Azim Premji University

Farmer Producer Companies

Past, Present and Future

Richa Govil
Annapurna Neti
Madhushree R. Rao

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Richa Govil
Annapurna Neti
Madhushree R. Rao

Azim Premji University
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Preface

I am really excited about the release of the findings of the extensive research on Farmer Producer Companies (FPCs) conducted by Professors Richa Govil and Annapurna Neti of Azim Premji University, ably assisted by Madhushree Rao.

We at SRIJAN set up and ran several Farmer Producer Organisations (FPOs), we thought pretty successfully - one FPO's annual turnover repeatedly touched five crore rupees transforming the local rural economy (a number of households own gas cylinders now), and another FPO innovated on processing a highly perishable fruit and ended up trebling the price which tribal women received from local traders. But one question remained: Were these going to be sustainable people-governed and people-managed institutions?

Government agencies such as NABARD and SFAC, too, asked us to make FPCs in new locations and geographies. We did so given our grassroots work on water and livelihoods. But, were these sound strategies?

The collaboration between SRIJAN and Azim Premji University started in 2017, when SRIJAN conducted a short workshop on FPOs for MA Development students at the university. Success of this collaboration led me to think about extending it further. Richa, Annapurna and I talked about a study on FPCs in light of our mutual interest in seeing FPOs succeed, and the fact that government agencies such as NABARD and SFAC were enabling formation of a large number of FPOs, the majority of which were being registered as FPCs. Much water had flown down the Ganges since the whole idea of FPCs was floated in 2002 as a new legal form of organising farmers under the Companies Act, arguably less cumbersome and with less government control (though with substantial government support), and was enthusiastically welcomed by the government and NGOs alike. Some questions needed to be revisited however in light of increasing compliance requirements, and more critically Goods and Services Tax (GST).

In hindsight, it was a good decision on the part of Azim Premji University and SRIJAN to have launched the study, and I sincerely hope that it will contribute to better policy formulation and implementation on the ground.

I complement Richa, Annapurna and Madhushree for coming out with practical, succinct recommendations.

Ved Arya
Founder, Self Reliant Initiatives through Joint Action (SRIJAN)
Founder and Director, Buddha Fellowship Program

Foreword

Scholarly work in the broad area of co-operative organisations in the non-financial sector has suffered in the recent times because of want of disaggregated data necessary for studying organisations that work on the principle of mutuality. There is a lot of talk and much discussion that goes on under the generic classification of Farmer Producer Organisations (FPOs), but we have to realise that an FPO could actually be incorporated as a co-operative society (and could federate under the same law), as a Mutually Aided Co-operative Society (in States that have passed a liberal co-operative law on the principles of mutuality) and as a Farmer Producer Company (FPC) under the Companies Act. However, under each of these buckets, there has been no data released by the State. RBI used to release the annual statistics of co-operatives under the series "Statistical Statements Relating to the Co-operative Movement in India" in two buckets: Credit Co-operatives and Non-Credit Co-operatives. After National Bank for Agriculture and Rural Development (NABARD) was carved out of the Agricultural Refinance division of the Reserve Bank of India, the data on non-credit cooperatives was published by NABARD for a few years and later discontinued. Multiple references have been made to the need for integrating the returns that the respective organisations file with their respective regulators, but data and numbers are just not available. Thus our understanding of this sector has been on the basis of patchwork consolidation done by organisations, sectoral studies, case studies of individual organisations and documentation of practices.

In this context, the work of Annapurna Neti and Richa Govil which uses publicly available (non-classified) data and brings together a comprehensive and authoritative document on one sub-set of the Farmer Producer Organisations – the Farmer Producer Companies is very welcome. This gives us the broad numbers of how these organisations have grown over the years, their geographical spread, investments in these organisations, their activity profile, etc. Putting together this data should not have required painstaking efforts, but should have been available as a base document in a portal on an annual basis – like banking statistics – so that scholars could use that as a starting point to do more incisive studies and help in policy formulation. However, the authors deserve all the credit for putting these numbers and classifications together so that it forms a base for future discussions that we may undertake on Producer Companies.

In addition to presenting to us the data on FPCs, the authors have provided some qualitative insights into how these organisations are managed, members' sense of ownership as well as the textured relationships that the members have with their organisations. Much of the co-operative literature in the past lamented on the interference by the State that vitiated the autonomy of co-operatives and the concept of mutuality. With more than 7,000 FPCs which are designed on the principle of mutuality, it provides a great base to examine what makes these organisations tick. Since the investment in these companies is completely member

driven, it is expected that the members would have a greater sense of ownership and stakes. However, the authors seem to suggest that the layered relation does not naturally make them believe that the members' stake result in a sense of ownership. This is an interesting insight that needs to be examined in greater detail. The role of the intervening organisations that help farmers set up these companies, needs to be examined as well.

I hope that recognizing the utility of this report, the government – particularly the Ministry of Corporate Affairs will make this data available in a searchable format and in a format that is available for consolidation. All that this would need is a good set of codes to be developed to classify the organisations into their functions, regions/geography, ownership etc. I also hope the organisations like NABARD with their increased focus on FPOs will pay attention to generating data and make it available to scholars. I am confident that this important work will form a base and provide insights for further work on producer companies by governments, NGOs and researchers.

I thank the authors for giving me the privilege of having a look at this report before its publication. I wish them well.

M.S. Sriram
Professor, Centre for Public Policy
Indian Institute of Management Bangalore

Executive Summary

The Producer Companies Act 2002 was pioneering in its vision of combining the principles of collective action with the structural benefits of a company. It was predicated on the belief that producer companies (PCs) would enable small producers to pool their resources and establish successful businesses which would improve their incomes and reduce risks in the long run. And, as member-based institutions, they would be inherently embedded in local communities and have the potential to become strong local institutions of marginalised producers.

Over the last 17 years, thousands of PCs have been registered in India, engaged in a wide range of activities such as bulk procurement of inputs, aggregation of produce, value-addition and marketing. We undertook a study of PCs in India to (i) analyse the characteristics of producer companies in India, (ii) investigate their strategic challenges, capitalisation, internal governance, regulation, and long-term potential, and (iii) recommend possible strategies for improving the viability of producer companies.

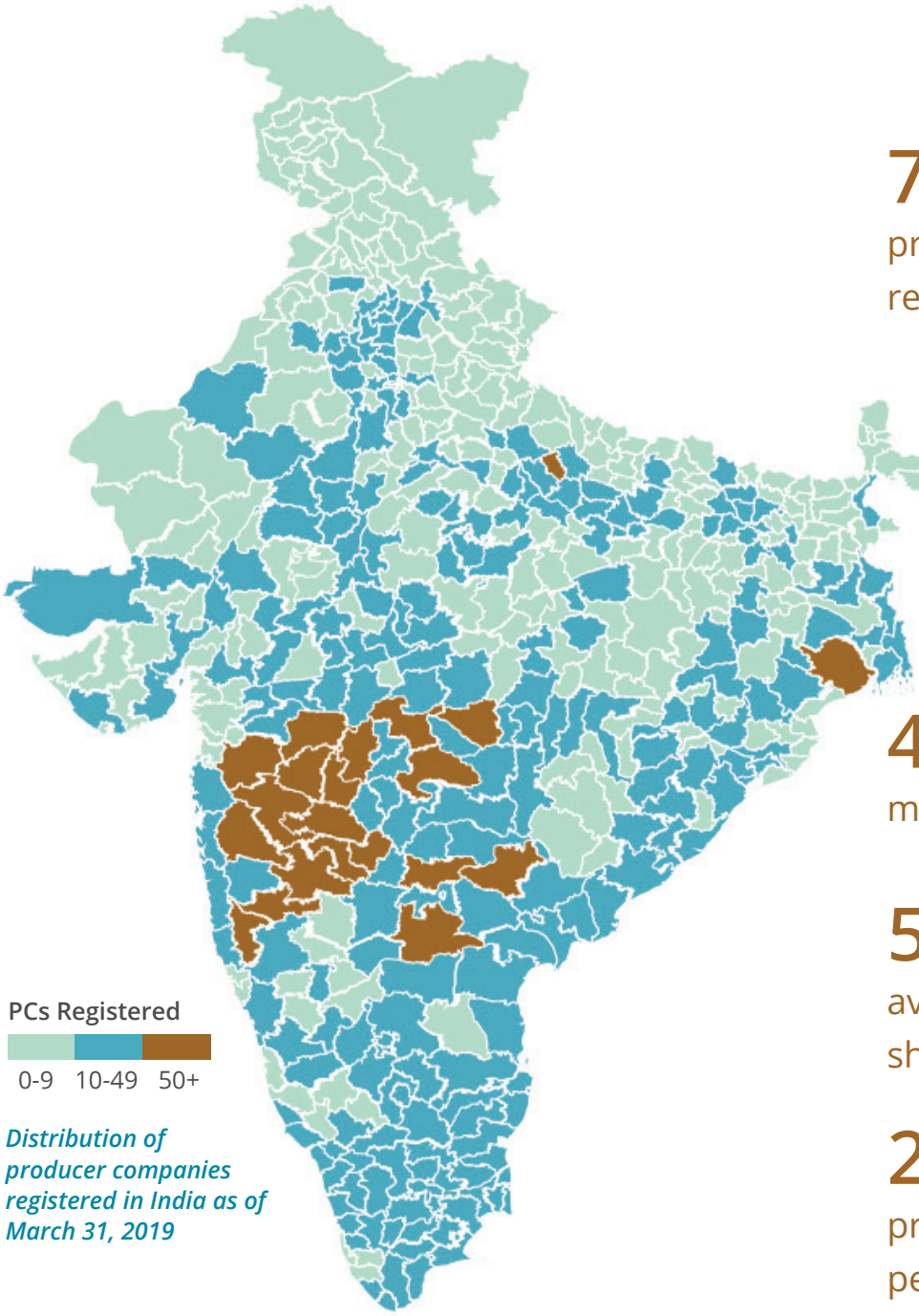
For this purpose, we constructed a comprehensive and robust dataset of all PCs registered in India up to March 31, 2019. We also conducted over 100 in-depth interviews of stakeholders involved in promoting and supporting PCs including farmer-shareholders, board of directors, CEOs and management of 24 PCs across 8 states as well as government and non-government organisations.

Producer companies face several challenges such as weak sense of ownership among producer-shareholders, undercapitalisation, inadequate business skills, poor governance and the lack of an enabling ecosystem. We found that these challenges are partly a result of incongruities in stakeholder imaginations of the purpose of producer companies.

In order to improve the likelihood of PCs' success, we recommend promoting them in a two-tier model comprising multiple supplier PCs and one market-facing company in each block or district (depending on the number of small producers). It is vital that supplier PCs and individual farmers own a significant stake in the market-facing company and have strong representation on its board to ensure alignment with interests of small producers. It is equally important for the market-facing company to be invested in the success of supplier PCs. It would also be advisable to simultaneously fund and develop a business ecosystem to support producer companies by encouraging local entrepreneurship for providing support services to PCs. Such an approach allows producer companies to attract greater capital and skilled talent, and generate higher turnover, profits and member loyalty.

Producer companies should be made explicitly eligible for government schemes available to individual farmers and their collectives. Policy-makers should further support producer companies' growth by simplifying compliance processes, instituting differential regulation, protecting the rights of vulnerable shareholders and enabling external investment through a different class of non-voting shares (with appropriate safeguards and limits). The geographical disparities in PC promotion should be addressed by promoting PCs in the most backward districts with the largest numbers of small producers.

Currently there are 7374 producer companies covering over 4.3 million small producers in the country. These numbers are expected to more than double over the next few years, covering almost 10% of all agricultural households in India. Strengthening the long-term viability of producer companies has the potential to improve the life and livelihoods of millions of small and marginal producers across the country.



Distribution of producer companies registered in India as of March 31, 2019

7374
producer companies registered

4.3 million
members estimated

582
average number of shareholders per PC

2.6
producer companies per 1 lakh farmers

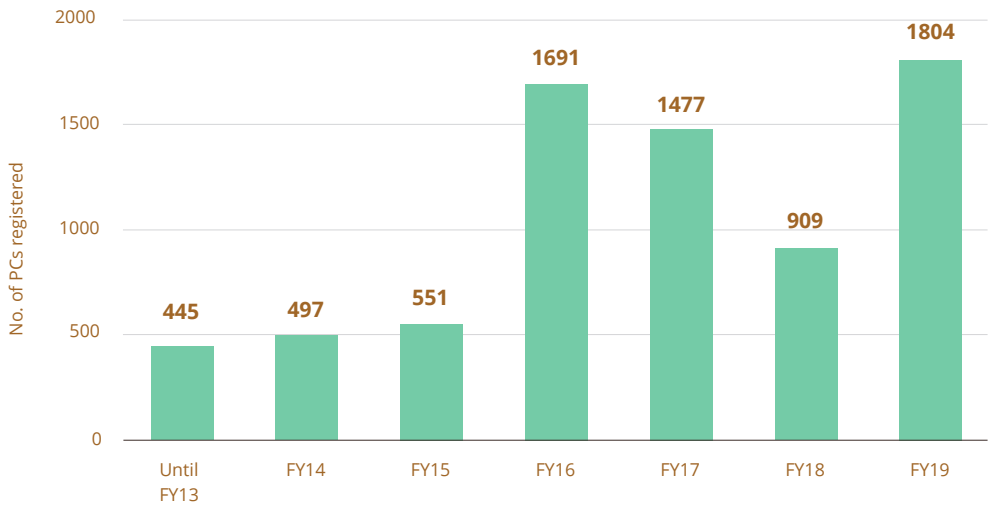
92%
farm-based

3%
with only women members

- ~50% of PCs are in just 4 states
- ~25% of PCs are in just 20 districts
- Pune has 185 PCs, the highest in India
- 32 districts have more than 1 lakh farmers but no PCs
- 79% of PCs are aged 3 years or less

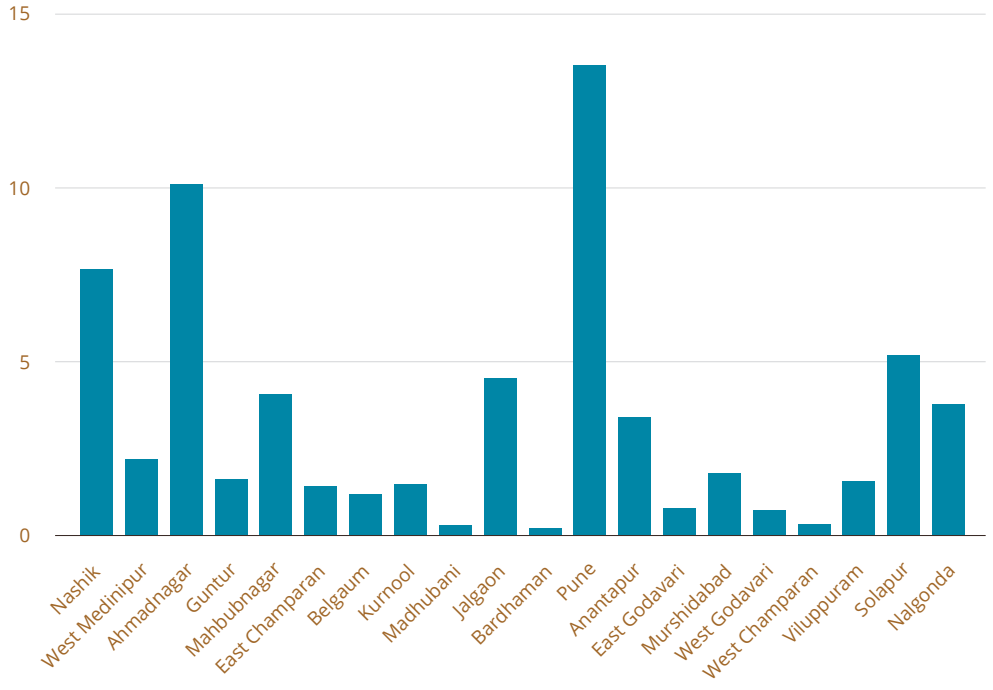
All data as of March 31, 2019; PC = producer company; PUC = paid-up capital; 'active' refers to PC registration status

Number of producer companies registered



Spike in new registrations in recent years coincides with central and state government schemes.

FPC density (number of FPCs per 100,000 agricultural workers), for top 20 districts with highest number of agricultural workers per Census 2011



Some districts with high number of agricultural workers have very few PCs.

Notes:

1. District location is per Census 2011 for comparison purposes (newly created districts have been mapped to Census 2011 districts)

2. Districts are shown in descending order of agricultural workers per Census 2011

3. FPC refers to PCs clearly identified as Farmer Producer Companies (92% of all PCs); excludes PCs which are non-farm or with unclear sectoral activities (see Chapter on 'Selected Categories of PCs' for more details)

All data as of March 31, 2019; PC = producer company; PUC = paid-up capital; 'active' refers to PC registration status

Distribution of producer companies by paid-up capital (PUC)

PUC category	No. of 'active' PCs	% of total
PUC ≥ 50 lakh	90	1.3%
PUC ≥ 25 and <50 lakh	87	1.3%
PUC ≥10 and <25 lakh	767	11.1%
PUC < 10 lakh	5982	86.4%
Of which:		
PUC ≥ 5 and < 10 lakh	1465	21.2%
PUC > 1 and < 5 lakh	1146	16.5%
PUC = 1 lakh	2680	38.7%
PUC < 1 lakh	691	10.0%
All categories	**6926**	**100.0%**

Only companies with active status
Percentages may not add up to 100% due to rounding

Only 14% of PCs have paid-up capital of ₹10 Lakh or more.

49% of PCs have paid-up capital of ₹1 lakh or less.

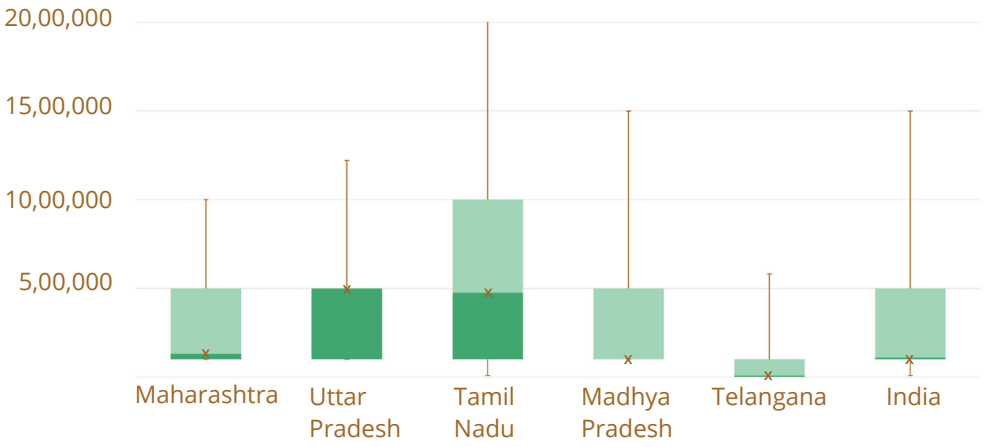
₹844 crore

Total paid-up capital across all 'active' PCs

₹1.1 lakh

Median paid-up capital of 'active' PCs

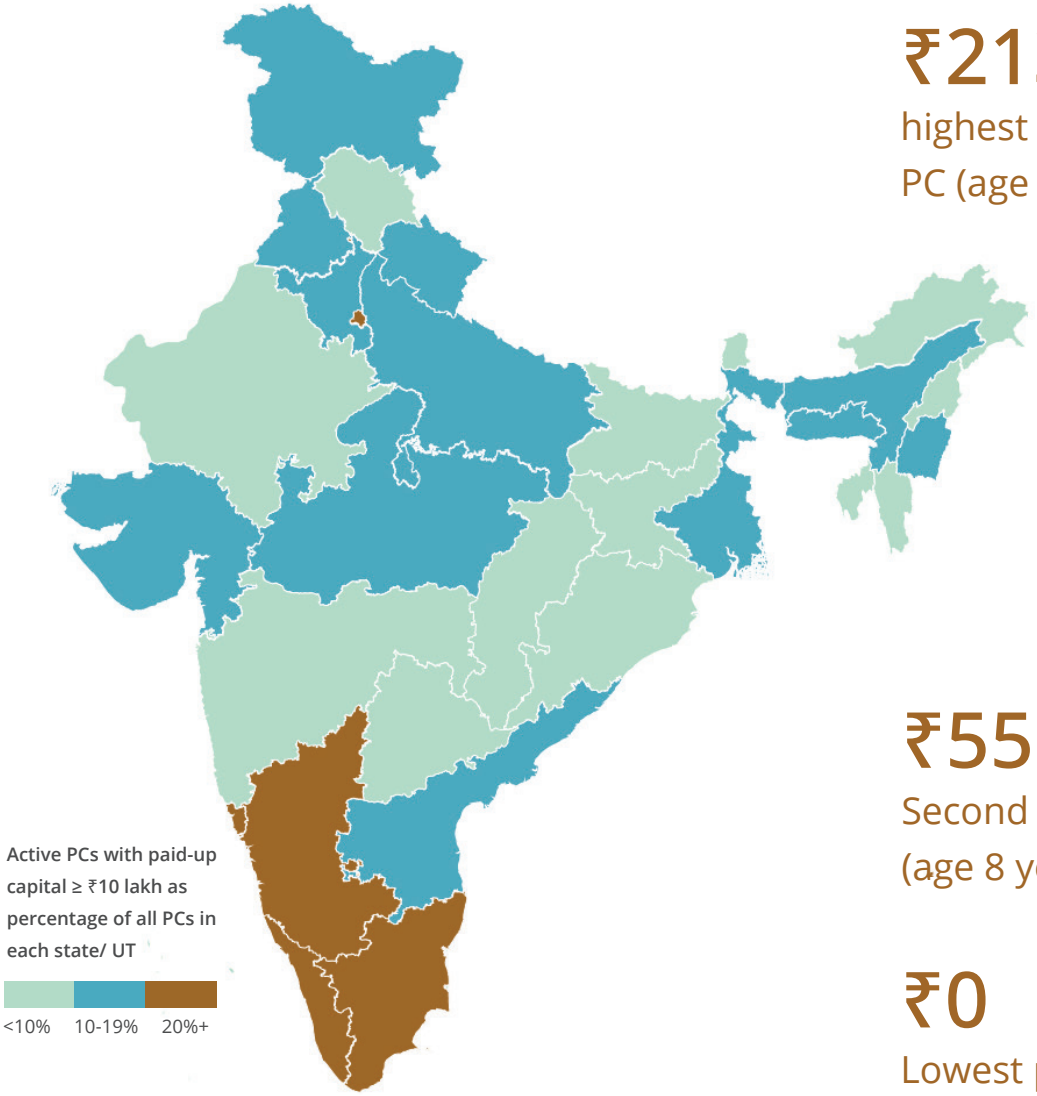
Distribution of PUC of PCs in top 5 states and all India (for active PCs only)



Note: The box extends from 25th to 75th percentile, while the 'whiskers' indicate extent of the 5th and 95th percentile. Line with an 'x' indicates median. 95th percentile for Tamil Nadu is at 20.5 lakh.

PUC does not follow a 'normal' distribution and varies from state to state.

All data as of March 31, 2019; PC = producer company; PUC = paid-up capital; 'active' refers to PC registration status



Note: The map is based on Census 2001 district boundaries. Data for districts created after Census 2001 have been combined with previous district boundaries.

