FARMER PRODUCER COMPANIES AS LEGAL AND INSTITUTIONAL INNOVATION IN AGRICULTURE IN INDIA: AN EXAMINATION OF POTENTIAL, IMPACT, CHALLENGES, AND POLICY

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Markets and Small producers

- Linking small producers to markets is an important and popular policy and practice issue though what is needed is more effective and viable linkage as most farmers in most situations are linked to markets indirectly, if not directly, though not modern markets.
- Small producers globally suffer from lack of capital, skills and information, high busines costs, poor access or costly access to services, and weak bargaining power and policy influence.
- In India, 29% of farmer households had a membership in a cooperative but only 19% availed of any services in 2003

Introduction

Rationale for farmer collectives/PCs:

- Market linkage or interface,
- Economies of scale, Bargaining power (Buy cheaper and sell higher),
- Capturing surplus in value chain,
- Reduction of risk,
- Lower transaction cost,
- Elimination of interlocked factor markets due to access to credit/risk bearing capital,
- Social capital/Economic democracy,
- More competitive market conditions

NGCs and PCs

- An NGC is one, which has:
- restricted or limited membership,
- links product delivery rights to producer member equity,
- raises capital through tradable equity shares among membership,
- enforces contractual delivery of produce by members,
- distributes returns based on patronage,
- goes for value addition through processing or marketing, and
- makes use of information efficiently throughout the vertical system.
- However, it retains one member – one vote principle for major policy decisions

Potential for Co-ops

- Significant co-op presence in some sectors like sugar in Maharashtra with 40% share in state production or in milk in Gujarat with 16% of the marketed surplus of milk.
- On the input side, only in chemical fertilisers, coops have 36% share in prodn and the credit coops account for 16% of agri credit.
- This is nowhere close to what coops have achieved in the European countries accounting for 40-95% of dairy business, 20-70% of F&V, 30-70% of wine, 15-90% of meat and 30-70% of farm input supply across countries

Major questions about small producer organisation

- What is the most appropriate form of small producer organisation?
- Is there any specificity about the crop or enterprise which matters e.g. commodities or high value crops?
- Who is more relevant promoter –state or civil society or private sector? (State major promoter of FCs/PCs in Sri Lanka and India)
- What conditions are necessary for business and economic viability of such organisations?
- How to attend to Social Enterprise objectives thru such organisations i.e. inclusiveness, democracy, and community orientation

Legal forms of FCs in India

- Co-operative societies
- MACS (limited by state boundary),
- Self-reliant Co-ops
- Private limited company,
- Public Limited Company,
- MSCSs,
- MBT,
- Producer Company (Cooperative Company or NGC)

Producer Company in India

- Under the Companies Act, 2003 thru a separate chapter
- Can be formed by 10 or more individual primary producers or two or more of their institutions or a combination of these
- Can do production, procurement, grading, pooling, processing, manufacturing, distribution, retail, marketing, import and/or export like a private limited company
- Membership- open, unlimited and voluntary
- One member- one vote, irrespective of shares except in first year
- Shares tradable within membership
- Limited return on capital but can give bonus or bonus shares based on patronage
- Free to form JVs, subsidiaries and/or collaborations or buy other PC shares
- 15 directors but can co-opt non-voting expert directors
- Must start business within one year of registration

Co-operative Company

PCs and Co-ops

Table : Differences between a co-operative and a producer company in India

Feature	Co-operative	Producer company
Registration under	Co-op societies Act	Companies Act
Membership	Open to any individual or co-operative	Only to producer members and their agencies
Professionals on Board	Not provided	Can be co-opted
Area of operation	Restricted	Throughout India
Relation with other entities	Only transaction based	Can form joint ventures and alliances
Shares	Not tradable	Tradable within membership only
Member stakes	No linkage with no. of shares held	Articles of association can provide for linking shares and delivery rights
Voting rights	One person one vote but RoC and government have veto power	Only one member one vote and non-producer can't vote
Reserves	Can be created if made profit	Mandatory to create reserves
Profit sharing	Limited dividend on capital	Based on patronage but reserves must and limit on dividend
Role of government	Significant	Minimal
Disclosure and audit requirements	Annual report to regulator	Very strict as per the Companies Act
Administrative control	Excessive	None
External equity	No provision	No provision
Borrowing power	Restricted	Many options
Dispute settlement	Through co-op system	Through arbitration

PCs and other Cos.

