIHMR University

1, Prabhu Dayal Marg, Near Sanganer Airport, Jaipur- 302029, Rajasthan, India.
Ph.: 0141- 3924700, 2791431- 32, Fax: 0141 3924738, E-mail: iihmr@iihmr.edu.in, Web.: www.iihmr.edu.in

THE IIHMR UNIVERSITY, JAIPUR

CERTIFICATE BY SCHOLAR

This is to certify that the dissertation titled **Understanding issues affecting sustainability of Farmers' Producer Organizations for development in rural India in Dholpur District of Rajasthan** and submitted by PRIYANKA JANA Enrollment No 0032 under the supervision of Prof. Ratna Verma for award of MBA in Rural Management of the University carried out during the period from 25/02/2019 to 03/05/2019 embodies my original work and has not formed the basis for the award of any degree, diploma associate ship, fellowship, titles in this or any other institute or other similar institution of higher learning.

Priyanka

Signature

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Contents

Executivesummary

The report includes assessment and analysis of the factors affecting the sustainability of Farmers’ Producer Organisations in the Dholpur district of Rajasthan where Manjari foundation is working for livelihood of people.

Method of analysis includes descriptive and explorative study involving both primary and secondary data. Primary data from field evidence is collected through semi structured questionnaire where the sample size has been 60 according to the constraints of time, access and financial challenges and include respondents from the group of farmers, enterprises and local officials. Secondary data is based on government reports and literature reviews to increase the effectiveness of the study.Following research tools are applied for the capturing of responses from the relevant respondents.

- Simple random sampling
- In-depth interviews
- Focused group discussions (FGD)

- Content analysis

Results of the study show that the success of FPOs is more or less due to its own members. In the villages where members have been sincere and able to adopt methods instructed by the organisation have benefitted from the trading. They have developed skills in animal husbandry and collective marketing. The active members put a greater influence on others.

The study finds out the factors for success and failure of FPOs. It has dealt with both functional and non-functional FPOs. Qualitative analysis and quantitative analysis have played role in preparing the report. Questionnaires were prepared before the field interventions. The interviews were conducted with FPO members and Manjari foundation Staff.

TheReport

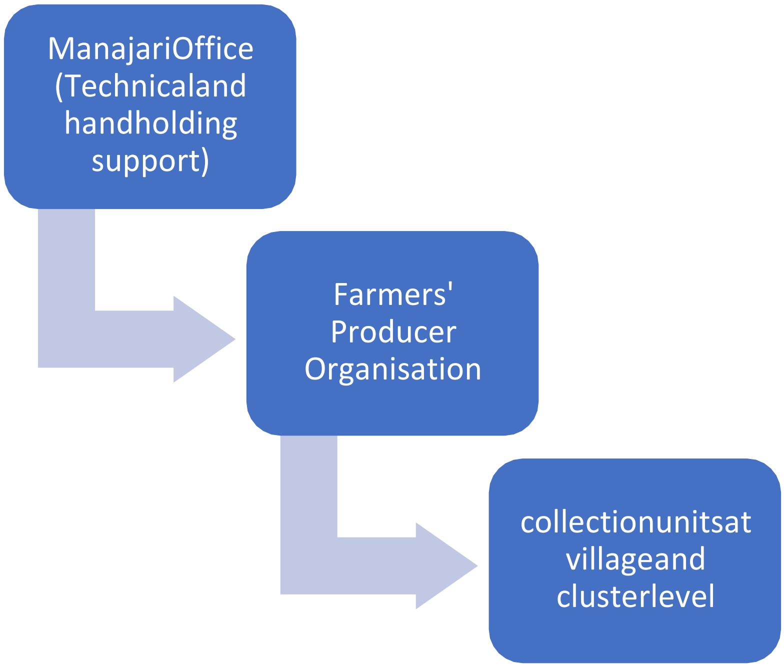
The dissertation report is documented with respected to fulfilling the MBA Rural Management course from IIHMR University, Jaipur at Manjari Foundation, a non-governmental organization located at Dholpur district of Rajasthan.

