

Impact of Financial Services on the Growth of Farmer Producer Organizations (FPOs) in South India

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2. Abstract

Farmer Producer Organizations (FPOs) play a vital role in strengthening the collective capacity of small and marginal farmers by enhancing access to credit, markets, and inputs. In South India, where farm holdings are highly fragmented, financial services remain central to the viability of these institutions. Despite policy support from NABARD, SFAC, and other agencies, challenges such as financial illiteracy, collateral constraints, documentation barriers, and high-cost borrowing often restrict FPO growth. Drawing on field-level insights and stakeholder interactions, this study highlights the dual realities of financial access: while some FPOs face debt stress and exclusion from formal credit, others have leveraged finance to establish collection centres, diversify activities, engage in bulk sales, and expand into new markets. By presenting both constraints and success cases, this paper examines how financial services shape FPO sustainability in South India and suggests directions for policy and institutional strengthening.

Keywords:

Farmer Producer Organizations (FPOs), Financial Services, Access to Credit, Rural Development, Collective Marketing, Agricultural Finance, Institutional Support, Financial Inclusion, Farmer Collectives

3. Introduction

Farmer Producer Organizations (FPOs) have been advanced in India as a collective strategy to address the vulnerabilities of small and marginal farmers. Conceived under national policy frameworks and supported by agencies such as NABARD and the Small Farmers' Agribusiness Consortium (SFAC), these member-owned institutions are expected to strengthen farmers' bargaining capacity, improve access to inputs and markets, and reduce dependence on exploitative intermediaries.

While the government has set ambitious targets to promote thousands of new FPOs in the coming years, their long-term sustainability remains uneven. In South India, characterized by fragmented landholdings and diverse agricultural practices, access to finance has emerged as the single most critical determinant of success. Affordable and timely credit is essential not only for meeting operational needs but also for building infrastructure, enabling value addition, and facilitating entry into new markets. Yet, institutional lending continues to be constrained by barriers such as low financial literacy, collateral requirements, documentation hurdles, and the perceived risk of collective enterprises.

Contrastingly, field experiences reveal that when financial support is effectively channelled, FPOs have been able to establish collection centres, diversify into agri-input and processing businesses, expand into export markets, and strengthen collective bargaining through bulk sales and direct marketing. These dual outcomes underscore the central role of financial services as both a constraint and an enabler. Against this backdrop, the present study examines the impact of financial access on the performance of FPOs in South India, drawing on field-level insights to highlight challenges, success pathways, and implications for policy and institutional practice.

4. Literature Review

The role of Farmer Producer Organizations (FPOs) in enhancing smallholder farmers' access to finance and markets has been widely studied. **Trebbin (2014)** highlights how FPOs act as collective institutions that improve farmers' bargaining power and market linkages. Similarly, **Singh & Singh (2012)** emphasize the significance of institutional credit in enabling small farmers to scale agricultural activities.

Financial constraints remain a persistent challenge. **NABARD (2019)** reports that despite government and institutional support, a considerable proportion of FPOs face inadequate access to affordable credit, leading to dependence on informal

lenders. **Bose et al. (2021)** further demonstrate how credit gaps and delayed disbursals negatively impact collective farming initiatives.

The intersection of finance and FPO sustainability has been explored by **Birthal et al. (2020)**, who argue that financial services, when coupled with capacity building, lead to greater resilience and long-term viability of farmer collectives. Similarly, **Chatterjee & Gupta (2019)** illustrate that FPOs supported by institutional finance are better equipped to diversify into agri-input services, value addition, and processing.

Recent scholarship emphasizes the importance of post-credit handholding. **Kumar et al. (2022)** stress that financial literacy and advisory services provided alongside loans significantly reduce the probability of default. This aligns with **Samunnati Foundation (2021)** reports, which indicate that structured financial products and market integration enhance farmer incomes through collective sales.

Overall, existing literature underscores the dual role of finance: while inadequate or rigid financial structures create stress and exclusion, well-designed, inclusive, and context-sensitive financial services enable FPOs to thrive.