₹213 crore

highest PUC in an active PC (age 13 years)

₹55 crore

Second highest PUC (age 8 years)

₹0

Lowest paid-up capital in 9 active PCs (ages 3 – 13 years)

20 PCs

contribute >50% of combined PUC of all companies

Of the top 20 PCs, 10 are dairies and 8 are plantations

State	Active producer companies			% PCs with PUC ≥ Rs. 10L
	PUC ≥ Rs. 10L	PUC < Rs. 10	Total	
Karnataka	134	225	359	37%
Kerala	72	133	205	35%
Tamil Nadu	154	333	487	32%
West Bengal	48	203	251	19%
Uttar Pradesh	111	579	690	16%
Haryana	47	251	298	16%
Madhya Pradesh	45	368	413	11%
Bihar	25	263	288	9%
Maharashtra	154	1723	1877	8%
Andhra Pradesh	17	207	224	8%
Rajasthan	21	307	328	6%
Telangana	17	383	400	4%
Orissa	12	332	344	3%
All India	**944**	**5982**	**6926**	**14%**

For states with more than 200 active PCs

All data as of March 31, 2019; PC = producer company; PUC = paid-up capital; 'active' refers to PC registration status

Key challenges impeding the success of PCs

1

Different stakeholders have different normative imaginations of producer companies

Farmers: "Non-exploitative buyer"
Differences among promoters: "Farmers are beneficiaries of FPCs" Or "FPCs are businesses which must become viable" or "Local institution for empowerment"

This affects the importance they give to the following aspects

2 Producers lack individual and collective sense of ownership

Low transaction frequency leads to low member loyalty and ownership
Most members could not distinguish between the NGO and producer company
"This is a govt. dairy"
"Our money is safe with the NGO"

3 FPCs lack business acumen and expertise

Focus on single commodity is problematic
"Biggest problem is that producer companies are not run by entrepreneurs"
"Because PC boards do not understand business risks, they are unable to make informed choices"

4 Most producer companies are severely undercapitalised

Spending ₹30L (per PC promotion cost) to create large number of undercapitalised PCs with PUC of ₹1 lakh or less
49% of active PCs have PUC of ₹1 lakh or less, cannot start significant trading or value-addition
Limits ability to raise loans

5 Companies cannot succeed in isolation; they need a supporting ecosystem

"Govt. officials did not know what an FPC is, and whether we are eligible for certain schemes"
"We stopped MSP procurement because we were required to pay farmers within 72 hrs"
Absence of local business service providers, infrastructure

6 Internal governance is weak, usually linked to low sense of ownership and capabilities

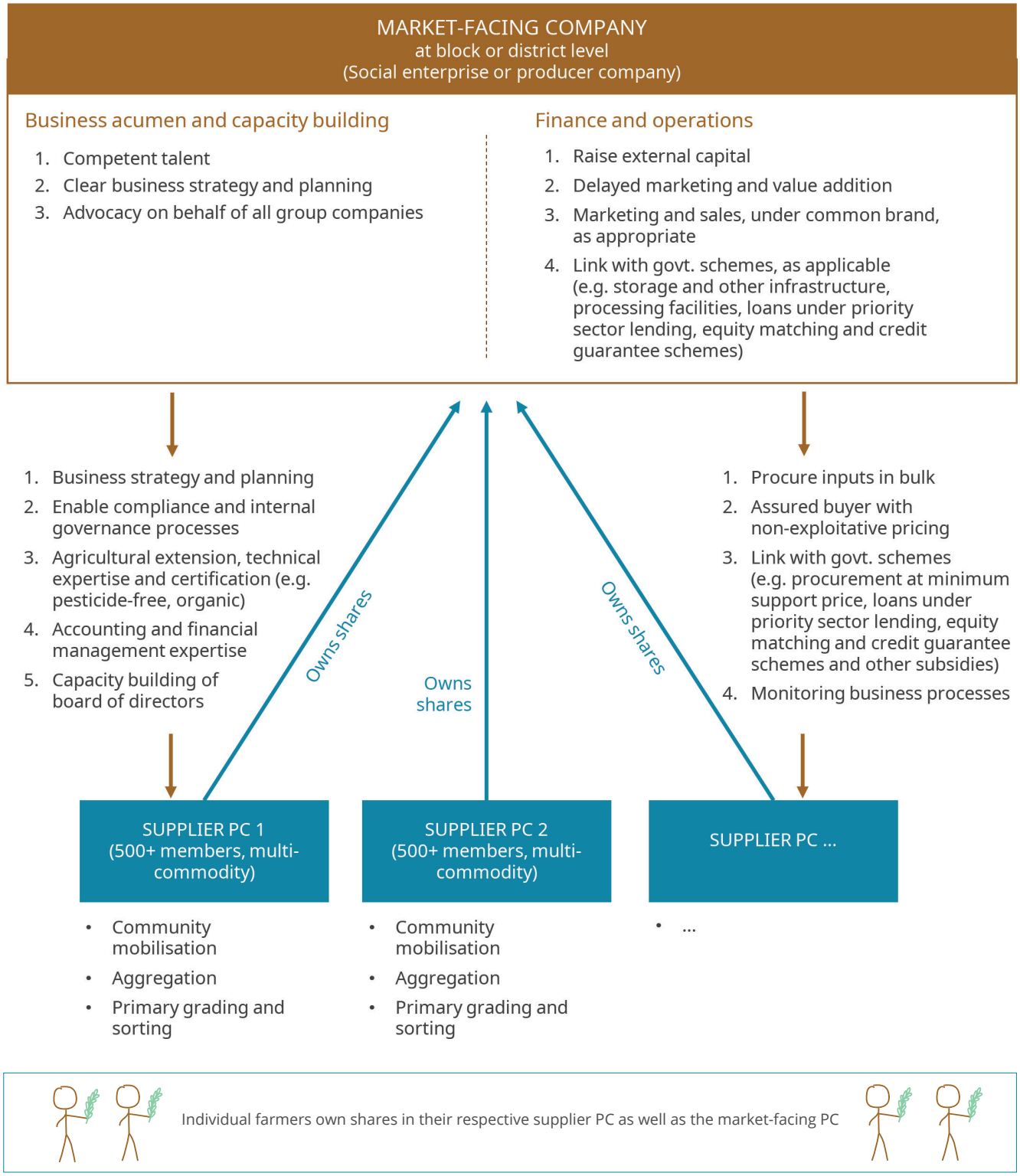
Unclear decision-making processes, roles & responsibilities
Board members not aware of key functional aspects (who is CEO, loans, turnover)
Conflicts of interest with CEOs holding positions in multiple orgs, exposing shareholders to risks

7 Compliance requirements are onerous

"Requirements are the same for us as for large companies"
"I could not sleep the first time I did RTGS transfer thinking money could go to wrong account"
Company & director verification (live-video, geo-tagging) is difficult where internet is poor
Cost of compliance: ₹50k – 2 lakh

Quotes are composite quotes and/or edited for brevity. All data as of March 31, 2019; PC = producer company; PUC = paid-up capital; 'active' refers to PC registration status

We recommend the promotion of producer companies in a two-tier model (comprising multiple supplier PCs and a market-facing company) at a block or district level, collectively handling multiple-commodities, value-addition and marketing



Summary of key recommendations based on this study

Category	Recommendations
Locations	• Promote more PCs in districts with larger numbers of small producers, especially in aspirational districts
Model	• Multiple producer companies organised in a two-tier structure at the block or district level • Supplier PCs: 500+ members, aggregation, grading and sorting • Market-facing companies: assured buyer for supplier PCs' produce, delayed marketing, value-addition, marketing and sales • Supplier PCs and individual farmers should own significant shares and have strong representation on the board of market-facing companies to ensure alignment with producers' interests • Market-facing companies should be invested in success of supplier PCs
Commodities	• Multi-commodity (procure only commodities produced by members in significant volumes)
Value addition	• Mostly by market-facing companies
Equity capital	• 2:1 equity match for PCs comprising more than 80% small farmers • Disburse equity grants in 3-4 tranches to enable incremental growth • Allow external investment through non-voting shares. Protect social objectives by imposing limits on maximum amount of equity per external investor relative to total equity of farmers
Business acumen and expertise	• Bring through market-facing companies, which can hire a competent team • Market-facing companies are expected to hand-hold supplier PCs
Promoting and supporting PCs	• Supplier PCs should be promoted by NGOs and other grass-roots organisations • Market-facing companies should be supported by social enterprises and other organisations with business experience • Producer companies will require support from different kinds of resource institutions at different points in their life-cycle • Link PCs to government programs and schemes • Develop a business ecosystem in blocks and districts to provide various business services to PCs
Other regulatory	• Create a distinct marker in registration number for producer companies so that they can be tracked and regulated differently • Simplify compliance filings and allow submission in paper form • Clarify eligibility for schemes available for cooperatives and individual farmers • Offer protection for shareholders, similar to SEBI's provisions for shareholder protection in publicly traded companies

PC = Producer Company

1. Introduction[1]

Eighty-seven percent of agricultural households in India are small and marginal producers, cultivating small plots which generate low returns. Their average monthly income is Rs 6426, making farming on small plots economically unviable (NSSO 2014). Therefore, policy makers and practitioners are turning to producer collectives as a means for improving the economic situation of small producers.

Such collectivisation is expected to reduce transaction costs and bring scale advantages through bulk purchase of inputs, exchange of knowledge and information among members, cost efficiencies in value-addition and marketing, better price realisation through aggregation and value addition, and risk reduction (Kanitkar 2016, NABARD 2019, S. Singh 2008). Collectivisation is also expected to protect farmers within modern competitive markets by strengthening their collective bargaining power relative to large buyers and companies with significant private capital (Tandon 2019, Trebbin and Hassler 2012). Policy makers and practitioners also expect producer collectivisation to contribute to larger goals of social and economic empowerment of marginalized groups.

There is a genuine need for collectivising small producers for improving incomes and reducing risks.

Many different organisational forms of collective enterprises have been promoted at different times in India. The oldest formal collectives were the credit cooperatives, which have been promoted since the early 1900s under the 1904 Cooperative Credit Societies Act, with the primary objective of addressing farmers' indebtedness and poverty through "encouragement of individual thrift and mutual cooperation among the members, with a view to the utilization of their combined credit" (GOI 1904). Subsequently, formation of non-credit collectives was enabled through the Cooperative Societies Act of 1912, which allowed the formation of non-credit societies and federal cooperative organisations such as consumer cooperatives, marketing cooperatives, cooperatives of handlooms weavers and others. Later, in 1942, the Multi-Unit Cooperative Societies Act was enacted to allow cooperative societies to operate in more than one state (GOI 2009). This Act paved the way for more comprehensive cooperative acts such as the Multi-State Cooperative Societies Acts of 1984 and 2002, the Model Cooperatives Act 1990, the Andhra Pradesh Mutually Aided Cooperative Societies (APMACS) Act of 1995 and others.

However in recent decades the functioning and financial performance of cooperatives has come under criticism because cooperatives have not been able to grow into strong member-controlled and self-sustainable business entities (Shah 2016). This failing has been attributed to low member commitment (Trebbin and Hassler 2012), excessive dependence on government funds, political interference, bureaucratisation and corruption (GOI 2000).

[1] This section draws partially from Neti, Govil and Rao (2019).

In order to address these shortcomings, a 'high-powered committee' chaired by Dr. Y. K. Alagh introduced the concept of producer companies to bring together desirable aspects of cooperative and corporate sectors for the benefit of primary producers, especially small and marginal farmers (Alagh 2019, GOI 2000). Subsequently, in 2002, the Companies Act of 1956 was amended to allow for a new form of corporate entity, namely, Producer Companies (GOI 2011, GOI 2013).

Producer companies were designed to address the failings of cooperatives in several specific ways.

While membership in a cooperative is open to any individual or another cooperative, Central or State Government and other entities[2] who may or may not be primary producers, shares in producer companies can only be owned by primary producers or their collectives (such as SHGs, producer cooperatives and other producer companies). In addition, PCs may require shareholders to transact with the company ("patronage") as a condition for maintaining their membership.

In cooperatives, the government has representation on the governing board and exercises control through veto power over the Board's decisions. In contrast, in producer companies there is no provision for government representation on the Board of Directors (GOI 2013, Shah 2016, Trebbin and Hassler 2012, Singh and Singh 2014).

Due to these and other advantages of producer companies, they are seen as a better alternative than cooperatives. Many government programmes and schemes are now relying on Producer Companies (PCs) as vehicles for improving the economic situation of farmers and other producers such as weavers, artisans, and others[3]. This is evident in a number of schemes, many of which have been announced as part of Union Budgets in recent years and administered through NABARD, Small Farmer Agri-business Consortium (SFAC) and various government departments. The social sector too appears to be viewing Producer Companies as an important part of their work on rural livelihoods, especially for improving market access and incomes of small producers. As a result, a large number of organisations are working on promoting, supporting, capacity building and funding of PCs across the country.

PCs are engaged in a wide range of activities. Many FPCs are engaged in bulk procurement of inputs, while others are acting as intermediaries in the value-chain by aggregating produce from small and marginal farmers and doing some primary processing (such as grading and sorting). A few FPCs are engaged in higher forms of value-addition activities such as pulping or juicing of fruits, chopping and freezing of vegetables, etc. Some FPCs are producing ready-to-eat / cook

[2] Includes National Cooperative Development Corporation (NCDC), any corporation owned or controlled by the government, any government company, etc.

[3] The term Producer Companies (PCs) refers to both farm and non-farm producer companies registered under producer company provisions of the Companies Act. The term Farmer Producer Companies (FPCs) refers to producer companies engaged in agriculture and allied activities. The term Farmer Producer Organizations (FPOs) is a broader term which includes Farmer Producer Companies (FPCs), farmer cooperatives and farmer societies.

products and non-food items such as vermi-compost, natural holi colours and mosquito-repellent cow dung cakes. FPCs are selling their produce in wholesale mandis, to large traders, restaurants and hotels, corporate bulk buyers or directly to consumers. A few FPCs have obtained licence to become nodal agencies for procurement of agricultural commodities at minimum support prices (MSP). A few others have become licensed agencies of agricultural-input manufacturers, or crop insurance companies. Non-farm PCs are engaged in weaving, handicrafts and other activities.

Many studies have been undertaken to analyse the capabilities and performance of PCs. Previously published papers have highlighted challenges of selected PCs such as low capital base, insufficient external finance, talent gap, operational issues, weak governance, inadequate storage and processing facilities (Singh and Singh 2014, Kanitkar 2016, Prasad 2017, Shah 2016, Govil 2018, NABARD 2018a, Mahajan 2014, Sastry 2017).

However, there continues to be a gap in understanding broad characteristics of PCs across India such as their total number, geographical distribution, their primary activities, number of shareholders, paid-up capital, etc. Understanding these characteristics is essential both for policy-making and intervention design. But reliable data on all PCs in India is not available in a consolidated manner. There continues to be much confusion about the total number and other basic information about producer companies, even seventeen years after the Producer Companies Act 2002 came into effect. Previous estimates of the number of producer companies in India range from 2000 to 6000 (NABARD 2018, SFAC 2018, Trebbin 2016, Shah 2016, S. Singh 2015, Srinivasan and Srinivasan 2018). Many of these estimates are now out-of-date.

In addition, there are also concerns about the ways in which PCs are being promoted and run, and the nature and extent of their impact. Most PCs are struggling to improve producers' incomes and are incurring losses despite financial and operational support from government bodies, NGOs and other promoting agencies. Most of them have also been unable to strengthen marginal producers' overall economic and social situation.

The above concerns led us to undertake a study of PCs in India with three objectives: (i) to analyse the characteristics of producer companies in India, (ii) to investigate questions related to their strategic challenges, capitalisation, internal governance, regulation, and long-term potential, and, (iii) to recommend possible strategies to improve the viability of producer companies.

We constructed a comprehensive dataset on PCs using information available on the Ministry of Corporate Affairs' (MCA) website and made several updations and corrections to the dataset (described in the chapter on Methodology). Using statistical methods, we determined the reliability of this updated dataset to be high.

For understanding the strategic challenges, governance, and long-term potential of PCs, we undertook a qualitative study based on visits and in-depth interviews. We visited selected PCs covering a range of primary produce, locations and scale of operations. We held discussions with farmer-shareholders, board of directors, CEOs and management of 24 PCs across 8 states.

We conducted over 100 in-depth interviews of stakeholders involved in promoting and supporting PCs.

In addition, we interviewed 22 government and non-government organisations engaged in promotion and support of producer companies. We also analysed various Acts and policy documents, government circulars, notifications and guidelines as well as annual reports and documents of producer companies and social sector organisations.

This report presents a comprehensive view of the landscape of PCs in India. The next chapter (Chapter 2) provides details of the research methodology. Chapter 3 describes the efforts of government, NGO and other institutions to promote and support PCs. Chapter 4 presents an overview of the number of producer companies and their geographic spread. Chapter 5 examines operating models, capitalisation and financial viability of PCs. Chapter 6 describes characteristics of PCs engaged in dairy and non-farm activities and those of women-only PCs. Chapter 7 discusses questions related to ownership, internal governance and regulatory mechanisms as well as normative imagination of different stakeholders about the purpose of PCs. Chapter 8 concludes the report with recommendations for possible strategies to improve the viability of producer companies and a discussion on the future prospects of producer companies in India.

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2. Research Methodology

This study was carried out over a period of two years between January 2018 and December 2019. It comprised of three parts: a) a quantitative study of data on all producer companies registered in the country, b) a qualitative study based on over 100 in-depth interviews conducted with producer-directors, producer-members, promoting institutions, government agencies, and other stakeholders, and, c) a close examination of Acts, policies, circulars and notifications and documents of producer companies and social sector organisations.

2.1 Analysis of Quantitative Data[1]

The producer company amendment to the Companies Act was notified on Jan 1, 2003. Therefore, we collected data on all producer companies registered between Jan 1, 2003 and March 31, 2019 from the Ministry of Corporate Affairs' (MCA) website. We selected companies with the words 'producer company' or 'producers company' in their name, as the Companies Act requires producer companies to have the words "Producer Company Limited" in their name.

First, we corrected misspellings, duplicate entries, mismatching and missing data fields. We filled-in missing information manually using publicly available information on company registration and filings. Second, several companies had business activity codes which did not seem to be related to primary production (e.g. 'business services') and companies with names that indicated unusual business activities (e.g. a thermal power producer company). For such companies, we retained only those which were registered as producer companies under Section 581 of Part IX A of the Companies Act 1956 or Section 465 of the Companies Act 2013, by checking purchased Articles of Association and other documents.

Third, we added several companies which were present in lists of producer companies published by SFAC, NABARD and other central and state government agencies, but were missing in the MCA spreadsheets.

Fourth, in many cases, the addresses were incomplete or had changed since registration. We checked the addresses of all companies in the dataset and corrected district names. In cases where district names have been changed or new districts have been formed (for example, in Telangana, UP, and other states), this information was updated. In addition, for comparison with other national datasets (such as the number of agricultural workers in a district), we mapped producer company addresses to Census 2011 district names used in national datasets.

Fifth, Authorized Capital and Paid-up Capital data shown in MCA spreadsheets was out-of-date in many cases. We manually updated these fields to reflect the correct values shown on MCA website as of April 2019.

[1] This section is a largely taken from Neti, Govil and Rao (2019).

Finally, registered companies may be 'struck-off' under Section 248 of Companies Act 2013 for failure to commence or maintain business activities within stipulated time. We updated our dataset to reflect the latest status of each company as of April 2019.

After all these corrections and updations, we created a comprehensive list of 7374 producer companies registered between Jan 1, 2003 and Mar 31, 2019. This is the dataset used for all quantitative analysis presented in this report.

Accuracy Estimation and Limitations of the Dataset

Our methodology identified 7374 producer companies registered until March 31, 2019, a number which is double than that in most of the previously published estimates. Despite the verifications and corrections, it was conceivable that some companies with the words 'producer company' in their name are not producer companies incorporated under Section 581 of Part IX-A of Companies Act 1956 or Section 465 of Companies Act 2013. Therefore, we wanted to negate the possibility that a large proportion of companies in our dataset had been included erroneously.

However, it is not feasible to check each and every company individually and even if one were attempt to do so, it may not always be possible to determine whether they are indeed producer companies. Therefore, we decided to estimate the accuracy of the dataset by taking a sampling approach combined with a t-test. We selected a random sample of 100 companies from our dataset and verified these companies' registration based on lists published by NABARD, SFAC, promoter organizations and through company websites; where required, we purchased company incorporation documents.

Among this random sample of 100 companies, 99 were registered as producer companies under relevant sections of the Companies Act, corresponding to a sample mean of 0.99. If we were to apply the sample mean to the full population, we can expect 99% of companies in the dataset to be registered as producer companies; in other words, approximately 74 companies (1% of total) may not be registered as producer companies.

T-distribution statistics show that the probability of the full population mean being within ±3% of the sample mean, is 99.81%. Next, we tested another random sample to re-validate the reliability of this estimate: The appropriate sample size for a data set of 7374 companies with a sample proportion of 0.99 is 43 (using central limit theorem with error of ±3% and a confidence level of 95%). For this new random sample, we found that 100% of the 43 companies were registered as producer companies. These collection of tests revealed that our dataset has a high level of reliability.

We did a similar accuracy check for district data: We checked registered addresses of 50 randomly selected companies and found that all 50 district locations were correct. Thus, the district information in the dataset also has a very high level of reliability.

A second possible source of error in the dataset is that of exclusion: If a producer company does not have the words 'producer company' (or its variants) in its name, it would not appear in our dataset. We have tried to correct for these gaps by integrating lists from multiple sources such as NABARD, SFAC and others. However, there is a possibility that our dataset may still be incomplete.

Third, our dataset contains several companies registered as producer companies under the relevant sections of the Companies Act, but engaged only in activities which are not intended as the primary activities of producer companies (such as those engaged exclusively in providing credit facilities)[2]. There may also be companies where the shareholders are not 'primary producers' as defined in the Act. Our dataset does not correct for this as these companies are registered with the Ministry of Corporate Affairs as producer companies under the relevant Acts.

To summarize, the quantitative analysis presented in this report is based on a dataset of 7374 producer companies (registered between Jan 1, 2003 and March 31, 2019) identified on the basis of publicly available data from the Ministry of Corporate affairs and corrected for various types of inclusion/ exclusion errors, and updated as of April 2019. Statistical tests indicate that the accuracy level of this dataset is very high.

2.2 Interviews with Stakeholders

We conducted over 100 in-depth interviews of stakeholders involved in PCs, to understand questions related to their strategic challenges, governance, and long-term potential. Table 2.1 provides a summary of all interviews conducted.

Table 2.1 Summary of in-depth interviews conducted

Category of respondents	No of unique organisations	No. of interviews*
Producer companies (members, management)	24, of which : • 22 conducted in-person • 4 also promote other PCs** • 1 in process of converting from coop to PC	64, of which : • 62 conducted in-person • 4 also promote other PCs** • 7 groups in process of joining/ registering PC
Promoting and resource institutions	18 (plus, additional 4 PCs**)	25 (plus, additional 4 PCs**)
Funders and investors (govt. and non-govt.)	7	13
Other stakeholders (traders, processing units)	4	4
Total	**53**	**106**

** Interviews conducted jointly with multiple respondents in one meeting have been counted once.*

*** 4 producer companies in the sample were also acting as promoters or resource institutions for other PCs*

[2] While such activities appear to be technically allowed by the Act, PCs offering financial services as standalone activities with unclear criteria for membership and shareholding may be going against the spirit of the Act.

As part of the study, we also conducted in-depth interviews with promoting and resource institutions such as NGOs, government institutions, and others (Table 2.2). Some of the institutions have promoted a handful of PCs, many have promoted 15-25, and several have promoted/supported over 100 PCs. In addition, we held detailed discussions with government institutions such as SFAC and NABARD and other stakeholders involved in incubating and supporting PCs. These discussions were aimed at understanding the different approaches used for establishing and supporting producer companies, and the future potential of producer companies.

Table 2.2 Categories of promoting and resource institutions interviewed for the study

Category of promoting and resource institutions	No. of unique organisations	No. of interviews*
NGOs and social sector orgs.	13	19
Government institutions	3	5
Social enterprises	2	4
Other PCs	4	4
Total	22	32

** Interviews conducted jointly with multiple respondents have been counted once.*

In addition, we analysed Acts and government policy documents at centre and state levels, various circulars, notifications and guidelines relating to government schemes and programs to understand their reach and scope. We also reviewed Annual Reports of many promoter organisations, funding agencies and individual PCs, to get a more nuanced understanding of the intent and status of their efforts.

2.3 Interviews with Producer Companies

For producer company interviews, we selected PCs based on the type of institution which mobilized farmers, the type of produce, location, age and scale of operations. We interviewed 24 PCs and held detailed discussions with producer-shareholders, board of directors, CEOs and company management (Table 2.1). Some of these interviews were held individually, while others were held in small groups. The age of PCs varied from 0 – 11 years and their turnover ranged from a few lakh to a few hundred crore rupees.

The purpose of these visits and interviews was to understand the perspectives of producer-members and company management/ directors in terms of internal governance mechanisms and business potential, and their ideas regarding the purpose and future of their company.

Table 2.3 Key characteristics of producer companies interviewed

Category	State	Primary produce	Value-added products	Other significant services	Year Registered
Promoted by NGO / Social sector organisations	Uttar Pradesh	Wheat, rice, menthol, amaranth seeds	-	Procurement at MSP (now stopped)	2014
	Madhya Pradesh	Aromatic rice, flaxseed, pulses	Ready-to-eat snacks	Extension services, inclusion of local traders in PC operations, sales to social enterprise	2012
	Madhya Pradesh	Custard apples, organic cotton	Frozen custard apple pulp, jamun pulp	Employment for producers at processing unit	2015
	Madhya Pradesh	Aromatic rice, millets	Ready-to-eat snacks	Extension services, inclusion of local traders in PC operations, sales to social enterprise	2015
	Madhya Pradesh	Aromatic rice, millets, flaxseed	Ready-to-eat snacks	Extension services, inclusion of local traders in PC operations, sales to social enterprises	2015
	Odisha	Poultry	-	-	2014
	Odisha	Plan to start mixed model with fish, poultry and cultivation	-	-	2019
	Odisha	Aromatic rice, vegetables	-	-	2019
	Karnataka	Organic cotton, chia, pulses, vegetables, millets, marigold	Ginning	Enabling third-party organic certification	2010
	Tamil Nadu	Paddy, pulses, groundnut, seed production on contract	-	Crop insurance, household provisions	2010
	Tamil Nadu	Paddy, black gram	-	Crop insurance Crop loans	2015
	Tamil Nadu	Mangoes, tomatoes, groundnut, coconut, other fruits & vegetables	Mango pulp processing plant under construction	-	2017
Govt. institution promoted*	Rajasthan	Milk	Pasteurized milk, milk products	Extension services, facilitate livestock insurance, sales to Mother Dairy	2012
	Rajasthan	Milk	-	Extension services	2016
	Odisha	Groundnuts, cotton	-	-	2016

Category	State	Primary produce	Value-added products	Other significant services	Year Registered
Govt. institution promoted* (Continued)	Tamil Nadu	Paddy	Food products	Marketing of food products from 'sister' FPOs, Petrol bunk	2008
	Kerala	Coconut	Coconut oil, neera	-	2015
Self-promoted	Maharashtra	(Value-addition)	Grading, sorting of grapes for export; tomato puree, jams, juices and fresh produce for local retail	Extension services, GAP certification for supplier PCs, Accounting and regulatory compliance for supplier PCs	2010
	Maharashtra	Pulses and onions	-	Storage for delayed sale, MSP procurement (now stopped)	2014
	Maharashtra	Grapes	-	-	2016
	Maharashtra	Tomatoes	-	-	2016
	Karnataka	Sugarcane, rice, millets, fruits & vegetables, milk	Jaggery, millet flour	Organic certification for members	In process of being converted to PC
Federation	Madhya Pradesh	- (Federation)	-	Advocacy, enabling linkage with govt. schemes, branding & marketing support	2014
	Maharashtra	- (Federation)		Advocacy, enabling linkage with govt. schemes for member PCs	2014
Non-farm	Karnataka	- (Non-farm)	Garments	-	2013

** This category refers to companies promoted directly by government institutions such as agriculture universities, NDDB Dairy Services and others. Many other companies in this table have received financial support from government institutions.*
Note: Most companies are also engaged in bulk procurement of inputs for their members

References

Neti, Annapurna, Richa Govil and Madhushree R. Rao. 2019. "Farmer Producer Companies: Demystifying the Numbers." *Review of Agrarian Studies 9 (2).*

3. Promotion and Support of PCs

As mentioned earlier, a total of 7374 producer companies have been registered as of March 31, 2019. This has been made possible through the efforts of many government organisations, NGOs, foundations, corporate CSR organisations, social enterprises and individuals. At least half of the producer companies have been promoted under various government schemes. Many have also benefited from mobilisation, capacity building, market linkages and funding support from NGOs, foundations and other social sector organisations.