About the organization

Manjari foundation is a registered non-profit organization established in May 2015. It is committed to help women from marginalised communities overcome social injustice, poverty and exclusion. Manjari foundation supports rural women initiative at the grassroot level to facilitate empowerment so that they can lead a dignified life by bringing social and economic changes in adverse conditions by facilitating various government programs and building awareness. To accomplish the above mission, Manjari foundation is implementing different projects in education, health and sanitation, governance, convergence, livelihood and gender.

Manjari foundation has its reach and presence in 2 states. More than 70,000 families are covered through direct intervention. It has built over 5556 SHGs and most of its interventions are carried out through these groups for cumulative impact.

OrganisationalOrganogramofanFPO

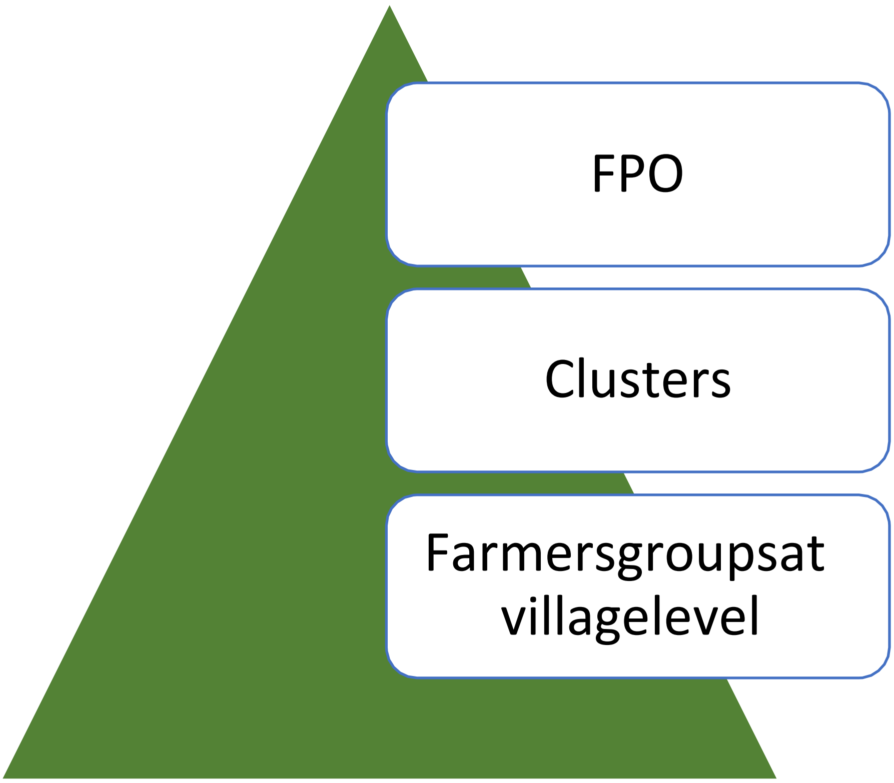


2.1.1. What is Farmers Producers Organisation?

Farmer Producers Organisation is an entity formed by primary producers, i.e., farmers, milk producers, fishermen, weavers, rural artisans or craftsmen. An FPO can be a producer company, a co-operative society or any other legal form which provides sharing of profits among the members.

Its main aim is to ensure better income for the producers through an organisation of their own. In agricultural marketing there is a non-transparency in backward and forward linkages that need to be addressed.

2.1.2. Formation of FPO



The Farmers Producer Organisations help gather small farmers who otherwise lack negotiation power and market knowledge. The farmers often don't receive the much deserving prices of their products in lack of these two attributes. The villagers of Dholpur districts associated with FPOs are of different caste thus caste hierarchy is prevalent. The facilitating organisation takes SHGs into account before interventions as motivating people in group is more convincing. Manjari foundation- the helping organisation has a business orientation and does marketing of their products. The farmers are otherwise often at the mercy of middlemen for their livelihood.

Over the course of years new technologies have taken over to do processes in forward and backward linkages thus collective action is needed to be taken. The organisation's approach, strategy and FPO's results till date have been studied throughout to understand the factors affecting sustainability of these FPOs.