Table : A comparison of various options for registration under the companies Act

Type of company> Parameter	Private limited Company	Limited Company	Producer Company
Minimum No. of Directors required	2	3	5
Number of Members	Minimum 2; Maximum 50	Minimum 7	Minimum 10 primary producer members or two producer institutional members
Membership eligibility	Any one	Any one	Only primary producer or producer institutions can be member.
Type of shares	Equity and Preference	Equity and Preference	Only Equity
Voting rights	based on number of equity shares held	based on number of equity shares held	Only one vote irrespective of number of shares held.
Share transferabilit y	can be transferred to any other person on price consideration	can be transferred to any other person on price consideration	can be transferred only to primary producer on price consideration
Share allocation	open to investors and FIs	open to investors and FIs	not open to investors and FIs
Conversion clause	Conversion of Private Limited to Limited is possible, but conversion to Farmer Producer Company is not possible	Conversion of Limited to Private Limited is possible, but conversion to Farmer Producer Company is not possible.	No conversion is possible, but registered multi state cooperatives/cooperatives can be converted to FPCs and vice versa.
Internal audit	conditional subject to financial limit	conditional subject financial limit	compulsory
Donations	no bar on donations made	no bar on donations made	can be made only up to 3% of the net profit.
Investor friendliness	Investor friendly	Investor friendly but more procedural than private limited.	Not investor friendly and more procedural than private limited and limited companies.

Context of PCs in India

- Average size of land holding in four case study states was between 1.66 hac in Maharashtra to 3.38 hac in Rajasthan with Gujarat having 2.61 and MP 2.28 hacs.
- Further, 55% farmers in Gujarat and Rajasthan were marginal or small and as much as 73% in Maharashtra and 64% in MP being so.
- More than 60% area in MP, Gujarat and Rajasthan was dry and as much as 81% in Maharashtra being so.
- All the four states also witnessed farmer suicides during the last decade with figures of the order of 5000 in Gujarat 6000 in Rajasthan to 37000 in Maharashtra and 13000 in MP

Overview of PCs in India

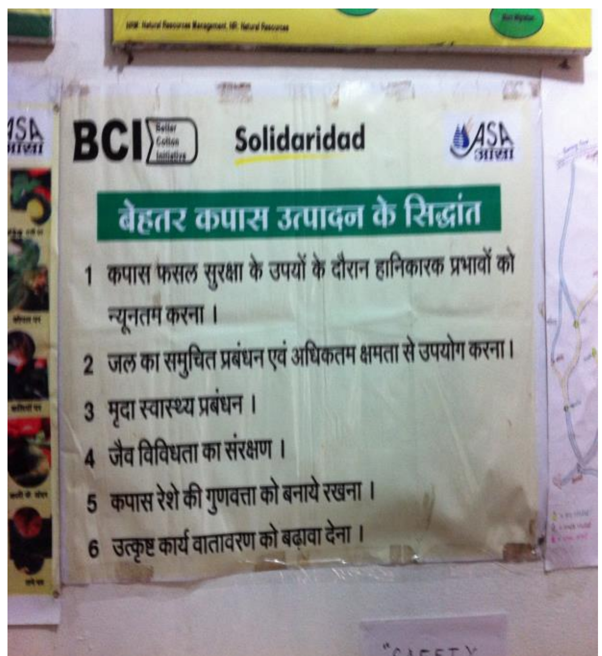
- Significant support to PCs had come from promoting agencies/projects, especially in MP and Rajasthan.
- Membership/shareholding of PCs in India ranges from individual producers to informal SHGs and individual producers, registered SHGs and individual members, and only institutional members.
- Number of members ranged from 11-220 in Maharashtra, 30-6000 in Gujarat, 344-1200 in Rajasthan and 10-6500 in MP (2011).
- Poor mobilisation of capital from members: Though authorized capital ranged from Rs. 3-25 lakh across PCs, the paid up capital remained within Rs. 1-5 lakh with only one touching Rs. 10 lakh. (Ratios of paid up share capital to authorised capital only 6-40% in majority cases in MP, Mah and Rajasthan)

