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Significance of ESG in Farmer Producing Organizations

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Abstract:
Farmer Producer Organizations (FPOs) hold immense potential to transform Indian agriculture. However, challenges like low farmer income, climate change, and FPO sustainability persist. This paper explores how integrating Environmental, Social, and Governance (ESG) principles can address these concerns and contribute to a more sustainable and equitable agricultural ecosystem. Despite significant growth, a large portion of FPOs fail within a few years due to factors like inadequate resources and poor leadership. ESG principles offer a solution by promoting sustainable practices, fair labor conditions, and responsible governance. This not only benefits farmers through improved livelihoods and resource efficiency but also attracts socially responsible investors and strengthens stakeholder relationships. Implementing ESG requires a multi-pronged approach. Raising awareness among board members and farmers is essential, followed by developing tailored ESG policies and building capacity in sustainable practices. Collaboration with government agencies and NGOs can provide crucial resources and expertise. By embracing ESG, FPOs can overcome sustainability challenges, enhance profitability, and contribute to a healthier planet. This integration can be a game-changer for Indian agriculture, ensuring food security for future generations. By integrating ESG, FPOs can increase their market competitiveness, attract responsible investments, and contribute to a more equitable agricultural landscape. Implementing ESG requires a comprehensive approach, including awareness building, policy development, capacity building, and strategic partnerships. Ultimately, the adoption of ESG principles can transform FPOs into sustainable and resilient entities, driving positive change in the agricultural sector

Introduction

In an era marked by climate change and increasing stakeholder expectations, the integration of Environmental, Social, and Governance (ESG) principles into core business operations has become imperative for organizational success and sustainability. The agricultural sector, a cornerstone of many economies and a significant contributor to greenhouse gas emissions, is no exception. Farmer Producing Organizations (FPOs), as vital players in the agricultural landscape, hold immense potential to drive positive change through ESG adoption. India, with its vast agricultural sector and a growing number of FPOs, presents a unique opportunity to harness the power of ESG. While the sector has witnessed significant growth, challenges such as low farmer incomes, climate change impacts, and FPO sustainability persist. This paper delves into the significance of ESG in FPOs, exploring its potential to address these challenges and contribute to a more sustainable and equitable agricultural ecosystem.

In the modern era of post liberalization and climate change , success and sustainability of businesses are driven by a value-led principles, abiding principles of environment, social, and governance (ESG) into their main business activities to fulfill business goals and objectives and to accomplish the expectations of the stakeholder. Climate change affects life and property of the people. National and international commitments to protect planet arouses the responsibilities of the government, organisations and people at large to organize various climate resilience activities and to achieve net zero by 2070.Farmer Producing Organisations are being registered in India as a suitable farmers organisations to extend goods and services at lesser price and to increase farmers income. Since agriculture is continues to be pivotal to Indian economy and one of the major sectors of green gas emission, success and sustainability of the FPOs are need of the hour to protect the planet as well as to increase the income of the farmers.

Agriculture is one of the pivotal sectors of Indian economy which accounts nearly 14% to the total GDP , provides employment to over 58% of the population and 13 % of exports. During the last 75 years, agriculture production and productivity have been increased many fold. But the income of the farmers has not been increased considerably. There are many reasons for this sorry state of affairs. Climate change, high cost of production, dominance of small farmers, unorganized farming community are some of the reasons for the unsatisfactory increase in the income of the farmers. Farmer Producing Organisations are being recommended to solve the basic issues of the farmers and to increase the income the income of the farmers. According to the Economic Survey 2023-24 " absence of the adoption of adaptation measures, rainfed rice yields in India are projected to drop by 20 per cent in 2050 and 47 per cent in 2080 scenarios, while irrigated rice yields are projected to reduce by 3.5 per cent in 2050 and 5 per cent in 2080 scenarios. Climate change is projected to reduce wheat yield by 19.3 per cent in 2050 and 40 per cent in 2080 scenarios"

Green gas emission data sources shows that agriculture is the second-largest contributor to global greenhouse gas emissions after the energy sector. NITI AAYOG data shows agriculture sector emits 4,20,967.78 Gigagrams CO_2e , that is 13.44 percent of the total Gree gas emission in 2019. According to Anamika Yadav "An Although the share of agriculture in total emissions dipped slightly from 14.4 per cent to 13.4 per cent from 2016 to 2019, the absolute emissions from the sector still rose by 3.2 per cent, reaching 421 metric tons of carbon dioxide equivalent ($MtCO_2e$)." Main areas of agri food greenhouse emission are livestock-related emissions, (25.9 percent), net forest conversion (18.4 percent), food system waste (7.9 percent), household food consumption patterns(7.3 percent), fertilizer production and use (6.9 percent), soil-related emissions (5.7 percent, on-farm energy use and supply (5.4 percent) and rice production–related emissions (4.3 percent.).

