

Management of Farmer Producer Companies (FPCs) - Issues and Challenges

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Abstract

The concept of FPOs or collectivization of farmers is not a new thing to the Indian Agriculture Sector. We experienced cooperative movement for more than 100 years. However, the cooperative could not achieve greater success on account of inherent limitations. Hence, a new generation of FPOs registered under Companies Act came up in the year 2002 on the recommendations of Prof. Y K Alagh Committee. Farmer Producer Company (FPC) a legal institution, registered under Company Amendment Act 2002 (1 of 2003) or also called Producer Company Act 2002 is emerging as the most effective means of Farmer Producer Organization (FPO) to cater to the needs of farmers at the grassroots level. This paper explains the concept of FPCs, their salient features, objectives, legal provisions along with steps to form and run FPCs. It also explains the powers and functions of Board Members, CEOs and other officer bearers and describes the status of FPCs in India with the schemes of Govt. of India which support FPCs in the country.

Keywords: Farmers Producer Organizations, Farmers Producer Companies, FPOs, FPCs, India

Introduction

Agriculture plays an important role for the source of livelihood about 58% of India's population. According to the India Brand Equity Foundation (IBEF), Gross Value Added by agriculture, forestry, and fishing is estimated at Rs. 19.48 lakh crore (US\$ 276.37 billion) in FY20.

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Currently, Agriculture sector contributes nearly 14 percent of total GDP. As per the Agricultural Census, 2015-16, the proportion of small and marginal farmers grew from 84.9% to 86.2%, while the total number of operational holdings grew from 138 million to 146 million. However, the total area under farming, fell from 159.6 million hectares in 2010-11 to 157.14 million hectares. This is due to the existence of a large number of small and marginal farmers, close to 126 million. Further, these 126 million farmers together owned about 74.4 million hectares of land or an average holding of just 0.6 hectares each-not enough to produce surpluses which can financially sustain their families, explaining the rising distress in Indian agriculture. Between 2010-11 and 2015-16, the number of small and marginal farms rose by about 9 million. For all farmers put together, the size of average land holding declined from 1.15 hectares in 2010-11 to 1.08 hectares in 2015-16.

"The rise in the number of small and marginal farmers signifies that the rest of the economy is unable to absorb the surplus. According to Ashok Gulati, an agriculture chair professor at New Delhi-based Indian Council for Research in International Economic Relations. India has to live with its small-sized farms for the next two decades and the way out is to provide them access to the best technology and markets, the way China did it,"

State-wise data from the survey showed that Uttar Pradesh accounted for the largest number of operational holdings or farmers at 23.8 million followed by Bihar (16.4 million) and Maharashtra (14.7 million). Among operated or farmed areas, Rajasthan topped the list with 20.9 million hectares, followed by Maharashtra (19.9 million hectares) and Uttar Pradesh (17.45 million hectares). The survey also showed that the proportion of farms that are operated by women rose from 12.8% in 2010-11 to 13.9% in 2015-16, signifying that more women are managing farm operations.

Concept of FPO:

FPO is a formal organization registered under an Act or an authority, where the members are only from farming activities. Farmers Producers Organization are expected to provide end-to-end support and services to the small farmers, and cover technical services, marketing, processing, and others aspects of cultivation inputs.

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The idea behind the Farmer Producer Organizations (FPO) was that "Farmers, who are the producers of their agricultural products, can form the groups and can register themselves under the Indian Companies Act".

The goal is to enhance the farmers' competitiveness and to increase their advantage in emerging the market opportunities. The major operations of Farmers Producer Organization (FPO) include the supply of seed, machinery, market linkages & fertilizer, training, networking, financial and technical advice.

The main aim of the Farmer Producer Organization is to ensure a better income for the producers through an organization of their own. Small producers do not have the volume individually to get the benefit of economies of scale. In agricultural marketing, there is a chain of intermediaries, who often work non-transparently leading to the situation, where producer receives only a small part of the value, which the ultimate consumer pays. This will be addressed in this new form of collectivization. Through accumulation, the primary producers can avail the benefit of the economies of scale. Farmers have better bargaining power in the form of bulk buyers of produce and bulk suppliers of inputs.