5. Methodology

This study draws on a sample of **200 Farmer Producer Organizations (FPOs)** across **Tamil Nadu, Andhra Pradesh, and Telangana**, representing diverse agricultural contexts in South India. Data were collected using **semi-structured interviews** with board members and key representatives of the FPOs, complemented by **field observations** to capture ground-level realities of financial access, institutional engagement, and operational challenges.

Prior to participation, respondents were informed about the academic purpose of the study, and strict **confidentiality protocols** were maintained. No identifying information was disclosed, ensuring that the responses reflected authentic perspectives without external influence.

The data were analyzed through a **thematic analysis framework**, which allowed the identification of recurring patterns, barriers, and enabling factors. This method facilitated both **comparative insights** across states and **context-specific interpretations** of how financial services impact the performance and sustainability of FPOs. By integrating interview narratives with observational findings, the methodology ensured **data triangulation** and enhanced the reliability of results.

This approach provides a rigorous basis for understanding how financial services shape the growth trajectories of FPOs and highlights the institutional gaps that must be addressed to strengthen farmer collectives.

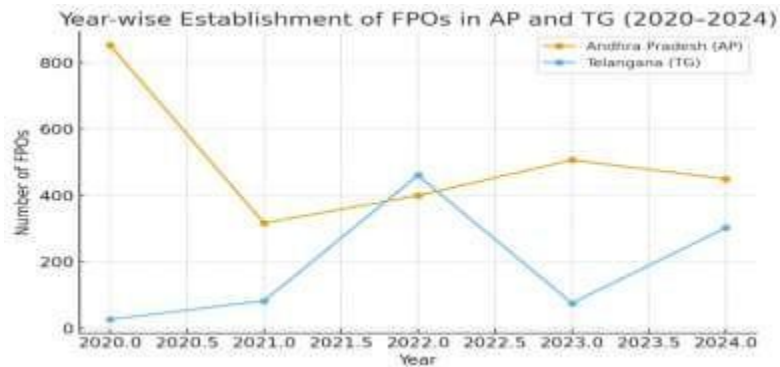
6. Findings & Insights

The year-on-year data on Farmer Producer Organizations (FPOs) in South India reveal distinct regional growth patterns from 2020 to 2024. Andhra Pradesh consistently maintained the highest number of FPOs, peaking at 506 in 2023, reflecting strong state-level promotion and institutional support. Telangana showed a sharp rise from 26 FPOs in 2020 to 460 in 2022, followed by a moderate decline to 302 in 2024, indicating challenges in sustaining initial mobilization despite early growth.

Tamil Nadu, Kerala, and Karnataka recorded substantial increases in FPO numbers from 2023 onwards. Tamil Nadu rose from 388 to 414 FPOs, Kerala from 120 to 137, and Karnataka from 270 to 336 during 2023–2024, highlighting the impact of targeted financial interventions and collective market facilitation. Overall, the data indicate a positive trajectory in FPO proliferation, with early adoption in Andhra Pradesh and Telangana and accelerated growth in the other states, emphasizing the critical role of institutional finance and policy support in strengthening farmer collectives.

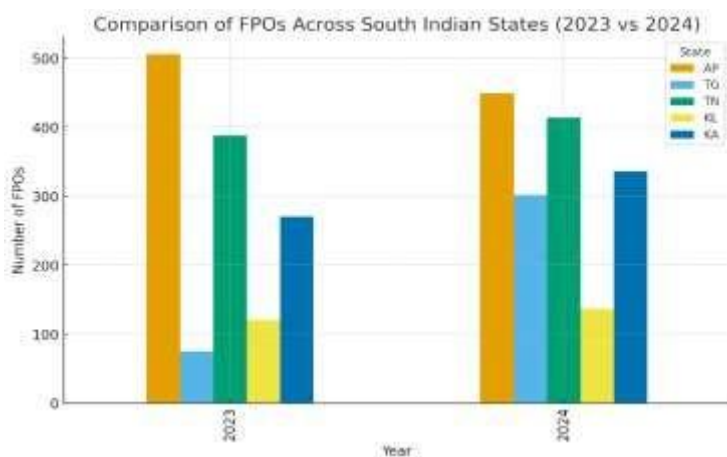
Year	A.P.	T.G.	T.N.	K.L.	K.A.
2020	852	26	NA	NA	NA
2021	316	82	NA	NA	NA
2022	399	460	NA	NA	NA
2023	506	75	388	120	270
2024	449	302	414	137	336

