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Farmer Producer Companies- Issues and Challenges

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SUMMARY

A Farmer Producer Company (FPC) is a hybrid between a joint stock company and a co-operative. It has the merits of both a company and a cooperative organization. The main objective to form the FPCs is to enhance production, productivity & profitability of Agriculturists, especially small and marginal farmers in the country. SFAC and NABARD is providing support for promotion of FPOs. NABARD share more percent (42%) in FPCs than other agencies. Maharashtra state has maximum no. (5216) of FPCs and 33% of share in India. Farmer Producer Company is having enough potential to help small & medium farmers. SFAC will be advantages to farming community. Promoting Institutes should involve themselves more and more with FPCs.

INTRODUCTION

Agriculture is backbone of Indian economy and about two third of the people are depend on agriculture as a source of livelihood and it contributes to 13.7% of the GDP and provides employments to 58% population of our country (Anonymous 2017). Small and marginal farmers constitute the largest group of cultivators in Indian agriculture. The area operated by small and marginal farmers has increased from 44% to 47.3% in 2015-16 (10th Agriculture census). However, in the absence of the robust public/ private support system at the ground level farmers face the challenges in accessing land, water, input, credit, technology, market etc. there are emergency challenges like risk and vulnerabilities due to climate change and natural calamities (Thapa & Gaiha, 2011). The basic purpose envisioned for the FPCs is to collectivize small farmers for backward linkage for inputs like seed, fertilizers, credit, insurance, knowledge and extension services and forward linkages such as collective marketing, processing and market-led agriculture production (Mondal 2010). The challenge now is to optimize benefits through effective and efficient means of aggregation models. An ideal model of aggregation assumes significance mainly due to transformation of Indian agriculture towards high-value commodities which is a result of agri-food market caused by liberalization, globalization, improved purchasing power, demand for safe and quality food, expansion for niche market, etc. It has become even more pertinent due to land fragmentation. The size of operational holdings in India is continuously declining further with every successive generation. The big challenge under these conditions would be to integrate these small holders with the agricultural markets so that benefits from transforming agriculture, trade environment and growing economy may be optimized and help in realizing higher income of small and marginal farmers and lead to more inclusive growth.

The concern now is how to aggregate these smallholders and bring in economies of scale. It is equally important to link these increasing smallholders to the markets (input and output). Various institutional interventions, formal or informal, have tried to link smallholders to the input and/or output markets. These interventions were started either by government, or by private corporate and civil society organizations. They include agricultural cooperatives, self-help groups, commodity interest groups, contract farming, direct marketing, farmer producer organizations etc. The main objective of mobilizing farmers into member- owned producer organizations, or FPCs, is to enhance production, productivity and profitability of agriculturists, especially small farmers in the country. On July 27, 2021 the government of India has approved and launched the central sector scheme of “formation and promotion of 10,000 farmer’s producer companies to form and promote 10,000 new FPCs till 2027-2028 with total budgetary outlay of Rs. 6865.00 cr.

History

Producer Companies were tried in Sri Lanka in 1990s.They called it as farmers companies. The concept of Producer Companies was introduced in 2002 by incorporating a new part IXA (Section 581A to 581ZT) into the companies Act, 1956 (“the Act”) based on the recommendation of an expert committee led by an economist, Y.

K. Alagh. He has born 14 February 1939. He is a former union minister of Government of India. And he was the chairman of Institute of Rural Management Anand (IRMA) from 2006 to 2012. Also he was the chancellor of the central university of Gujarat, Gandhinagar. The Farmer Producer Companies, registered under the Indian Companies Act, 2013 and it regulation in 2014. The act is emerging as an effective Farmer Producer Organization to cater to the aggregation needs of farmers at the grass root level.