Most of the members were motivated to join FPO because of monetary benefits and few were influenced by active members. On asking the respondents they came up with the following descriptions of their differences in working as an independent farmer and working in FPO:

2.1.3 Characteristics of small famers and FPOs

Field	Small Farmers	Farmers Producers Organisations
Production Planning	Short term	Long term Provided
Input supply	Credit problem	by FPO Store rooms
Storage	In-house storage	provided Links with
Market information	Limited	traders
Transportation	Costly and time consuming	Less cost due to collective transportation
Marketing	Less volume, less negotiation power, marketing at individual level	More negotiation power due to collective actions, value addition and branding
Surplus products	Wasted or sold at low price	Sold after more value addition and rebranding

2. StudyReport

2.1 Preamble

The Farmers’ Producer Companies namely “Katori” and “Apni Saheli” have helped the women of Dholpur district in attaining a better livelihood option as their products get sold at fair price and fair profit sharing, increased market knowledge and organisational skills like team work, business development and leadership. Value has been added to the dairy products and spices using technologies to it.

Apni Saheli is an FPO dealing with spices and provides employment to 50 SHG women at cluster level. It has been functional since 2018 but non-functional since last 6 months due to organisational tussles. They have been financially helped and mentored by “Rajeevika”. Manjari foundation facilitates them regarding marketing, training etc. farmers were identified for harvesting spices and trainings were given to employees of processing unit on how to handle machines. Marketing plans have also been formed to sell the products at their local villages.

Katori is an FPO that sells dairy products. It is functional in Dholpur district of Rajasthan and after collection, processing and value addition to the products, the products get sold in niche market of Delhi. It has _ members involved and has been functional since 2008. A lot has changed over time along with its name and motives. However currently it has been constant with its name and functions from last 5 years. Two separate cases have been taken. One village where it has been successful with its operations and one where it failed.

2.2. ReviewofLiterature

India is an agrarian country where more than 60% (Agriculture Census 2011) of its population is dependent on agriculture and allied activities. With the population soaring high, the share in handholding keeps on getting smaller. The rural economy is based on agriculture which has been eroded to its maximum capacity along with poor income growth of the farmers due to less grip on the market thus providing them with different enterprise opportunities is ought to
balance the exploitation of resources and income gap.

As per the findings of NITI (National Institution for Transforming India) Ayog's assessment for the period 2011-2016, the growth rate of farmers' income after adjusting inflation is 3.8% per year (NITI Aayog annual report 2017-18). The factors responsible for less income of the farmers are often associated with the fragmentation of land which results in lesser amount of production. This amount of crop when taken to sell in the market doesn't give much profit due to less bulk and value.

The agrarian crisis over the last 2 decades have resulted in most rural households suffering from poverty and serious deprivations where more than 200000 farmers have committed suicide in India. The Centre for Study of Developing Societies (CSDS) found that given an option majority of farmers in the country would prefer to take up some other work. The survey shows that 62% of interviewed farmers were not aware about the minimum support price (MSP). There is presence of controlled information by the middlemen in trade.

The enterprises can be a way to distract the distress on the already small landholdings to other activities of income generation which may relate to agriculture and allied activities along with Non-Timber Forest Products (NTFP). The Farmer Producers Organisations (FPOs) are organisations formed by a few farmers having similar socio-economic background for coming together to sell their products in bulk by penetrating the market with stronger impact. FPOs were proposed for integrations of small landholders within an agricultural value chain.

Due to their volume of products their negotiation power rises in the market. Majority of the landholdings are small and marginal farmers. Being unorganised, they are unable to realise desired value from their produce. Organising them into FPOs will benefit them in purchase of inputs, processing and marketing of their produce as collectives. As an organisation it is able to add value to the products at all levels in the value chain which is responsible for increased pricing of the products in the market. Vegetables and fruits have a higher capacity of increasing the income however their lifecycle is very less thus introduction of cold chain can prove beneficial.

National Bank for Agriculture and Rural Development (NABARD) has supported around 4000 FPOs across the country for the financial year 2018 of which 2000 are registered entities actively doing business. As many as 507 FPOs are engaged in bulk input procurement and distribution while 223 FPOs are involved in aggregation and marketing of fruits and vegetables.

Agro processing, government procurement scheme, dairy, organic farming, seed production and marketing and fishery are undertaken FPOs.