Almost from the beginning, the government has played a critical role in promotion and support of producer companies. Some of the oldest producer companies were formed under the District Poverty Initiative Program (DPIP) in Madhya Pradesh by bringing together existing Common Interest Groups of farmers. As early as FY07, the Government of Madhya Pradesh funded 17 producer companies under its District Poverty Initiatives Project[1]. As part of the program, each PC received a grant of Rs. 25 lakh as working capital and Rs 24.5 lakh to cover administration costs for a period of 5 years. Some of the DPIP PCs were given additional grants under other schemes for constructing warehouses or were given support in the form of office space, vehicles, etc. (Singh and Singh 2014).

Currently, some schemes offer financial support through equity grants, paying for CEO salaries and administrative costs, providing interest-free (or low interest) loans, or facilitating bank credit through credit guarantee schemes. Loans up to Rs. 2 crore for FPOs (including loans up to Rs 50 lakh for warehouse systems receipts) are covered under priority sector lending (RBI 2015)[2]. Many schemes and programmes provide funding to promoting/ resource organisations for community mobilisation and registration of companies.

In addition, there are other types of support received by producer companies such as awareness building programs, training of CEOs and board members, training of empanelled promoting/ resource institutions and provisions for extending various government programs such as procurement at Minimum Support Prices to FPCs, or ongoing operational and technical support (e.g. by NDDB Dairy Services or Krishi Vikas Kendras).

Furthermore, Union Budget 2018-19 announced a 5-year tax holiday for FPOs with turnover of up to Rs. 100 crores. And, Union Budget 2019-20 announced the government's intention to form 10,000 new FPOs over the next 5 years. In fact, according to NABARD, "All major centrally sponsored schemes of DAC&FW (Dept. of Agriculture Cooperation & Farmers Welfare) have special provisions for promotion and nurturing of FPOs" (NABARD 2018).

[1] As of April 2019, 5 out of these 17 FPCs have been struck off or are in the process of being struck off.

[2] RBI's 'Report of the Internal Working Group to Review Agricultural Credit', dated 13 Sep 2019 recommends bank loans of Rs. 5 crore for FPCs with at least 75% small and marginal farmers and assured marketing of their produce at pre-determined price.

3.1 Conversion of Cooperatives to PCs

The Producer Companies Act 2002 provides for conversion of existing inter-state cooperatives into producer companies. In fact, the largest producer company by paid-up-capital, Sri Vijaya Visakha Milk Producer Company, was a dairy cooperative which converted into a producer company in January 2006. Many others such as Karimnagar Milk Producer Company, Sangam Milk producer company, Madhya Pradesh Women Poultry Producers Company have also done the same. Several other cooperatives (especially dairy cooperatives) have already registered themselves as producer companies or are in the process of doing so.

3.2 Support by SFAC

In 2011, the Government of India designated SFAC as the nodal agency for facilitating the promotion of FPOs under two sub-schemes of the Rashtriya Krishi Vikas Yojna namely, National Vegetable Initiative for Urban Clusters and Integrated Development of 60,000 Pulse Villages in Rainfed Areas. The focus of these two schemes was to enhance overall productivity of vegetables and pulses, and provide market linkage to small producers through the formation of FPOs (SFAC 2013). Since then, SFAC has also been mandated to promote FPOs under other programmes such as National Food Security Mission, Mission for Integrated Development of Horticulture, Coconut Development Board, etc. (SFAC 2018, Ministry of Agriculture 2014).

Union Budget for 2013-14 announced Rs. 100 crore for establishing a Credit Guarantee Fund for FPOs and another Rs. 50 crore towards Equity Grant scheme for FPCs, to be channelled through SFAC. Currently, under SFAC's Equity Grant Scheme, FPCs with a minimum of 50 farmers and paid-up capital of less than 30 lakh can get a matching equity grant of up to Rs 15 lakh in two instalments (SFAC n.d.1). As of April 2019, SFAC has supported 440 FPCs under the Equity Grant scheme of which 15 FPCs have received the second instalment too (Table 3.1). SFAC's Credit Guarantee Scheme provides FPCs with a minimum of 500 farmer shareholders access to bank loans up to Rs 100 lakh with a credit guarantee cover of 85% of loan sanctioned under the scheme (NABARD 2018). As of April 2019, 51 FPCs have been supported under this scheme.

Table 3.1 Support provided by SFAC under Equity Grant and Credit Guarantee Scheme

	Equity Grant Scheme		Credit Guarantee Scheme	
Year	No. of cases	Amount sanctioned (Rs. lakh)	No. of cases	Amount sanctioned (Rs. lakh)
2014-15	22	114.83	4	182.90
2015-16	27	153.02	8	353.11
2016-17	52	290.69	9	395.25
2017-18	153	951.07	9	507.45
2018-19	201	13.80	21	628.04
TOTAL	**455***	**1523.42**	**51**	**2066.74**

** Number of unique companies was 440. 15 companies availed a second instalment under the scheme..*
Source: SFAC Annual Reports (2015, 2016, 2017, 2018, 2019).

SFAC also provides other kinds of support to FPOs. It designates FPOs as procurement agents under Price Stabilisation Fund for procurement at minimum support prices (NABARD 2018). In addition, SFAC provides soft-loans to FPOs and other producer groups under its Venture Capital Assistance Scheme (SFAC 2018a).

In order to promote and support PCs, SFAC has empanelled 90 resource institutions and provided them financial support for promotion of FPCs (Table 3.2). Most of these resource institutions are NGOs and other organizations working in the social sector (SFAC n.d.2). In fact, under some schemes SFAC provides financial support only to institutions promoting FPOs but not directly to FPOs (SFAC n.d.1).

In order to benefit larger number of small and marginal producers, the Union Budget 2019-20 announced a plan to promote 10,000 additional FPOs over the next 5 years with SFAC as the nodal agency. For this purpose, SFAC has prepared a Strategy Paper proposing an outlay of Rs. 6866 crore, of which Rs. 2500 crore has been designated as cost of formation and incubation and Rs. 1800 crore towards FPO management costs of 10,000 FPOs over 5 years. Rs. 2250 crore is budgeted for Equity Grant and Credit Guarantee schemes (SFAC n.d.3).

3.3 Support by NABARD

As of March 31, 2019, NABARD has promoted over 4000 FPOs under two schemes: Producer Organisation Development Fund (PODF) initiated in 2011-12 with a corpus of Rs. 50 crores and PRODUCE Fund of Rs. 200 crores established in 2014-15 for promotion of 2000 FPOs over two years (NABARD 2018, NABARD 2019).

In order to promote and support PCs, NABARD has empanelled 795 Producer Organisation Promoting Institutions (POPIs) for the purpose of promotion and capacity building of FPOs (Table 3.2). NGOs, banks, government departments, cooperative societies, associations or federations can become POPIs (NABARD 2018). The roles and responsibilities of NABARD empanelled POPIs include cluster identification, diagnostic and feasibility studies, business planning, mobilisation of

producers, registration/incorporation of PO, resource mobilisation, development of management systems and procedures, business operations and assessment and audit (NABARD 2015). Some POPIs have promoted only a few PCs each while others have promoted 100 or more PCs.

Table 3.2 Number of organisations empanelled by NABARD and SFAC for promoting FPOs

Year	NABARD No. of Producer Organisation Promoting Institutions	SFAC No. of Resource Institutions
FY13	Not available	57
FY14	Not available	61
FY15	Not available	63
FY16	785	64
FY17	795	65
FY18	790	90

Source: NABARD and SFAC Annual Reports and websites

Small and marginal farmers constitute 82% of the total membership of NABARD promoted FPOs, and women constitute 32%. 724 FPOs have licences for direct input dealership, 1298 are market-linked and 3249 are credit-linked (NABARD 2019). As it has promoted a large number of FPOs, NABARD has digitized data for monitoring progress of FPO promotion and made some of this data available publicly. It has also created a 'performance monitoring tool' for assessing and monitoring overall performance of each FPO (Field interviews 2019).

NABKISAN Finance Ltd., a subsidiary of NABARD, provides financial support to FPOs in the form of collateral-based and collateral-free term loans and working capital loans to suit various lifecycle needs of the FPOs (NABKISAN n.d.). This financial support is covered by the Credit Guarantee Scheme of NABARD (NABARD 2018, Field interviews 2019). NABKISAN also provides bulk loans to promoting institutions for on-lending to producer organisations. As of April 2019, NABKISAN has supported 275 PCs directly and another 225 PCs using the on-lending model. It also provides financial support at concessional rates to FPOs with mostly tribal members (NABKISAN 2019).

3.4 Support by Others

Most schemes for supporting agriculture now include special provisions for promotion and nurturing of FPOs (NABARD 2018). For example, Mission for Integrated Development of Horticulture implements various schemes for promoting and strengthening FPOs such as National Horticulture Mission, Horticulture Mission for North East & Himalayan States and other schemes implemented through National Horticulture Board and Coconut Development Board (Ministry of Agriculture 2014).

Maharashtra Agricultural Competitiveness Project (MACP) has supported 364 FPCs as of March 2018 (MACP 2018). Similarly other states are supporting FPOs under various departments and schemes, such as Odisha Rural Development and Marketing Society (ORMAS) and Rajasthan Agricultural Competiveness Project (RACP). And, under the National Dairy Plan I from FY12 to FY19, NDDB offered grants and loans to milk producer companies and other dairies for buying equipment, training, etc. (NDDB n.d.). Various central and state government organisations have also empanelled resource institutions for promotion and support of PCs. Some producer companies have been supported by international organisations such as DFID.

In addition, many producer companies have been promoted and funded by philanthropies such as Tata Trusts, Rabo Bank Foundation, Axis Bank Foundation, Dell Foundation, Reliance Foundation, etc. Many others have been funded by Corporate Social Responsibility (CSR) arms of companies such as Mahyco Monsanto, Dupont, HSBC, Walmart, and others.

3.5 Self-promoted PCs

Some PCs have been promoted by large farmers who are better educated, well connected and able to invest significant capital. For example, the second largest producer company in India (by paid-up capital), Sahyadri Farmers Producer Company, was initially promoted by a small group of grape producers in Nasik district. Today, the company exports grapes to multiple European countries and has set-up facilities for juicing, pulping and packaging of fruits and vegetables. It has a total turnover of over Rs. 300 crore and paid-up capital of Rs. 55 crore (Sahyadri FPCL 2018). It is also one of the largest exporters of grapes in the country today. It has also promoted more than ten other commodity-specific producer companies and procures fruits and vegetables from them.

Another such producer company we came across had 45 shareholders and Rs 37 lakh paid-up capital. They had set-up a processing facility for producing value-added millet products such as millet flakes, millet *idli* and *dosa* mix, etc. for domestic and export markets. We also met large onion farmers in Maharashtra who had registered a PC and had obtained a licence to procure onions under the Price Stabilisation Fund.

3.6 Characteristics of NABARD and SFAC Supported Companies

NABARD and SFAC have promoted over 2000 PCs covering close to one and a half million farmers. Their efforts have energised the promotion of PCs by other stakeholders as well. To understand the characteristics of companies promoted by them, we identified such companies in our database. The data shows that the vast majority of companies supported by NABARD and SFAC (about 85%) were incorporated between 2 and 5 years ago. This is not surprising as this time frame corresponds with introduction of various schemes by central and state

governments, as described earlier. PCs promoted by NABARD and SFAC are concentrated in 4 states: Madhya Pradesh, Karnataka, Maharashtra and Tamil Nadu. These four states account for about 40% of the PCs supported by them.

In our database, we identified 1468 producer companies supported by NABARD with 'active' status. These companies have a total paid-up capital (PUC) of Rs. 65.85 crore and a median PUC of Rs. 1.00 lakh (Table 3.3). For SFAC supported companies with active status, the total PUC is Rs 42.60 crore and median PUC is Rs. 3.50 lakh. The difference between average and median is significant because the PUC distribution among PCs is not a 'normal distribution' and includes very large PCs as well as many very small PCs (e.g. the top 20 companies contribute Rs. 500 crore out of the total of Rs. 844 crore PUC of all active companies combined; see Chapter 5 for more details). Therefore, median is a better measure than average for analysing PUC.

Table 3.3 Aggregate characteristics of PCs supported by NABARD and SFAC (active status only)

Year	NABARD PCs	SFAC PCs	All PCs
Total number of producer companies*	1,468	756	6,926
Ave. number of shareholders per company (est.)	369	997	582**
Total number of shareholders (est.)	5.4 lakh	7.5 lakh	40 lakh
Total paid-up capital (PUC)	Rs. 65.85 crore	Rs. 42.60 crore	Rs. 843.96 crore
Ave. PUC per producer company	Rs. 4.49 lakh	Rs. 5.64 lakh	Rs. 12.19 lakh
Median PUC per producer company	Rs. 1.00 lakh	Rs. 3.50 lakh	Rs. 1.10 lakh

** From dataset prepared for this study; 'active' refers to registration status with MCA*
*** Estimate based on weighted average of NABARD and SFAC producer companies*
Note: Three active companies were identified as having been supported both by SFAC and NABARD. They are included under both columns for the purpose of calculation

Table 3.3 highlights that the PUC of SFAC supported companies is much greater than that of NABARD promoted companies and all PCs. One possible explanation for this significant difference could be that the PUC figure for SFAC supported companies includes the amount of matching grants. Another reason could be that to qualify for certain schemes, producer companies must meet minimum requirements. For example, to be eligible for SFAC's credit guarantee schemes, a PC is required to have a minimum of 500 shareholders, which may contribute to the greater PUC per company of SFAC supported companies. Further, under its equity matching grant scheme, SFAC matches member contribution up to Rs 1000, which encourages resource institutions to promote PCs with slightly higher individual share capital.

It would have been interesting to also compare the median PUC per shareholder across NABARD, SFAC and all PCs. However, it is not possible to calculate the median as shareholder data is not available for each company.

To summarize, the per PC capital contribution in SFAC companies tends to be much higher than for other PCs, which is consistent with its funding eligibility requirements. Furthermore, some of the differences between NABARD and SFAC supported PCs is perhaps indicative of the different requirements under their schemes.

Both NABARD and SFAC have supported a large number of producer companies, either directly or through resources institutions empanelled by them. NABARD and SFAC promote support companies among marginalized groups with limited means and lower capacity to contribute share capital. For example, for producer companies to qualify for SFAC's equity grant and credit guarantee schemes, a minimum of 33% of their shareholders must be small, marginal and landless tenant farmers (as defined by the Ministry of Agriculture), and, the maximum shareholding by any one member other than an institutional member cannot be more than 5% of the total equity.

3.7 Summary

7374 producer companies have been promoted in India by various central and state governments, philanthropies, CSR and farmers themselves. The Ministry of Agriculture estimates the average cost of promotion of each FPO to be approximately Rs. 30 lakh (Ministry of Agriculture 2013), which implies that about Rs. 2000 crores may have been spent in promoting and supporting these producer companies across the country over the last 17 years. Further investments are proposed with the increasing thrust on promotion of more producer companies both by central and state governments. This is in addition to the hundreds of crores invested by farmers themselves as shareholder equity (see Chapter 5).

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4. Overview of PCs in India: Numbers, Locations, Shareholders

This chapter presents an overview of producer companies in India, their geographic spread and registration status. The chapter highlights significant regional disparity in promotion of new producer companies, across states and districts[1]. We compare the density of farmer producer companies relative to the total number of agricultural workers in districts. We also provide an estimate on the number of farmer-shareholders across all producer companies in India.

4.1 Total Number of PCs Registered by Year

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.

No producer companies were registered in the first few months of the calendar year 2003 immediately after the notification of the Act. 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 (Table 4.1).

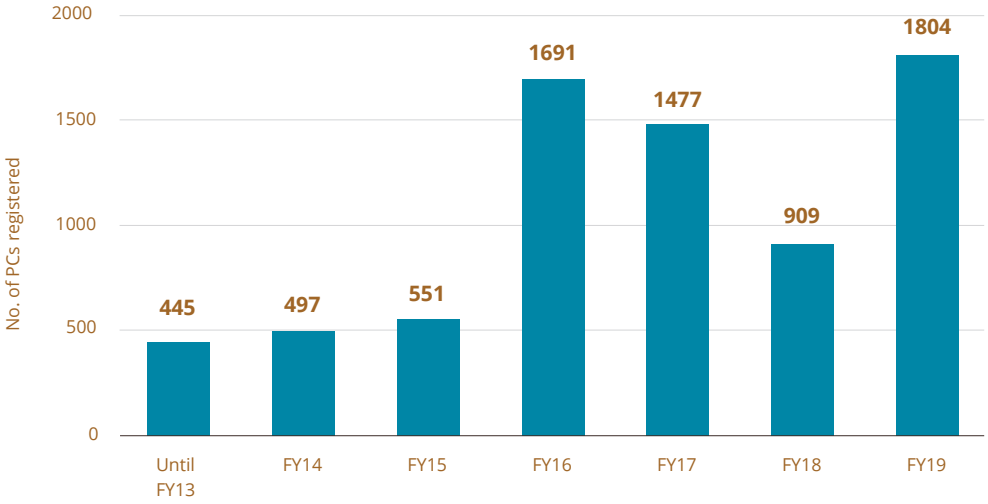
Table 4.1 Number of producer companies registered

Financial Year	PCs registered	% of PCs
FY04	5	<1%
FY05	16	<1%
FY06	24	<1%
FY07	32	<1%
FY08	18	<1%
FY09	41	<1%
FY10	28	<1%
FY11	52	1%
FY12	78	1%
FY13	151	2%
FY14	497	7%
FY15	551	7%
FY16	1691	23%
FY17	1477	20%
FY18	909	12%
FY19	1804	24%
Total	**7374**	**100%**

[1] This section is a largely taken from Neti, Govil and Rao (2019).

In the first ten years after notification of the act (i.e. FY04 through FY13), a total of only 445 companies were registered. In fact, the number of PCs incorporated exceeded 100 only in the 10th year (FY13). The pace of registration accelerated during FY14, when 497 PCs were registered, a number which exceeded all the previous 10 years combined. The number of companies registered crossed 1000 for the first time in FY16. In the most recent three financial years (FY17, FY18, FY19), 4190 PCs were registered, amounting to an average of almost 4 companies per day (Figure 4.1) with one of the four being registered in Maharashtra.

Figure 4.1 Number of producer companies registered



This massive jump in registrations in recent years coincides with various state and central government schemes for promotion and support of FPOs in general, and FPCs in particular, which took effect in FY13, FY4 and FY15.

In the dataset, we were able to identify roughly half the producer companies incorporated during or before FY18, as having received support from SFAC, NABARD and other central and state government schemes. In many cases, we identified government supported companies through information published by various resource institutions. This is likely to be an underestimate as only a few organisations such as SFAC, NABARD and MACP publish a comprehensive list of supported FPCs.

Financial support for PCs through government programs started picking up in FY13, which coincided with the uptick in FPC registrations. There was an observable drop in PC registrations in FY18 which appears to correspond with the completion of NABARD's PRODUCE programme.

The relationship between producer company registrations and government schemes is also evident in the number of registrations which happen in the last quarter of each financial year: In the last 5 financial years (FY15 to FY19), a

disproportionate number of PCs (34%) have been registered during the months January to March of that financial year, indicating a possible rush to register companies to meet programmatic milestones. A more detailed discussion on characteristics of NABARD and SFAC supported PCs is provided in a later section in this report.

4.2 State-wise Distribution of Producer Companies

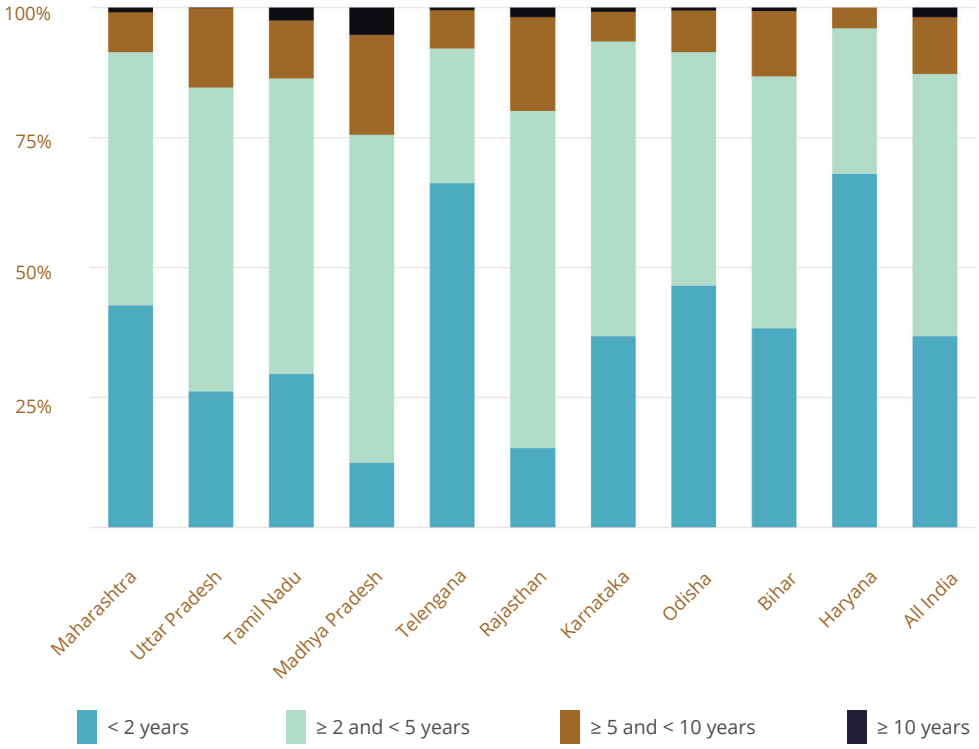
Producer companies have been registered in 33 out of 36 states and union territories in India. Maharashtra has by far the largest number of producer companies (1940), which is more than the next three states combined. Four states, namely, Maharashtra, Uttar Pradesh, Tamil Nadu and Madhya Pradesh account for about half the producer companies registered until March 31, 2019 (Table 4.2).

Table 4.2 Number of producer companies registered, by state or UT

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%
Uttarakhand	37	1%
Manipur	30	<1%
Himachal Pradesh	22	<1%
Others	101	1%
Total	**7374**	**100%**

** Shows only states or UTs with 20 or more PCs.*

Figure 4.2 Age distribution by state, for top 10 states



Madhya Pradesh, which has the fourth largest number of registered PCs, started promoting producer companies early on under the DPIP program as mentioned in the previous section. In fact, Madhya Pradesh has the greatest percentage of companies which are 5 years or older among the top 10 states (Figure 4.2). UP, on the other hand, hardly has any PCs older than 10 years. UP started later than other 'top' states in PC formation, but rapidly caught up, surpassing Madhya Pradesh and Tamil Nadu in FY14. Telangana and Haryana have a large percentage (66% and 68% respectively) of very young companies.