Origin and growth of FPOs in India

Farmer Producing Organisations have greater role to play to increase the income of the farmers, to attain food security, increase food processing, protections of our planet and to increase export of the food processed goods. Indian agriculture continues to be dominated by small landholders. About 89.4 per cent of farm households own less than 2 hectares of land .Farmer Producer Organisations (FPOs) are being registered all over the world to provide inputs, to provide credit, to provide marketing support , to provide knowledge , to process the agricultural products and to export. All these activities aimed to enhance the income of the farmers, achieve food security, to reduce food wastage and to increase export of agriculture and food processed items to various countries of the world. Climate change is one of the major challenges facing all over the World. World nations under the leadership of United Nations, are implementing various mitigation efforts to reduce climate related loss of life and property. FPOs should come forward to comply national sustainability obligations and to sustain for the benefit of the farmers, planets, investors and other stakeholders.

no.	States	Number of FPOs Registered
1	Andaman & Nicobar	7
2	Andhra Pradesh	406
3	Arunachal Pradesh	139
4	Assam	347
5	Bihar	506
6	Chhattisgarh	170
7	Goa	8
8	Gujarat	392
9	Haryana	154
10	Himachal Pradesh	118
11	Jammu & Kashmir	206
12	Jharkhand	288
13	Karnataka	281
14	Kerala	124
15	Ladakh	3
16	Lakshadweep	1
17	Madhya Pradesh	582
18	Maharashtra	538
19	Manipur	76
20	Meghalaya	52
21	Mizoram	48
22	Nagaland	85
23	Odisha	414
24	Puducherry	6
25	Punjab	124
26	Rajasthan	506
27	Sikkim	13
28	Tamil Nadu	395
29	Telangana	279
30	Tripura	54
31	Uttar Pradesh	1188
32	Uttarakhand	136
33	West Bengal	314
	Total	7960

Source: Rajya Sabha, Answer To The Question, Unstarred Question No. 824 ,To be Answered On The 09/02/2024, Ministry Of Agriculture And Farmers Welfare, Department Of Agriculture And Farmers Welfare, Government Of India

Table no.1,State-wise number of FPOs registered including in the State of Andhra Pradesh (as on 31st Jan, 2024)

Farmer collectiveness has been in existence for a long period of time in India. The FPO movement had got momentum after the appoint of an expert committee led by noted economist, Y. K. Alagh. Y.K.Alagh committee recommended, setting up of producer companies in 2002 by incorporating a new Part IXA into the Companies Act of 1956. Government of India decide to establish 10000 FPO in 2022 with budgetary provision of Rs 6865 crore. Under the 10,000 FPO scheme of the Union Government , the formation and Promotion of FPOs is to be done through nine implementing agencies, such as Small Farmers Agri-Business Consortium (SFAC), National Cooperative Development Corporation (NCDC) and National Bank for Agriculture and Rural Development (NABARD). The CBBOs include Grant Thornton Bharat LLP, Price Waterhouse Coopers Pvt Ltd, Isha Outreach and ITC Ltd. As on 31.1.2024 total of 7960 FPOs were registered allover India. As on 22.07.2024, 810 FPOs have been registered as 100 percent women members FPOs under the said scheme. Besides this, out of overall registration of 19,82,835 farmers in FPOs 6,86,665 are women farmers. As per the Tata-Cornell University data there are 33,711 FPOs are working in India and 28.2 lakh shareholders as on 30.7.2024.