The government had started promoting FPOs from 2011-2012 and put them on priority in the 12thfive year plan (2012-2017) while the changes in growth have been lower than expected (Central Statistics Office (CSO) and the NITI Aayog). It is also going to promote 5000 farmer producer organisations in next two years (by 2022) for doubling farmers' income (NABARD Annual report 2017-18). The numbers are huge yet the number of successful FPOs in incomparable and lags by a significant margin. They are doing well either with the support of non profitorganisations or young and enthusiastic agricultural entrepreneurs. FPOs have also been able to create bargaining powers because of the scale of produce, maintenance of quality products and storage facility. The local traders manipulate the access of wholesale markets for these FPOs. These FPOs are often able to mark some change, however, their sustainability is often questionable.

2.3. KeyResearchQuestions

- What are the challenges and barriers of FPOs to evolve from build-up mode?
- What are the levels of preparedness and willingness to participate in value chain of primary production through FPOs?
- What are the issues of internal and external conflicts that affect an FPO?

2.4. Objectivesofthestudy

- To study about the market challenges and preparedness of FPOs.
- To study about internal and external factors associated with sustainability of FPOs.

2.5. Scopeofthestudy

Since the FPOs are community driven institutions and aim to cater to the demand of agrarian products in the markets yet they are often not successful with the operations after a few years and collapse due to various determinants like inaccessibility to capital, market, infrastructure etc. The aim of the study is to find out the factors which can lead to sustainable growth of FPOs' which are currently failing even after the handholding phase despite the community involvement, facilitation, and timely financial and technical support from the paren t organisation.

The study is conducted to determine the factors that can lead to sustainability of FPOs and increase the income of our farmers. The profits are already happening in the market place but due to weak socio-economic status and inaccessibility of facilities and information of our farmers they are often left out. This will result a way out to bridge the gap of success and failure of initiated FPOs as we already analysed that the margin is significant.

2.6. Limitationsofthestudy

- Based on information of 2 FPOs of similar geographical regions.
- Unavailability of members at times due to harvesting season.
- FPO "Apni Saheli" is not functional since past six months.

3. Methodology

3.1. StudyArea

The study covered 6 villages namely Vikrampura and Aari for the FPO "Katori" and Basai Nawab, Maloni Panwar, Jahangirpura and Nagla Harlal for the FPO "Apni Saheli" of Dholpur district selected on the basis of interventions' sites of the agency having most and least success.

3.2. Researchdesign

Method of research includes descriptive and explorative study involving both primary and secondary data.

3.3. TimePeriod

The information was collected from the field from 25th February 2019 to 3rd May 2019.

3.4. Samplesizeanddesign

Primary data from field evidence is collected through semi structured questionnaire where the sample size has been 60 according to the constraints of time, access and financial challenges and include respondents from the group of farmers, enterprises and local officials. Secondary data is based on government reports and literature reviews to increase the effectiveness of the study. Additionally, regular discussions were held with staff of Manjari foundation and other key stakeholders like CRPs of villagers, community leaders and community institution members.

The primary and secondary evidences is analysed with the help of software such as SPSS and MS-Excel

4. Key findings

(a) Knowledge of FPO among members
(b) Decision making capacity
(c) Challenges in FPOs
(d) Factors affecting better functioning of FPOs and sustainability
(e) Motivation

KatoriFresh(India)PrivateLimited

It is a brand under Saheli producer company farmers' aggregation and facilitation platform where the brand is focused on building clean and fresh food by offering farmers direct market access. Katori promotes preservation of traditional and gourmet food. The gourmet food market is expected to grow by 20% in coming years. It caters to high end customers who are ready to pay premium price for premium food items having high quality and variety. Ghee is the most talked about new superfood in India and around world. The new generation is keen in adding ghee to their diets than ever and Cows' ghee is much in demand nowadays. The roughly 10,000 crore ghee market in India is fragmented and out of it cows' ghee only captures 10% of the Indian ghee market.