In the new scheme of promotion of 10,000 FPOs, priority is given for the formation of Farmer Producer Organization in aspirational districts with at least one FPO in each block of the aspirational districts.

What is FPC?

It is a legal institution, registered under Company Amendment Act 2002 (1 of 2003) or also called Producer Company Act 2002 is emerging as the most effective means of Farmer Producer Organization (FPO) to cater to the needs of farmers at the grassroots level. The new type is termed as 'Producer Company', to indicate that only certain categories of persons can participate in the ownership of such companies. Farmer Producer Company (FPC) is a means to bring together the small and marginal farmers and other small producers in the local communities to build their own business enterprise that will be managed by professionals.

A Holistic Concept:

1. FPC is an entity for, by and of producers - only primary producer can become member
2. Needs government funding - due to lack of capital, Govt. intervention is needed
3. FPC managed by professionals - in the form of Board of Directors
4. Producers are responsible for on farm activities - converge and aggregate for pooling their produce
5. Managed by professionals - with management background (CEOs)

FPC-Salient Features

1. FPC is hybrid between a joint stock company and a co-operative. Best practices from cooperatives and best practices from joint stock companies have been borrowed. It has the merits of both a company and co-operative organization

2. Any ten or more persons in any activity connected with primary produce, or any two or more producer institutions or companies as a combination of ten or more individuals or producer institutions Company shall be termed as limited and the liabilities of the members will be limited to the amount, if any unpaid on the shares
3. The capital is contributed by the equity contributed by the members in the form of share capital.
4. FPC provides statutory and regulatory framework that creates the potential to compete with other enterprise on competitive footing can form a FPC
5. Producer company is bound to comply legal provisions provided in the amended Companies Act 1956 (chapter IX A)

Objectives:

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. The following activities may be carried out by the members:

1. Production, harvesting, processing, procurement, grading, pooling, handling, marketing, selling, and export of primary produce of the members or import of goods or services for their benefit.
2. Manufacture, sale or supply of machinery, equipment or consumables mainly to its members
3. Promoting mutual assistance, welfare measures, financial services, insurance of producers or their primary produce;

FPC members are able to leverage collective strength and bargaining power to access financial and non-financial inputs and services and appropriate technologies leading to reduction in transaction costs. Members can also collectively tap high value markets and enter into partnerships with private entities on equitable terms.

Professionals take over all the risks and responsibilities of producers, other than on-farm activities

Legal Provisions Governing the Farmer Producer Companies

Formation of Producer Company and its Registration

Section 581C of the Act provides that, any ten or more individuals, each of them being a producer or two or more producer institutions or a combination of ten or more individuals and producer institutions, desirous of forming a producer company may form an incorporated company. The objectives of such producer company may be framed as specified in Section 581B as Producer Company under this Act after complying with the requirements and the provisions of the Act in respect of registration. However, with five or ten members under Indian Conditions, it may not be enough to achieve the scale. Hence, Government of India has recommended mobilization of at least 500 farmers in its scheme for promotion of 10,000 FPOs.

Steps of Forming Producer Company:

Registration: The documents required:

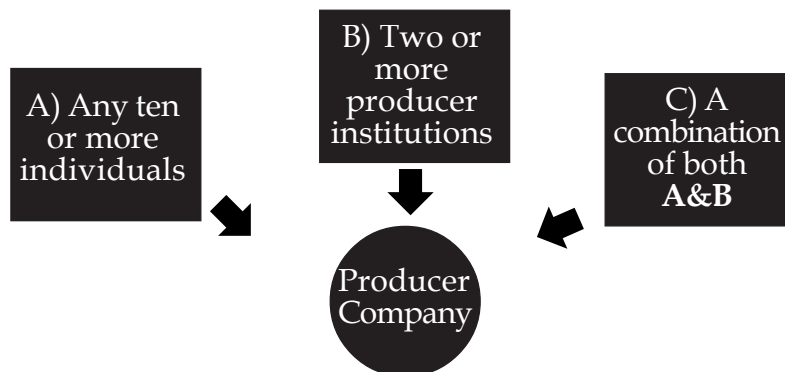
1. Application of pan card for the individual farmer members and farmers institutes members
2. Digital signature certificate for at least on Director
3. Director Identification number (DIN)
4. Naming of a producer company
5. Preparation of Memorandum and Articles of Association

The Registrar on being satisfied that all requirements relating to registration and incidental matters have been complied with shall register the memorandum, articles and other documents and issue a certificate of incorporation within 30 days of the receipt of the documents for registration. On registration, the Producer Company shall be deemed to be a private company limited by shares without any limit on the number of members.