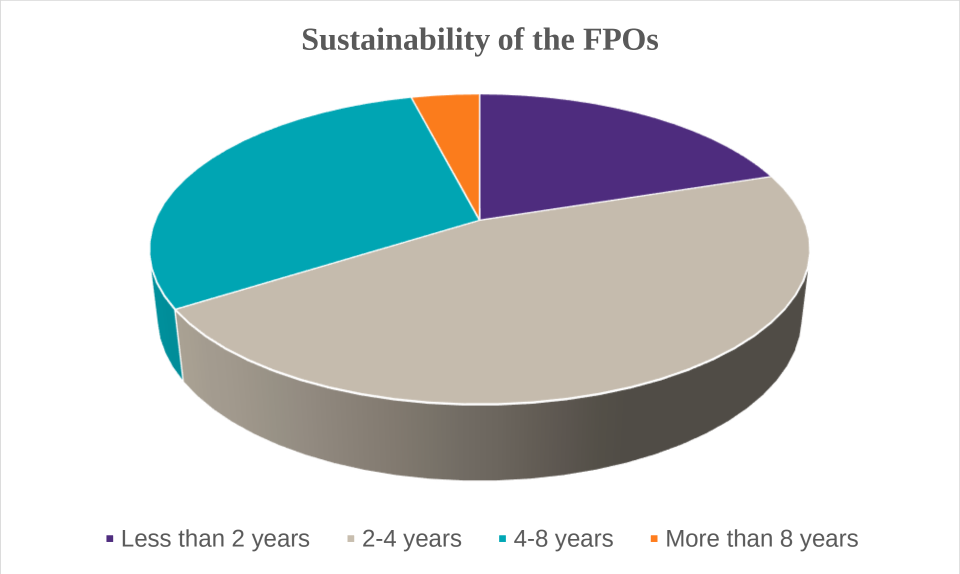
Table no. 2 : Number of FPOs registered in India

Year	Number of FPOs registered
2010	29
2011	36
2012	65
2013	183
2014	313
2015	978
2016	1888
2017	1015
2018	1247
2019	2587
2020	4959
2021	3427
Source: https://tci.cornell.edu	

Table no.3: Sustainability of the FPOs in India

State	Less than 2 years	2-4 years	4-8 years	More than 8 years
Andhra Pradesh	16%	49%	33%	2%
Bihar	18%	49%	30%	3%
Gujarat	22%	37%	32%	10%

Haryana	11%	69%	19%	2%
Karnataka	20%	37%	40%	3%
Madhya Pradesh	26%	33%	31%	10%
Maharashtra	22%	49%	26%	3%
Odisha	23%	41%	34%	3%
Rajasthan	15%	29%	48%	8%
Tamil Nadu	17%	33%	44%	6%
Telangana	10%	46%	41%	2%
Uttar Pradesh	24%	47%	24%	5%
West Bengal	16%	53%	27%	4%
Total	20%	46%	30%	4%
Source: https://tci.cornell.edu				



Statistics shows that majority of the FPOs registered are not surviving for longer period. According to The Tata-Cornell Institute for Agriculture and Nutrition, only 4 percent of the FPOs are surviving after 8 years. There are said to be many reasons for this sorry state of affairs. Climate change, poor resource base, inactive participation of the members, poor managerial skill of the Board of Director, lack of farmers participation in the business activities , inadequate management techniques are some of the reasons for the unsustainability of the FPOs.

The role of FPOs in agriculture

Agriculture remains the backbone of India's economy, providing livelihoods to millions. However, the sector faces numerous challenges, including low productivity, climate change vulnerability, and the dominance of smallholder farmers. FPOs emerged as a promising model to address these issues by empowering farmers through collective action. As per the Economic Survey 2023-24 the Indian agriculture sector provides livelihood support to about 42.3 per cent of the population and has a share of 18.2 per cent in the country’s GDP at current prices. The sector has been buoyant, which is evident from the fact that it has registered an average annual growth rate of 4.184 per cent at constant prices over the last five years. As per the Tata-Cornell University data there are 33,711 FPOs are working in India and 28.2 lakh shareholders as on 30.7.2024. Despite their potential, the sustainability of FPOs is a concern. A significant proportion of FPOs fail to survive beyond a few years. Factors such as inadequate financial resources, lack of managerial expertise, and adverse climatic conditions contribute to this challenge.

Meaning and importance of ESG for the sustainability of the FPOs

Review of literature:

According to a study conducted by ICAR-National Academy Of Agricultural Research Management, Rajendranagar, Hyderabad,FPOs are able to conduct activities in input price reduction, marketing linkages, aggregation of products, advisory services, value addition and better bargaining capacity of the farmers. As per the study conducted by Gurpreet Singh, Parisha Budhiraja and Kamal Vatta, the new initiative of linking farmers with the formal value networks through FPOs seems ineffective for new entrants in the business. Main reasons for the unsustainability of the FPOs in India are Bad quality business plan, climate change, increasing responsibilities, insufficient capital and insufficient capital.

