JUST AGRICULTURE
multidisciplinary e-Newsletter

Farmer producer organisations – A game changer for farmers

Soni Solaman
Department of Co-operative Management,
College of Co-operation, Banking and Management,
Kerala Agricultural University, Thrissur (Kerala), India
Corresponding author: sonisolaman1@gmail.com

ARTICLE ID: 049

"Farmer Producer Organisations provides an institutional support for small farmers and ensures stable income for their farm produce and in turn ensures a better standard of living for them. The basic purpose of a Producer Organisation is to collectivise the farmers for backward linkages such as inputs, credit, insurance, extension services and knowledge and for forward linkages such as collective marketing, processing, market led agriculture production etc. Thus it facilitates to reduce the miserable conditions like crop loss, low price and indebtedness of poor peasants. The expected result of this effort is to provide a single window for farmers to increase their income from farm produce through direct marketing and to gain collective bargaining power."

Introduction

A Producer Organisation (PO) is a legal entity formed by primary producers, viz, farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. A PO can be a producer company, a co-operative society or any legal form which provides for sharing profit/benefits among the members. In some forms like producer companies, institutions of primary producers can also become member of PO. The main aim of PO is to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value that the ultimate consumer pays. Through aggregation, the primary producers can avail the benefit of economies of scale. They will also have better bargaining power viz; the bulk buyers of produce and bulk suppliers of inputs.

JUST AGRICULTURE
multidisciplinary e-Newsletter

The PO is an organization of the primary producers. If the produces are non-farm items (handloom or handicraft), then the PO will be that of non-farmers. The objective of the PO is to ensure better income realization to its members who are producers through aggregation and if feasible, value addition.

Keywords: Producer Organisation (PO), Producer Organisation Promoting Institution (POPI), Producer Company, National Bank for Agriculture and Rural Development (NABARD), Small Farmers Agribusiness Consortium (SFAC).

Essential features of Producer Organisation (PO)

a) It is formed by a group of producers for either farm or non-farm activities.
b) It is a registered body and a legal entity.
c) Producers are shareholders in the organization.
d) It deals with business activities related to the primary produce/product.
e) It works for the benefit of the member producers.
f) A part of the profit is shared amongst the producers.
g) Rest of the surplus is added to its owned funds for business expansion.
h) Ownership control is always with members and management is through the representatives of the members.

Promotion of Producer Organisation (PO)

Any individual or institution can promote a PO. Individual person or institutions may promote PO using their own resources out of goodwill or with the noble objective of socio-economic development of producers. If, however, the facilitating agency wishes to seek financial and other support, then they have to meet the requirements of the donor/financing agency. National Bank for Agriculture and Rural Development (NABARD), Small Farmers Agribusiness Consortium (SFAC), Government departments, Corporate and Domestic & International Aid Agencies provide financial and/or technical support to the Producer Organisation Promoting Institution (POPI) and hand-holding of the PO. Each agency has its own criteria for selecting the project/promoting institution to support.

JUST AGRICULTURE
multidisciplinary e-Newsletter

Legal forms of Producer Organisation (PO)

Producer Organisation can be registered under any of the following legal provisions:

a) Co-operative Societies Act/ Autonomous or Mutually Aided Co-operative Societies Act of the respective state.
b) Multi –State Co-operative Society Act, 2002.
c) Producer Company under new part IXA in the Indian Companies Act, 1956, as amended in 2002 by Government.
d) Producer Company under Section 581(C) of Indian Companies Act, 1956, as amended in 2013.
e) Societies registered under Society Registration Act, 1860.
f) Public Trusts registered under Indian Trust Act, 1882

Institutions registered as co-operative societies and producer companies have legal provisions for sharing of profit earned by the PO by way of dividend. Other legal forms do not explicitly provide for profit sharing. However, the PO can offer better price for the produce it procures from the members, thus benefitting the latter. Similarly, it can procure inputs/raw material in bulk and sell to members with low margin. Such activities are permissible for POs under all legal forms.