4.3 District-wise Distribution of Producer Companies

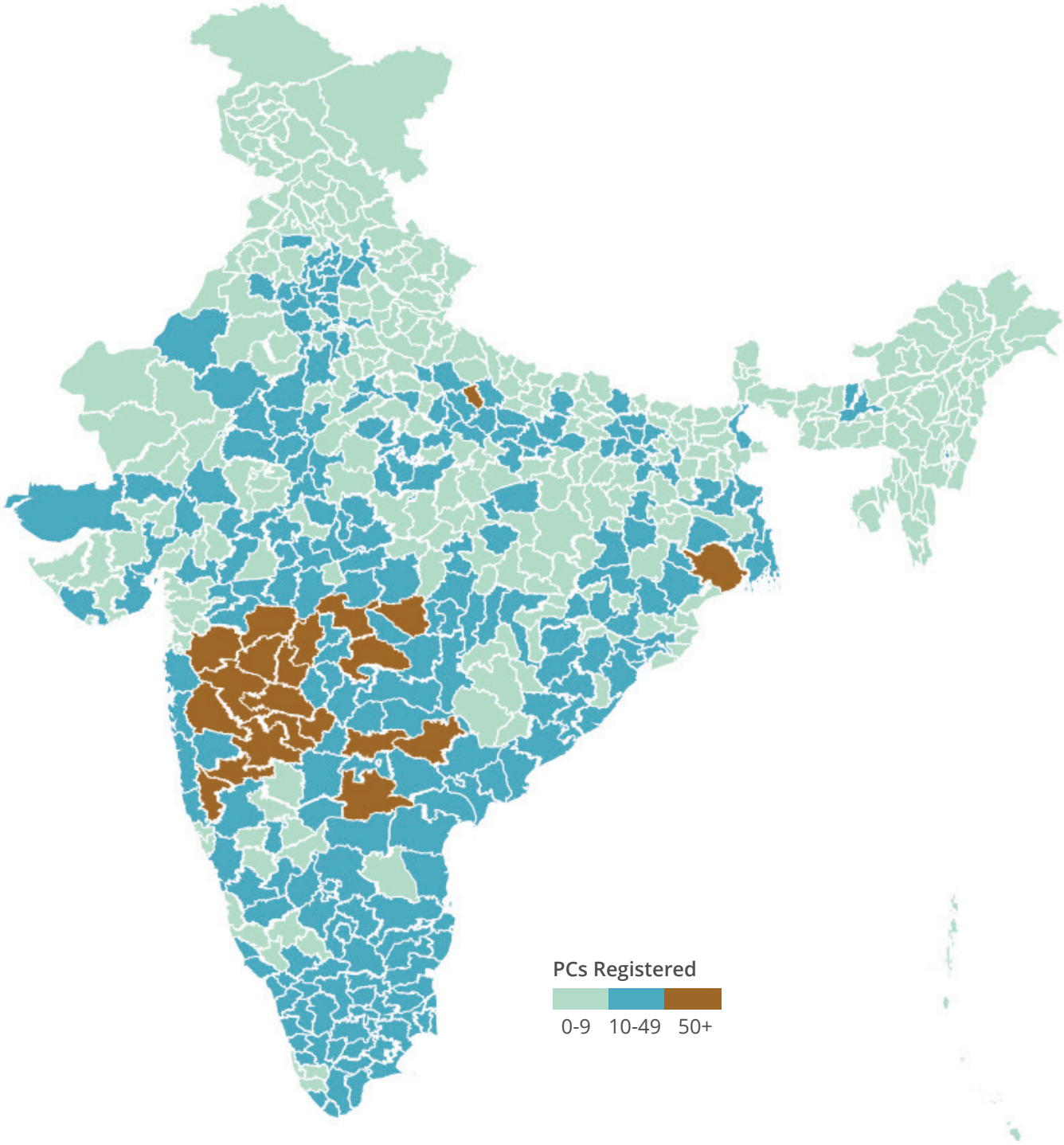
As mentioned earlier, we mapped all producer companies to 640 districts per Census of India 2011. The average number of PCs per district is 11.5 while the median is 7.

These aggregate figures mask significant disparity across districts. 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 (Table 4.3). Not surprisingly, out of these top 20 districts, 16 are in Maharashtra. At the other extreme, there are 68 districts with no producer companies at all; while a few of these are urban districts such as New Delhi, the majority are in rural areas.

Table 4.3 Top 20 districts with the largest number of producer companies registered

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	Mahbubnagar	61
Maharashtra	Jalgaon	60
Maharashtra	Sangli	56
Maharashtra	Yavatmal	52
Andhra Pradesh	Medak	51
Maharashtra	Nagpur	51
Maharashtra	Kolhapur	50
Total		**1688**

Figure 4.3 Number of PCs by district

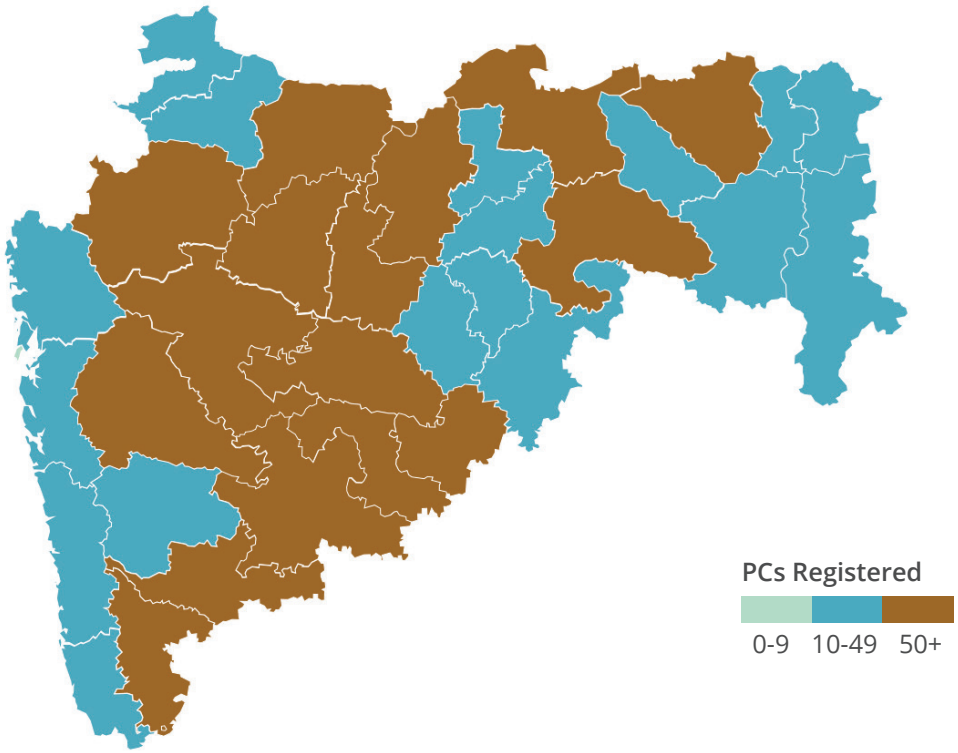


Note: The map is based on Census 2001 district boundaries. Data for districts created after Census 2001 have been combined with previous district boundaries.

The district with the largest number of PCs is Pune, with 185 producer companies, followed by Ahmednagar with 162 and Nashik with 136 PCs. Figure 4.3 shows the distribution of producer companies across all districts in the country. It can be seen that there is a greater concentration of producer companies in certain districts of western and southern India than most districts in northern and eastern India.

Similarly, significant disparity can be observed within states too. For example, within Maharashtra while Pune has 185 PCs, while the district of Gadchiroli has only 10 (Figure 4.4). There is no district in Maharashtra (except Mumbai) with less than 10 producer companies. In UP, while Lucknow has 72 PCs, the next largest Kanpur Nagar has 36. Forty-six out of 71 districts in UP have less than 10 producer companies and three districts have none. Tamil Nadu appears to have a more even distribution of companies across districts with the top two districts having 42 and 41 PCs (Coimbatore and Erode, respectively) and almost all districts (except for Tiruppur and Ariyalur) having at least 10 PCs. However, across the country, there appears to be a significant variation in the number of PCs across districts, pointing towards the need for re-assessing the geographical focus of PC promotion efforts.

Figure 4.4 (a) Number of PCs in districts of top 3 states with largest number of PCs: Maharashtra



Note: The map is based on Census 2001 district boundaries. Data for districts created after Census 2001 have been combined with previous district boundaries.

Figure 4.4 (b) Number of PCs in districts of top 3 states with largest number of PCs: Uttar Pradesh

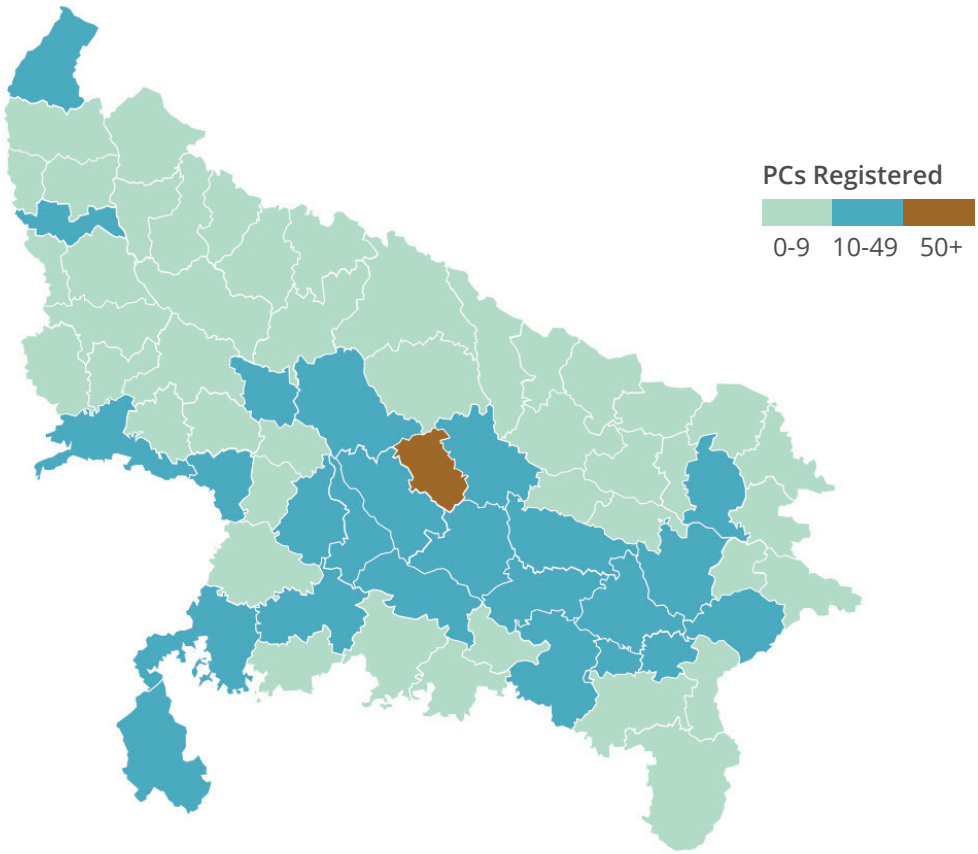
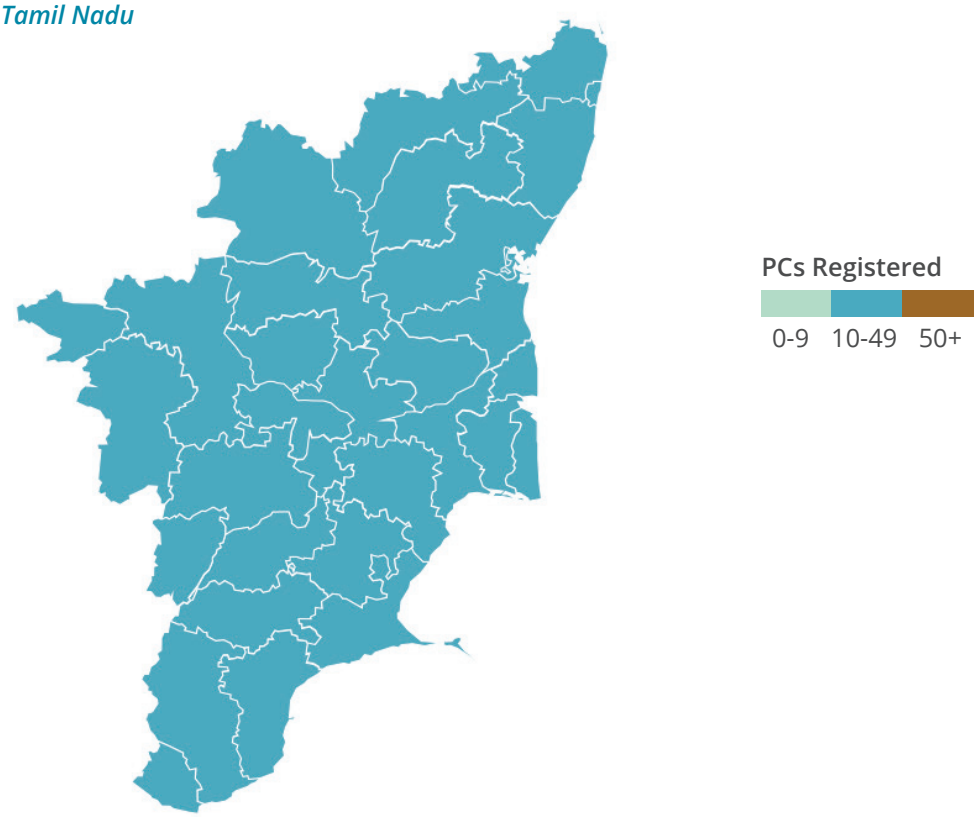


Figure 4.4 (c) Number of PCs in districts of top 3 states with largest number of PCs: Tamil Nadu



Note: The maps are based on Census 2001 district boundaries. Data for districts created after Census 2001 have been combined with previous district boundaries.

4.4 Density of FPCs

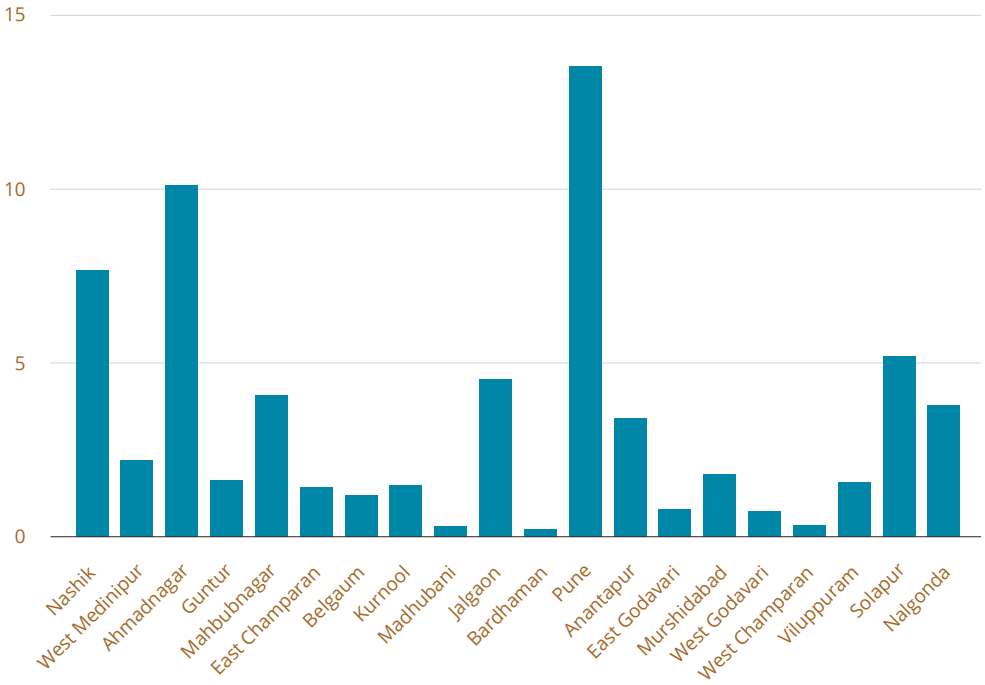
Next, we examined the density of FPCs against the number of agricultural workers per district. According to Census 2011, there are about 2630 lakh agricultural workers in the country, including both main and marginal workers.[2] We categorized the producer companies in our dataset into farm and non-farm companies (refer to Chapter on 'Selected Categories of PCs' for more detail). This allowed us to calculate the density of farmer producer companies (FPCs) per one lakh farmers in each district in India.

The average number of FPCs per one lakh farmers is 2.6; that is, for every 100,000 agricultural workers in India, there are 2.6 farmer producer companies. However, there is significant variation in the density of producer companies across districts. Districts such as Pune, Ahmednagar and Nashik have much higher FPC density than the median district. There are 32 districts where there are more than 1,00,000 farmers but no farmer producer companies. These include districts in Gujarat, where there are hundreds of producer cooperatives, and also districts in UP and Assam, where the cooperatives' coverage is low.

Figure 4.5 shows the density of farmer producer companies for top 20 districts with the greatest number of agricultural workers. Pune (MH), Bardhaman (WB) and Anantapur (AP), all have roughly 13 lakh farmer-producers each. However, Pune has 176 FPCs, Anantapur 44 and Bardhaman only 3.

[2] About 7% of agricultural workers are landless (per NSSO 2014). However, many of them may be engaged in livestock and other allied activities. Therefore, we have calculated FPC density for all agricultural workers rather than limiting it to only cultivators on own land.

Figure 4.5 FPC density (number of FPCs per 100,000 agricultural workers), for top 20 districts with highest number of agricultural workers per Census 2011



Notes:
1. State and district location is per Census 2011 for comparison purposes (newly created districts have been mapped to Census 2011 districts)
2. Districts are shown in descending order of agricultural workers per Census 2011
3. FPC refers to PCs clearly identified as Farmer Producer Companies (92% of all PCs); excludes PCs which are non-farm or with unclear sectoral activities (see Chapter on 'Selected Categories of PCs' for more details)

4.5 Active and Struck-off Companies

The Ministry of Corporate Affairs 'strikes-off' companies for three reasons specified under the Companies Act 2013, Section 248: a) failure to commence business operations within one year of incorporation, b) failure of original subscribers (shareholders) to fully pay committed subscription (share capital) within 180 days of registration, and, c) not carrying on any business or operation for a period of two immediately preceding financial years without submitting any application for obtaining the status of a dormant company under Section 455. In addition, the MCA can strike off producer companies for failure to maintain any of the mutual assistance principles specified under Section 581ZP.

A total of 445 producer companies have been struck off by the MCA or are in the process of being struck off, corresponding to 6% of all producer companies registered. And 3 companies have been designated as dormant so far. In fact, the very first producer company registered under the act, 'Farmers Honey Bee India Producer Company Ltd.', mentioned earlier, has been struck off. In total 6926 PCs currently have 'active' status.

While the 'struck-off' percentage may appear small, it is important to note that companies can be struck-off only after two years of failure to maintain operations and after giving companies time to respond to Ministry notifications. Therefore, in

the early years of a PC, there is little scope for the MCA to strike it off. As expected, Table 4.4 shows only a small proportion of young companies have been struck off. However, among the producer companies which are 10 years and older, more than 46% have been struck off.

It is important to note here that struck-off percentage should not be read as "death rate", as striking off by MCA will always underestimate the actual death rate due to the time lag in reviewing and striking off companies, and also because some companies may continue to fulfil compliance requirements despite not engaging in any business activities. Therefore, at any given point in time, the actual "death rate" would be higher than the struck-off percentage.

*Table 4.4 Total number and percentage of companies struck-off by age**

	Struck-off*		
Age	Number	As % of all PCs in same age category	Total PCs
< 2 yrs	3	0%	2,713
≥ 2 and < 5 years	72	2%	3,719
≥ 5 and < 10 years	310	38%	806
≥ 10 years	63	46%	136
Total	**448**	**6%**	**7,374**

** For simplicity, struck-off columns includes companies struck-off, underprocessof being struck-off and dormant companies; only 3 companies are dormant, 22 companies in the process of being struck-off and the rest have been struck-off.*

4.6 Number of Shareholders

The number of shareholders in a producer company can range from 10 (which is the minimum required to register a PC) to over 100,000 for a large milk producer company like Sri Vijaya Visakha Milk Producers Company (Ramana n.d.). Most typical companies have a few hundred shareholders; it is usually only large milk producer companies which have more than 10,000 shareholders.

Information about the numbers of shareholders is not available in the MCA spreadsheets. However, NABARD, SFAC and a few other institutions disclose shareholder/ membership information for FPOs promoted by them, a cumulative figure which includes PCs, cooperatives, societies and other types of organisations.

Table 4.5 Distribution of NABARD supported farmer producer organisations by membership

No. of shareholders or members	Distribution of FPOs
Upto 50	16%
51-100	14%
101-500	56%
501-1000	13%
Above 1000	1%
All membership categories	**100%**

Source: Table 2.2, NABARD Annual Report 2017-18

As shown in Table 4.5, NABARD reports that 86% of FPOs supported by it have 500 or fewer members of shareholders (NABARD 2018a). Only 1% of FPOs have more than 1000 shareholders or members.

NABARD reports that as of March 31, 2019, it had promoted 2075 FPOs with a total of 7.65 lakh "shareholder-members" (NABARD 2019). From this we can calculate the average number of shareholders per FPO promoted by NABARD to be 369.[3]

Like NABARD, SFAC also does not report the number of producer-shareholders separately for producer companies. As of July 31, 2019, SFAC had supported 819 registered FPOs covering 8.2 lakh producers (SFAC n.d.). Thus, the average number of shareholders/ members per SFAC supported FPOs was 997.

Taking a weighted average of NABARD and SFAC supported companies (and assuming that the FPO average can be applied to FPCs), we arrive at an average number of 582 shareholders per producer company (see section 3.6). Multiplying this by 7374 companies in our database, we estimate that the total number of shareholders in producer companies in India to be about 4.3 million[4]. In other words, we estimate that over 4.3 million small producers in the country have become members of and contributed share capital towards 7374 producer companies.

4.7 Summary

In summary, 7374 producer companies have been registered in India as of March 31, 2019 with a total of 4.3 million shareholders. There is a strong geographical skew in their locations across states and across districts within states. Roughly a quarter of the companies are in Maharashtra and another quarter in UP, MP and Telangana combined. District-wise analysis shows that it is not necessarily the districts with the largest number of farmer-producers which have the largest number of PCs. Many districts with large number of producers have hardly any producer companies. Such disparities point towards a need for re-assessing the geographical focus of PC promotion efforts.

[3] Here we are assuming that the average number of shareholders in FPCs is the same as that in all FPOs.

[4] In some producer companies, shares are held directly by individual shareholders, while in others they are held collectively by cooperatives, farmer groups, SHG groups, and in some cases, even other FPCs. For the purpose of the analysis above, we have focused on the effective size of producer membership as the capital is contributed ultimately by the members of these groups.

5. Financial Viability of PCs[1]

Multiple factors impact the financial viability of producer companies, of which operating model and capitalisation are two of the most important. The operating models of producer companies depend on their choice of commodities, range of activities, extent of value addition, diversity of income sources and the degree of collaboration with other producer companies. It is important to note that in the case of producer companies, the operating models also determine the frequency of transactions with members and influence producer loyalty and patronage, which in turn contribute to overall financial viability of PCs.

Financial viability also entails companies to have adequate capital to initiate and sustain operations and generate returns for their shareholders. While capital is not the sole determinant of a company's viability, it contributes to companies' potential to grow their procurement, turnover, profitability and extend the scope and scale of their operations as well as attract professional management over time.

This chapter presents findings related to producer companies' operating models and capitalization[2]. Through more than 100 interviews, we aimed to understand the various operating models and their associated challenges. And, using the database and other secondary data, we examined the capitalisation of producer companies across India. Together, these findings help create a larger understanding of viability challenges confronting producer companies in India.

5.1 Operating Models

Shareholders of PCs are also their suppliers of primary produce and consumers of services such as inputs, crop insurance, etc. PCs are dependent on their producer-members for their procurement volumes, which determine turnover and profitability. PCs can also increase their revenue by ensuring that producer-members buy inputs and other services from them. Therefore, it is important for companies to sustain producer loyalty and patronage. Maintaining producers' interest in transacting with PCs (called 'patronage') can be a challenge if competitors offer better prices or convenience. Generally, frequent transactions with members strengthen member loyalty over time. Member loyalty is also partly influenced by the companies' choice of operating model itself.

[1] Some parts of this chapter are largely taken from Neti, Govil and Rao (2019).

[2] While the quantitative data presented in this chapter covers both farm and non-farm companies, most of the discussion focuses on farmer producer companies since they constitute more than 92% of producer companies (see Chapter 6).

PCs engage in a variety of business activities. Farmer producer companies are involved in bulk procurement of inputs, primary produce trading, value addition and provide additional services such as extension services, crop insurance, etc. Non-farm producer companies are engaged in weaving, garment production, footwear production and other activities. Producer companies may work with either single or multiple commodities. While most PCs work as stand-alone entities, some operate as part of a tiered structure comprising multiple PCs with differentiated activities and responsibilities.

Therefore, in this section, we examine aspects of operating models which are of particular interest for understanding financial viability of producer companies, such as extent of value-addition, number of commodities, other services offered to members, and whether they work as stand-alone entities or as part of a multi-company tiered structure.

Extent of Value Addition

Many new FPCs start their operations with procuring inputs in bulk for their members. Many of them work as simple intermediaries in agricultural value-chains by aggregating produce and doing basic primary processing (such as grading and sorting). Some FPCs engage in value-addition such as pulping or juicing of fruits, chopping and freezing of vegetables, etc. Some FPCs go further and produce ready-to-eat or ready-to-cook products such as breakfast cereals and mixes, tomato puree, etc. and non-food items such as natural *holi* colours.

Such value addition allows producer companies to capture a greater proportion of each rupee spent by consumers, thereby increasing returns to their member-producers. However, value addition also requires larger capital investment in machinery and other assets. Companies which are able to raise significant capital, are likely to generate additional revenues through value-addition and also generate employment for local youth and women in their processing units. However, as we will see later in this chapter, the majority of producer companies in India, are unable to do so.

Single vs. Multi-Commodity

In general, FPCs can work with either a single agricultural commodity or multiple commodities. Single-commodity FPCs (other than those dealing with milk and certain vegetables) face multiple challenges due to seasonality of production. For example, a paddy focused FPC's engagement with producers is limited to procuring produce once-a-year, which limits the potential for developing long-term relationship with producers. This may adversely impact the producers' patronage of the PC and result in producers selling their produce to buyers other than the FPC (i.e. impacting member loyalty). This, in turn, affects FPCs' business volume and profitability and also limits the benefits for their members.

Some single-commodity PCs try to overcome this challenge by engaging in delayed marketing or value addition. However, this poses a different kind of challenge. For instance, an FPC which processes mango pulp struggles with maintaining year-round capacity utilization of machinery and continuing the employment of staff during off-season. Therefore, many successful FPCs tend to work with multiple agricultural commodities to ensure better capacity utilisation of resources and greater patronage by their members.

Many successful FPCs tend to work with multiple agricultural commodities to ensure better capacity utilisation of resources and greater patronage by their members.

Additional Services

Some FPCs aim to diversify sources of income and customer base by selling their produce to a variety of buyers in wholesale *mandis*, large traders, restaurants and hotels, corporate bulk buyers or directly to consumers. Some FPCs in our study have become nodal agencies for procurement of agricultural commodities at Minimum Support Prices (MSP).