Table – Number of FPO's established YoY



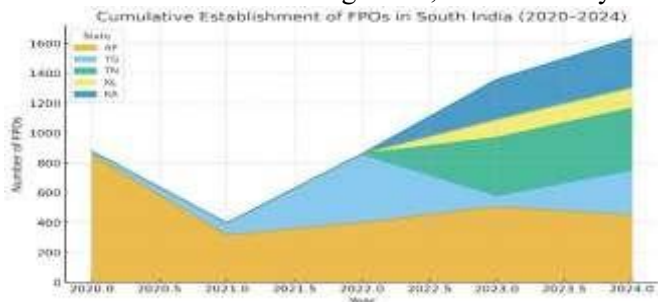
Graph 1: Year-wise Establishment of FPOs in Andhra Pradesh and Telangana (2020–2024)

The line graph indicates contrasting trajectories. Andhra Pradesh witnessed a sharp peak in 2020 with 852 FPOs, followed by fluctuations and a moderate decline after 2023.



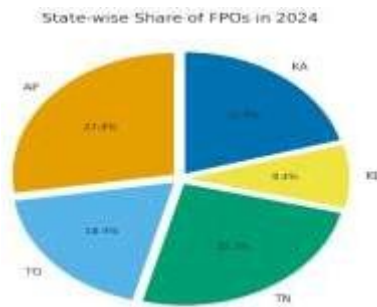
Graph 2: Comparative Bar Chart of FPOs Across States (2023 vs 2024)

This bar chart compares all five states for 2023 and 2024. Tamil Nadu, Kerala, and Karnataka only show data from these years, with steady growth (e.g., TN from 388 to 414, KL from 120 to 137, KA from 270 to 336). The comparison underscores AP's relative stagnation, TG's recovery in 2024, and consistent incremental growth in the other states.



Graph 3: Stacked Area Chart of Cumulative FPO Growth (2020–2024)

The stacked area chart portrays cumulative FPO establishment across the five states. Andhra Pradesh dominates the early years (2020–2021), while Telangana contributes significantly in 2022. Post-2023, contributions from Tamil Nadu, Kerala, and Karnataka expand the base, reflecting a more balanced regional distribution of FPO growth. This cumulative trend demonstrates diversification in the geography of farmer collectivisation.



Graph 4: State-wise Distribution of FPOs in 2024

The pie chart provides the distribution of FPOs in 2024. Andhra Pradesh and Tamil Nadu lead with large shares, while Telangana, Karnataka, and Kerala contribute smaller but notable proportions. The chart reflects how, by 2024, growth is no longer concentrated in one or two states but more evenly spread, suggesting regional policy alignment with the national FPO mission.