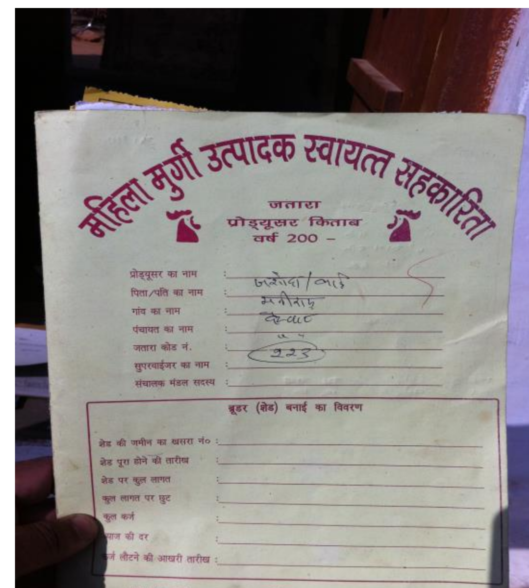
Overview of PCs in India

- User numbers were even higher.
- Business with non-members too.
- Most of them represented really marginal farmers (average member landholding: one hectare).
- Most of them had professional managers but, with high turnover.
- Most of the state promoted PCs in one state were into seed production/farm input supply as main business. Non-state promoted PCs handled high value produce like cotton, milk, and poultry.
- Financial performance of most PCs was weak, most making losses/very low profits. Some managed to make profit due to scale, other businesses, and better and professional business/market management.

Low value produce PCs in MP

High value produce PCs in MP





Performance of PCs in MP

- Another recent study (Purushotham, 2012) of 5 PCs in MP, which also included two of the ones studied here,found **two successful, two at breakeven point and one into losses**.
- 46.5% were SCs, 25.7% OBCs, 19.9% STs and 7.7% others.
- 42% were from BPL category.
- Member awareness index low at 34% varying from 28 to 41%
- Knowledge level index 30% with a range of 21-33%.
- The **loss making PC had the lowest awareness and knowledge levels** (28% and 21% respectively).

Performance of PCs in MP

- 63% of the member farmers not satisfied with the prices offered by PCs.
- Only 41% had ever transacted with the PCs ranging from 61%-34%.
- 41% (ranging from 22-67%) reported increase in price realisation across PCs though it was only between Rs. 1101 and Rs. 3198 with an average of Rs. 2751 over three years.
- Savings on input purchase through the PCs were very modest at Rs. 453 in case of 31% members and ranged from 17-52% across PCs.
- Additional sale proceeds realization due to PC was 7.6% of their hh income and varied from 4-12% across PCs
- Transacting member better off to the extent of Rs. 4193 in their total income than non-users
- Only 5% members had sold 100% of their produce through the PC, another 32% only less than 25% and 56% did not transact produce with the PC.
- Only 5% were aware that PC is owned by them .

Overview of PCs in Gujarat

- Farmer organisation (BKS) promoted PC was doing better in terms of business volumes/profits. But, its farmer base was large and medium farmers and it has high value produce for export and domestic markets.
- High value nature of business and scale seemed factors behind viable performance of the BKS promoted PC. Scale also worked for re-organised/restructured NGO promoted PC

Overview of PCs in Rajasthan

- In some of them, non-member dependence was high (20-60%) though farmer base was really made up of marginal and small farmers, that too, in tribal areas.
- Though most of them were also into input supply, two of them also ventured into facilitation of seed contract farming and ginger production and marketing. Their annual turnover ranged between Rs. 1-3 million and all were into profits, though modest.
- Two of the PCs also supplied grains (wheat and maize) to members for consumption.