In order to increase incomes of member-shareholders or reduce costs or risks, many PCs undertake additional activities. Several have become licensed agents of agricultural input manufacturers or crop insurance companies; a few have acquired licenses for setting up diesel/ petrol bunks to supply fuel for farm machinery for members and non-members. Such diversification helps minimize the disadvantages of working with seasonal produce, by creating more avenues for engagement with members throughout the year and also generating additional sources of income for the company. In some FPCs which were part of our study, such revenue streams surpassed the revenue generated by sale of primary produce.

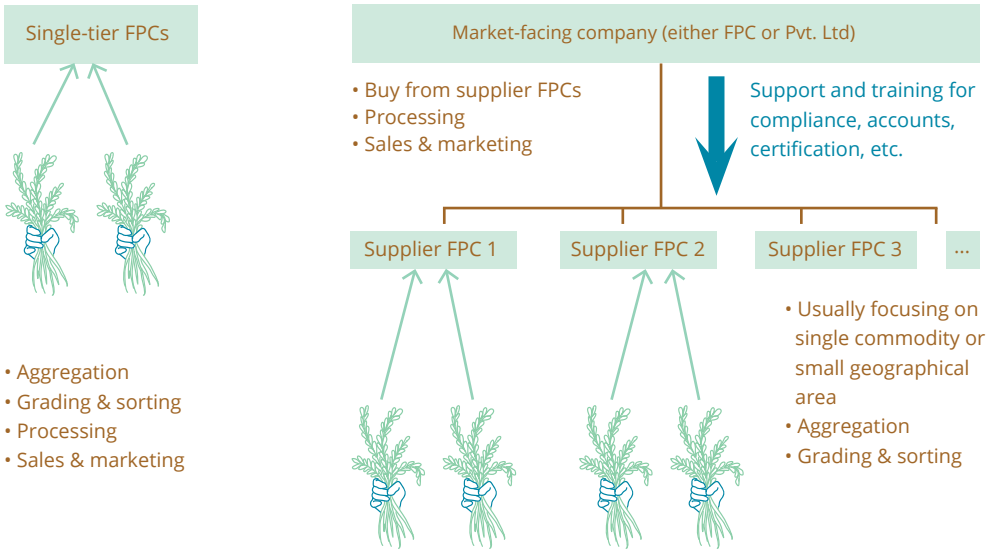
A few FPCs and their promoters are going beyond business activities and engaging in advocacy, education and knowledge creation. For example, one FPC in Odisha is procuring medicinal herbs from *adivasi* members and is working with government bodies for obtaining intellectual property protection for indigenous herbs. It is facilitating participatory documentation of local health traditions and scientific testing of traditional remedies. It is also working with about a thousand schools to incorporate knowledge of traditional healing practices into the local school curriculum. Another FPC in Maharashtra which was also part of our study, is establishing a centre for training rural youth in agricultural processing and related activities, to create more opportunities for employment and entrepreneurship locally.

Integrated vs. Two-tier Model

While most PCs work as stand-alone entities (single-tier model), many operate as part of a tiered structure (two-tier model) comprising multiple PCs with differentiated activities and responsibilities. In a single-tier model, one FPC handles the entire range of business activities from procurement to marketing. This model is particularly common in the dairy sector, where dairy FPCs do everything from procurement of raw milk, to chilling, pasteurization and production of value-added products and marketing of these products.

In a two-tier model, there are multiple "supplier FPCs" supplying agricultural commodities to a "market-facing company" which is responsible for value-addition and marketing[3] (Figure 5.1). The supplier FPCs typically focus on procuring a single agricultural commodity from their shareholders and selling to the market-facing company. The market-facing companies act as assured buyers for the supplier FPCs (usually with some minimum quality requirements). They process the commodities and try to sell them to large traders, corporate buyers, retailers and, in some cases, exporters. The market-facing companies are registered either as PCs or private limited companies. In some cases, supplier FPCs own a few shares in the market-facing companies. State-level federations often act as market-facing companies with member-FPCs acting as the supplier-FPCs.

Figure 5.1 Illustrative diagram comparing the distribution of business activities in single-tier and two-tier operating models



One of the biggest challenges of FPCs is raising large amounts of capital for their operations, either for procuring large quantity of produce or for value addition. This requires the creation of either a single-tier FPC with a large capital base or a two-tier structure which allows infusion of external capital.

In a few cases covered in our study, single-tier FPCs were able to raise capital by inducting a large number of small shareholders or by including significant number of medium and large farmers as shareholders. Convincing a large number of small producers to join an FPC takes multiple procurement cycles which happens faster in dairy as the procurement happens daily, but much slower in cultivation because typically procurement happens once a year. Therefore, it is possible to find more than 10,000 shareholders in dairy PCs but only about 1000 shareholders even in many large cultivator FPCs. The second approach of raising capital by including large farmers as shareholders is more uncommon. Our discussions

[3] While the section describes two-tier model only for FPCs, this model is also prevalent among non-farm PCs, especially in textiles sector.

with stakeholders reveal that this is because most NGOs which promote FPCs are reluctant to induct large farmers because they imagine that FPCs will eventually grow into local institutions which empower marginal and small farmers (see more on 'normative imaginations' of stakeholders in Chapter 7).

In the case of a two-tier model, we have seen FPCs attract significant capital in two ways. One way was to register the market-facing company as a private limited company with non-producer shareholders. This was prevalent in FPCs promoted by social enterprises. The second way was to register the market-facing company as FPCs comprising mostly large farmers as shareholders.

Furthermore, in a two-tier model, market-facing companies are able to reduce overall costs by providing shared accounting and compliance services to all supplier FPCs, the total cost of which can range from Rs. 0.5 lakh to Rs. 2 lakh per company per annum. They are also able to help supplier companies improve quality, adhere to customer requirements (e.g. certifications for export), introduce technology for operations management and processes for better internal governance.

In a two-tier model, market-facing companies are able to reduce overall costs by providing shared accounting and compliance services to all supplier FPCs.

Another challenge faced by single-tier FPCs is their inability to attract, retain and pay for experienced professionals. Here too, the two-tier model can help, by making it easier to bring in professional expertise. For example, market-facing companies in a two-tier model can hire CEOs and other management professionals with business expertise and acumen, who are also able to leverage their business networks for the benefit of member companies. Such arrangements benefit all member PCs through sharing of expertise and costs.

In summary, our study shows that the two-tier model is better suited for cultivation-focused companies. This is for many reasons: raising greater capital, providing support services, attracting and retaining talent, better market linkages and sharing costs. In the long run, a two-tier model has the potential to enable member companies to scale-up compared to small stand-alone FPCs.

5.2 Paid-Up Capital: Overview

Most FPCs have an average of 200-500 producers as shareholders, while a few have more than a thousand shareholders and some dairies have more than 10,000. The composition of shareholders varies significantly across FPCs. Some FPCs have only small and marginal farmers as shareholders, a few have a mix of small and large farmers and several restrict shareholding to certain categories, such as only women, only tribal producers, or only those farmers who can contribute a certain minimum amount of equity (e.g. one lakh rupees). NABARD (NABARD 2019), SFAC and NDDB Dairy Services (NDS) report that small and marginal farmers account for 70-80% of the shareholders of FPCs promoted by them[4].

[4] Field notes, 2019.

The top 20 companies contribute to more than half of the total PUC.

Registered producer companies in India have a total Paid-Up Capital (PUC) of about Rs. 860 crore, with an average of Rs. 11.67 lakh per company, per our database (Table 5.1). However, it is important to note that a few companies have very high PUC (as described below). For example, of the Rs. 860 crore PUC, Rs. 213 crore is for just one company, namely, Sri Vijaya Visakha Milk Producers Company Ltd. The PUC of top 20 companies including Sri Vijaya Visakha adds up to Rs. 502 crore, amounting to more than half of the total PUC. At the other extreme, there are 189 companies with Rs. 1000 or less PUC each. Therefore, rather than an average, it is better to examine the median PUC, which is Rs. 1.06 lakh for all registered companies and Rs. 1.10 lakh for companies with registration status as 'active'.

Using the total estimated number of shareholders, we calculated the average share capital per shareholder to be Rs. 2003 for all registered PCs and Rs. 2092 for all 'active' PCs. Here too, median would be the more appropriate measure, which was not possible to calculate as shareholder data is not available for each company. If we divide the median PUC per company by the average number of shareholders, these numbers drastically drop to Rs. 182 and 189. Our qualitative interviews show that these reduced numbers may be closer to reality. However, we should be wary of drawing any conclusions and treat these numbers as indicative only.

Table 5.1 Aggregate characteristics of producer companies registered as of March 31, 2019

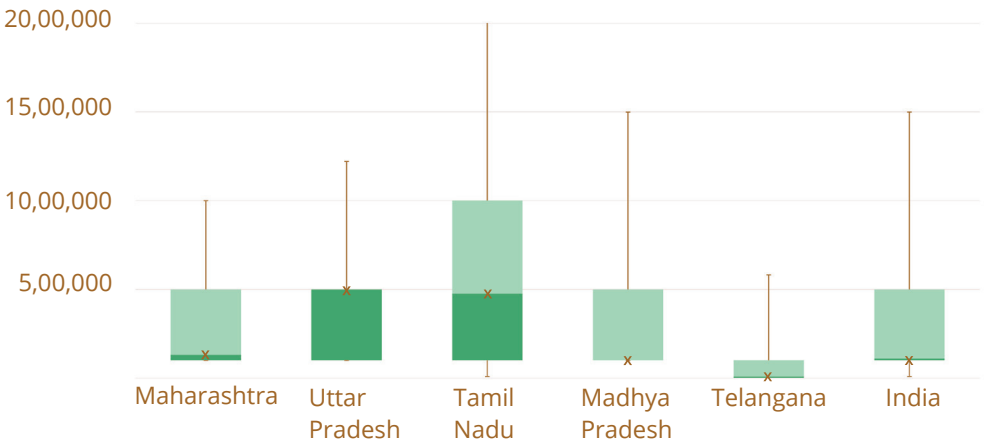
	PCs registered	PCs with 'Active' status
Total number of producer companies	7374	6926
Ave. number of shareholders per company (est.)*	582	582
Total number of shareholders (est.)	43 lakh	40 lakh
Total paid-up capital (PUC)	Rs.860.18 crore	Rs. 843.96 crore
Ave. PUC per producer company	Rs.11.67 lakh	Rs.12.19 lakh
Median PUC per producer company	Rs.1.06 lakh	Rs.1.10 lakh
Ave. PUC per shareholder (est.)	Rs.2003	Rs.2092
(Median PUC per PC) / Ave. shareholders per PC	Rs. 182	Rs. 189

** Calculated as weighted average of NABARD and SFAC shareholder patterns (see previous section)*

Since it does not make sense to analyse paid-up capital characteristics for companies which have been struck-off, the rest of the analysis presented in this section and most of the paper will be only for companies with 'active' status.

Figure 5.2 shows the distribution of PUC across all active companies in top 5 states and all India. As mentioned above, the distribution of PUC is highly skewed across India: Across the top 5 states, median PUC varies from Rs. 10,000 to Rs. 5 lakh. Tamil Nadu has many companies with high PUC while Telangana has mostly smaller ones. Most of the Telangana PCs are very young (less than two years) and were formed after MCA eliminated the minimum PUC requirement as described later in this paper. Such differences in median PUC across states reflect the different histories and methods of PC promotion in these states.

Figure 5.2 Distribution of PUC of PCs in top 5 states and all India (for active PCs only)



Note: The box extends from 25th to 75th percentile, while the 'whiskers' indicate extent of the 5th and 95th percentile. Line with an 'x' indicates median. 95th percentile for Tamil Nadu is at 20.5 lakh.

As mentioned earlier, this quantitative study of data on producer companies is part of a larger study, which included over 100 interviews with shareholders, board of directors and promoters of producer companies, including visits to 18 producer companies' locations. These interviews revealed a wide range of shareholding patterns among producer companies. For example, in one of the companies we visited, the share capital per farmer was around Rs. 200, while in another it was around Rs. 1 lakh.

To analyse the distribution of paid-up capital across all PCs in further detail, we classified producer companies into four categories of paid-up capital: Category A with PUC of 50 lakh or more, Category B with PUC of 25 lakh (inclusive) to 50 lakh (exclusive), Category C with PUC of 10 lakh (inclusive) to 25 lakh (exclusive) and Category D with PUC of less than 10 lakh. Table 5.2 shows that about 86% of 'active' PCs are very small, with less than Rs. 10 lakh of paid-up capital, falling in Category 'D'. Only about 2.6% of active companies have PUC greater than Rs. 25 lakh, and fall in Categories 'A' or 'B'.

Only about 2.6% of active companies have PUC greater than Rs. 25 lakh.

Table 5.2 Number of PCs by paid-up capital (active status companies only)

PUC category	Definition	No. of 'active' PCs	% of total
Category A	PUC ≥ 50 lakh	90	1.3%
Category B	PUC ≥ 25 and <50 lakh	87	1.3%
Category C	PUC ≥10 and <25 lakh	767	11.1%
Category D	PUC < 10 lakh	5982	86.4%
	Of which:		
	PUC ≥ 5 and < 10 lakh	1465	21.2%
	PUC > 1 and < 5 lakh	1146	16.5%
	PUC = 1 lakh	2680	38.7%
	PUC < 1 lakh	691	10.0%
All categories		**6926**	**100.0%**

Percentages may not add up to 100% due to rounding

Large PCs (Category A) appear to be concentrated in a few states (Table 5.3). Kerala has the greatest number of large producer companies in Category 'A', with PUC more than Rs. 50 lakh. Many of these companies have been promoted under various government schemes, such as those under Coconut Development Board. We visited one such coconut producer company and found that the average share capital contributed per member was about Rs. 5400 with the minimum being Rs. 2500 and maximum being Rs. 1 lakh. Many of the shareholders in the coconut PC were engaged in full-time jobs with coconut farming being a secondary source of income. This additional source of income may partially explain their capacity to contribute higher share capital, compared to the average small producers.

Table 5.3 Top 10 states with most number of Category A PCs (companies with 'active' status only)

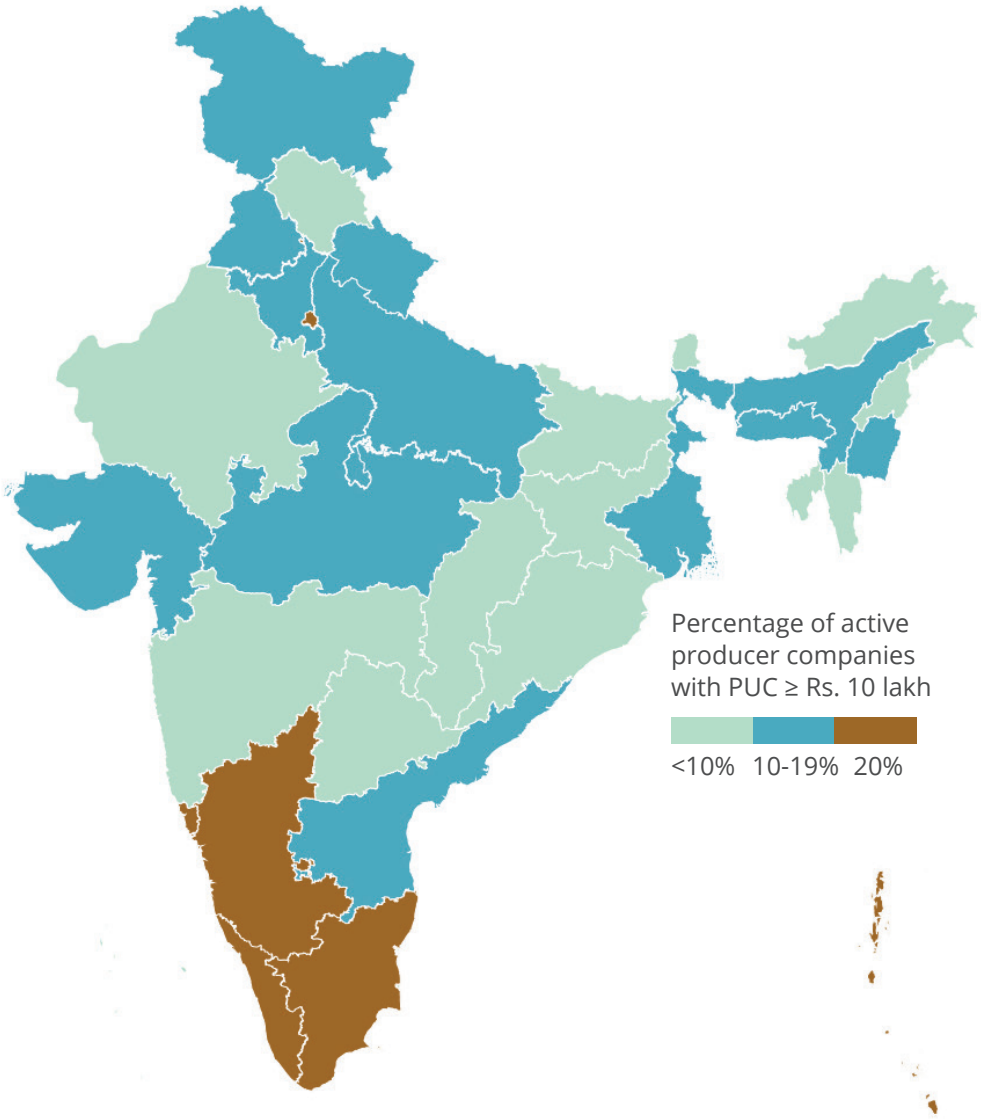
	PUC Category				
	A (≥50)	B (≥25 and <50)	C (≥10 and <25)	D (<10)	Total PCs
Kerala	28	16	28	133	205
Maharashtra	11	17	126	1723	1877
Tamil Nadu	5	14	135	333	487
Madhya Pradesh	5	5	35	368	413
Haryana	5	4	38	251	298
Telangana	5	2	10	383	400
Andhra Pradesh	5	2	10	207	224
Karnataka	4	5	125	225	359
Rajasthan	4	1	16	307	328
Assam	3	4	9	91	107

Includes only companies with 'active' status

Despite the largest number of PCs having been registered in Maharashtra, the number of PCs with share capital greater than Rs. 50 lakh is only 11, which is less than half that of Kerala. Other states have even fewer number of large companies. Interestingly, Uttar Pradesh, the state with second largest number of PCs, does not feature in this list of top 10 states with the most number of Category A PCs (Figure 5.3).

In fact, only 8% of PCs in Maharashtra have PUC of Rs. 10 lakh or more. The southern states have better capitalised companies on average: Of the active producer companies in Karnataka, Kerala and Tamil Nadu have about one-third have Rs. 10 lakh or greater PUC, which more than the national average of 14%. In contrast, the proportion of well-capitalised companies in states such as Odisha, Telangana and Rajasthan is less than half the national average.

Figure 5.3 Percentage of active producer companies with PUC ≥ Rs. 10 lakh



Note: The map is based on Census 2001 district boundaries. Data for districts created after Census 2001 have been combined with previous district boundaries.

State	Active producer companies			% PCs with PUC ≥ Rs. 10L
	PUC ≥ Rs. 10L	PUC < Rs. 10L	Total	
Karnataka	134	225	359	37%
Kerala	72	133	205	35%
Tamil Nadu	154	333	487	32%
West Bengal	48	203	251	19%
Uttar Pradesh	111	579	690	16%
Haryana	47	251	298	16%
Madhya Pradesh	45	368	413	11%
Bihar	25	263	288	9%
Maharashtra	154	1723	1877	8%
Andhra Pradesh	17	207	224	8%
Rajasthan	21	307	328	6%
Telangana	17	383	400	4%
Orissa	12	332	344	3%
All India	**944**	**5982**	**6926**	**14%**

For states with more than 200 active PCs

It is important to note that larger PUC need not necessarily imply greater turnover and profitability. However, it does indicate availability of funds for higher trading volumes, investment in fixed assets, value addition and other purposes. In principle, it also indicates the possibility of leveraging the capital to raise working capital and term loans for business operations. In addition, PUC is also a measure of farmers' commitment to the PC. Thus, PUC indicates the possibility of a business growing, generating returns for shareholders and becoming viable in the long-run (but does not guarantee it).

One of the main reasons for promoting producer companies is that they offer an avenue for pooling small amounts of capital from large numbers of people into greater sums for creating scalable and viable businesses. However, as shown above, the majority of companies are under-capitalized. One promoting institution we interviewed, which has promoted more than a hundred companies estimates that an FPC working with foodgrain farmers requires funds of at least Rs. 30,000 per member (Rs. 10,000 for providing inputs and Rs. 20,000 for trading in foodgrains). This implies that a small FPC with 200 members would require Rs. 60 lakh for smooth operations. And, for early stage PCs, NABKISAN estimates that Rs. 15-20 lakh is required to commence operations, of which 3-5 lakh must come from equity which can be leveraged 4:1 for loans (NABKISAN n.d.).

59% of older companies (10+ years) continue to have PUC of less than Rs. 10 lakh.

But the current median PUC is only about one lakh rupees, which is much lower than that needed for commencing and maintaining business activities at reasonable scale. It is unlikely that the such a large deficit can be filled by loans.

Next, we examine whether PUC increases with age of producer companies.

Table 5.4 shows that it does: Among older companies, a larger percentage have PUC greater than 50 lakh compared to younger companies. However, despite this broad trend, we find that 59% of older companies (10+ years) continue to have PUC of less than Rs. 10 lakh.

Table 5.4 Distribution of producer companies by PUC and age

	Age of producer company				
PUC Category	< 2 years	≥ 2 and < 5 years	≥ 5 and < 10 years	10+ years	All ages
A ≥ 50 lakh	1%	1%	6%	23%	1%
B ≥ 25 and <50 lakh	0%	1%	6%	5%	1%
C ≥ 10 and <25 lakh	8%	13%	18%	12%	11%
D <10 lakh	92%	85%	71%	59%	86%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Includes only those companies with 'active' registration status
Percentages may not add up to 100% due to rounding

PUC also appears to be linked with the likelihood of being struck-off. Our analysis shows that among PCs which are 5 years or older, the likelihood of being struck-off decreases with higher PUC: About 45% of Category D companies have been struck off but only 4% of Category A companies have been struck-off. This could be due to multiple reasons. It could be that companies with greater capital are likely to have more robust business operations while under-capitalized companies may be struggling to keep their business afloat. Or it could be that companies with larger capital base may have more established operations, and can afford to hire accountants to prepare and submit audited financials to MCA and meet compliance requirements. This relationship might also be due to another factor: It is possible that some resource institutions may promote robust companies which have both characteristics (higher PUC and better compliance with MCA requirements).

5.3 Top 20 Producer Companies, by PUC

We examined the largest 20 producer companies with the highest paid-up capital, to get a better understanding of the characteristics of these companies. As shown in Table 5.6, eight of the top 20 companies are less than 5 years old, which shows that many of these companies were able to raise significant amount of capital fairly quickly. Their combined paid-up capital is Rs. 502 crore, amounting to almost 60% of the total PUC of all companies.

Their combined paid-up capital is Rs. 502 crore, amounting to almost 60% of the total PUC of all companies.

Seven of the companies are located in Kerala and supported by the Coconut Development Board. In terms of sectoral activities, out of the top 20 companies, 10 are dairies[5], 8 are plantations (mostly coconut), one is cultivation related (fruits and vegetables) and one works on poultry. Five of the dairies are older cooperatives which have subsequently been converted to PCs. The Madhya Pradesh Poultry company was also converted from a cooperative to PC. It seems that cultivation focused companies find it difficult to raise large amounts of capital as only one cultivation company appears in the top 20. It also is pertinent to note that Sahyadri FPCL, the only cultivation company in the top 20, is a self-funded company with more than 8000 shareholders, several of whom are large farmers who have contributed tens of lakhs (or more) in share capital (Sahyadri FPCL n.d., Sahyadri FPCL 2018).

[5] The two Karimnagar PCs appear to be sister companies, with 3 shared directors. However, they have distinct CINs and financials. The second company appears to have been formed later, focusing on processing milk into value added products.

Table 5.5 Top 20 producer companies with the largest paid-up capital

Company name	Paid Up Capital (Rs. Crore)	Sector	Women only	Registration	State
Sri Vijaya Visakha Milk Producers Co.	213	Dairy		FY06	Andhra Pradesh
Sahyadri Farmers Producer Co.	55	Fruits & veg		FY11	Maharashtra
Sangam Milk Producer Co.	50	Dairy		FY14	Andhra Pradesh
Paayas Milk Producer Co.	37	Dairy		FY13	Rajasthan
Maahi Milk Producer Co.	35	Dairy		FY13	Gujarat
Saahaj Milk Producer Co.	23	Dairy		FY15	Uttar Pradesh
Karimnagar Milk Producer Co.	16	Dairy		FY13	Telangana
Shreeja Mahila Milk Producer Co.	14	Dairy	Yes	FY15	Andhra Pradesh
Baani Milk Producer Co.	10	Dairy		FY15	Punjab
Shree Chhatrapati Shahu Milk & Agro Producer Co.	10	Dairy		FY09	Maharashtra
Madhya Pradesh Women Poultry Producers Co.	6	Poultry	Yes	FY07	Madhya Pradesh
Karimnagar Milk Farmers Development Producer Co.	5	Dairy		FY17	Telangana
Vadakara Coconut Farmers Producer Co.	4	Coconut		FY16	Kerala
Begoti Tea Producer Co.	4	Tea		FY14	Assam
Palakkad Coconut Producer Co.	4	Coconut		FY14	Kerala
Perambra Coconut Producer Co.	3	Coconut		FY15	Kerala
Thirukochi Coconut Producer Co.	3	Coconut		FY14	Kerala
Tirur Coconut Producer Co.	3	Coconut		FY15	Kerala
Onattukara Coconut Producer Co.	3	Coconut		FY15	Kerala
Kaipuzha Coconut Producer Co.	3	Coconut		FY14	Kerala

Most of the top 20 companies appear to have received some form of government support, either during their time as cooperatives or as producer companies (or both). While one cannot attribute their achievements to government support alone, most companies we interviewed valued the government support they received during their formative years.