Variety of gourmet ghee includes:

- Vedic Ghee (Cow Ghee)
- Probiotic Ghee (Goat Ghee)
- Flavoured herb ghee

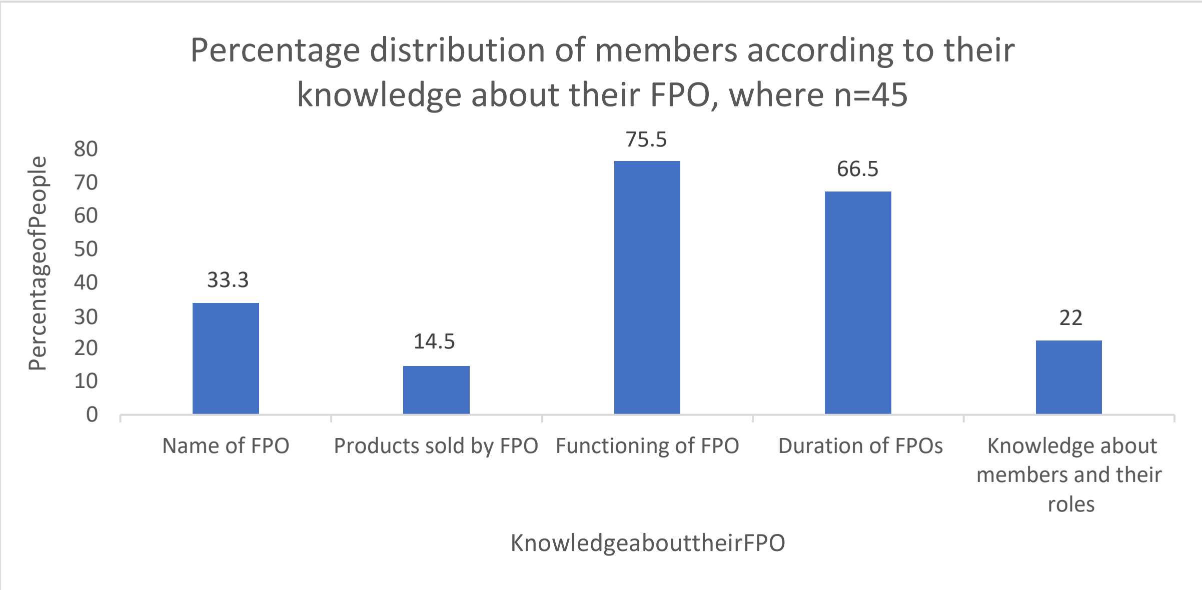
The brand signifies products that are fresh, handpicked, hand crafted. Traditional and unprocessed. Such gourmet food has a huge demand in niche market.

Revenue enhancement for brand "Katori" is as follows:

- Katori outlets are available at 25 new locations in NCR regions along with their paneer counters.
- 11 gourmet ghee parlours are available.
- 500kgs of paneer sale daily.
- Sale of 2500kgs ghee monthly.

The federation came into inception on 1st October 2013 and has been working with 3,000 women farmers of 60 villages. The interventions have been successful and unsuccessful in many regions over the period of time. 32 respondents have been interviewed from the village Vikrampura and 13 from Aari to study about the factors responsible for success and failure of interventions in the regions. Federation at Aari is functional since last 10 years selling milk to another brand. Federation at Vikrampura was only functional for 2 years from 2016-2018.

Keyfindings



The above table states members' overall knowledge regarding their FPO and its functioning. This can also help in understanding their sincerity and involvement with the organisation.

(a) 33.3% of members could tell the name of their FPO "Katori". These were the active members and those taking higher positions in the organisation.
(b) 14.5% of members knew about the dairy products Katori is involved in selling.
(c) 75.5% of women knew about the process taking place at backward linkage level which included collection of milk, checking of fat content, providing digitally generated bills and procurement of milk from collection unit to the chiller plant.
(d) 66.5% of women could report about the duration of functioning of FPOs in their respective village.
(e) 22% of women knew about the position holders in the FPO and their own roles along with those of active members'.

Lack of knowledge is due to less interest of members as the later group of women stated their duty only being selling milk.

<u>Socio-economic status of FPO members</u>

Most of the members from these FPOs have been from BPL economic conditions. They own either Kachha House or are building Pucca house recently through Government scheme. The members are not educated much either which restraints their reach to the market. 28.8% of respondents reported having Kachha house and 71% of members are illiterate.

