

A Powerful New Dawn—Farmer Producer Organization

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Abstract—Over the years, in India, there has been a spurt of approaches to organize farmers in order to enhance their farm profitability. There are many legal forms of organizations for the primary producers to organize themselves. One such recent concept has been the Farmer Producer Organization (FPO) which is relatively a new legal entity. The modality for being members are primary producers. FPO as a legal entity was enacted in 2002 as per section IXA of the Indian Companies Act 1956 that will empower and improve the bargaining power, net incomes and quality of life of small and marginal farmers/producers in India.

The operational mechanism of 'Producer Company' model promoted by different sectors such as Government, Private and Tertiary organizations and their critical success factors in serving the producer members are not known. The broad-based services catered by the model to the producer members need to be documented in order to promote this model. In this connection ICAR-NAARM initiated a project entitled "Impact of 'Producer Companies' in Fostering Community Entrepreneurship" to study the operational mechanism and perceived impact of producer companies. This policy brief examines the experience of five unique set of PCs in India, where they have been in existence for almost a decade legally and in practice now.

Five FPOs were selected from Tamil Nadu of India based on the type of FPOs, which are community based, resource oriented and other commodity based, market oriented. The selected FPOs were Government promoted, NGO promoted and individual promoted.

A scientific thought-driven questionnaire was administered to collect data from thirty members from each FPOs to evaluate the perceived-impact of producer members using seven-point continuum scale with social and economic indicators. Perception towards performance of the company was also found using seven-point continuum scale.

Based on the findings on the challenges faced in formulation of FPOs, the intervention for further upscaling was pointed out.

Keywords: Challenges, Farmer Producer Organization, Perception, Performance.

1. INTRODUCTION

National Sample Survey Organization (NSSO) reported that given the choice, 40% of the farmers, wish to leave agriculture (Murray, 2009). Non-remunerative price that has been realized

by the primary producers has been one among the prime reasons. There has also been no surplus produce for value addition due to low productivity influenced by poor knowledge base towards production technology, access to credit, input, market and obviously the below-par adoption behaviour. The number of intermediaries in the structure of agricultural market limits the price realized by the primary producers to the lowest possible in the supply chain. At a time, when the country has been witnessing all-around economic growth, naturally the farmers aspire for prosperity from agriculture in the similar lines. Cooperatives concept is one of the options available for the farmers to get organized themselves to move-up in the value-chain and having business ownership. Producer cooperatives are the aggregations of producers to share the scale of economies and provide service in terms of knowledge, agro-advisory, supply of input, credit, procurement, processing, marketing and distribution etc. Such organizations amplify the political voice of shareholders, reduce the input, transaction and transport costs, provide platform for sharing information, coordination of common activities and involve in collective decision making. They are registered under the State Cooperatives Societies Act. They are expected to provide access to risk-bearing capital, manage risk through product diversification, set market standards, provide marketing conditions and economic democracy at gross-root level. Analysis on the performance of cooperative system in the country conclude that they have been infected by political interference, corruption, elite capture, poor efficiency, loss-making ways and declining Govt. support (capital constraint) (Singh, 2008).

The below-par performance of cooperatives except for certain commodities *viz.*, milk and fertilizers, led to the emerge of 'New Generation Cooperatives (NGCs)' with advanced member-friendly profile *viz.*, restricted membership, tradable equity shares, product delivery right to shareholders, contractual delivery of produce by members, distribution of returns based on the patronage, value addition through processing, providing better market linkage, one-member one-

vote policy and being economically efficient, financially viable and inculcating loyalty among the members. Ironically, the concept of NGCs too could not overcome certain pulling factors like preferred share premium, limited rights of members on internal control mechanism, suitability only to large holders, functioning like closely-held companies, risk of becoming investor-oriented company, off-market purchases to meet contract terms, leasing of delivery rights by members and dependence on non-producer member equity and non-member business (Singh, 2008). Amidst such deficiencies and inadequacies in cooperative system, there was an attempt during 2002 to strengthen the cooperative movement with the amendment (in Section 581) of Companies Act 1956 as a response to the Report of the Committee under the Chairmanship of Professor Dr. Yoginder K Alagh. Ministry of Consumer Affairs, Government of India introduced the Bill for amendment by introducing part IX A and thereby paved the way for incorporation of Producer Companies (Alagh, 2007, Gupta, 2007, Singh, 2008 and NRRA, 2009). Since then, about 150 producer companies have been established at various parts of the country covering a wider range of commodities (NRRA, 2009).