Objectives of FPCs

- Production, harvesting, procurement, grading, polling, handling, marketing, selling, export of production of the members.
- Rendering technical service, consultancy service, training, education and research for promotion of member's interests.
- Generation, transmission and distribution of power, revitalization of land and water resources, their use and conservation of primary produce.
- Promoting mutual assistance, welfare measures, financial service, and insurance of producers or their primary produce.

What is Producer Company?

Producer company is a legal entity formed by primary producers ie. Farmers, milk producers, fisherman, weavers, rural artisans, craftsman and it registered under companies act 2013. Producer company is a group of farmers it may be 10 or more than 10 farmers or producer or any two or more producer institutions or companies based on the principle of membership, common interest, formal structure and developing technical and economic activity that benefits the farmers. It is one type of producer organization where the members are farmers. SFAC is providing support for promotion of FPOs. Producer organization is generic name for an organization of producers of any produce eg. Agricultural, non-form products, artisan products etc.

Key features of Producer Company:-

- It formed by a group of producers for either farm or non-farm activities.
- It is registered body and a legal entity.
- Producers are shareholders in the company.
- It deals with business activities related to the primary produce/ product.
- It works for the benefit of the member producers.
- Enrolment through membership fee.
- Linkage and network with other farmer producer companies.
- Committed leadership.
- A part of the profit is shared amongst the producers, rest of the surplus is added to its owned funds for business expansion.

Incorporation of a FPC:-

- Minimum 10 or more Producers can join together to form farmer producer company. But there is no upper limit on number of members.
- Any 2 or more producer institutions can form a farmer producer company. And combination of both (10+2) can form a farmer producer company. More than 500 producers are ideal to form Producer Company.
- There should be a minimum 5 and maximum 15 directors in Producer Company.
- Min paid-up capital of FPC is Rs. 1 lakh. The min. paid-up capital means simply, the money injected into the firm by the shareholders in exchange for the shares purchased by them.
- Authorized capital of FPC can be more than Rs. 5 lakh. It also called registered capital or nominal capital of the company. It is the maximum amount of share capital that a company is allowed to issue to its shareholders as per its constitutional documents.
- The registration office address has to be situated in India.

Registration procedure of producer company:-

Only a person engaged in activity connected with primary produce can participate in the ownership. A producer company registered under the companies act, 1956. The process of registering a producer company is similar to that of a private limited company.

- Complete online form
- Digital Signature Certificate (DSC) and Director Identification Number (DIN) must be obtained first for the proposed first director of the company.
- An application for name reservation is to be filled with the relevant Registrar of Companies (RoC)
- There is a requirement under the act that the name of a producer company must end with the words "Producer Company Limited".
- Once the suggested name is approved and verified by the RoC, an application for incorporation is to be filed in the prescribed format for the incorporation of the Producer Company and also required document filled for incorporation.
- Once the registrar is satisfied with the application and the required documents filed for incorporation of PC.
- RoC approve PC incorporation certificate.

Documents required for PC registration:-

- Pan card
- Aadhar card
- Passport
- Email Id
- Contact number
- Latest bank statement is not older than 2 months
- Memorandum of Association (MoA)- It is root document of company, which contain all the basic details about the company.
- Articles of Association (AoA)- It is a document containing all the rules and regulations designed by the company. It defines company's purpose. Ex. Handing of financial records.
- Copy of any utility bill as residential proof. Ex. Electricity bill, Water bill etc.
- Copy of rent agreement along with NOC (No objection certificate)- NOC is essential document that certifies that there are no due of tax.