Who can start?

There are three ways to start enrolment of membership

1. Any ten or more individuals can come together & form FPC
2. Two or more producer institutions come together and form FPC
3. A combination of both can be registered into FPC



Note: All the members of a producer company should be involved in agriculture.

Advantages

1. Organized operations and greater flexibility
2. No painstaking registration process
3. No physical presence required
4. No requirement of a minimum paid-up capital
5. Tax benefits under section 12AA and 80G of the Income Tax Act
6. Any partnership firm can be a member of its individual capacity and obtain directorship

Basic Requirements for Incorporation

- A person engaged in production of primary produce can become member of FPC.
- For incorporating a Producer Company, minimum 5 Directors and 10 members are required.
- There is no minimum paid up capital prescribed for formation of the company.
- The registered office address has to be situated in India.

Memorandum of Association (MoA)

MoA helps to understand the nature of company and its relationship with external environment MOA consists of the following information. - Name Clause - Should end with "Producer Company Limited" - Situation Clause - Object Clause - Liability Clause - Capital Clause - Subscriber Clause - Subscriber who shall act as Directors - Territories the objects extend.

Articles of Association

AOA will provide the information regarding, who can be a member, their voting rights, appointment of Directors, CEO and chairman their duties and responsibilities, tenure in office and rotation and reappointment, usage of surplus funds in the company, relationship with other producer companies and institutions. The AOA also has the procedure for transferability of shares, cancellation of membership; ascertain who is an active member, allotment of shares, the credit, loans or advances which may be granted to a Member and the conditions for the grant of the same. The members can also include any other condition by passing a special resolution.

Voting Rights

Section 581Z states that except as provided in Section 581D(1) (regarding voting rights of individual members and Producer Institutions), and 581D(3)

(regarding voting rights to active members), every member of the Producer Company shall have one vote irrespective of the number of shares held by him. In the case of equality of votes, the Chairman or the person presiding over the meeting shall have a casting vote, except in the matter of election of the Chairman.

General Meetings

- Mandatory every year - gap of not more than 15 months between two AGMs extension can be given by Registrar of Companies (ROC) (except for 1st AGM) - not more than 3 months
- First AGM - within 90 days from incorporation
- Resolution - Ordinary and Special Ordinary - simple majority Special - 3 / 4th of the Members present and voting

Dispute Settlement

As per section 581ZO of the Companies Act, any dispute between the Directors or members or a combination of Both or another stakeholder of the company with such producer company shall be resolved only through conciliation or by arbitration as provided under the Arbitration and Conciliation Act, 1996 (26 of 1996)