Economic Perspective

All members have reported an increase in 15%-25% of their money received through selling milk to the FPO “Katori” as their milk gets paid according to fat content and is often sold at Rs. 15- Rs. 20 higher for the same volume of milk. The members receive timely inputs such as vaccines, supplements and medicines for livestock and equipment for smooth functioning of their FPOs.

Changes in capital due to FPOs

The members have observed changes in themselves as well as in surroundings through changes in human capital as they receive trainings and become skilled. Their financial capital has also increased with the increased income. 30% of members from Katori FPO have reported about purchasing new livestock with their money after joining FPO.

Methods of trading

Collective marketing is what has been helpful in successfully operations of the FPO “Katori”. It has changed their cost of business due to collective procurement and processing of milk. 100% of members reported on receiving benefits from “Katori”.

Organisational Support (Financial and skill development) / Trainings

In Katori, no financial support was provided to the FPO members. However, 93% of people reported about getting equipment for their FPO. While 55% agreed on receiving regular trainings regarding livestock rearing and attending regular meetings.

Motivation

100% of respondents reported money being their first motivation to join FPO. Additionally, 62% of members reported being influenced by active members.

Factors resulting in success and failure of FPO

Success factors for Katori in Aari village

(13 members)	
• Independent decision making of FPO members regarding whom to sell milk. Since 10 members were from well to do families they did not require much loan from local milkman thus could sell their total produce to FPO. • Members taking collective actions against issues such as collection of money from shareholders which was 5% of the total money invested for initiating FPO. • Good leadership skills which has resulted in unity among 13 members. • Success indicator being consistency of members and total product sale to FPO rather than depending on economic benefit solely by 76.5% of members. • Involvement of members outside SHGs without taking monetary share from them which expands their reach.	

Failure factors for Katori in Vikrampura village (32 members)

- Most members being economically weak require loans at various stages thus they keep all their options open out of which 62% of members reported taking loans from milkmen and selling them milk at lower prices which has resulted in less collection at village level and the unit stopped working there.
- Active members have been found not being transparent about shareholding money with all the members thus 20% of members have reported their money being trapped as they were not completely informed on why the money was taken.
- Poor leadership skills resulting in distrust among people. 21% of members feel that people stopped selling milk to collection unit to shut it down as they were envious.
- Success indicator being financial benefit solely by 70% of members.

• All 13 members have their share of money invested with the FPO. Money plays a huge role as the shareholders feel involved due to their money involved in the business.	• Absence of regular meetings and information sharing among members.

Financial turnover of Katori Fresh Pvt Ltd

Financial Year	Turnover
FY 2015-16	45,26,368
FY 2016-17	47,37,609
FY 2017-18	96,38,626
FY 2018-19(Provisional)	1,75,38,965

The above stated table shows 4% of growth in first 2 years in financial terms over the period of time which is due to their consistent efforts and making changes in their processes, marketing strategies and members sincerity.

Conclusion:

- The FPO "Katori" has been successful overall if its total results are taken into account. It has been changing ways and innovating continuously from last 10 years under Saheli Federation and for 5 years since its inception as Katori. Over the course of years, it has changed its products, marketing strategies, business platforms several times to suit market demands and adapt. Time is required for FPOs to sustain themselves during break-even period and emerge as successful organisations.
- For sustainability of FPOs, money too plays a huge role because in most of the FPOs people from economically weaker section are members who often require loans for their day to day livelihood. In absence of money not just functions of FPOs are hampered but loan availability is also absent thus their involvement lessens.
- Lack of trust can hamper unity of the members seen in Vikrampura village. Sincerity leads to sustainability as we can see in the case of village Aari.

- Members from Vikrampura are not involved with the FPO, their knowledge about their own FPO is very poor. Regular trainings related to business development and information sharing among the active members are seen missing.
- Manjari foundation has been providing marketing facilities to Katori thus we can say that a team of professionals having experience in handling business operations help in development of these organisations through better and broad perspective of market demands.
- Individual member contribution is must for better functioning since it leaves no space of flight mode for farmers. Conflict resolution and decision making should be independent of external factors and should be dealt mostly by the FPO members themselves to rebuild trust and build clarity and perspective on such trivial issues.
- External factors such as marketing commission, consumer demand, financing organisations have affected functioning of Katori.
- Internal factors such as leadership skills, unity and sincerity of members, decision making capacity and professional management have helped Katori.