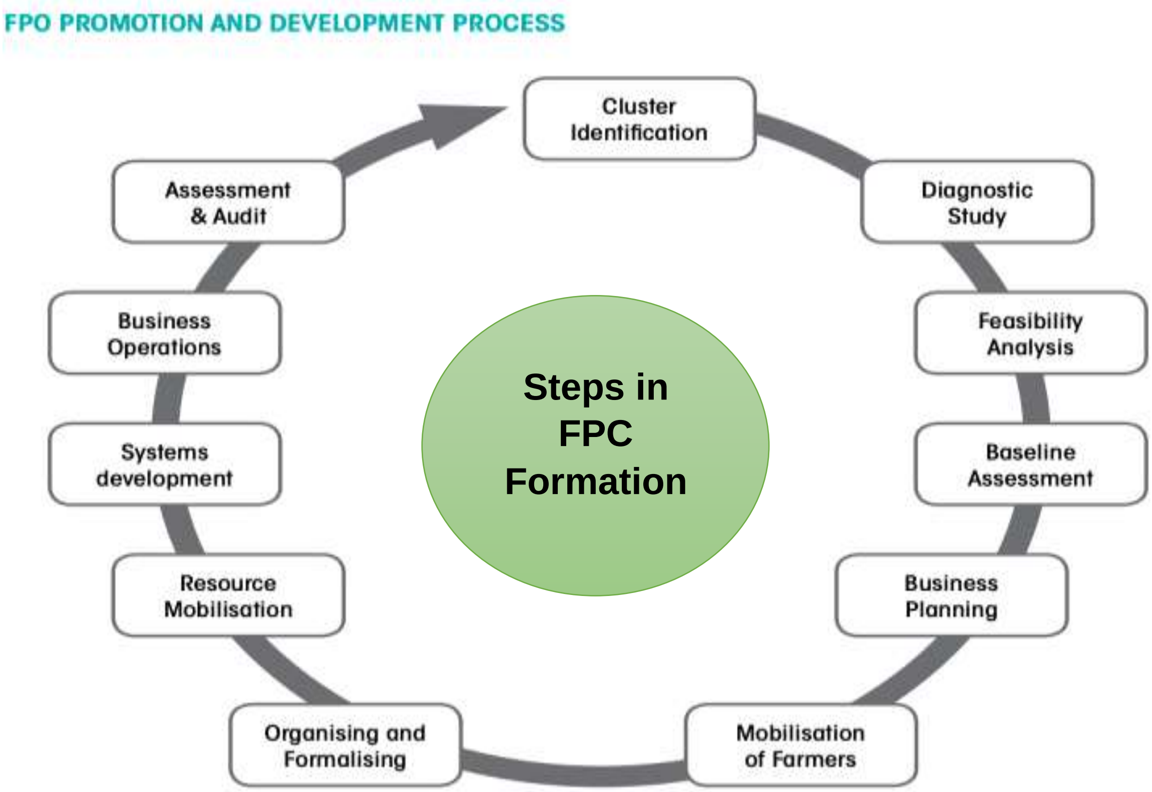
Steps in Farmer Producer Company Formation:-

Cluster Identification – Cluster areas are to be selected by the Resources Institution in consultation with the respective State Government departments. However, it should be ensured that a cluster of 8,000-10,000 farmers should be formulated, within one or two blocks, identifying 80 to 120 contiguous villages of a particular district.

Diagnostic Study – A Diagnostic Study is to be conducted by the Resource Institution in the selected cluster area. The Diagnostic Study is conducted to assess the preliminary situation of the farmers and level of agriculture in the area. The study will also help in identifying the potential interventions required and understand the specific project implementation context.

Feasibility Analysis – Feasibility Analysis for the formation of FPCs should be carried out by RIs and then appraised by hired external experts in various technical areas. A normal feasibility study should cover aspects such as financial, technical, legal, political, socio-cultural, environmental, economic and resource feasibility. The Feasibility Analysis will establish a case for promotion of FPCs in the prevailing specific regional environmental context of the FPOs.

Baseline Assessment – Baseline Assessment, to be carried out by RI, will help in generating data related to the current prevailing situation of farming and small, marginal and tenant farmers. Baseline assessment will cover a variety of factors to identify the potential interventions, to plan development and business plans and to establish the base figures based on future outcome indicators that can be measured to understand the change contribution. The assessment shall be conducted using stratified random sampling through structured household-level interviews and open-ended focus group discussions with a variety of stakeholders.