Notice for AGM

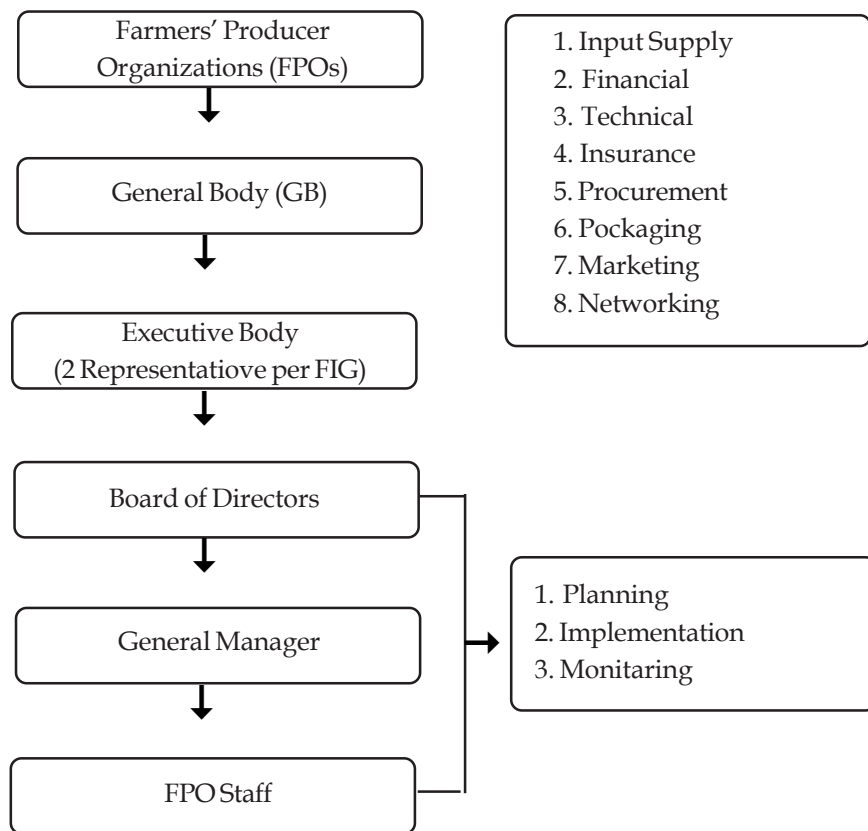
- AGM notice should be given in not less than 14 days prior notice
- AGM notice should be given during business hours on a day other than public holiday - at registered office or any place in city / town / village where registered office is situated
- AGM notice should contain contents of notice - date , time and place of Addressed to - every member & audit

Quorum of the General Meeting

Section 581Y of the Act provides that unless Articles of Association require a larger number, one fourth of the total membership shall constitute the quorum at a general meeting.

Management of FPC

- Every FPC is to have five or not more than fifteen Directors
- A full time chief Executive is to be appointed by the Board
- He shall be an ex-officio Director and will not be liable to retire by rotation
- Shall be entrusted with substantial powers of management as the board may determine



Powers and Functions of Board

The Board of Directors of a Producer Company shall exercise all such powers and do all such acts and things, as a Producer Company is authorized so to do. [Section 581R (1)] However, in terms of the provisions of Section 581R (2), the Board of Directors may exercise the following powers without prejudice to the generality of the foregoing powers:

- a) Determination of the dividend payable;
- b) Determination of the quantum of withheld price and recommend patronage to be approved at general meeting;
- c) Admission of new Members;
- d) Pursue and formulate the organizational policy, objectives, establish specific long-term and annual objectives, and approve corporate strategies and financial plans;
- e) Appointment of a Chief Executive and such other officers of the Producer Company, as may be specified in the Articles; Exercise superintendence, direction and control over Chief Executive and other officers appointed by it;
- f) cause proper books of account to be maintained; prepare annual accounts to be placed before the annual general meeting with the auditor's report and the replies on qualifications, if any, made by the auditors;
- g) Acquisition or disposal of property of the Producer Company in its ordinary course of business. Investment of funds of the Producer Company in the ordinary course of its business;
- h) Sanction any loan or advance, in connection with the business activities of the Producer Company to any Member, not being a director or his relative. Take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.

All the above powers can be exercised only by means of a resolution passed by the Board at its meeting on behalf of the Producer Company.

Chief Executive and His Functions

As per Section 581W, a full time Chief Executive shall be appointed by the Board by whatever name called who, shall not be a member of the company. He shall be the ex-officio director, and shall not retire by rotation. The qualifications, experience and the terms and conditions shall be such as may be determined by the Board. The Chief Executive, who shall be entrusted with substantial powers of the management, shall manage the affairs of the Producer Company but subject to the superintendence, direction and control of the Board and be accountable to the Board for the performance of the Producer Company. The various functions that may be discharged by a chief executive may inter alia include managing the day to day affairs of the company, maintaining proper books of accounts, furnishing members with periodic information, assisting the Board with respect to legal and regulatory matters making appointments and discharge of such other functions as may be delegated by the Board.