As per the Investopedia definition ESG is “ESG stands for environmental, social, and governance. ESG investing refers to how companies score on these responsibility metrics and standards for potential investments. Environmental criteria gauge how a company safeguards the environment. Social criteria examine how it manages relationships with employees, suppliers, customers, and communities. Governance measures a company’s leadership, executive pay, audits, internal controls, and shareholder rights.”

Environment, Social and Profitability are the fundamental pillars for the success of any units including agri business units. Units should be economically viable, environment friendly and beneficial to the society. According to Arturo Ania, and Katharina Uebele “Improving Superformance – the impact of operations on the safety and health of the workforce, the environment and the surrounding communities - can directly lead to improved business performance and profitability in an organisation.” According to the Grant Thornton report “Food sustainability: Food sustainability is another important challenge for the food processing industry. The industry needs to find ways to produce food in a sustainable manner that reduces its environmental impact. This includes reducing food waste, using renewable energy sources, and sourcing sustainable ingredients”. “ESG is a lifeline for any organisation, not just for manufacturing organisations. It is no more just about ticking a box about compliance or counting carbon footprint” - CII Kerala Chairman. Safe food is a basic requirement for the not only for the human mankind but also for the planet.38 percent of the total green house emission is from agri food sector.

There are many sectors where we can deliberately reduce Green house emission. ESG compliance should be made mandatory in India. ESG stands for environment, social and governance and is being used to measure sustainability and ethical impact of a companies operation. There is no single ESG compliance guidelines applicable to agriculture sector in India but lot of environmental, social protection acts and rules are available.

ESG principles

There are nine principles of ESG as per the Government of India ERSR guidelines and they are and they are businesses should conduct and govern themselves with Ethics, Transparency and Accountability, business should provide goods and services that are safe and contribute to sustainability throughout their life cycle, businesses should respect and promote the well-being of all employees, businesses should respect the interests of, and be responsive towards all its stakeholders, especially those who are disadvantaged, vulnerable and marginalized, businesses should respect and promote human rights, businesses should respect, protect, and make efforts to protect and restore the environment, businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner, businesses should support inclusive growth and equitable development and businesses should engage with and provide value to their customers and consumers in a responsible manner.

Government of India introduced ESG in selected companies because of the The UN Guiding Principles for Business and Human Rights (UNGPs), UN Sustainable Development Goals (SDGs), Paris Agreement on Climate Change (2015), Core Conventions 138 and 182 on Child Labour by the International Labour Organization (ILO), Annual Business Responsibility Reports (ABRRs) and Companies' Act 2013. Notified in the Gazette of India on 30 August 2013, Section 135 of the Companies Act 2013 requires companies to undertake Corporate Social Responsibility (CSR). The regulatory framework related to environmental, social and governance (ESG) is not found in any one piece of legislation but comes under various pieces of legislation, including: the Factories Act, 1948; Environment Protection Act, 1986; Air (Prevention and Control of Pollution) Act, 1981; Water (Prevention and Control of Pollution) Act, 1974; Hazardous Waste (Management, Handling and Transboundary Movement) Rules, 2016; Companies Act, 2013 (Companies Act); Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations); Prevention of Money Laundering Act, 2002; Prevention of Corruption Act, 1988; and laws with respect to the payment of minimum wage, bonus, gratuity, welfare activities, health and safety, etc. Various aspects of ESG are covered under these pieces of legislations in a fragmented manner.