Business Planning – Business Planning will be carried out by RIs with the help of selected farmers' representatives. Business planning is a process through which the strategic and operational orientation of an emerging FPO is shaped. While baseline assessment figures will be important inputs to understand the level from which products and services for farmers' members should be developed, more important will be the collective visualization of the future of the FPO. Using a variety of tools and systematic collective reflections, a business plan with proper projections on various aspects needs to be developed. The key is to develop business plans in detail with at least 10% of FPO farmer members to provide clear vision.

Mobilisation of Farmers – Once a strong case has been established by Spearhead Team (SHT) with the help of a select group of farmers through the business planning process, it is time to mobilize farmers into FIGs and eventually as farmer-members of FPOs. Mobilization of farmers should be done with a variety of communication aids like – pamphlets, documentary movies, posters, regular village-level meetings, proper vision development of promoter farmer-members. Promoter farmer-members are those who are eager to form a FPO on voluntary basis, having understood the importance and potential benefits of forming FPOs, obtained through training programmes and exposure provided by Spearhead Team of RIs.

Organising and Formalising – FIGs in an aggregated cluster together form FPOs. Typically, around 50-70 FIGs can come together to form a FPO. FPOs can be registered under the Producer Company provision under the Companies Act A separate manual on registration of FPOs is enclosed with these guidelines. However, it must be clarified that the purpose of mobilizing farmers is not merely to achieve the target of registering a formal entity. The final form which the FPO assumes (i.e. cooperative, Producer Company, multi- state cooperative etc.) must be a decision taken by FIG members at an appropriate time. It is important to stress that the process must notbe hurried in any manner and there is no "right time" by which the FPO must be registered. Any period between 18 months to 24 months may be necessary for the FIGs to settle down and understand the implications of aggregation. Only then should the FPO registration be attempted.

Resource Mobilisation – Before initiating the operations of a FPO all required resources should be mobilized by the RI with the help of FPO representatives and board of directors. Financial, human (staff), technical and physical resources should be developed during this particular step. Based on the business plan the RI should liaise with various financing agencies and mobilise resources for hiring/purchasing and developing various resources.

Management Systems Development – Resource Institutions should facilitate the development of management systems in the FPO. Guidelines for management systems should be able to address all requirements related to financial services, input and output management services. Systems related to management of finance, human resources, stock and inventory, procurement and quality management, marketing, internal audit, internal conflict resolution and other important functional areas should be developed. Standard operating procedures for the same should be established.

Business Operations – Business operations is the commencement of procurement, production, processing, marketing and financial service activities of a FPO. RIs should carefully train both the governing and operational structures of the FPO in order to ensure smooth functioning of business operations. The entire value-chain related to various agriculture and allied products and commodities needs to be managed.

Assessment and Audit – RIs should facilitate constant assessment of performance of various stakeholders like farmer members, governing board of directors and service providers. They should also help FPOs to reflect using Institutional Maturity Index to understand areas of improvement. Internal process and accounting audits will help maintain both transparency and accountability. These are key institutional systems for FPO evolution.

Activities of FPCs :-

FPC makes the business sense- It helps to farmers for improving their knowledge and skills about how to sell their product and gain more profit.

Collective farming- It motivates to farmer for collective farming means that in which multiple farmers manage their holding as a joint enterprise. Farmers manage their field collectively and get collective production.

Value added is value realized- It means that the incremental change in the value imparted to a product by a company.

Technology for enhanced production- FPC provides new technology, innovation and training to farmers for enhancing their production and productivity.

Storing to eliminate distress sale- FPC provides storage facilities to farmers to avoid distress sale. It helps in aggregation and storage of produce.

Banking at your doorstep- FPC provide banking doorstep facilities to the farmers so that they don't have to visit bank branch for routine banking activities like cash deposit, cash withdrawal and cheque deposit etc. the bank extends these facilities at their work place by appointing a service provider on their behalf.