Secretary of Producer Company

Section 581X of the Act provides that every Producer Company having an average annual turnover exceeding five crore rupees in each of three consecutive financial years shall appoint a member of the Institute of Company Secretaries of India as a whole-time Secretary of the company. If a Producer Company fails to appoint Company Secretary, the company and every officer of the company who is in default, shall be punishable with fine which may extend to five hundred rupees for every day during which the default continues. However, in any proceedings against a person in respect of an offence for failure to appoint a Company Secretary, it shall be a defence to prove that all reasonable efforts were taken to comply with the provisions or that the financial position of the company was such that it was beyond its capacity to appoint a whole-time secretary.

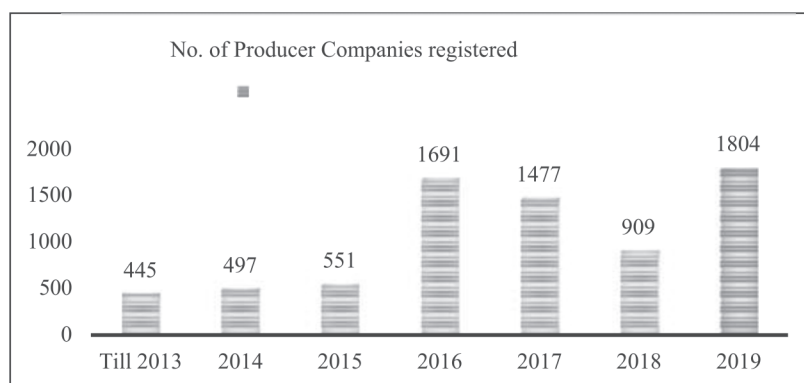
Members' Benefit

1. Members will initially receive only such value for the produce or products pooled and supplied as the directors may determine.
2. The withheld amount may be disbursed later either in cash or in kind or by allotment of equity shares.
3. Members will be eligible to receive bonus for shares
4. There is a provision for the distribution of patronage bonus (akin to dividend) after the annual accounts are approved - patronage bonus means payment out of surplus income to members in proportion to their respective patronage (not shareholding).

Status of FPCs in India

As mentioned earlier, the producer company amendment to the Companies Act was approved by the President of India on Dec 31, 2002, and came into effect in January 2003. Therefore, we collected data on all producer companies registered between Jan 1, 2003 and March 31, 2019.

S. No.	Year	No. of Producer Companies registered	% change over previous year
1.	Till 2013	445	-
2.	2014	497	11.69
3.	2015	551	10.87
4.	2016	1691	206.90
5.	2017	1477	-12.66
6.	2018	909	-38.46
7.	2019	1804	98.46
Total		7374	



State wise No. of FPCs registered in India

The very first company registered as a producer company in India was 'Farmers Honey Bee India Producer Company Ltd.', which was registered on June 6, 2003 in Chandigarh. Another four companies were subsequently registered in FY04 (i.e. between Apr 1, 2003 and Mar 31, 2004), bringing the total of producer companies to 5 in the first financial year after notification of the amendment.

No. of Registered FPCs	7374
Coverage	4.3 Million small farmers
average number of shareholders	582 per PC
Total paid-up capital across all 'active' PCs	Rs.844 crore (20 PCs contribute > 50% of total PUC)
PCs with > Rs.10 Lakh PUC	14 %
PCs with < Rs.1 lakh PUC	49 %
farm-based FPCs	92 %
Women led FPCs	3 %
50 per cent of PCs	In 4 states
PCs with < 3 yrs age	79 %

Producer companies have been registered in 33 out of 36 states and union territories in India. Maharashtra has more number of producer companies

(1940), which is more than the next three states combined. Four states, namely, Maharashtra, Uttar Pradesh, Tamil Nadu and Madhya Pradesh account for about half the producer companies registered until March 31, 2019

State / UT	PCs registered	% of PCs
Maharashtra	1940	26%
Uttar Pradesh	750	10%
Tamil Nadu	528	7%
Madhya Pradesh	458	6%
Telangana	420	6%
Rajasthan	373	5%
Karnataka	367	5%
Odisha	363	5%
Bihar	303	4%
Haryana	300	4%
West Bengal	274	4%
Andhra Pradesh	238	3%
Kerala	215	3%
Gujarat	183	2%
Jharkhand	133	2%
Chhattisgarh	114	2%
Assam	112	2%
Delhi	57	1%
Punjab	56	1%
Uttarkhand	37	1%
Manipur	30	<1%
Himachal Pradesh	22	<1%
Others	101	1%
Total	7374	100%

Top 20 districts with largest No. of FPCs

As mentioned earlier, we mapped all producer companies to 640 districts per Census of India 2011. The average number of PCs per district is 11.5 while the median is 7.