Suggestions:

- Capacity building on investment and loan can be done as major factor of failure has been due to villagers keeping options open for loans. Partnerships with organisation for financial support can also be helpful.
- Since much of trust issues are due to money and unavailability of loans, a capacity building session is much needed to manage money among themselves.
- Adult literacy classes
- Awareness generation
- Regular meetings with members to increase their involvement with the FPO.

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ApniSaheliProducerCompany

It is federated by women farmers of Dholpur selling products with the same brand name “Apni Saheli” with their office at Basai Nawab. It has 48 members in total from 12 villages (having 4 members from each village). The brand focuses on providing traditional spices which are farm fresh, unadulterated, in raw state and not subjected to thermal processing. The brand signifies handpicked, fresh, hand processed and unadulterated.

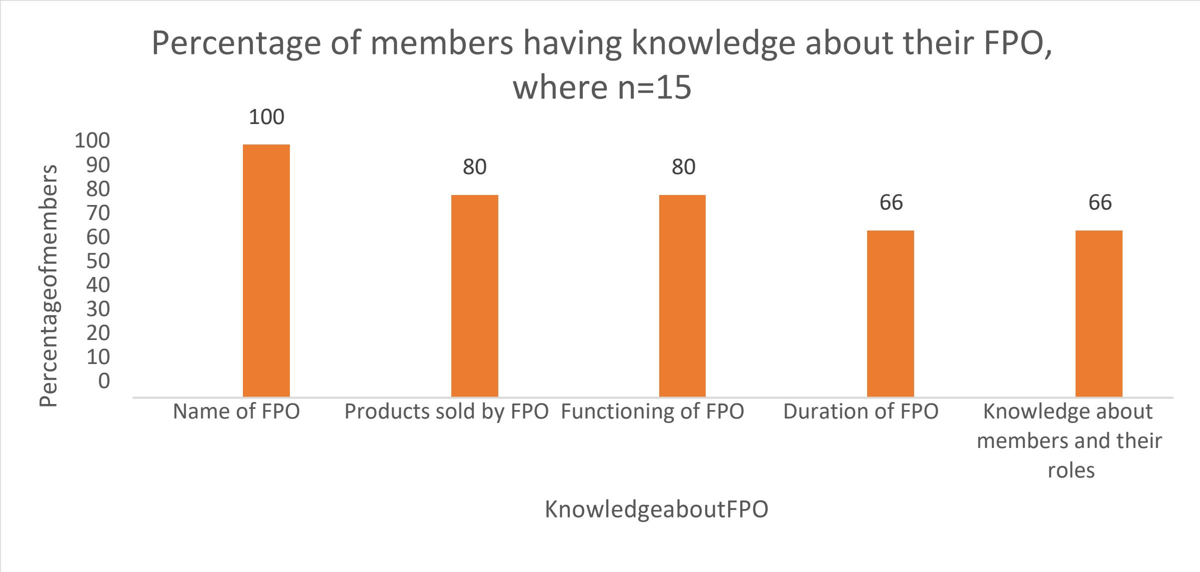
Their hand crafted and hand pounded spices included:

- Red chilly
- Turmeric
- Garam Masala

These 48 women are mainly involved in building marketing strategies for selling their products in their respective village. For other work at processing unit like segregation, pounding of spices and packaging they had employed 10 women. Currently the FPO is non-functional due to conflicts from last six months (November 2018 – April 2019). In total, the FPO has worked for around one year for the tenure (2017-2018). A sample size of 15 respondents have been taken from villages named Basai Nawab, Maloni Panwar, Jahangirpura and Nagla Harlal. They identified farmers from their respective villages to buy raw material from and were provided financial help from Rajeevika as loan to buy equipments and start the unit.

KeyFindings:

Knowledge about their FPO:



'The above table states members' overall knowledge regarding their FPO and its functioning. This can also help in understanding their sincerity and involvement with the organisation.

(a) 100% of members could tell the name of their FPO "Apni Saheli".