Branding for credibility and recognition- FPC brand their product to identify trustworthiness so farmers can easily recognized a good brand with the help of logo, tagline or colour palate alone.

The board work for your benefits- FPC works for farmers benefits. They observe how to tackle problems, how to carry out certain task, how to weigh up potential risks etc. and it gives solution to each and every problem faced by farmers.

Structure of FPC :-

Farmer Producer Organization in that one general body and executive body (2 representive per farmer interest group) after that board of directors and general manager both are engaged in planning, implementation and management of company. Then FPO staff which is local resource person.

Management of FPCs:-

- No. of directors should be 5 to 15. Exception is that interstate co-operative can have more than 15 directors for period of 1 year from incorporation.
- Directors should be appointed within 90 days of incorporation and within 365 days in case of interstate co-operative.
- Producer Company can also appoint two or three consultant or advisor. But they don't have right to vote.
- A full time CEO can be appointed by the board of director and shall be entrusted with substantial power of management.
- Share capital consists only equity shares.
- CEO plays key role in farmer Producer Company and to promote FPC government pays first three year salary of CEO.

Benefits of a FPC :-

- It helps to farmers on input saving.
- It helps to increase in the value of produce and encourages farmers to minimize risk.
- It provides working capital as compared to individual farmers.
- It assured quality of seed available to farmers along with additional source of income.
- It helps to aware the farmers about the package of practices and to better techniques for better quality and productivity.
- It assured market for farmers and gives better prize realization.
- It also overcomes the problem of dormant membership.

Challenges and Issues in FPCs:-

- Lack of / inadequate professional management- FPCs are required to be efficiently managed by experienced, trained and professionally qualified CEO and other personnel under supervision and control of democratically elected boards of Directors. However such trained manpower is presently not available in the rural space to manage FPC business professionally. This is one of the challenges in FPC.
- Weak financials- FPC initially not financially strong enough to deliver vibrant products and services to their members and build confidence due to poor resource base.
- Inadequate access to market- Marketing of produce at remunerative prices is the most critical requirement for the success of FPCs. There are more market opportunities; if FPCs can identify local market needs of the consumers and have tie-up for sale of its produce. The linkage with industry/ other market players, large retailers etc. is necessary for long term sustainability of FPCs.
- Inadequate access to infrastructure- The producers collective have inadequate access to basic infrastructure required for aggregation like transport facilities, storage, value addition (cleaning, grading, sorting etc.) and processing, brand building and marketing.
- Lack of technical skills / awareness- Inadequate awareness among the members about the potential benefits of collectivization and non-availability of competent agency for providing hand-holding support. Also lack of legal and technical knowledge about various acts and regulations related to formation of FPC and statutory compliances thereafter.

Limitations of a PC:-

- A Producer Company is to be register as per the law and act.
- Registration of a PC is bit difficult and sometime it also time consuming process.
- The member cannot transfer their shares freely.
- Getting a professional CEO at an affordable cost is little difficult.
- It is difficult for the illiterate members to understand statutory provisions of low.
- Taking members in group are a biggest challenge for producer companies.

CONCLUSION

Farmer Producer Company is having enough potential to help small & medium farmers' of India, either they are registered as FPCs or Co-operatives, they are helping farmers. But they do have certain limitations related to finance and managerial skills like negotiation and leadership, so necessary steps should be taken by NBFC (Non-banking financial company) and by entrepreneurship development institute to overcome both the issues respectively. Policy making institute like SFAC will be advantage to farming community especially to small farmers which support for their development. Promoting Institutes should involve themselves more and more with FPCs so that they can help them in networking the business. Still, a large portion of farmers who belong to the small and marginal land holding category are facing problems due to market intermediaries, FPOs should find some permanent solution of this problem like registration with APMC and e-NAM. Hence there is need of promoting FPC for overcomes the farmer's problems and helps to enhance their production.

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