Challenges in Accessing Financial Services by FPOs

- Limited financial literacy among FPOs often leads to fund mismanagement and inefficient resource utilization.
- Most FPOs lack dedicated staff for finance and operations, leaving directors to manage multiple responsibilities.
- Loan documentation processes are lengthy and complex, creating barriers for timely credit access.
- Loan repayment schedules frequently misalign with seasonal income cycles, resulting in repayment stress.
- Many FPOs cannot provide collateral due to lack of land or infrastructure, restricting access to formal credit.
- Delays in loan disbursement adversely affect operational planning and timely execution of activities.
- Loan ticket sizes are often either too small or too large, reflecting the absence of customized lending options.
- Lack of post-loan handholding or financial literacy support leaves FPOs vulnerable to mismanagement.
- High interest rates from NBFCs burden FPOs that do not have access to formal banking channels.
- Once classified as NPAs, FPOs are excluded from further formal credit, forcing them to rely on informal lenders.
- Excessive pre-due recovery calls and messages cause stress and anxiety among FPO members.
- Negative experiences with financial institutions spread via word-of-mouth, deterring other FPOs from seeking credit.
- Boards of Directors, under pressure from lenders, sometimes consider insolvency proceedings as a resolution strategy.
- Many FPOs/FPCs shut down due to inability to pay even interest, resulting in high debt stress and low success rates.
- Lack of capacity building in financial planning, market linkages, and enterprise skills contributes to operational failure.
- Budget mismatches between projected requirements and sanctioned loans limit the effectiveness of financing.
- Dependence on individual members' CIBIL scores affects collective borrowing capacity and creditworthiness.
- Documentation gaps prevent many FPOs/FPCs from fulfilling the formal requirements of financial institutions.
- Burden from NBFCs/MFIs is exacerbated by high interest rates and rigid recovery mechanism.
- Lengthy and stringent institutional documentation processes are often unaffordable and unmanageable for FPOs.

Positive Impacts of Financial Services on FPOs

- ✓ **Collection Centres** – Financial support enabled FPOs to establish collection centres, reducing transaction costs and ensuring better price realization for farmers.
- ✓ **Diversification** – Access to finance allowed FPOs to diversify into fertilizer supply, agri-inputs, and processing units, expanding income streams beyond crop sales.
- ✓ **Bargaining Power** – Aggregation backed by credit strengthened collective bargaining, leading to more favorable procurement and sales prices.

- ✓ **Collective Marketing** – Financially empowered FPOs engaged in B2B collective marketing, where group sales achieved higher prices than individual farmer sales.
- ✓ **Export Expansion** – Some FPOs, with financial backing, entered import–export markets, opening new revenue channels and increasing global reach.
- ✓ **Bulk Sales** – Financing enabled FPOs to pool produce and sell in bulk to APMCs and companies, improving market integration and negotiation capacity.
- ✓ **Market Presence** – Certain FPOs appointed sales representatives in markets, enhancing visibility, reducing middlemen, and strengthening customer connections.

Conclusion and Recommendations

- The study confirms that **financial services** are the single most critical determinant of success for **Farmer Producer Organizations (FPOs)** in South India, playing a dual role as both a primary enabler and a significant constraint. While effectively channeled finance has allowed successful FPOs to **establish collection centres, diversify their operations** into agri-inputs and processing, and strengthen **collective bargaining** through bulk and export sales, a large proportion of FPOs face severe financial stress and exclusion. The major barriers include pervasive **financial illiteracy**, the inability to provide **collateral**, complex **loan documentation**, and a mismatch between repayment schedules and seasonal income cycles, often forcing reliance on high-interest loans from NBFCs/MFIs that contribute to high debt stress and operational failure. The geographic growth of FPOs, now more balanced across Tamil Nadu, Telangana, Karnataka, and Kerala, indicates a regional alignment with the national mission, yet sustainability remains uneven due to these persistent financial hurdles.
- To address these findings and strengthen FPO sustainability, policy must pivot towards **customized, inclusive financial practices**. Key recommendations include mandating and funding extensive **financial literacy and advisory services** to build the capacity of FPO management. Institutional lenders must introduce **flexible loan products** with repayment schedules aligned to crop cycles and move beyond traditional **collateral requirements** by exploring alternatives to assess collective creditworthiness, independent of individual members' CIBIL scores. Furthermore, institutional and government bodies (like NABARD and SFAC) must **streamline documentation** and implement stricter regulatory oversight on NBFCs to curb high interest rates and rigid recovery practices, ensuring FPOs have access to affordable, timely credit that facilitates, rather than frustrates, their growth trajectory.

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