Overview of PCs in Maharashtra

- Of the two NGO promoted PCs, capital base was small (Rs. 0.2-0.3 million), number of shareholders small (200) and professional help missing. Similar was the case of one farmer group promoted PC which had similar profile.
- In all three cases, farmer base comprised of small farmers, in one case, non-member dependence was very high (70% of business). All of them made losses and suffered from capital shortage.
- Most of the studied PCs were in very commodity specific business like grapes/organic produce/vegetables which places additional pressure to perform/be viable as individual crop/produce markets can be very volatile.

Overview of PCs

- PCs founded on the strength of pre-existing organisations like WUAs/ SHGs/FIGs in most cases though there were also completely fresh origins of PCs like the one in north Gujarat and a few in Maharashtra/MP.
- PCs, in general, appear to be product focused rather than producer/farmer focused.
- Limited corporate market linkages across all PCs

Table : A profile of PCs promoted by NDS of NDDB as of 2015

Parameters PC>	Paayas (Raj)	Maahi (Guj)	Sreeja (AP)	Baani (Pb.)	Saahaj (UP)
No. of Members	69647	86938	41292	22972	44999
Women Members	25025	17688	41292	2689	9695
Women membership as % of Total members	37	20	100	12	22
Small holders$ as % of total members	47	51	75	45	43
Paid up Share Capital (Rsin Million)	154.0	262.0	20.3	13.8	22.0
Average Milk Procurement (‘000 Kg Per Day)	412	536	236	170	425
Turnover 2014-15 (Rsin Million)	5968	9793	1381*	868*	1582*

Note: $Holding up to three milch animals.
*Operationalized during 2014-15 and turnover is for few months only.

Governance in NDDB promoted PCs

- Business with members only
- Mandatory minimum participation (patronage) in business specified
- Member equity in proportion to patronage (Re 1 per litre of milk supplied with initial minimum of Rs. 500 share capital)
- Classification of members into different categories based on patronage
- Staggered terms for the Board members where one third retire every year/two years, and
- Use of ICT to ensure transparency in transactions.
- PCs are asset light and have high asset turnover ratio.

Best Practices of PCs

- Large member base and involvement- choice of activity (high value or multiple businesses) and scale
- Mixed member PCs in terms of farmer base
- Value chain mapping based interventions
- Initial spadework in member mobilisation and some pre-existing structures of collectivisation like WUAs, FIGs
- Good business plans and strategy
- Create JVs/subsidiaries for scale and external capital
- Use franchising to cut costs and reach larger markets
- Producer risk reduction (production and market)- e.g. contract farming, crop insurance
- Expert Directors in BoD
- Leveraging govt. schemes/programs

Problems faced by PCs in India

- Lack of awareness among stakeholders and regulators
- Banks refuse to lend due to lack of collateral or state/govt. guarantees
- Can not mobilize capital from market (working and investment capital problem)
- Registration and digital signatures for BoDs
- Accessing capital from outside;

Problems faced by PCs

- Not being able to access grants as they are commercial entities.
- Promoter interference (In MP, government appointed its own Chief Executive Officers (CEOs) as it had given grants to PCs; In Gujarat, a PC was hijacked by the promoters. But, the PC Act provides for handling such malpractices).
- Lack of social capital formation,
- Governance and management capabilities,
- Scope and scale of PC business,
- Ownership issues
- Institutional context

Problems faced by PCs in India

- Poor member equity mobilisation
- Some forced into PC structure legally like in Odisha
- Lack of access to working capital
- Poor professional management, by and large
- No business plans
- Narrow business focus or commodity specificity, not farmer focus
- Member opportunism and free riding