5.4 Companies with Low Paid-Up Capital

As noted above, 86% of producer companies have PUC lower than Rs. 10 lakh. Therefore, it is worthwhile to examine companies in Category D more closely. Table 5.6 shows that 42% of Category D companies are less than 2 years old. But the vast majority (58%) are 2 years or older and apparently have been unable to increase their capital to a significant level over the years.

Table 5.6 Age distribution of companies less than Rs. 10 lakh of PUC (active companies only)

Age Category	Number	% of total
< 2 yrs	2,484	42%
≥ 2 and <5	3,101	52%
≥ 5 and < 10	354	6%
≥ 10	43	1%
All ages	**5,982**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

We further classified Category D companies further into 4 categories, namely, companies with PUC below 1 lakh, with exactly 1 lakh, between 1 and 5 lakh, and between 5 to 10 lakh (Table 5.2). About 21% of all companies have PUC between 5 and 10 lakh. Thirty-nine percent of the 6926 active PCs have a PUC of exactly 1 lakh. This is understandable because until recently companies needed a minimum PUC of 1 lakh to be able to incorporate under the Companies Act (this was applicable for all companies, not only producer companies). Therefore, it is not surprising that a large number of companies were registered with this level of PUC. However, it is worth noting that these companies have not increased their PUC since then. The requirement of Rs. 1 lakh minimum PUC for incorporation of companies was eliminated in 2015 for all private limited companies, not only producer companies (GOI 2015).

To put it differently, we can conclude that out of 6926 active producer companies, 3498 (51%) continue to have very low level of paid-up capital even 2 or more years after their incorporation. This is worrying because such low PUC limits a company's ability to carry out business activities (see later 'Discussion' section on under-capitalized producer companies).

5.5 Discussion: Under-capitalized Producer Companies

Central and state governments appear to view producer companies as key to improving small producers' incomes. They have spent over Rs. 2000 crore to promote and support producer companies over seventeen years (approximately Rs. 30 lakh per PC), through NABARD, SFAC and various government departments such as Department of Horticulture and others[6]. Many private philanthropies and CSR organisations have also funded producer companies.

[6] See Chapter 3.

The outcome of this tremendous effort has been the incorporation of over seven thousand producer companies covering an estimated 4.3 million small and marginal producers as their shareholders. The typical producer company in India today is engaged in farm-related activities and has paid-up capital of about Rs. 1 lakh. This amount is inadequate to carry out substantial business activities, or have a significant impact on incomes of their members. Previous studies have also pointed out that equity mobilization of PCs must be higher in order to create and sustain member loyalty and patronage (Kanitkar 2016, Singh 2016).

While paid-up capital is not a determinant of a company's success, it does indicate the potential of a company in terms of its trading volumes, turnover, ability to raise working capital and term loans, etc. Our interviews with a large number of producers, board members, CEOs, promoting institutions, funders and other stakeholders also validate these findings: most companies with low paid-up capital are struggling to initiate and maintain business operations.

In principle, there are five ways to increase funds available to a company: a) increase contribution from members, b) equity grants, c) leverage equity to avail of term loans, d) raise working capital loans, and e) generate surplus by running a profitable business.

Our discussions with promoters and producers revealed that producers are hesitant to contribute share capital to young companies, especially if they do not perceive significant benefits. This is consistent with observations made in previous papers (Kanitkar 2016). In fact, in order to build up equity, many companies resort to deducting share capital amount from money payable to members for produce supplied. In a few companies promoted by well-off farmers, there have been instances where some members paid the share capital on behalf of others to register the PC and commence operations.

The second approach of equity grants has been tried by SFAC and others to help PCs with small producers increase their equity. Before proceeding further, it is useful to understand the desired level of equity required by an FPC which is just beginning operations. As discussed above, NABKISAN estimates that new PCs require Rs. 15-20 lakh for starting operations, with at least 3-5 lakh coming from equity (NABKISAN n.d.) and the rest from debt. Currently, the typical median producer company has a PUC of only Rs. 1.10 lakh leaving a gap of about ~ Rs. 3 lakh. If this equity gap has to be raised from grants, a one-to-one equity grant is inadequate; instead it would require a 3:1 match. In any case, such equity grants have multiple eligibility criteria (and, rightly so), therefore many PCs do not qualify for them.

An alternative could be to enable external capital to be invested in FPCs: NABARD has proposed amending the Companies Act to make provision for equity participation by private investors to strengthen FPC balance sheets and improve their commercial viability, along the lines of the finance ecosystem for commercial start-ups (NABARD 2019). In such a scenario, the social objectives of the FPCs can be maintained by enabling external investment through a different class of shares (for example, shares with no voting rights) and restricting the maximum amount of equity per external investor relative to farmers' equity.

"Policymakers should consider allowing external capital in PCs through a class of non-voting shares, with restrictions on the maximum amount of equity per external investor, relative to farmers' total equity."

The third and fourth approaches for increasing funds are through short and long-term loans. Most PCs do not have enough equity or fixed assets to raise loans. Banks are extremely hesitant to offer loans to producer companies even against inventory as collateral. And, despite initiatives such as credit guarantee schemes and inclusion of loans up to Rs. 2 crore for FPOs under priority sector lending (RBI 2015), formal financial support for FPOs remains weak. According to NABARD, "Lack of funds is often one of the constraints reported by FPOs. Access to affordable credit is limited for want of collateral and credit history" (NABARD 2018). This point was also reiterated by almost all the respondents during our visits and interviews with farmers, PC board members and promoting organisations.

As formal financial sources are not easily accessible, some PCs resort to borrowing from informal sources. In our study, we encountered one case where the village *Pradhan* who was also a member of the producer company extended a loan to the company from his personal funds. In another case, a large local trader contributed a significant amount of share capital as a 'gesture of goodwill' and support even though he conducted his personal trading activities outside of the company.

We also came across multiple cases where SHG federations gave working capital loans to affiliated 'sister' PCs with largely overlapping membership. This is a risky approach as the source of funds for SHG federations are savings of members, who are already financially vulnerable and may not be in a position to evaluate the risk / return of lending to PCs; any default by the PC would result in a loss of their savings (Govil and Neti n.d.). Furthermore, in principle, SHG federations are expected to lend only to their member groups and not to external entities such as FPCs, despite significant overlap in membership.

The fifth approach of generating surplus to fund the business seems to be a distant goal as of now for most producer companies. Often these companies struggle to run business operations (for lack of working capital) and generate profits. In fact, in many cases, instead of increasing equity through retained earnings, their total equity is eroding due to repeated losses (as evident in their balance sheets).

Thus, for producer companies with low equity, none of the above approaches for raising funds seem feasible. As a result, companies find themselves limited by shareholder equity as the primary source of funds. For example, imagine a company with 200 shareholders, with an average share capital of Rs. 500 per shareholder, for a total of Rs. 1 lakh. With such limited funds, such a company will be able to procure only a small amount of inventory, comprising only a small percentage of the produce of its shareholders, and thus contribute only an insignificant amount to the producers' total annual income. It is difficult to imagine how such a company can survive, let alone grow its operations, turnover and profit. It is pertinent to repeat here that 49% of 6926 active producer companies have PUC of Rs. 1 lakh or less and would find themselves in such a situation. As pointed out earlier in this chapter, a few PCs which are part of a two-tier model are able to overcome this challenge if the market-facing company is well funded.

Of course, in addition to adequate finance, producer companies also need many other kinds of support. They need strong guidance in analysing business potential, planning operations, achieving financial viability, and instituting strong governance and regulatory compliance mechanisms. They also require an accessible business ecosystem of suppliers, traders, value-addition and processing partners, as well as a well-trained talent pool for managing operations (Govil 2018). Access to finance is necessary but not sufficient for business initiation and growth. However, the absence of adequate finance (in the form of capital or debt) makes most producer companies unable to even start operations at a meaningful scale, leaving them sub-scale or practically defunct.

5.6 Summary and Recommendations

The median share capital per producer company is quite low, at approximately Rs. 1.1 lakh. 86% of producer companies have PUC lower than Rs. 10 lakh and do not have the minimum required capital to start operations at meaningful scale. This thwarts the attempts of various government and non-government stakeholders to increase small producers' incomes. There are multiple possible ways to address undercapitalisation: introducing a different class of shares with no voting rights, larger equity grants offering more than a 1:1 match and multiple types of working capital and term loans with and without credit guarantees.

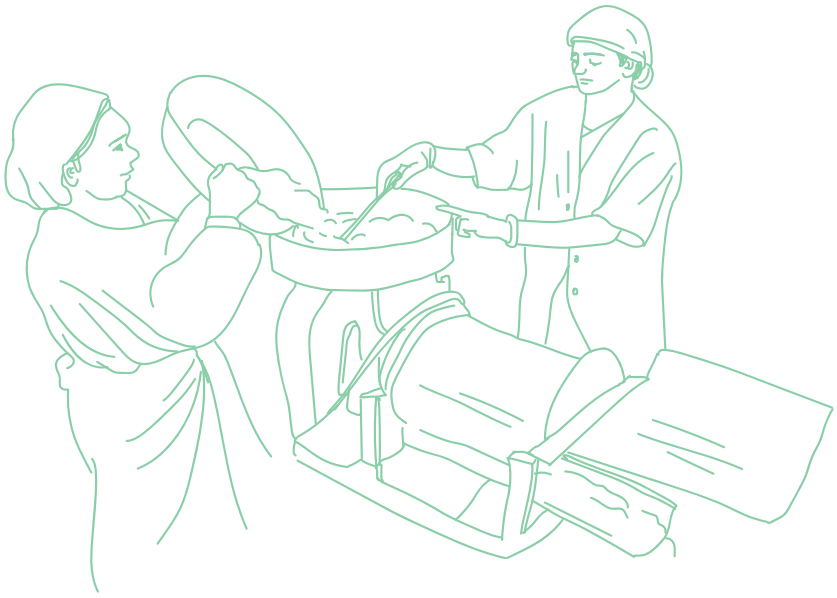
As noted above, financial viability of producer companies depends largely on their capitalisation and operating model. The most desirable operating models are those that involve frequent transactions with members, increase their incomes significantly and attract large amount of capital and loans. Often this requires PCs to procure multiple commodities from their producers, offer a diverse set of services and undertake processing and value-addition. Companies which are able to do this are in a better position to hold their members' loyalty and patronage.

In districts and blocks with large number of subscale PCs, it may be prudent to consolidate multiple PCs into one reasonably sized company with higher number of members and more share capital. Consolidation across multiple commodities will also help utilizing the same capital for procurement of different commodities at different times during the year. A stronger balance sheet and increased business activities would also improve the likelihood of the consolidated FPC attracting formal sector loans. In fact, it appears that the Government of Madhya Pradesh and one other social sector resource institutions are thinking along similar lines, and attempting to scale-up existing PCs by adding new members rather than promoting new ones.

Financial viability of PCs can also be improved through two-tier operating models which bring multiple benefits to their member PCs. Since the market-facing companies in two-tier models are usually better capitalised, they are able to attract experienced talent with business acumen and provide value-addition and better market linkages. They are also able to reduce costs through shared services for accounting, regulatory compliance, certification, etc. and help member companies set-up strong governance processes.

Some undercapitalized companies may continue to struggle due to weak business potential and erode shareholder equity despite such efforts. It may be necessary, in such cases, to close down such producer companies and transfer any remaining funds back to the producers.

Producer-shareholders of producer companies have invested a total of Rs. 860 crore as share capital in 7374 companies. This is substantial considering that most of the shareholders are small producers with limited savings. Since this amount is quite significant (even in comparison to the estimated Rs. 2000 crores spent on mobilisation and support of PCs by government and non-government stakeholders), it is imperative to refine the design of producer companies to create operational conditions which enable their success.



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6. Selected Categories of PCs

In this section, we discuss characteristics of selected categories of PCs, namely, those engaged in dairying, non-farm livelihoods, and those owned exclusively by women producers.

The identification of sectoral activities of companies is rather difficult as the activity code designated for many companies in their registration forms is unreliable. Therefore, instead of MCA activity codes, we relied on words in the names of companies (e.g. farmers, vegetable producers, dairy, weavers, *hastkala*, etc.) and activity information included in company lists published by various funding and promoter organizations. In some cases, we were able to get information on sectoral activities from company websites and other information on the internet. Out of 6926 active producer companies, we were able to identify sectoral activities of 93% of the companies.

6.1 Milk Producer Companies (Dairies)

Milk producer companies were identified based on words (e.g. milk, dairy, *doodh*, *dugdh*, etc.) in their names, lists of PCs and their activities published by various institutions, and information available on company websites. There are 210 milk producer companies (MPCs) with active status, corresponding to about 3% of all active producer companies in India. Most MPCs are quite young, having been registered less than 5 years ago (Table 6.1).

Table 6.1 Age of Milk Producer Companies with active status

Age of MPCs	Number	Percentage
< 2 years	47	22%
>=2 and <5 years	124	59%
>= 5 and < 10 years	28	13%
>=10 years	11	5%
All ages	**210**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

The dairy PCs have contributed Rs. 437 crore in PUC, constituting about 52% of the total PUC of all 6926 active PCs.

More than half the active MPCs are in just four states: Maharashtra, Rajasthan, Madhya Pradesh and Uttar Pradesh (Table 6.2). The dairy PCs have contributed Rs. 437 crore in PUC, constituting about 52% of the total PUC of all 6926 active PCs. About 10% of milk producer companies have PUC greater than Rs. 50 lakh; this proportion is much greater compared to all producer companies (Table 6.3). The median PUC of milk producer companies is Rs. 2.63 lakh, which is more than 2.5 times that of all PCs. As mentioned earlier, 10 of the top 20 companies are dairies.

The larger PUC of dairies is not surprising, as dairies tend to have large number of shareholders which often results in greater PUC. Secondly, many milk PCs have been converted from older dairy cooperatives with significant membership and capital. Furthermore, even new dairies find it relatively easier to ramp up their membership and operations quickly because the dairy sector has a well-established blueprint for collectivisation, procurement, processing and sales.

Table 6.2 Milk Producer Company registrations by state (active companies only)

State	Number	Percentage
Maharashtra	35	17%
Rajasthan	28	13%
Madhya Pradesh	28	13%
Uttar Pradesh	26	12%
Tamil Nadu	15	7%
Haryana	13	6%
Bihar	12	6%
Others	53	25%
All states	**210**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

Table 6.3 Milk producer companies by PUC categories (active companies only)

	Dairies		All PCs	
PUC category	Number	Percentage	Number	Percentage
PUC ≥ 50 lakh	22	10%	90	1%
PUC ≥ 25 and < 50 lakh	7	3%	87	1%
PUC ≥ 10 and < 25 lakh	16	8%	767	11%
PUC < 10 lakh	165	79%	5982	86%
All Categories	**210**	**100%**	**6926**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

6.2 Non-farm Producer Companies

Only about 1% of all PCs registered (75 companies) are engaged in non-farm activities.

About 92% of all PCs registered are working on agriculture and allied activities, such as cultivation, plantations, dairies, non-timber forest produce, fish, poultry, etc. (Table 6.4). Only about 1% of all PCs registered (75 companies) are engaged in non-farm activities. Thirty companies are engaged in weaving and apparel-making, 19 in handicraft production, 6 in food processing (jams, pickles, etc.), and the rest in making agarbatti, footwear, etc.

The first non-farm producer company was registered on 27 August 2004 in Tamil Nadu – Kongu Weavers Producer Company, roughly 14 months after the first FPC. Currently this company has active status and paid-up capital of Rs. 6,50,500.

Table 6.4 Producer companies by sector (active companies only)

Sector	Number	Percentage
Farm	6391	92%
Non-farm	75	1%
Unclear sector*	460	7%
All sectors	**6926**	**100%**

** Refers to PCs whose sectoral activities could not be identified clearly*

Table 6.5 shows the PUC distribution of active non-farm companies: 5 companies have PUC greater than Rs. 25 lakh. Sixty-four producer companies (85%) have PUC of less than 10 lakh, a proportion similar to that of farm-based PCs. Table 6.6 shows that the majority of non-farm producer companies (76%) are 2 years or older.

Table 6.5 Non-farm producer companies, by PUC (active companies only)

PUC category	Number	Percentage
A ≥ 50 lakh	3	4%
B ≥ 25 and < 50 lakh	2	3%
C ≥10 and < 25 lakh	6	8%
D < 10 lakh	64	85%
All categories	**75**	**100%**

Only shows companies with 'active' status
Percentages may not add up to 100% due to rounding

Table 6.6 Non-farm producer companies, by age (active companies only)

Age category	Number	Percentage
< 2 years	18	24%
>-2 and < 5 years	33	44%
≥ 5 and < 10 years	17	23%
≥ 10 years	7	9%
All ages	**75**	**100%**

Only shows companies with 'active' status
Percentages may not add up to 100% due to rounding

6.3 Women in Producer Companies

Many interventions during the last three decades have focused on mobilising and forming women's collectives and self-help groups (SHGs) for savings and credit, access to other financial services, common resource management and promoting home based-entrepreneurial activities. Many of these interventions have also built women's capabilities in financial literacy and strengthened collective responsibility among SHG members. Therefore, it was only natural that when NGOs and other

promoting institutions were enlisted by the government to promote producer companies in the country, SHGs and other women's collectives were seen as the logical foundation on which PCs could be built. Leveraging existing SHGs was of interest for another reason too: women's participation is included as one of the social development indicators on which PCs are evaluated by NABARD and other government institutions (NABARD 2015).

The Producer Companies Act 2002 provides for producer groups and institutions including existing informal collectives of women such as SHGs to be shareholders in PCs. In our interviews, we came across examples of SHGs which were shareholders in PCs; in several other cases, many individual members of SHGs are shareholders in the PC. Ten out of 24 companies we interviewed had their origins in women's SHGs. Many of these were women-only PCs while others included men also as shareholders.

While it was not possible to ascertain the number (and gender) of shareholders of all producer companies in the database, we were able to identify several PCs which were owned exclusively by women producers. Among the 6926 producer companies with active status, 184 have only women members. These were identified based on words (e.g. *mahila*, women, *naari*, etc.) in their names, lists of PCs published by various institutions, and information available on their websites. If a women-only PC does not have such an identifier in its name, it may not appear in our list of women-only PCs. The membership in these all-women PCs varies from several thousands (in large dairy PCs) to few hundreds (in farm and non-farm PCs).

The very first women-only PC registered in the country was Madhya Pradesh Women Poultry Producers Company incorporated in May 2006. It was originally promoted under the Madhya Pradesh District Poverty Initiative Project (DPIP). Currently it has 4214 women members organised into 10 cooperatives (Madhya Pradesh Women Poultry PCL n.d.), and is the second largest women-only PC in the country in terms of PUC.

Table 6.7 Sectoral activities of women-only producer companies

	Women-only PCs		All PCs	
Sector	Number	Percentage	Number	Percentage
Milk producer companies	13	7%	210	3%
Other farm-related companies	150	82%	6181	89%
Non-farm companies	7	4%	75	1%
Companies with unclear activities	14	8%	460	7%
All Sectors	**184**	**100%**	**6926**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

Table 6.8 State-wise distribution of women-only PCs

Sector	Number	Percentage
Maharashtra	36	20%
Madhya Pradesh	34	18%
Odisha	24	13%
Rajasthan	19	10%
Telangana	13	7%
Bihar	12	7%
Jharkhand	10	5%
Other states	36	20%
All states	**184**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

Seven percent of the women-only PCs in the country are engaged in dairying, which is more than double the proportion for all PCs (Table 6.7). 82% are engaged in other types of farm-related activities, and 7 in non-farm activities. More than half the women-only producer companies are in just 3 states: Maharashtra, Madhya Pradesh and Odisha (Table 6.8). Uttar Pradesh and Tamil Nadu, states with the second and third largest number of PCs respectively, do not seem to have any women-only PCs as of March 31, 2019. However, they have several PCs with both men and women shareholders.

The PUC distribution of women-only producer companies is similar to all PCs, with 86% of them being in Category D (Table 6.9). The median PUC is Rs. 1.00 lakh, which is slightly lower than all active PCs' median of Rs. 1.10 lakh. However, a greater proportion of women-only PCs are in higher PUC categories.

Table 6.9 PUC distribution of women-only PCs

	Women-only PCs		All PCs	
PUC category	Number	Percentage	Number	Percentage
PUC ≥ 50 lakh	7	4%	90	1%
PUC ≥ 25 and < 50 lakh	3	2%	87	1%
PUC ≥ 10 and < 25 lakh	15	8%	767	11%
PUC < 10 lakh	159	86%	5982	86%
All Categories	**184**	**100%**	**6926**	**100%**

Only shows companies with active status
Percentages may not add up to 100% due to rounding

Table 6.10 Top 10 women-only producer companies, based on PUC

Company Name	Paid-up Capital (Rs.Crore)	Sector	Registration	State
Shreeja Mahila Milk PCL	14.48	Dairy	FY15	Andhra Pradesh
Madhya Pradesh Women Poultry PCL	6.11	Poultry	FY07	Madhya Pradesh
Satpura Women Silk PCL	1.96	Silk	FY17	Madhya Pradesh
Sakhi Mahila Milk PCL	1.10	Dairy	FY16	Rajasthan
Asha Mahila Milk PCL	1.04	Dairy	FY16	Rajasthan
Intivelugu Mahila Dairy PCL	0.61	Dairy	FY10	Telangana
Ram Rahim Pragati PCL	0.59	Cultivation	FY13	Madhya Pradesh
Shwetdhara Mahila Mlk PCL	0.48	Dairy	FY17	Uttar Pradesh
IB Shurshti Women Livelihoods Services PCL	0.43	Cultivation	FY17	Odisha
Narishakti Agriculture PCL	0.36	Cultivation	FY17	Rajasthan

Table 6.10 shows the top 10 women-only producer companies in India, based on PUC: Roughly half of them have PUC more than Rs. 1 crore. Most of these companies are less than 5 years old. Most of these companies have received support from state or central governments. It is not surprising that 5 of the top 10 women-only PCs are in the dairy sector. The idea of forming women-only collectives in the dairy sector has a long history originating from the 'White Revolution' that recognized and supported women's contribution to milk production in the country.

Women's Role in PCs

In cases where promoting institutions emphasized participation of women, women producers were involved in various activities of producer companies: running village level aggregation centres, doing primary grading and sorting, operating machinery for processing and preparing ready-to-eat products. They also worked as resource persons for extension activities and mobilising new members. Some of them were on the boards of producer companies as directors.

In most PCs, board members are expected to manage the business and its financials. We met several women board members who were SHG leaders and had many years of affiliation with the promoting institutions. They had been trained in basic financial literacy and book-keeping for maintaining SHG records. However, this basic knowledge is not adequate for maintaining business accounts for 500 plus member PCs or for understanding the complex financial and regulatory requirements of PCs. Further, many had been encouraged and trained to take responsibilities of vendor and buyer negotiations and interactions with government functionaries, although their understanding of business decisions

and their implications remained limited[1]. However, in a few exceptional cases, we found women board members who were highly educated, better connected, had greater exposure to the world of business, and were well equipped to manage the business.

It is pertinent to note that participation in greater numbers or roles with greater responsibilities do not necessarily signal greater empowerment of women producers. While some women may develop deeper capabilities for handling certain aspects of their businesses, their status in broader economic, social and personal spheres remains limited (Tandon 2019, Batliwala 2010).

6.4 Summary

Almost all producer companies registered in the country are farmer producer companies. In recent years, many milk cooperatives have been converted to milk producer companies, and many new dairies have been established directly as PCs. Not surprisingly, dairies tend to have large number of shareholders and greater paid-up capital than other types of PCs.

Given the thrust on women's participation in livelihoods interventions, it is surprising that there are only about 200 women-only PCs. Other researchers have also pointed out that women's representation in FPCs is lower than in other types of FPOs (Gowda MJ, Dixit and Megha 2018). In their efforts to increase women's participation, promoting institutions must be careful not to overburden women as they are already burdened with primary production and household responsibilities.

There is no doubt that small and marginal women producers would benefit from membership in producer collectives, including PCs. Therefore it is important to increase their membership in PCs as shareholders and invest in efforts to strengthen these PCs.

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[1] This is true of most male board members as well with a few exceptions.

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7. Normative Imaginations of PCs and their Implications

There are many different stakeholders involved in the promotion and support of producer companies, such as, producers, promoting organisations, funding providers, various government departments and institutions and other social sector entities interested in farmer welfare. There is a substantial variation among PCs in the way they are promoted, the way they function and the extent of support provided by the external stakeholders. We find that this variation is partly the result of significant differences in stakeholders' imagination of the purpose of PCs and how they should function.

In this chapter, we discuss findings from our qualitative study comprising over 100 in-depth interviews of stakeholders in producer companies, such as producers, board members, funders, promoting institutions and others. We begin with a description of the normative imaginations of stakeholders and how this affects the producers' sense of individual and collective ownership of the company, and the importance they give to the need for business acumen for management of producer companies. We discuss how this imagination also influences the kind of enabling ecosystem, internal governance and compliance mechanisms they establish. While the comments in this chapter are based on interviews with stakeholders of producer companies primarily in the agricultural sector, the comments are also relevant for producer companies in other sectors.