The top 20 districts with the most number of PCs have a combined total of 1688 producer companies, constituting nearly one-fourth of all producer companies in the country. Not surprisingly, out of these top 20 districts, 16 are in Maharashtra.

State	District	Number of PCs
Maharashtra	Pune	185
Maharashtra	Ahmadnagar	162
Maharashtra	Nashik	136
Maharashtra	Latur	133
Maharashtra	Aurangabad	119
Maharashtra	Osmanabad	88
Maharashtra	Amravati	81
Maharashtra	Bid	74
Uttar Pradesh	Lucknow	72
Maharashtra	Buldana	68
Andhra Pradesh	Warangal	64
Maharashtra	Jalna	63
Maharashtra	Solapur	62
Andhra Pradesh	Mahabubnagar	61
Maharashtra	Jalgaon	60
Maharashtra	Sangli	56
Maharashtra	Yavatmal	52
Andhra Pradesh	Medak	51
Maharashtra	Nagpur	51
Maharashtra	Kolhapur	50
Total		1688

Problems encountered in the management of FPCs

Mobilization of farmers: -

Mobilization of farmers into a group and holding them in collective way is a challenging task. Even though, the promoters succeed in group formation, often these groups' members are reluctant to contribute share capital and thus suffer from lack of working capital.

Problems related to financing: -

As Farmer Producer Organizations are not having anything other than farmer member's equity to leverage borrowings, it's very difficult for any banking system to provide them capital in huge amounts. Two main challenges in financing FPOs face in accessing credit from Financial Institutions are low equity capital through mobilization of farmers and lack of tangible security and physical assets.

Lack of/ Inadequate Professional Management

Farmers' Organizations are required to be efficiently managed by experienced, trained and professionally qualified CEO and other personnel under the supervision and control of democratically-elected Boards of Directors. However, such trained manpower is presently not available in the rural space to manage FPO business professionally.

Lack of Risk Mitigation Mechanism

Presently, while the risks related to production at farmers' level are partly covered under the existing crop / livestock / other insurance schemes, there is no provision to cover business risks of FPOs.

Inadequate Access to Market

Marketing of produce at remunerative prices is the most critical requirement for the success of FPOs. The input prices are largely fixed by corporate producers. There are more market opportunities; if FPOs 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 FPOs.

Inadequate Access to Infrastructure

The producers' collectives 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. Further, in most of the commercial farming models, the primary producers are generally excluded from the value chain.

Lack of technical Skills/ Awareness

Inadequate awareness among the farmers about the potential benefits of collectivization & non availability of competent agency for providing handholding support. Further, lack of legal and technical knowledge about various Acts and Regulations related to formation of FPOs and statutory compliances thereafter.

To overcome the management issues faced by the FPOs, the following schemes are initiated by Government of India:

1. Promotion of 10,000 FPOs
2. Equity Grant Scheme
3. Venture Capital Assistance
4. Agri. Infrastructure Fund
5. MIDH Scheme
6. Scheme of Ministry of Food Processing
7. Scheme of APEDA
8. Various State Govt. Schemes
9. E-NAM scheme

Conclusion

Farmer Producer Organizations help small and medium farmers of India as registered FPCs or Co-operatives.. But they do have certain limitations related to finance and managerial skills like negotiation and leadership, so necessary steps should be taken by NBFC and by entrepreneurship development institute to overcome both the issues respectively. Other than this, Board of Directors of FPOs should also be trained in how to prepare a business plan.

Promoting Institutes should involve themselves more and more with FPOs 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. By using different extension techniques, if FPOs can teach their farmers about Good Agricultural Practices (GAP) and time to time update them with latest technologies and researches related to agriculture and allied sciences which can help them producing crops in efficient and effective way. At the end, if we really talk about ground reality, Government of India does not actively promote these FPOs and leaves their setup to resource institution like NGOs present in that area. So, help from policy making institute like SFAC will be advantageous to farming community especially to small farmers.

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