Some recent policy steps for PCs

- MoA letter to State DoA
- NABARD loans for PCs and grants for their promotion to promoters
- RBI norms for PCs under PSL (upto Rs. 50 million)
- 2013-14 Budgetary support of Rs. 500 million for matching equity grants upto Rs. 1 million each thru SFAC (2013-14) –about 10 benefitted
- 2013-14 Budgetary support of Rs. 1000 million for credit guarantee fund through SFAC (2013-14)
- 2014-15 budgetary support of Rs. 2000 million for promoting 2000 new FPCs.
- Rs. 5000 million Operation Greens for TOP crops thru FPOs
- Income tax exemption to FPCs upto turnover of Rs. 1000 million for five years
- State involvement in direct promotion e.g. Karnataka
- FWWB loans

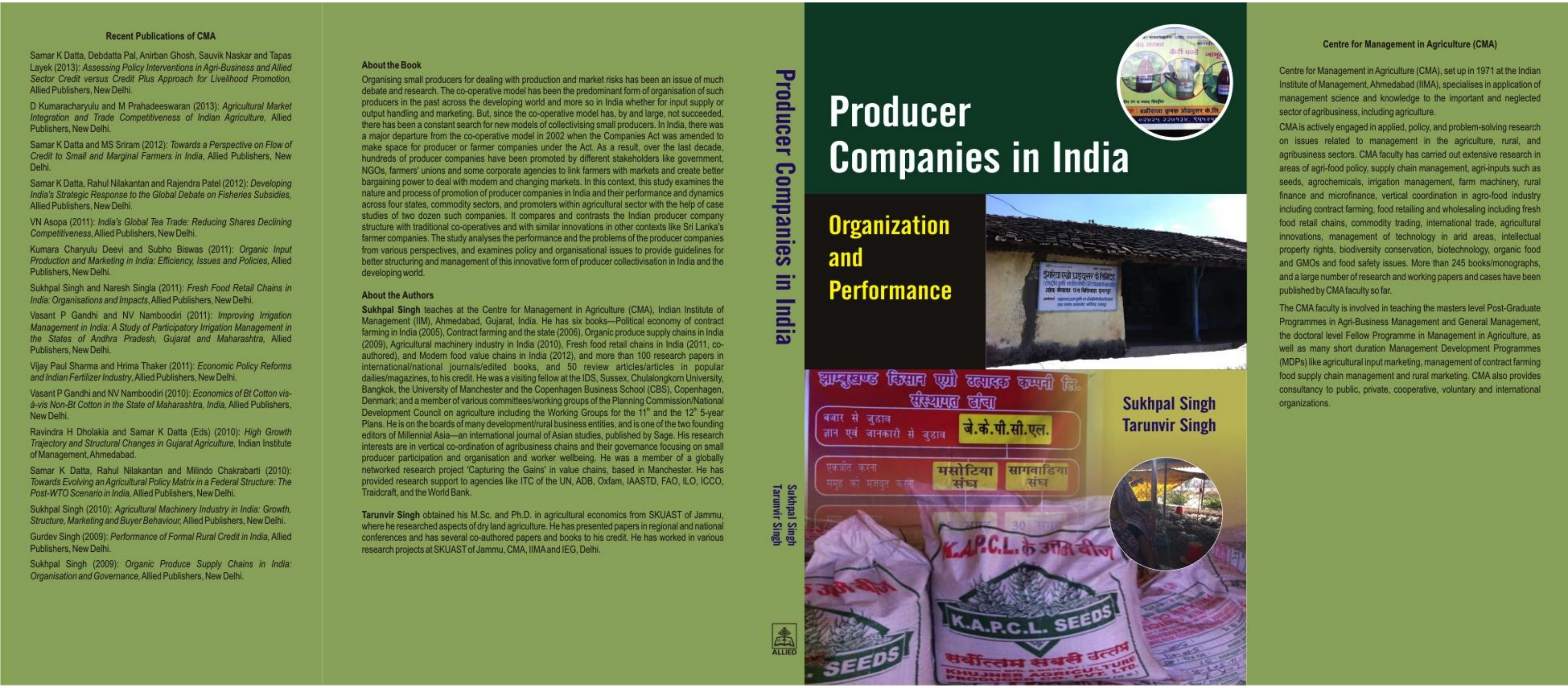
Some Recommendations

- Incentivise private sector to work with PCs
- Provide market space to PCs in APMC and other markets
- Preferred shares can be allowed?
- Use dividends to build equity
- Joint- stake companies (wherein a part of the equity of the producer company is held by non- producers)??
- Treat them as Social enterprises- role in transactional services (basic market services) and transformational services- like social inclusion (75% members in MP PCs from marginalised), organic/fair trade, better cotton/better soya