Important factors should be considered while facilitating the formation of PO

a) Types of small scale producers in the target area, volume of production, socio-economic status and marketing arrangements.
b) Sufficient demand in the existing market to absorb the additional production without significantly affecting the prices
c) Willingness of producers to invest and adopt new technology, if identified, to increase productivity or quality of produce.
d) Challenges in the market chain and market environment.
e) Vulnerability of the market to shocks, trends and seasonality.
f) Previous experience of collective action (of any kind) in the community.
g) Key commodities, processed products or semi-finished goods demanded by major retailers or processing companies in the surrounding areas/districts.

JUST AGRICULTURE
multidisciplinary e-Newsletter

h) Support from Government departments, NGOs, specialist support agencies and private companies for enterprise development.
i) Incentives for members (also disincentives) for joining the PO.

Producer Organisation Promoting Institution (POPI)

An NGO, a bank branch, a Government department, a Co-operative Society or any association or federation can become a POPI. Basically, the POPI needs to be a legal entity so that it can enter into legally valid contracts with other institutions including the PO which they seek to promote. Support is available for POPIs from SFAC and NABARD for meeting part of the recurring cost incurred for promotion of the PO based on individual project considerations.

The primary responsibility of POPI is to see that the PO reaches sustainable level of business and the staff of the PO acquire technical and managerial capability to run the business successfully when the POPI withdraws its support. The principal role of the POPI is, therefore, to build the capabilities of the staff and management of the PO through training and continuous hand-holding. The board responsibilities of POPI are indicated below;

a) Cluster identification
b) Diagnostic and Feasibility studies
c) Business planning
d) Mobilization of producers and registration/incorporation of PO
e) Resource mobilization
f) Development of management systems and procedures
g) Business operations
h) Assessment and audit

Support available for PO from Small Farmers Agribusiness Consortium(SFAC)

Mainly two types of support is available to the POs from SFAC,

a) SFAC operates a Credit Guarantee Fund to mitigate credit risks of financial institutions which lend to the Farmers Producer Companies (registered as Producer Companies under part IX – A of Companies Act) without collateral. This helps the

FPCs (one form of PO) to access credit from mainstream financial institutions for establishing and operating businesses.

b) SFAC provides matching equity grant up to Rs. 10 lakh to the FPCs to enhance borrowing power, and thus enables the entities to access bank finance.

Support available for PO from National Bank for Agriculture and Rural Development

NABARD provides financial support to the POs only through project mode through two financial products. A fund titled "Producer Organisation Development Fund" and Upliftment Corpus (PRODUCE) fund has been created by NABARD towards this end.

a) Lending to the POs for contribution towards share capital on matching basis (1:1 ratio) to enable the PO to access higher credit from banks. This is a loan without collateral which will have to be repaid by the PO after specified time. The maximum amount of such assistance is Rs. 25 lakh per PO with a cap of Rs. 25000 per member.
b) Credit support against collateral security for business operations. Also credit support without collateral security for business operations to FPCs which are eligible under Credit Guarantee scheme of SFAC. The credit product can be customized as per requirement of the business. In general, credit support is available for business activities and creation of assets like building, machinery, equipment, specially designed vehicles for transportation etc. and/or working capital requirements including administrative and other recurring costs connected with the project as composite loan. Capital expenditure like purchase of land, vehicles for general transportation and personal use etc., will not be considered for support.
c) NABARD also provides technical, managerial and financial support for hand holding, capacity building and market intervention efforts of the PO. Such support is available in the form of grant, loans or a combination of the two based on the need of the situation and is available only to those POs which avail credit form NABARD. Grant, if any, will be maximum 20% of the loan amount.
d) NABARD also provides support to the POs to access market for their produce.
e) NABARD provides incentives for the POPI for taking care of the PO within the overall ceiling of 20% grant support to the PO.

Support available for PO from Government of India

Government of India provides budgetary support to SFAC for its Equity Grant and Credit Guarantee Fund Scheme for the Farmer Producer Company. For creation of storage and other agricultural marketing infrastructure under the integrated scheme for Agricultural Marketing (Ministry of Agriculture, Government of India), FPOs are eligible to get higher subsidies. CAPART, Ministry of Rural Development also operates schemes through which support for some activities can be obtained by the PO. Training institutions supported by the Ministry of Rural Development, Government of India also impart skill and capacity building training which can be made use of by the PO for its members.