Information on performance of this 'Producer Company' model in terms of its operational mechanism pertaining to different source agencies, challenges faced, critical success factors; profile of the producer members, their perception about the performance of this model etc. is not available. Hence there is a need to document all such information in order to strengthen this model and replicate it for agricultural and rural development is felt necessary. Hence, this research was conducted at ICAR- NAARM with the long term objective of enhancing the prospects of 'producer company' model at the background of prevailing socio-economic scenario of small holders and market scenario in fostering community entrepreneurship in agriculture and rural development arenas.

2. APPROACHES

Providing statutory and regulatory framework for the potential producer-owned enterprises to compete with business enterprises on a competitive footing is the basic purpose of Amending the Companies Act 1956 in favour of incorporating producer companies. The amendment also provides opportunity for the multi-state cooperative societies to convert themselves into efficiency-oriented producer companies. All the limitations, restrictions and provisions of the Act (other than that specified in Part IX A) applicable to a private limited company, shall apply to the producer company also, as if it's a private limited company. In other words, the producer company is the hybrid between a private limited company and a cooperative society and combines the goodness of the cooperative enterprise and the vibrancy and efficiency of a company. FPO is one of the important initiatives taken by the Department of Agriculture and Cooperation of the Ministry of

Agriculture to mainstream the idea of promoting and strengthening member-based institutions of farmers.

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3. PERFORMANCE

The perceived-opinion of members (Table.1) towards performance of the company were that on composition of membership being heterogeneous. With regards to the interventions avoiding domination of specific group of people and elimination of political intervention by adhering to rules and regulations were also perceived as effective with the concept of FPO. The other perceived opinion were on robust record maintenance, member cohesiveness and transparency of activities, which are the attributes that makes this concept beneficial. The other opinion that ranged from good to very good were selection/election of leader/board of directors, transparency of financial transactions, opportunity for participation in decision making, business activities of the company, ways of raising funds and dovetailing of govt. schemes are certain areas that needs improvement.

The members had either agreed or strongly agreed perceived effectiveness towards increase in input availability, increase in productivity of commodity, increase in net returns, increase in utilization of farm mechanization and power, adequate access to credit availability and increase in cropping intensity as a result of being member to the company and company's activities. However, the perceived effectiveness of members towards, assured market price, value addition linkage and related infrastructure and assured buy-back was ranging from undecided to agreed response and the perceived effectiveness values were below the average value (Table.2).

The members had either agreed or strongly agreed perceived effectiveness towards all the social indicators such as increase in knowledge of improved production technology, enhanced bargaining power for input purchase, access to benefits for women and increase in adoption towards production technology. However, access to benefits for socially backward people, reduced social conflicts, enhanced bargaining power of the input purchase, enhanced bargaining power for output marketing, as the perceived effectiveness rating was less than the average value (Table.2)..

Table 1: Perceived Effectiveness- Perception towards performance (n=150)

Impact indicators	FPO 1 (n=30)	FPO 2 (n=30)	FPO 3 (n=30)	FPO 4 (n=30)	FPO 5 (n=30)	Average
Heterogeneity in membership	6.93	6.27	6.27	5.87	6.33	6.334
Member cohesiveness	6.47	5.37	6.13	5.47	5.47	5.782
Eliminating intervention of persons with political background	7.00	5.93	5.93	5.93	6.07	5.965
Avoiding domination of specific group of people	6.60	6.47	6.47	5.63	6.40	6.314
Transparency of activities	6.07	5.90	5.90	4.90	5.90	5.734
Transparency of financial transactions	4.83	5.60	5.60	5.33	5.67	5.406
Selection/ election of leaders/ board of directors	4.73	6.07	6.07	4.87	6.07	5.562
Adhering to rules and regulations	5.07	6.37	6.43	5.4	6.30	5.914
Record maintenance	5.30	6.07	6.27	5.17	6.13	5.788
Opportunity for participation in decision making	6.33	5.07	5.20	4.47	5.60	5.334
Business activities of the company	4.17	4.60	4.97	4.27	4.60	4.522
Ways of raising funds	3.10	4.20	5.27	4.43	4.40	4.28
Dovetailing of govt. schemes	3.90	2.60	5.00	4.03	4.43	3.992
Average	5.42	5.42	5.80	5.60	5.64	5.576

Table 2: Perceived effectiveness-impact of producer members (n=150)