7.1 Normative imaginations of stakeholders

Our study shows that small farmers see producer companies primarily as non-exploitative buyers and service providers. For instance, most small farmer-shareholders in the study were keen that the PC should procure almost everything they produce at market prices or higher with greater transparency and faster payment cycles. They also expected to buy good quality inputs at reasonable prices from the producer company. They hoped that in the long-run, the producer company will be able to provide them steady income with minimum risk.

We find that farmers in PCs promoted by NGOs often see themselves as 'beneficiaries'. This is because, in many cases, NGOs have been working in the same communities for many years, implementing projects such as watershed development, productivity enhancement, market linkages and linking to various government welfare schemes. Therefore, farmers assume that PCs are yet another farmer welfare initiative of the NGO rather than their own business enterprises.

Most farmers are not clear about their role as business owners and hence do not see the need to invest their money and time in FPCs. In fact, many producer-shareholders view their financial contribution as a service or membership fee and not as share capital. And, as a result, they view themselves primarily as commodity suppliers to PCs (Neti, Govil and Rao 2018). This issue is exacerbated in single-commodity producer companies which have very few interactions with their members throughout the year. One promoting institution added that "in many FPCs, farmers see the company as a government project and therefore do not see the need for putting in their own money".

Many producer-shareholders view their financial contribution as a service or membership fee and not as share capital.

In the early years of PC formation, NGOs typically formed PCs in communities where they were already working; in cases where SHGs or farmer interest groups already existed, they inducted them as shareholders in PCs. And, in line with their broader social objectives, they make business decisions (e.g. about procurement price, quality cut-offs), thinking of producers as "beneficiaries", often influenced by their previous work and relationships. The promoters are also forming PCs for purposes that do not really require a PC. One NGO formed an FPC just so they can keep track of the status of organic certification of individual farmers. Some NGOs may also form PCs to meet their programmatic targets.

In contrast to small farmers and NGO promoters, well-to-do farmers and existing FPCs which promote new PCs, view producer companies first and foremost as business enterprises. Such promoters are inclined to establish relatively strict controls on quality, delivery schedules, invest greater capital in value-addition facilities and, expect higher returns in the future. They usually focus on revenue generation and seek to attract farmers who can invest significant equity for business activities. Once these activities are somewhat established, such FPCs expand their member base for increasing share capital and (sometimes) social inclusion by inducting small farmers at a later stage. One funding agency remarked that some traders form FPCs only to avail the 5-year tax break.

Therefore, it is evident that different stakeholders have different normative imaginations about the purpose of PCs. Primary producers, despite being shareholders, see themselves essentially as suppliers; they do not see shareholding bringing any additional value to them. Government and other socially-oriented promoters see the aim of the whole endeavour as improving incomes of marginalised groups. And, relatively larger commercial farmers see PCs as vehicles for pooling capital and aggregating produce to create growth-oriented businesses. Most FPCs seem to be focusing on either the social or the business objectives; very few are able to progress on both.

Such differences in the promoting organisations' imagination and perception of the purpose of PCs manifest themselves as differences in priorities and operational processes of PCs, which we discuss next.

7.2 Sense of Ownership among Shareholders

Almost all shareholders we met claimed that the PC was their company. For example, in one PC we visited, the CEO said "50% of producers who sell to us understand that they are owners". And, in most companies, farmers expressed variants of *"yeh toh hamari hi company hai"* ("this is our company"). However, deeper discussions revealed that they did not understand what ownership meant. Soon after claiming that 'this is our company', one shareholder in a dairy PC said "this is a government dairy". In another company, the most "aware" farmer board member told us that "this is our company" but one hour later also added "We trust [the NGO]; our money is secure with them" – by which she meant that she trusted the NGO to keep her money safe and not misuse it." Another board member said that "because we have given them [NGO] money, we can demand accountability," not realizing that they had given money as share capital for the company.

In many cases, farmer-shareholders could not distinguish between the promoting NGO and the producer company.

In several companies, we observed that farmers viewed PCs as vehicles for availing different kinds of benefits – they thought that the PC is yet another project of the NGO. In one PC, the farmers we talked to were under the impression that the share capital was in fact a service fee charged by the promoting NGO. This was also evident in the way farmers deferred to the promoting NGO for making decisions and did not expect or demand transparency or accountability from the NGOs. Farmers did not see the need to understand PC operations or get involved in decision-making and expected the NGOs to continue supporting the PC indefinitely. In many cases, farmer-shareholders could not distinguish between the promoting NGO and the producer company.

The producers' perception was partly driven by the nature of relationship with NGOs. One stakeholder pointed out that "the role of promoter should be that of a '*dai*' [midwife] at childbirth. But when NGOs start PCs, they continue to be closely involved with them for a long time and are not able to shift to a different kind of role." In our field visits too, we observed that some NGOs which have been working with the same community for many years, find it difficult to recast previous models of engaging with the communities into new ones. Some of them take over the producer company to an extent that the members have little understanding of the companies' activities and decisions even after several years.

Our study revealed that in most cases, it was the nature of shareholders' everyday transactions with the PC which was driving their perception of the company. In some cases, we found that producer-owners thought of the PC as a service provider of seeds, fertilizers, market linkage services, etc. In cases where producer-owners were also involved in PC operations, they viewed the PC as an employer.

Some promoting and resource institutions clearly articulated the uphill task they faced. One organisation which had promoted over 15 companies, most of them successful, had the following to say about ownership among members: "On a scale of 10, our board members are at about 3, while most others are not even at 1. This is true even in our oldest companies [7 years old at the time of interview]. It will take a lot more awareness building and exposure to get them out of a 'beneficiary' mindset." This organisation had developed benchmarks for each business function, and a detailed plan of how and when to hand over responsibility for each function. Another promoting institution which had promoted over 50 PCs commented that it may not even be possible to instil a sense of ownership among all shareholders: "In a company with 5000 members, ownership can be built among 100-200 members, not in everyone". They also pointed out that a feeling of ownership is based on both emotional connect and transactional services on a regular basis; it doesn't develop out of occasional transactions.

While, in principle, shareholders are owners, in reality, their relationship with the company is complex and multi-faceted, and the primary relationship determines their perception of the company.

Thus, contrary to common belief, our study shows that a sense of ownership among producer-shareholders is not arising automatically from having a financial stake in PCs. In general, producer cum shareholders of PCs are simultaneously owners, buyers of inputs, suppliers of producer, investors and in some cases also employees. While, in principle, shareholders are owners, in reality, their relationship with the company is complex and multi-faceted, and the primary relationship determines their perception of the company.

The feeling of ownership was also influenced by frequency of transactions and interactions with the producer company. In dairy PCs, with daily interaction, the board members expressed a slightly higher level of ownership than in companies with once-a-year interactions. Recognizing this, some promoters were trying different approaches in order to increase the frequency of transactions and increase centrality of FPCs in the lives of producers: procuring multiple commodities from producers, offering crop insurance, or even selling household provisions to their members. The last one appears to be working well for PCs in 'remote' areas.

Producers' sense of ownership is influenced by the frequency of transactions and interactions with the producer company.

In contrast, a sense of ownership among shareholders was evident in a few of the companies we visited. For example, in seven PCs across four states comprising largely of highly educated farmers (some of whom spoke to us partly

in English), there was a clear sense of ownership and imagination of PCs as business entities. We also noticed gender differences in this context: In one company, we observed that while women members were unclear about the purpose and idea of a producer company, the male members articulated clear ideas regarding the potential of the company and their role as owners. This was not surprising, given the lower opportunities for exposure and learning that rural women usually have due to local patriarchal norms.

In one company, we observed that while women members were unclear about the purpose and idea of a producer company, the male members articulated clear ideas regarding the potential of the company and their role as owners.

In summary, the directors and shareholders of producer companies are largely unware of the workings of companies, their obligations and responsibilities, and display very low levels of ownership. In the long run, such a lack of sense of collective ownership threatens organizational sustainability of FPCs. This is particularly important because FPCs are conceptualised as local institutions contributing to larger goals of social and economic empowerment of marginalized groups.

7.3 Importance of Business Acumen

As business entities, producer companies need to be commercially viable. Successful businesses need to have not only the ability to manage business operations well, but also to identify business opportunities, make good strategic decisions and understand business risks.

Agricultural businesses generally require large volume of operations to become profitable. However, the scale of operations of most PCs remains limited over time and, as pointed out in Chapter 5, their paid-up capital continues to be small even after many years. They incur losses year after year, resulting in erosion of paid-up capital.

Previous studies attribute the small scale and unprofitability of most PCs mainly to inadequate capital, problems with cash flow, product quality issues, poor inventory management, overhead costs, and lack of skills for developing feasible business plans and managing the business. (Christie and Prasad 2017, Sastry 2017, Singh and Singh 2013, Govil 2018).

Our study shows that there are two additional important contributors, namely the normative imagination (discussed above) and weak business acumen of PC promoters and board of directors (discussed here). In fact, the normative imagination of PCs influences stakeholders' views about the importance of business acumen in influencing the viability of PCs.

One funding agency pointed out that because producer company boards do not understand the nature of business risks, they are unable to make informed choices. Another resource institution highlighted that “the biggest issue is that FPCs are not led by entrepreneurs ”.

“The biggest issue is that FPCs are not led by entrepreneurs.”

Producer companies are dependent on promoters for identifying and evaluating business opportunities, raising capital, conceptualising and operationalising the business, compliance, basic management skills, and governance. In most FPCs we visited, there was no dedicated or professionally-trained CEO: In some cases, the board was acting as the de-facto management of the company, while in other cases, the NGO played this role. Thus, the success of the PCs depended on the business competence of their promoters and board members.

Yet, many promoters establish PCs without first conducting a sound analysis of the business opportunities and risks in the local context. They tend to underestimate the operational complexity and the cost of running a viable business, and experiment with different approaches and strategies. One promoter admitted this challenge: "This is a business, not a charity but most of our staff are not from business side." As a result, they are unable to fully grasp the implications for operational and capital requirements, and often fail to institute strong compliance and governance processes. One promoter acknowledged that the high turnover companies are usually ones which are self-promoted.

We observed that farmers faced the prospect of additional financial losses in cases where the promoters had encouraged them to undertake untested activities such as switching to different crops or unfamiliar value addition activities or products. Such promoters inadvertently exposed small and marginal farmers to greater risk, which was contrary to their own objectives. This is particularly worrisome because most PCs formed by socially-oriented promoters have small and marginal farmers as their members.

Producer companies need an infusion of business expertise and acumen either by the promoters themselves or through external entities. Such “surrogate entrepreneurship” – to borrow Sanjiv Phansalkar’s term (Phansalkar 2020) – can increase a young producer company’s potential for achieving long-term viability. For instance, one organisation is trying to pair social entrepreneurs with farmer producer companies with the aim of benefiting both sets of enterprises. Another approach to bring business skills to producer companies is to utilise a two-tier model (described in Chapter 5), where the market-facing company, not only provides market linkage and value addition but also provides surrogate business management support to supplier PCs. In fact, one promoter agreed that "any startup requires a gestation period of 5-10 years."

We found that having an assured buyer or a proven operational blueprint can sometimes overcome the lack of business acumen in producer companies. For example, some dairies whose (almost) entire milk production was being purchased

by Mother Dairy at reasonable rates, were able to achieve substantial scale and profitability within the first year of operations. In these cases, Mother Dairy was acting as the top-tier market-facing entity for local dairies.

In general, while strong business acumen and management skills do not guarantee success, their absence often results in losses. If producer companies accumulate losses year after year, it results in the erosion of farmers' share capital over time. This poses a difficult question: Who should absorb the losses: Should it be small and marginal producers, the promoters, or the state?

7.4 Importance of Enabling Ecosystem

No businesses work in isolation; they build their operations on enabling regulations and by leveraging network of other businesses providing various kinds of infrastructure and services. Both of these are weak in the case of producer companies.

In our study, we found that PCs trying to avail of benefits under government schemes, had limited success. This was partly due to lack of awareness among local / state government and bank officials about the concept of PCs and lack of clarity about eligibility of FPCs for schemes available to cooperatives. For example, a few FPCs had obtained licence to procure agricultural produce under Price Stabilisation Fund at minimum support prices (MSP). However, one FPC had to terminate procurement within the first week after it realised that it is required to pay producers within 72 hours while it would get paid only after 30 days. This was a PC comprising mostly small farmers and did not have enough working capital to continue procurement. The CEO of the FPC also lamented that many government officials they interacted with did not know what an FPC was and therefore they (the FPC) had to produce copies of the Producer Companies Act 2002, guidelines for PC registration and circulars mentioning eligibility of PCs for government schemes to convince the officials.

In addition to government ecosystem, PCs also need to be able to rely on a network of other businesses for their operations. A few PCs in our study were able to outsource processing and packaging activities to third parties (typically private limited companies). The presence of such local business helped them overcome the need for substantial capital investment and in-house expertise. However, many PCs are located in 'remote' areas with under-developed infrastructure and business ecosystem. In case of PCs which were part of a two-tier structure, the top-tier companies were able to connect supplier PCs with a business ecosystem.

A local business ecosystem and enabling provisions in government schemes are essential for ensuring that PCs operate efficiently and profitably and achieve scale. One example of an attempt to address this challenge can be seen in the 2018 FPO Policy of Government of Odisha. The policy specifies that FPOs are eligible for

all schemes and programmes available to cooperatives and individual farmers. It suggests instituting a 'Single Window Clearance System' for issue of licenses for trade in inputs, production, processing, distribution of seeds and saplings. It designates the Department of Horticulture as the coordinating resource institution which will also house an Information and Support Centre for FPOs in the state (Govt. of Odisha 2018).

Rather than expecting producer companies to succeed as stand-alone companies despite all odds, it is advisable to enable their success by simultaneously funding and developing a business ecosystem and an enabling regulatory framework. Although this is difficult to achieve in 'remote' and under-developed parts of the country, it is essential for the success of producer companies. Policies and interventions which ignore this aspect are likely to experience limited success.

7.5 Weak Internal Governance

For long-term sustainability of member-based institutions, it is important to have strong and transparent governance mechanisms. This is all the more important because FPCs work with the limited savings of small producers who are already vulnerable.

Good internal governance would result in timely filing of compliance documents, clear articulation and delegation of roles and responsibilities, process clarity regarding decision-making, awareness of key operational details such as amount of loans, turnover, number of shareholders, etc. However, this was weak in most companies we visited. For example, many board members did not know whether or not they had a CEO, the turnover of their companies or the amount of the loans taken. Many board members were managing operations at a village level, but were unclear about their company's broader activities whether in other villages or in terms of market linkages. One company admitted not holding Annual General Body meetings, even though it is mandated by law to do so.

Many board members were not clear that the CEO was accountable to them.

Many board members were not clear that the CEO appointed by the promoting NGO was accountable to them and not to the NGO. In one case, the CEO of a company held multiple positions as Managing Director of the PC, as head of a 'sister' SHG federation with significant overlap in membership, and as a consultant to a government organisation for promotion of producer companies. However, in our discussions it became evident that he failed to recognize the conflicts of interest inherent in holding such overlapping positions.

The prevalence of weak governance in producer companies is not surprising given their capability gaps and low sense of ownership. For most small farmers (regardless of gender), we found that their understanding of how a company is supposed to function and their own role and rights as a shareholder was very limited. For example, most shareholders did not fully comprehend the implications of major decisions taken by FPCs or their promoters, such as, setting-

up processing units or taking large loans. They did not seem to know that they have the right to see the annual financial statements of their FPC or know how to interpret them.

Even day-to-day transactions of a company can be daunting for those who have not directly engaged with formal institutions previously. The chairman of the board of a PC narrated his journey as follows: "When the promoting institution came here and talked about starting a PC, I thought how can there be a company in a village? Companies are there only in cities. When I transferred money through RTGS for the first time [for buying urea in bulk], I couldn't sleep all night. Would the money go to IFFCO or would it would go somewhere else? This is not my money. If something goes wrong, will I go to jail? We also made many mistakes in filling out cheques. But now I know that money will not go to a wrong account because banks check everything". This was a small farmer in the rural block of a state capital who was educated and well-informed. However, due to lack of experience, he needed time to develop confidence in his ability to discharge his responsibilities as a board member.

Producer company boards are required to have 5-15 members with at least 80% of them being producer-shareholders. Board members have fiduciary responsibilities and obligations such as those arising due to default on loans or financial irregularities. To develop the capacity of producer-directors and enhance their participation, most promoters conduct training and capacity building programmes and provide on-going support to board members; however, such efforts need to be strengthened further. The Producer Companies Act 2002 also has a provision for an Expert Director to strenghten the board of a PC. However, it appears that this provision is under-utilised. In two-tier structures, we found that this challenge was partially overcome by the hand-holding support that the market-facing company provided to its suppliers PCs in establishing and monitoring governance processes.

While such hand-holding can help a producer company adhere to good governance practices, there is also a larger regulatory concern related to PC shareholders. Shareholders in producer companies are not protected by the usual mechanisms available to shareholders of other types of companies: Securities and Exchange Board of India (SEBI) protects shareholders of publicly traded companies by requiring compliance with regulations including good governance practices, avoidance of conflicts of interests, etc. On the other hand, investors in private companies usually invest in companies where they have personal or professional connections and believe them to be competent and trustworthy. But PC shareholders have neither SEBI protection nor first-hand detailed knowledge of the business; their knowledge is usually limited to production and procurement related activities of the PC. Thus PC shareholders fall through regulatory gaps and are particularly at risk from intentional or unintentional negligence and oversight.

PC shareholders fall through regulatory gaps and are particularly at risk from intentional or unintentional negligence.

Therefore, PC shareholders should be recognized as a separate category whose rights must be protected through stronger governance and regulatory mechanisms through amendment of relevant sections of the Companies Act 2013. This is particularly urgent because the number of PC shareholders has already crossed 4 million producer-shareholders across more than 7374 PCs.

Producer company shareholders should be recognized as a separate category whose rights must be protected through stronger governance and regulatory mechanisms.

There is a third aspect which requires greater attention as well: namely, financial relationships between PCs and 'sister' Self-Help Groups (SHGs). In our interviews, we came across cases where SHGs were shareholders in PCs (which is allowed by the Producer Companies Act 2002); in several other cases, many individual members of SHGs are shareholders in the PC. In fact, 10 out of 24 companies we interviewed had their origins in women's SHGs; many of these are women-only PCs while others have included men also as shareholders.

Such close association of PCs with SHGs can lead to blurring of institutional boundaries and possibility of risky financial transactions between the two. In our interviews, we came across several instances of SHG Federations lending large amounts of funds to 'sister' PCs with some overlap of membership and /or board members. It is not surprising that PCs, which are struggling to access loans from banks, view SHG savings as idle funds generating no returns and the prospect of borrowing working capital from sister SHG federations seems very attractive[1]. SHG federations are membership based organisations and, as such, are expected to lend only to member groups and not to external parties. Technically, a PC is not a member of an SHG federation and therefore not eligible for borrowing from the federation. However, the overlap in membership between an SHG federation and its sister PC is very significant in many cases, and therefore lending to a PC feels like lending to their own members and thus seems justified.

In fact, the overlap in membership opens up the possibility of intentional and unintentional misuse of SHG savings. The SHG members may not be aware that they may be violating the provisions of the Act under which the federation is registered[2]. The head of one PC which had borrowed funds from its sister SHG federation claimed that 'even those members who were not members of the FPC "were not troubled by this". However, as with most such members, they may not have been aware that the loaned funds could be at risk of default if the PC incurs repeated losses. In cases where the directors/ board members of the two entities (PC and SHG federation) are the same, there is also scope for intentional misuse. SHG savers are already highly vulnerable and may not be in a position to evaluate

[1] As of March 31, 2018, 87.44 lakh SHGs had total savings of Rs. 19,592 crore with banks (NABARD 2018).

[2] Most unregistered SHGs and SHG federations follow standard cooperative principles which restrict lending only to members.

[3] Field Interviews, 2019.

the risk/return from such loans, and default on such loans only increases their precarity. In fact, a few PCs which have borrowed from SHGs have received notices from the Ministry of Corporate Affairs asking for explanation and repayment of the loans taken from SHGs[3]. In the long run, the need for borrowing from SHGs and federations could be minimised if PCs have easier access to loans from banks.

In summary, there are three broad areas where greater oversight and hand-holding is vital: Firstly, producer companies need extended support for developing strong internal governance processes for day-to-day operations and regulatory compliance. Secondly, producer companies who are borrowing funds from affiliated SHG federations should be careful about legal ramifications of such borrowing. Thirdly, policy-makers should consider appropriate regulation to protect rights of producer company shareholders as they are a vulnerable group.

7.6 Onerous Compliance Requirements

As per the Producer Companies Act 2002, PCs are treated as private limited companies and therefore the compliance requirements for PCs are the same as those for all private limited companies in India. Most PCs struggle to meet compliance requirements such as audited financials and GST returns, due to lack of awareness, funds, expertise and infrastructure. Very few board members we interviewed were aware of the compliance requirements for their respective companies. In most cases, the promoting institutions were taking care of filing compliance documents on behalf of the PCs.

Furthermore, formation of a PC imposes compliance related financial burden on shareholders. The cost of filings can range from Rs. 0.5 to 2.0 lakh annually, which is quite high for fledgling PCs[4].

"There is same requirement for PCs as for Narayan Murthy [founder of Infosys Technologies]. The government must simplify rules for us."

Even greater burden arises from capabilities required for regulatory filings. While farmers can hire accountants for filing audited returns, other compliance requirements create greater challenges. For example, PCs have to e-file KYC (Know Your Customer) forms for each board member, including a live video capture of the director for physical verification[5]. The Ministry of Corporate Affairs also requires all companies to geo-tag the location of their registered office[6]. Such rules and regulations require company directors to have technological expertise and basic knowledge (e.g. of latitude, longitude, geo-tagging, etc.) as well as access to relevant infrastructure such as computers, smartphones and reliable internet connectivity.

[4] This includes cost of registration (which depends on amount of authorised capital), periodical filings, financial audits, and other statutory requirements.

[5] Under Rule 12A of 'Companies (Appointment and Qualification of Directors) Fourth Amendment Rules, 2018'.

[6] Under 'Companies (Incorporation) Amendment Rules 2019', with effect from 20 February 2019.

While such measures are intended to weed out shell companies and ghost directors and deter fraud, they create an inordinate burden on small producers. It is difficult to imagine semi-literate women board-members in a tribal district of Madhya Pradesh being able to comply with such regulatory requirements. In such companies, NGO personnel take care of these requirements with minimal involvement and knowledge of board members. Even companies with more aware and better educated CEOs find this difficult. For example, one such company's CEO mentioned that when he received the circular requiring geo-tagging their offices, he had no idea what that meant. He reached out personally to the resource person who had helped them establish the company (the promoting institution had completed the 3-year project period and was no longer proactively supporting the PC). When asked what he will do for such notifications in the future, he responded, "I will keep contacting him [the resource person], as long as he is there, regardless of where he works." Another CEO pointed out that "There is same requirement for us as for Narayan Murthy [the founder of Infosys Technologies]. The government must simplify rules for us."

Allowing producer companies to submit verification and compliance materials off-line and in paper form would provide relief without weakening compliance requirements.

These examples highlight the need to provide producer companies some relief from statutory compliance requirements in the initial years without diluting them in the long run. Incidentally, in its recent publications, NABARD has also recommended relaxation of some statutory compliances for PCs during the initial 10 years "so as to help them adjust with the regulatory business environments and stabilise business operations under ease of doing business" (NABARD 2019). An example of this can be found in FPO policy of Government of Odisha (2018) which suggests concessions on registration charges and stamp duty. Another possible relief measure could to be allow producer companies to submit verification and compliance materials off-line and in paper form, negating the need for reliable internet connections. Such approaches would not weaken the compliance requirements yet make it easier for producer companies, especially those in 'remote' parts of the country.

7.7 Summary and Recommendations

There is a genuine need to promote producer companies of small producers which have the potential to succeed. If, during promotion of most PCs, business aspects are not prioritised on par with social objectives, it impacts producers' sense of ownership, operational decisions, business viability as well as strength of self-governance and compliance. If we wish producer companies to reach their full potential, we need to figure out a way to enable PCs owned by small producers to become successful enterprises in the long run.

First, because PCs work with the limited savings of small producers who are already vulnerable, it is important to institute strong and transparent governance processes to ensure long-term organisational sustainability. PCs should develop a strong board capable of informed decision-making and discharging their fiduciary responsibilities. The governance mechanisms must be also designed to protect the rights of farmer-shareholders, since they are at risk from the consequences of intentional or unintentional mismanagement. Therefore, we recommend that interests of FPC shareholders be protected through regulatory mechanisms by amending relevant sections of the Companies Act, 2013.

Second, the onerous compliance requirements for PCs should be simplified keeping in the mind the context and capabilities of small producers. This could be done by amending company regulations to allow exemptions for PCs from certain requirements and/or creating PC specific rules.

Third, even after multiple years of operations, most PCs continue to be dependent on their promoters for strategic, financial and operational management, as well as governance and regulatory compliance. Therefore, it is important for promoters to bring in management / advisors with strong business acumen who can guide a novice PC in improving farmer incomes while minimizing their exposure to risk. For PCs to become independent of promoting institutions, they must explicitly aim to develop a clear sense of ownership among shareholders and establish strong internal governance mechanisms.

Fourth, PCs need a reliable ecosystem of funders, business partners and a regulatory framework. Key government departments should be familiarised with the concept of PCs. Policy makers should explicitly include PCs in relevant government schemes and issue circulars to the departments to this effect. The government should also ensure that FPCs receive payment for MSP procurement quickly, thus reducing their working capital requirements. Local entrepreneurs and companies should be encouraged and supported in creating a reliable business ecosystem locally to provide services for storage, transport, accounting, processing, etc., especially the development of accredited storage facilities with warehouse receipts system which would enable FPCs to get advances against deposited inventory.