Importance of ESG in FPOs

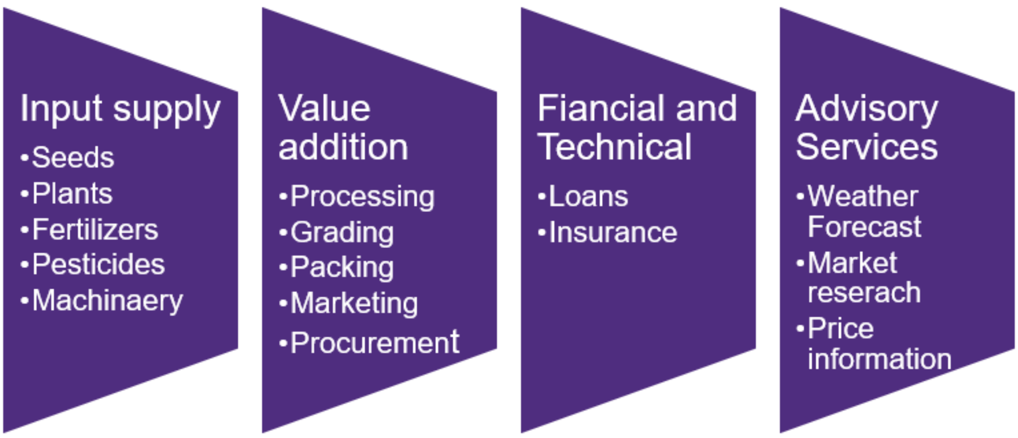
The adoption of ESG principles offers a multitude of benefits for Farmer Producer Organizations (FPOs). From a financial perspective, ESG integration can enhance an FPO's market competitiveness by aligning with growing consumer preferences for sustainable products. By demonstrating a commitment to environmental stewardship, social responsibility, and good governance, FPOs can attract socially responsible investors and secure access to sustainable finance. Moreover, resource efficiency and waste reduction, key components of ESG, can lead to cost savings and improved profitability. On the social front, ESG practices contribute to the well-being of farmers and their communities by promoting fair labor practices, providing access to healthcare and education, and supporting rural development initiatives. By strengthening relationships with stakeholders, including farmers, customers, and suppliers, FPOs can build trust and foster long-term partnerships. Ultimately, ESG integration positions FPOs as leaders in sustainable agriculture, contributing to a healthier planet and more equitable society. ESG is important due the following factors.

1. Most of the Board of Directors and member farmers are not aware about the need , importance and implementation of ESG framework. Famers should be given awareness regarding green gas emission in their farming activities. FPO should come forward to provide awareness in among the farmers and board of directors.
2. To achieve sustainability in agriculture :To achieve sustainability is one of the challenges facing farmers. Economic Survey 2023-24 reports remarks that 'A growing challenge in agriculture pertains to sustainability issues like overexploitation, degradation of natural resources, and addressing the

impact of climate change. The agricultural methods and inputs used have also had significant implications for sustainable agriculture.' There are greater role to play by FPO to educate member farmers to attain sustainability in agriculture.

3. So far ESG is not implemented in FPOs and MSMEs. But in order to reduce cost of production to increase profitability, FPOs should be implement ESG framework.
4. All the states including Kerala is implementing zero waste campaign. Waste may not treat as waste but as a source of money. Innovations may be carried out to convert the waste of the agri processing units into useful goods.
5. Kerala Government in principle accepted to achieve net zero by 2050. It is the responsibility of all the stakeholders to achieve the net zero campaign.
6. Kerala industrial policy encourages ESG framework in the industrial entities. So every FPO should comply ESG guidelines in their operations. FPOs are doing business activities. In order to become successful in business, ESG framework has to be adopted and implemented.
7. Agriculture is responsible for 70 percent of the Green Gas Emission in India. All the people working in the agriculture should come forward to reduce Green gas emission.
8. Inadequate finance is one of the reasons for the sorry state of affairs in the FPOs. More fund could be generated through building up confidence in among the members by adopting ESG compliance in the FPOs. Governance of the FPOs are to be good enough to attract more people in the FPOs.
9. To reduce export refusal rate: Agriculture Export Policy document of the Department of Commerce, Ministry of Commerce and Industry narrates "Pesticide and chemical residues are a chief cause of concern for Indian agricultural exports. Indian food exports are sometimes rejected due to residues found that are higher than Maximum Residue Limit (MRL) of importing nations." India's food export refusal rate is a major area of concern in agriculture export. In 2015 the agriculture food export refusal was 1591 and in 2023 it was 1033. As per the World Trade Organization (WTO)'s Sanitary and Phytosanitary (SPS) Agreement, member countries do not spread pests and diseases, and that food products do not contain harmful substances or pathogens. Since India is one of the member countries of WTO and signed nations of the SPS agreement, India should ensure that all the export agriculture products are safe in all respects.