Impact indicators	FPO 1 (n=30)	FPO 2 (n=30)	FPO 3 (n=30)	FPO 4 (n=30)	FPO 5 (n=30)	Average
Economic indicators						
Increase in utilization of farm mechanization and power	6.80	5.47	5.67	5.20	5.60	5.748
Increase in input availability	6.43	6.00	6.00	6.27	6.13	6.166
Adequate access to credit availability	4.73	5.60	6.13	6.07	5.67	5.64
Increase in cropping intensity	6.13	5.20	5.47	5.27	5.33	5.48
Increase in productivity of commodity	6.60	5.60	6.00	5.67	5.67	5.908
Increase in net returns	5.73	5.57	6.33	5.67	5.83	5.826
Assured buy-back	3.07	4.33	4.57	4.07	5.27	4.262
Assured market price	3.13	5.30	6.47	4.80	5.40	5.02
Value addition linkage and related infrastructure	3.00	3.70	5.33	4.50	5.07	4.32
Average	5.07	5.20	5.77	5.28	5.55	5.374
Social indicators						
Increase in knowledge of improved production technology	6.80	5.83	6.13	6.33	5.97	6.212
Increase in adoption towards production technology	6.53	5.63	5.77	6.07	5.90	5.98
Enhanced access to training programmes	5.80	6.13	6.27	6.27	6.07	6.108
Enhanced bargaining power for input purchase	5.30	5.63	6.07	4.60	5.60	5.44
Enhanced bargaining power for output marketing	5.03	4.50	5.20	4.37	5.20	4.86

Reduced social conflicts	6.33	5.20	5.57	4.83	5.40	5.466
Access to benefits for socially backward people	6.13	4.80	6.00	4.93	5.53	5.478
Access to benefits for women	6.67	5.93	6.20	5.00	6.60	6.08
Average	6.07	5.46	5.90	5.30	5.78	5.702

FPO1. Nachalur Farmers Producer Company Limited (U01400TN2012PTC086262), Kulithalai, Karur, Individual promoted

FPO2. Marutham Sustainable Agriculture Producer Company Limited (U01403TN2013PTC092633), Vandavasi, Thiruvanamalai, Facilitating Organisation: CIKS

FPO3. Ayakudi Guava & Fruits Producer Company Limited, (U01110TZ2014PTC020136), Palani, Dindigul, Facilitating Organisation: Department of Agricultural Marketing

FPO4. Reddiarchatram Sustainable Agriculture Producer Company Limited (U01403TZ2010PTC016029), Kannivadi, Dindigul, Facilitating Organisation: MSSRF

FPO5. Theni Coconut Producer Company Limited (U01403TN2015PTC100917), Theni, Facilitating Organisation: Coconut Development Board

4. CHALLENGES FACED

- The financial performance was the most noted challenge due to dependency on supporting organization for funds and services i.e., lack of working capital, availability credit after successful operation for three years and collateral security issues. The producer companies need a huge amount of working capital for procurement, value addition and marketing as well as extending credit, loan and advances. Being endowed only by the equity shares of the primary producers, the companies may not have assets to leverage for credit from the financial institutions. Banks refuse to lend these companies due to lack of guarantees from either Central or State Governments (Murray, 2009 and NRAA, 2009). It also suffers from tax on income (30.2%) unlike cooperatives, which can show income under tax free heads.
- The efficiency at the last mile delivery has been the core bottleneck due to gap in entrepreneurial and technical aspect. Therefore, capacity building of all stakeholders including grass root level functional coordinators of the producer company is extremely needed.
- Registration and establishment procedures are very cumbersome, arduous and time taking. Hence, simplifying the registration procedure and capacity building of stakeholders of producer companies on these lines may be of utmost importance (DSC, 2007). The possibility of dovetailing the existing and new schemes of the Governments like RKVY, NHM, NFSM etc with activities of producer companies for effective delivery of such programmes as well as raising the funds for producer

companies, as done by IOFPCL in Kerala with NHM (NRAA, 2009)

- The PCs faces difficulties in getting Agricultural Produce Marketing Committee (APMC) licenses for processing and trading due to the reason that the traditional cooperatives already having licenses in many places. DSC (2007) reported that as per the present fertilizer licensing policy, the “Principal Certificate” can only be given to the cooperatives and no provisions in the by-laws to provide such licenses to producer companies.
- Producer company provisions are not in tune with the general framework for companies with limited liability in terms of restrictions of transfer of shares and thus the denial of exit opportunity, absence of competitive market for corporate control and the very existing platform for infeasibility of imposing Corporate Governance Regime
- A weak position in terms of competing with the existing market, negotiating prices, volumes and delivery terms was found due to dependency for marketing on a few select buyers, rather than alternative parallel channel to market.
- In organic certification, costs and establishment of internal control systems are a major challenge faced due to the costs and risks entailed in technical support and monitoring.

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