Producer Organisation registered as Producer Company

Producer Company means a body corporate registered under amended Companies Act, 1956. In a Producer Company, only primary producers or POs can become members. Membership is acquired by purchase of shares in a Producer Company. Since the members create the company and members can also wind up the company, Producer Company can act only through its members. The members act through their general meetings. Every Producer Company name should be unique and end with "Producer Company Limited" which indicates its status as Producer Company. And also it may be named in such a way that it inspires the entire membership and is to be indicative of the objectives of the company. It may take 2 to 6 months time for registration of a Producer Company and an estimated cost of Rs. 40,000 approximately for registration, depends on the fee charged by CA, Company Secretary and authorized agents etc. Initially the promoters of the company (POPI or initial directors) bear the cost of registration and it may be reimbursed to the promoters dully approved by its general body in its first meeting with a resolution passed to that effect.

Advantages of a Producer Company

a) A PC is a hybrid between a Private Limited Company and a Co-operative Society, thus enjoying the benefits of professional management of a Private Limited Companyas well as mutual benefits derived from a co-operative society.
b) Ownership and membership of a PC is held only by "primary producers" or "producer institutions" and members' equity cannot be traded. Hence nobody can take over the company or deprive the primary producers of their organization.

c) The clauses of Private Limited Company shall be applicable to the PCs except the clauses specified in PC Act from 581-A TO 581-ZL which make it different from a normal private or limited company. This enables a professional frame work for a PC.

d) The liability of the members is limited to the unpaid amount of the shares held by them. Hence, the private assets of the members are safe from company losses.

e) The minimum paid up capital being Rs. 1 lakh and minimum authorized capital being Rs. 5 lakh for a PC, it is easy to mobilize the small amount.

f) Minimum number of producers required to form a PC is 10 while there is no limit for maximum number of members and the membership can be increased as per feasibility and need. This helps even 10 individuals start a PC which is easy.

g) There cannot be any government or private equity stake in the PCs which implies that PC cannot become a public or deemed public limited company. Hence any government or other corporate threats is non-existent in professionalfunctioning of the company.

h) The area of operation for a PC is the entire country giving flexibility to expand and do business in a free and professional manner.

Current trends and patterns of Farmer Producer Organisation in India

As on 31st March 2019, there were 2,083 FPOs supported by NABARD and 551 supported by SFAC in India. NABARD promoted FPOs through producer organization upliftment fund (Rs. 200 crores) since 2008-09.

FPOs supported by SFACs in India

States	Number of FPCs
Kerala	108
Karnataka	113
West Bengal	101

Source: www.sfac.india, 2019 report

State wise distribution of number of FPOs (>150) in India supported by NABARD

States	Number of FPCs
Karnataka	187
Tamil Nadu	170

Madhya Pradesh	160
West Bengal	150

Source: www.nabard.org, 2019 annual report

Most of the FPOs supported by NABARD are company (71%), followed by co-operatives (22%) and trust (7%). Irrespective of the complexities in establishing and running Farmer Producer Companies, large number of FPOs in the legal status could be due to the policies and support provided to encourage FPOs as FPCs. These are seen as major institutional innovation in agriculture for empowerment of farmers through collectives. In many states like Maharashtra, the responsibility to establish FPCs is given to line department of agriculture with Project Director, Agricultural Technology Management Agency (ATMA) at district level. Moreover, for the activities for which large finance is required, farmers see establishing FPC as opportunity to get finance from NABARD to start big processing units which otherwise would not have been possible for individual farmers.

Conclusion

Producer Organisations provide a legal institutional frame work for the farmers to market their produce directly to the customers without the clutches of middleman. The ultimate aim of these organisations is to ensure the betterment of farmers in terms of income and standard of living. Farmers can be ensured remunerative price for their products through stable income from these organizations. It helps farmers to overcome the impact of crop loss, disasters, climatic changes etc. Apart from single window direct selling opportunity, farmers will get extension services, inputs and other benefits at a subsidized rate with the help of NABARD and SFAC. Thus Government of India is providing a national level institutional support to poorer farmers through the effective interventions of Farmer Producer Organisations (FPO).