Fifth, as pointed out above, producer companies need to go beyond a transactional relationship with producers and inculcate an individual and collective sense of ownership. It is important for producer companies' stakeholders to develop a shared vision for the future, including clear long-term objectives for improving small producers' incomes and minimizing their risks.

In summary, there is a need to clearly recognize producer companies as businesses of small producers with long term financial and social objectives, rather than mere recipients of various benefits. Stakeholders should view farmers as the true owners and design interventions and policies accordingly. However,

since farmers' capability to act as business owners is a real constraint, creative solutions are required to address this. While some stakeholders suggest increasing the duration of support to beyond the 3-year duration of typical projects, we suggest exploring a two-tier model of operation where the top-tier company can step into the role of a mentoring and capacity building institution in place of resource institutions. And, since stakeholders' normative imagination affects all aspects of promotion, support and functioning of PCs, it is important to develop a shared normative imagination of producer companies as business entities of small producers which can grow and eventually function independently.

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8. Way Forward and Recommendations

Well-run and stable producer companies have the potential to improve farmers' incomes and reduce their exposure to economic risk. Therefore, it is not surprising that government and non-government organisations are increasingly viewing them as essential components of their long-term vision and plans. PCs already cover over 4.3 million small producers in the country, and the central government has announced a plan to promote 10,000 more producer organisations over the next five years.

If done well, such an effort could result in producer companies covering close to 10 million producers, or about 10% of all agricultural households in the country. Since most of these PCs are promoted by government institutions and social sector organisations, and pro-actively include small and marginal producers, this can have a tremendous impact on their livelihoods and well-being.

7374 producer companies have been registered in the country as of March 31, 2019, majority of which have been promoted in the last 4 years. 6926 companies have an active status of registration, of which about 92% are in the farm sector. For every 100,000 agricultural workers in India, there are 2.6 farmer producer companies. There is a substantial skew in their geographical distribution: More than half these companies are in just 4 states, namely, Maharashtra, Uttar Pradesh, Tamil Nadu and Madhya Pradesh. Nearly one-fourth of the producer companies can be found in just twenty districts indicating a considerable skew in the promotion efforts. Many districts with a large number of farmers hardly have any producer companies.

Producers have contributed a total of Rs. 860 crore towards share capital in producer companies. The average paid-up capital in producer companies varies from a few thousand to several lakhs across states. Only 90 out of 6926 active producer companies have paid-up capital of Rs 50 lakh or more, whereas 86% have paid-up capital of less than 10 lakh. For most companies, paid-up capital does not seem to grow significantly with age: Among PCs which are 10 years or older, 59% continue to have paid-up capital of less than Rs 10 lakh. In fact, 49% of active producer companies have a paid-up capital of just Rs. 1 lakh or less. Such low amounts of capital limits producer companies' ability to expand their operations and turnover.

The Producer Companies Act 2002 envisions PCs as businesses with a potential to grow and eventually stand on their own. However, most PCs face multiple challenges such as small number of shareholders, low procurement volumes, sub-scale operations, limited value addition capabilities, poor market linkages, inability to attract talent and lack of strategic thinking and planning. These challenges are partly a result of divergence in stakeholders' normative imagination regarding the purpose of PCs. This imagination ranges from a government project, a non-exploitative service provider, a for-profit business entity to a local institution of

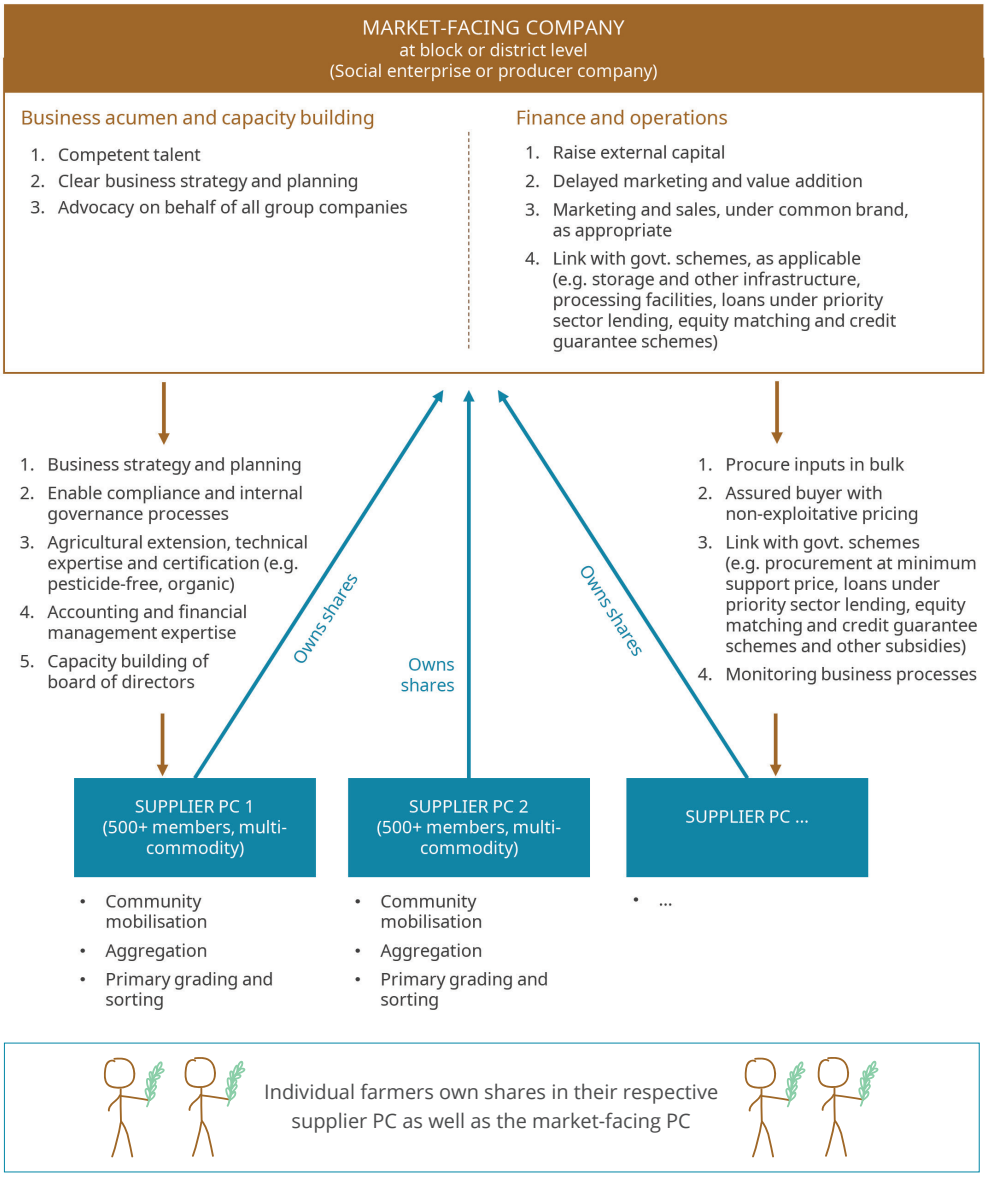
small producers. The normative imagination impacts the importance stakeholders give to the need for business acumen, enabling ecosystem, internal governance and compliance mechanisms and the nature and duration of support required.

It is important to be aware of these challenges and considerations in envisioning, promoting and supporting PCs. With this in mind, we propose a guiding framework and recommend approaches to address issues affecting the overall health of PCs.

8.1 Promote Two-tier, Multi-commodity, Value-adding PCs

We recommend the promotion of producer companies in a two-tier model (comprising multiple supplier PCs and a market-facing company) at a block or district level, collectively handling multiple-commodities and value-addition and marketing (see Figure 8.1).

Figure 8.1 Companies, their functions and relationships in proposed two-tier model



A two-tier structure allows division of responsibilities between supplier and market-facing companies: procurement from producers and primary grading and sorting can be handled by the supplier PCs while higher level value-addition can be done by the market-facing company. This arrangement relaxes the capital and talent requirements in supplier PCs and instead, concentrates them at the market-facing company, for the benefit of all PCs in the two-tier system. This system is well-suited for better business management, generating higher volumes and setting up stronger processes for internal governance and compliance.

A two-tier model also facilitates procurement and value-addition of multiple commodities better than a single-tier model. PCs handling multiple commodities are typically in a better position than those handling only single commodities (with the exception of dairies). Procurement of multiple commodities ensures better capacity utilisation of resources. It also enables companies to engage in more frequent transactions with members, which builds familiarity and contributes to higher volumes. This also reduces risks arising from moral hazard common in collective efforts, and improves producer loyalty by increasing PCs' relevance in the lives of producers. Producer companies in the two-tier model have to be collectively strategic in the choice of commodities procured and may have to include only those commodities which are produced by the members in sufficient volumes to reach break-even for business profitability in the long run.

Multi-commodity producer companies contribute to better capacity utilisation, higher turnover, increased frequency of transactions and producer loyalty.

It is desirable to have supplier PCs of a minimum reasonable size of membership (say, 500 shareholders each) so that they are able to initiate trading operations[1]. In fact, before registering new PCs, resource institutions should ensure that there is a clear plan for inducting adequate number of shareholders, procurement volumes and linkages to geographically focused market-facing companies in a two-tier structure.

The market-facing companies act as assured buyers for the produce of supplier PCs, providing them operational and financial stability. Moreover, they can undertake delayed marketing and value addition to generate higher returns for producers. They can build common brands (if required), establish sales relationships with larger buyers and negotiate favourable prices for the benefit of all producer-members. Market-facing companies will require significant infusion of capital, which can be facilitated by modifying the Producer Companies Act 2002 to allow PCs to raise external capital through a different class of shares with no voting rights, and with restrictions on the maximum amount of equity per external investor. Alternatively, the market-facing companies can be registered as social enterprises

It is vital that supplier PCs and individual farmers own a significant stake in the market-facing company and have strong representation on its board to ensure alignment with interests of small producers.

[1] This will also ensure more effective use of government funds for promotion of PCs (which currently amounts to approximately Rs. 30 lakh per PC).

in the form of private limited companies. In both cases, it is vital that supplier PCs and individual farmers own a significant stake in the market-facing company and have strong representation on its board to ensure alignment with interests of small producers. It is important for market-facing companies to be invested in the success of supplier PCs.

Our imagination of the two-tier model recasts most existing PCs as supplier PCs and envisages adding a top-tier multi-commodity value-adding market facing entity at the block or district level .

The two-tier model makes it easier to provide additional services to members through the market-facing company, such as bulk procurement of inputs, crop insurance, and warehousing (with potential to be linked with a warehouse receipts arrangement). This is also applicable for linking with government schemes such as procurement at minimum support prices. They can also undertake certification efforts and advocacy on behalf of group PCs. With their better ability to attract well-trained talent, market-facing companies can hand-hold and mentor supplier PCs in business management and decision-making. They can also help build the capacity of supplier PCs in strengthening internal governance and compliance through trainings on rights and responsibilities of shareholders and board-members. This model also allows for cost-sharing by enabling some services to be offered on payment basis to supplier PCs, where appropriate.

As can be inferred from the above, our imagination of the two-tier model recasts most existing PCs as supplier PCs and envisages adding a top-tier multi-commodity value-adding market facing entity at the block or district level. The proposed model is designed keeping in mind the large number of poorly performing companies; exceptional companies which are performing well can continue to operate independently or evolve into market-facing companies.

Establishing and incubating such a system requires a very different set of capabilities for promotion and support. To help create such structures, policy makers and practitioners should adopt a two-pronged PC promotion strategy: the first is to continue the promotion of supplier PCs by NGOs and other resource institutions who are good at producer mobilisation and have ground-level knowledge of local context. The second is to bring in business expertise from social enterprises, start-up incubators, funding agencies and entrepreneurship-oriented fellowships to establish a smaller number of market-facing companies with adequate capital and skilled talent.

Adopt a two-pronged approach for PC promotion: continue promotion of supplier PCs by grass-roots resource institutions, and bring in business expertise to establish a smaller number of market-facing companies

It is pertinent to note here that there are certain limitations to this model. For example, there is little incentive for the top-tier company to build capacity of supplier PCs beyond compliance and rudimentary aggregation and processing functions. It may make decisions without consulting producers or keeping them informed. This possibility can be mitigated by requiring significant ownership and strong board representation of supplier PCs in the top-tier company. Despite

these risks, the two-tier model offers a better chance for producer companies to be successful compared to the current stand-alone model.

By focusing business development efforts on a smaller number of top-tier PCs, such a two-tier approach has the added advantage of negating the need for building business capabilities of thousands of grass-roots PCs (which is turning out to be very challenging). The two-tier model also offers a path for NGOs to exit and for the top-tier entity to take over the role of mentoring and supporting the supplier PCs. In this model, support for PCs is provided by different entities at different times in their lifecycle. It is important to note that the top-tier company will require handholding and mentoring for much longer than supplier PCs, perhaps 7-10 years.

The multi-commodity two-tier model offers scope to strengthen member loyalty and ownership. Over a period of time, it also has the potential to shift the producers' normative imagination of PCs from being service providers to business entities owned by them. Such a two-tier model is achievable and practical: Many successful companies are already working in variants of this model and some of them were part of our study[2].

8.2 Address the Geographical Skew

There is a substantial disparity in the number of PCs across districts in India with numbers ranging from 0 to 185. Future PC promotion efforts should aim to correct this skew keeping in mind the original intent behind the promotion of PCs. It is also important for policy makers to ensure that even the smallest producers have the opportunity to be part of a PC. One way to do this is to link the target number of PCs to the number of small producers taking into account the major commodities produced and the geographic area of each district. They should prioritise promotion of PCs in the 100 most backward districts in the country (now termed as 'aspirational districts').

One way to do this is to link the target number of PCs to the number of small producers taking into account the major commodities produced and the geographic area of each district.

In districts and blocks with large number of existing sub-scale PCs, it may be prudent to consolidate multiple PCs into a few reasonably sized companies with higher number of members and more share capital per company. Consolidation across multiple commodities will also help utilize the same capital for multiple procurement cycles of different commodities at different times during the year. A stronger balance sheet and increased business activities would also improve the likelihood of consolidated PCs attracting formal sector loans. For sub-scale PCs where the above measures are not relevant, promoting institutions could consider, as a last recourse, closing down producer companies with little business potential which are eroding shareholder equity and transfer the remaining funds back to the producers.

[2] In exceptional cases, companies with certain characteristics (e.g. very large dairies, export-oriented commodities, leadership with strong business acumen) can succeed outside this model.

Further, in these districts with large numbers of PCs, focus should be on establishing and promoting market-facing companies rather than promoting new PCs.

In some cases, we may find that there is no need to establish PCs, especially when the primary objective is to avail of bulk discounts on inputs or services under specific government schemes. In such cases, farmer groups may be better alternatives, as formation of groups does not impose onerous corporate compliance requirements or any pressure for achieving a minimum membership and capital.

8.3 Refining Policy and Regulation

The Producer Companies Act 2002 was pioneering in combining the principles of co-operation and mutuality with the operational benefits of a company. This vision was boosted by multiple schemes for promoting large numbers of producer companies and for supporting them through equity grant and credit guarantee schemes. Below, we highlight a few specific areas which can be strengthened to enable more producer companies to succeed.

Availability of Data for Analysis and Regulation

We suggest that a separate identifier be created in the Company Identification Number (CIN) for producer companies. Currently, producer companies have the same letters ('PTC') in the CIN just like any other private limited company[3]. Creating a new marker in the CIN schema to designate producer companies would make it easier to track and regulate them, especially as the number of PCs grows significantly over the next few years.

Secondly, data on producer companies should be made available to researchers and practitioners to better inform the design of future policy and interventions. Access to reliable data is also important for regulatory purposes for introducing differentiated regulatory requirements for different categories of companies.

Rethinking Compliance Requirements

Compliance requirements for producer companies should be re-examined keeping in mind the context and capabilities of small producers. Regulations can be modified either by amending company regulations to allow exemptions for PCs from certain requirements and/or by creating PC specific rules. Ministry of Corporate Affairs (MCA) should explore the possibilities of differential compliance requirements for PCs and other types of private companies such as lower

[3] MCA assigns a Company Identification Number (CIN) to every registered company. For example, the CIN of largest producer company Sri Vijaya Visakha Milk Producers Company Ltd. Is 'U15209AP2006PTC048708'. The letters 'PTC' indicate the type of company (in this case, a private limited company). The MCA could assign a new code (say, 'PRC') to distinguish producer companies from other private companies.

registration and other charges in the initial years. Compliance filings such as director registration and geotagging should be simplified and wherever possible be allowed to be submitted in paper form.

Secondly, given the confusion regarding FPCs borrowing from sister SHGs, it is important for MCA to clarify its position on its legality and issue relevant notifications. If it is felt that PCs should be allowed to borrow from SHGs, appropriate borrowing limits and monitoring mechanisms should be put in place in order to protect the interests of SHG savers. Thirdly, as mentioned earlier, there are many companies registered as producer companies under the relevant sections of the Companies Act, but engaged only in providing various deposit and credit services as their primary activity. To prevent such cases, the government should clarify the types of activities which cannot be undertaken by producer companies as their primary activities, and take appropriate action for violations.

Linking with Government Schemes

The government should notify that FPCs are eligible for all schemes and programmes available to cooperatives and individual farmers, to remove confusion among various government departments regarding the applicability of schemes (Such notifications have been issued for certain schemes and not for others, leading to some confusion). In addition, ensuring that FPCs receive prompt payment for MSP procurement would enable FPCs to provide remunerative prices to their members and meet their own working capital requirement.

Stronger Shareholder Protection

The policy should offer protection for shareholders, similar to SEBI's provisions for shareholder protection in publicly traded companies. Since most small producers are neither aware of their rights as shareholders nor the implications of financial decisions, it is important to protect their interests through regulation. PC shareholders should be recognized as a separate category whose rights must be protected through stronger governance and regulatory mechanisms by amending relevant sections of the Companies Act 2013. These modifications are needed urgently because the number of shareholders in producer companies has already crossed 4.3 million and is expected to increase substantially over the next few years.

Allowing External Investment

To address the issue of undercapitalisation faced by most PCs, the Producer Companies Act 2002 should be modified to enable infusion of external equity through a different class of shares with no voting rights. Certain minimum requirements such as number of shareholders, capital and turnover can be stipulated as eligibility criteria. To minimise the potential for undue influence of external investors, some precautions can be taken such as restricting the maximum amount of equity per external investor relative to total farmers' equity.

Strengthening Promotion and Support of Producer Companies

To increase capitalisation of PCs of small producers, policy-makers should consider providing a 2:1 match for farmers' equity up to a specified upper limit per company to PCs comprising more than 80% small farmers. They should also allow matching equity to be disbursed in 3-4 tranches (rather than just 2 tranches) so that PCs are able to grow incrementally. In order to help greater numbers of PCs become eligible for matching equity and credit schemes, policy-makers should consider creating support structures and organisations to enable small PCs prepare and file audited financial statements[4].

Recognizing that mobilising producers and nurturing fledgling businesses require different kinds of expertise, NABARD, SFAC and other government agencies should empanel different kinds of resource institutions who bring such skills. At different stages of its life-cycle, a company may need support from different resource institutions. Producer companies with more complex operations (such as those involved in secondary or tertiary processing) will need hand-holding and capacity building for a longer duration than those engaged primarily in trading. In a two-tier structure, the market-facing companies will benefit from extended multi-year business support from different resource institutions and provisions for this can be made in relevant schemes.

[4] This study focused only on equity and not on debt.

Table 8.1 Summary of key recommendations based on this study

Category	Recommendations
Locations	• Promote more PCs in districts with larger numbers of small producers, especially in aspirational districts
Model	• Multiple producer companies organised in a two-tier structure at the block or district level • Supplier PCs: 500+ members, aggregation, grading and sorting • Market-facing companies: assured buyer for supplier PCs' produce, delayed marketing, value-addition, marketing and sales • Supplier PCs and individual farmers should own significant shares and have strong representation on the board of market-facing companies to ensure alignment with producers' interests • Market-facing companies should be invested in success of supplier PCs
Commodities	• Multi-commodity (procure commodities produced by members in significant volumes)
Value addition	• Mostly by market-facing companies
Equity capital	• 2:1 equity match for PCs comprising more than 80% small farmers • Disburse equity grant in 3-4 tranches to enable incremental growth • Allow external investment through non-voting shares. Protect social objectives by imposing limits on maximum amount of equity per external investor relative to total equity of farmers
Business acumen and expertise	• Bring through market-facing companies, which can hire a competent team • Market-facing companies are expected to hand-hold supplier PCs
Promoting and supporting PCs	• Supplier PCs should be promoted by NGOs and other grass-roots organisations • Market-facing companies should be supported by social enterprises and other organisations with business experience • Producer companies will require support from different kinds of resource institutions at different points in their life-cycle • Link PCs to government programs and schemes • Develop a business ecosystem in blocks and districts to provide various business services to PCs
Other regulatory	• Create a distinct marker in registration number for producer companies so that they can be tracked and regulated differently • Simplify compliance filings and allow submission in paper form • Clarify eligibility for schemes available for cooperatives and individual farmers • Offer protection for shareholders, similar to SEBI's provisions for shareholder protection in publicly traded companies

8.4 Concluding Remarks

The Producer Companies Act 2002 was pioneering in combining the principles of collective action with the structural benefits of a company. It has enabled thousands of companies of small producers to be registered and some of them to become successful. The original intent behind promoting producer companies was predicated on the belief that such companies would enable small producers to pool their capital and establish successful businesses which would eventually improve their incomes and reduce risks. Successful PCs also have the potential to create jobs and entrepreneurial opportunities for the younger generation. And, as member-based institutions, producer companies are inherently embedded in local communities and have the potential to go beyond a transactional relationship with producers to become strong local institutions of marginalised producers.

However, in the last 17 years, producer companies have faced an uphill task of nurturing and growing their business with limited infrastructure, capability and access in remote areas. Our study has identified several challenges such as incongruities in stakeholder imaginations, missing sense of ownership among producers, undercapitalisation, poor business skills, weak governance and compliance and the near absence of an enabling ecosystem in many parts of the country. Furthermore, the skew in the geographical spread of these companies prevents them from including the most marginalised producers in remote parts of the country. It has become clear that nurturing large numbers of financially viable producer companies requires greater support and hand-holding. The concept of producer companies may take many years to settle in the imagination of rural communities and it may take even longer for them to become truly local institutions. Therefore, the recent renewed focus on producer companies by policy-makers and practitioners is a welcome step.

Our study suggests possible mechanisms for addressing the above challenges (summarized in Table 8.1). The geographical disparities in PC promotion can be addressed by promoting PCs in the most backward districts with the largest numbers of small producers. In order to improve the likelihood of PCs' success, we recommend promoting them in two-tier structures with multiple supplier PCs working with one market- facing company in each block or district (depending on the number of small producers). It would also be advisable to simultaneously fund and develop a business ecosystem to support them by encouraging local entrepreneurship. Such an approach allows producer companies to attract greater capital and skilled talent, and generate higher turnover and member loyalty. When combined with strong internal governance it can result in better incomes and risk reduction for members. Policy-makers can support producer companies' growth by enabling external investment through a different class of non-voting shares (with appropriate safeguards and limits), providing operational relief by simplifying compliance processes, instituting differential regulation, and protecting the rights of vulnerable shareholders through appropriate changes in regulation.

There are already 7374 producer companies registered in India and this number is expected to more than double over the next few years, bringing the total coverage to about 10% of all agricultural households in India, most of whom are small and marginal farmers.

Producer companies have the dual responsibility of balancing social and business objectives. Well-run and stable producer companies have the potential to improve farmers' incomes, reduce their exposure to risk and contribute to social and economic empowerment. More than four million small producers (and growing) are counting on them!

About the Authors

Richa Govil is Associate Director of the School of Development at Azim Premji University, Bangalore. Richa has been deeply engaged with issues related to education and development since her early years. She led Asha for Education, a large US-based volunteer-run non-profit organization focusing on basic education of underprivileged children. She developed and implemented business strategy for small and large companies in the US and India for many years. She co-founded Training Resources for Enabling Enterprises Society (TREE Society) to provide business management training for rural farmer and micro enterprises. Her areas of interest include agriculture, nutrition, inclusive value chains, farmer producer companies, micro-enterprises and women's livelihoods. Richa has a Ph.D. in Physics from University of California, Berkeley, U.S.A.

Annapurna Neti is an Associate Professor of the School of Development at Azim Premji University, Bengaluru. She has worked as a researcher and consultant to multiple organizations in the development sector. She has over 16 years of experience covering practice, research and teaching in the areas of MSMEs, microfinance, financial inclusion, women's collectives and informal livelihoods in India, Nepal and Bangladesh. Her current research interests include urban informal livelihoods, microfinance, producer companies and other organisational forms in the development sector. She serves as an Expert Director on the Board of an all women dairy producer company. She is a Fellow (Ph.D.) of Indian Institute of Management Bangalore.

Madhushree R. Rao is currently working as a Research Assistant at Azim Premji University. She has been associated with non-profits such as Greenpeace India, Swasti Health Catalyst and Self-Reliant Initiatives Through Joint Action (SRIJAN), where she contributed towards documentation and content creation. Her broad interest areas include collectives, food and nutrition, the intersection of the two with respect to vulnerable communities and adult education. She has a BA in History, Economics and Sociology from Mount Carmel College, Bangalore, and Masters in Development from Azim Premji University, Bangalore.

Azim Premji University
Pixel Park, PES Campus, Electronic City, Hosur Road
Bangalore 560100

080-6614 5136
www.azimpremjiuniversity.edu.in

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