Lessons from Case Studies

- Organisation: wide stakeholder consultations
- Scope and Management: Choice of business activity, best practices, Prof. mgt.
- Member involvement: BoD can restrict membership
- Scale and Market linkage
- Capital mobilisation and mgt.
- Mixed member base
- Inclusion of small and disadvantaged like women
- Promoter withdrawal strategy

THANKS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Sukhpal Singh (2010): *Agricultural Machinery Industry in India: Growth, Structure, Marketing and Buyer Behaviour*, Allied Publishers, New Delhi.
Gurdev Singh (2009): *Performance of Formal Rural Credit in India*, Allied Publishers, New Delhi.
Sukhpal Singh (2009): *Organic Produce Supply Chains in India: Organisation and Governance*, Allied Publishers, New Delhi.
About the Book
Organising small producers for dealing with production and market risks has been an issue of much debate and research. The co-operative model has been the predominant form of organisation of such producers in the past across the developing world and more so in India whether for input supply or output handling and marketing. But, since the co-operative model has, by and large, not succeeded, there has been a constant search for new models of collectivising small producers. In India, there was a major departure from the co-operative model in 2002 when the Companies Act was amended to make space for producer or farmer companies under the Act. As a result, over the last decade, hundreds of producer companies have been promoted by different stakeholders like government, NGOs, farmers' unions and some corporate agencies to link farmers with markets and create better bargaining power to deal with modern and changing markets. In this context, this study examines the nature and process of promotion of producer companies in India and their performance and dynamics across four states, commodity sectors, and promoters within agricultural sector with the help of case studies of two dozen such companies. It compares and contrasts the Indian producer company structure with traditional co-operatives and with similar innovations in other contexts like Sri Lanka's farmer companies. The study analyses the performance and the problems of the producer companies from various perspectives, and examines policy and organisational issues to provide guidelines for better structuring and management of this innovative form of producer collectivisation in India and the developing world.
About the Authors
Sukhpal Singh teaches at the Centre for Management in Agriculture (CMA), Indian Institute of Management (IIM), Ahmedabad, Gujarat, India. He has six books—Political economy of contract farming in India (2005), Contract farming and the state (2006), Organic produce supply chains in India (2009), Agricultural machinery industry in India (2010), Fresh food retail chains in India (2011, co-authored), and Modern food value chains in India (2012), and more than 100 research papers in international/national journals/edited books, and 50 review articles/articles in popular dailies/magazines, to his credit. He was a visiting fellow at the IDS, Sussex, Chulalongkorn University, Bangkok, the University of Manchester and the Copenhagen Business School (CBS), Copenhagen, Denmark; and a member of various committees/working groups of the Planning Commission/National Development Council on agriculture including the Working Groups for the 11th and the 12th 5-year Plans. He is on the boards of many development/rural business entities, and is one of the two founding editors of Millennial Asia—an international journal of Asian studies, published by Sage. His research interests are in vertical co-ordination of agribusiness chains and their governance focusing on small producer participation and organisation and worker wellbeing. He was a member of a globally networked research project 'Capturing the Gains' in value chains, based in Manchester. He has provided research support to agencies like ITC of the UN, ADB, Oxfam, IAASTD, FAO, ILO, ICCO, Traidcraft, and the World Bank.
Tarunvir Singh obtained his M.Sc. and Ph.D. in agricultural economics from SKUAST of Jammu, where he researched aspects of dry land agriculture. He has presented papers in regional and national conferences and has several co-authored papers and books to his credit. He has worked in various research projects at SKUAST of Jammu, CMA, IIMA and IEG, Delhi.
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Organization and Performance
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