(b) 80% of members knew about the spices products Apni Saheli is involved in selling. This isbecause of the fact that they were directly involved in selling the spices in their respective villages.

(c) 80% of women knew about the process taking place which included collection of raw spices, cleaning, pounding, packaging, building strategies and selling.

(d) 66% of women could report about the duration of functioning of FPOs in their respective village.

(e) 66% of women knew about the position holders in the FPO and their own roles along with those of active members'.

The members of "Apni Saheli" are well informed about their FPO because of their high involvement in regular meetings.

Economic Perspective

80% of members have reported the FPO being an extra and steady source of income for them which was earlier not possible. The usual source of income being agriculture which is seasonal and rain dependent. The FPO members are involved in sales of products while the workers at units being on wages, minimum wage being Rs.100/day.

Changes in capital due to FPOs

No significant changes in capital is observed due to less time of FPO.

Methods of trading

Collective marketing and USP being hand crafted spices have provided them recognition. They were operating at local levels and planning on to expanding. Earlier the federation had thought of working under some organisation but their methods changed as they took complete control over trading methods.

Organisational Support (Financial and skill development) / Trainings

In “Apni Saheli” financial support has been provided by “Raajeevika” through loans for buying equipment. 85% agreed on receiving trainings and attending regular meetings held by facilitating organisation “Manjari Foundation”.

Motivation

100% of respondents reported money being their first motivation to join FPO. Additionally, 66% of members reported being influenced by active members and CRP.

Success indicator

Since contribution from individual was not present. Their success indicator had solely been sales and profit generation.

Decision making

The decision-making power lies with the members of Producer company. It ranges from selecting products to fixing prices and conflict resolution among internal members. Since the 15 members interviewed are president and vice-president of their respective SHGs, their leadership skills are efficient too thus all are involved in decision making. However, for external factors like employment of workers at processing unit, wage fixing the decision lies with organisation providing external support.

Conclusion:

"Apni Saheli" has had positive start with regular trainings and meeting. Their knowledge about their FPO shows their sincerity and involvement with the FPO. Members also have clarity about their goals and have come together with their unity. They strategized their production and marketing plans.

Factors for non-functionality of "Apni Saheli"

Despite sincere involvement with the FPO, "Apni Saheli" has not been able to fully function from last 6 months. The factors observed are:

- Less market capturing – the FPO is focused on selling its products to the local villages currently where there are already big brands selling their products at the same price and the customer is doubtful about the quality of new brand's products.
- Dissatisfaction of wage workers- 3 employees working at processing units have reported dissatisfaction regarding their wages being too low and work being occasional.
- Lack of authority over FPO – 45% members feel organisation providing financial help has authority over FPO and can make decisions related to FPO which causes conflicts and resolution too gets tough because of the fact that the tussle is between internal factors and external factors.
- Unavailability of male employees – there is absence of fair gender ratio in the organisation as currently there is no male employee in the organisation. Employment of male member is to be decided by the supporting organisation and the decision has been taken after many conflicts. 80% of members feel it is important to recruit male members due to their ease of availability, freedom of movement and ability to do manual work.
- Absence of Professional manager having experience in handling operations of business development is observed. In case of availability of someone with business orientation could have helped in capturing larger market with more value addition.
- "Apni Saheli" is still in build-up mode and has been existing for a very small period i.e., 1.5years of time which has provided it with very less time to stabilize and adapt to make changes in itself.

- Women are lacking confidence and authority to take matters in their own hands.

  Factors like Human Resources, financial management, personal and professional objectives
  play a major role in sustainability of FPOs more so in case of new FPOs.

- No shareholding money invested by members which results in flight mode of members.

Suggestion:

- Tax exemption for FPO products so that they can compete with other brands of market.
- Partnerships withorganisation for technical assistance, marketing consultancy and trainings can be provided.
- External support from funding organisations and facilitators is helpful for sustainability due to constant support at levels of financial, human resource, planning, implementation and marketing.
- Women should be made aware of their rights and schemes for taking best advantage possible.
- Providing a bigger platform for selling products to expand their reach.
- Trainings on business development with the members can be helpful to developing ideas and having a broader perspective of the market.

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