Major activities of the FPOs



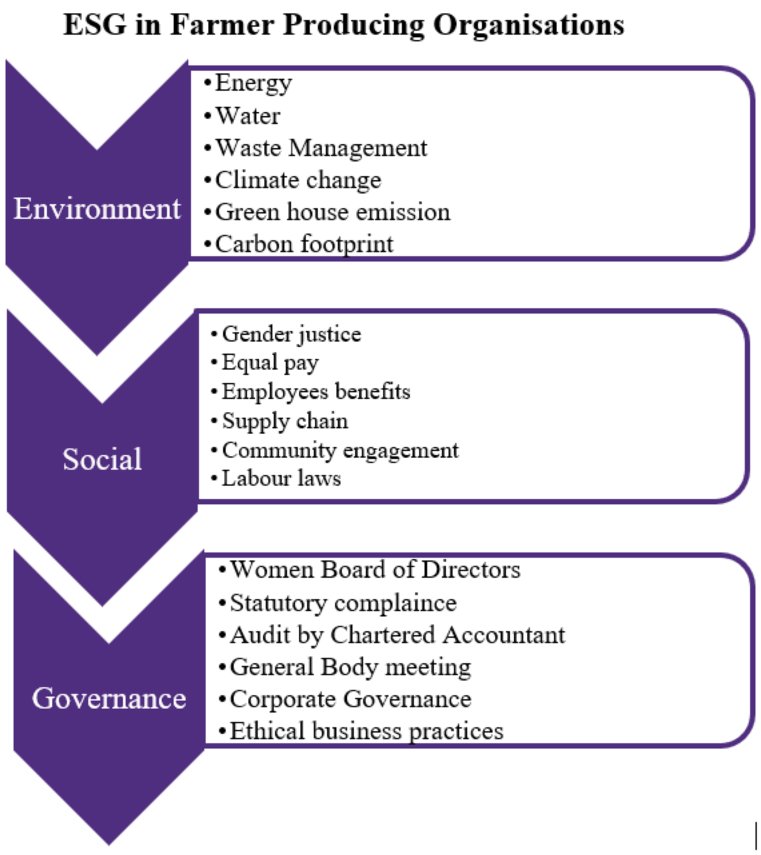
Areas of ESG implementation of FPO activities

As per the National Policy on Farmer Producing Organisations, guiding principles of the FPOs are "FPOs are required to bear the values of self-help, self-responsibility, democracy, equality, equity and solidarity with their members necessarily believing in the ethical values of honesty, openness, social responsibility, agribusiness and caring for others." Main activities of the FPOs are input sales, collection, grading and packing of products, farmer awareness programmes, marketing of agriculture produces, providing credit, welfare activities, processing of agriculture goods, packing and repacking of goods , export and all other activities which Board of Directors decides. ESG framework has to be implemented all the activities of the FPOs. In order to fulfill the guiding principles of the FPOs ESG framework has to be applicable to FPOs.

Environment: Climate change has one of the major challenges facing mankind. Planet protection has become one of the important objectives of business establishments like FPO. Reduction in the use of electricity, installation and use of non conventional energy sources, reduction in the water usage, rain water harvest methods, reduce, reuse and recycle of waste, reduction in green house emission, carbon footprint calculation and reduction, awareness of farmers regarding green house reduction farming methods in among the farmers could be conducted at FPO level. FPO has to assure no air, water and noise pollution because of the activities of the entity.

Social: Activities of the companies should benefit the society. FPOs should implement equal pay for all, all the benefits, working hours, health conditions, medical facilities, good community participation etc.

Governance: FPOs are being organized by the farmers, for the farmers and of the farmers. Financial strength , business and participation will depend upon the governance of the FPOs. Audit should be conducted by Chartered accountant, general body has to conduct at least once in a year and all the statutory compliance should be done in time. Women representative in the Director Board meeting and proper representation from various sections and geographical areas are also to be done at the FPO.



Implementing ESG in FPOs

Successful ESG integration within FPOs necessitates a comprehensive approach. Initating with heightened awareness among board members and farmers regarding the significance and implications of ESG principles is crucial. Subsequently, developing and implementing ESG policies and practices tailored to the specific context of each FPO is essential. This involves setting clear objectives, identifying key performance indicators, and establishing a robust monitoring and evaluation framework. Building the capacity of farmers and FPO staff in sustainable agricultural practices through training and skill development programs is equally vital. Collaborative partnerships with government agencies, NGOs, and other stakeholders can provide access to resources, expertise, and financial support, facilitating the effective implementation of ESG initiatives within FPOs.

Conclusion

ESG integration can be a game-changer for FPOs, enabling them to overcome sustainability challenges, enhance their financial viability, and contribute to a more sustainable and equitable agricultural ecosystem. This integration can be a game-changer for Indian agriculture, ensuring food security for future generations. By integrating ESG, FPOs can increase their market competitiveness, attract responsible investments, and contribute to a more equitable agricultural landscape. Implementing ESG requires a comprehensive approach, including awareness building, policy development, capacity building, and strategic partnerships. Ultimately, the adoption of ESG principles can transform FPOs into sustainable and resilient entities, driving positive change in the agricultural sector.

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